Triumph Bancorp, Inc.
Form 10-Q
August 03, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2016

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 001-36722

TRIUMPH BANCORP, INC.

(Exact name of registrant as specified in its charter)

Texas	20-0477066
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

12700 Park Central Drive, Suite 1700

Dallas, Texas 75251

(Address of principal executive offices)

(214) 365-6900

(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Common Stock — $0.01 par value, 18,107,493 shares, as of August 1, 2016

TRIUMPH BANCORP, INC.

FORM 10-Q

June 30, 2016

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PART I – FINANCIAL INFORMATION

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FINANCIAL STATEMENTS

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TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

June 30, 2016 and December 31, 2015

(Dollar amounts in thousands, except per share amounts)

	June 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Cash and due from banks	$ 22,567	$ 23,447
Interest bearing deposits with other banks	39,183	81,830
Total cash and cash equivalents	61,750	105,277
Securities - available for sale	159,790	163,169
Securities - held to maturity, fair value of $28,362 and $0, respectively	27,502	—
Loans held for sale, at fair value	—	1,341
Loans, net of allowance for loan and lease losses of $13,772 and $12,567, respectively	1,396,746	1,279,318
Federal Home Loan Bank stock, at cost	6,368	3,818
Premises and equipment, net	19,629	22,227
Other real estate owned, net	6,074	5,177
Goodwill	15,968	15,968
Intangible assets, net	10,192	11,886
Bank-owned life insurance	29,786	29,535
Deferred tax assets, net	15,042	15,945
Other assets	34,548	37,652
Total assets	$ 1,783,395	$ 1,691,313
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest bearing	$ 170,834	$ 168,264
Interest bearing	1,104,320	1,080,686
Total deposits	1,275,154	1,248,950
Customer repurchase agreements	13,635	9,317
Federal Home Loan Bank advances	180,500	130,000
Junior subordinated debentures	24,823	24,687
Other liabilities	9,520	10,321
Total liabilities	1,503,632	1,423,275
Commitments and contingencies - See Note 8 and Note 9		
Stockholders' equity - See Note 12		
Preferred Stock Series A	4,550	4,550
Preferred Stock Series B	5,196	5,196
Common stock	182	181
Additional paid-in-capital	195,711	194,297

Treasury stock, at cost	(741)	(560)
Retained earnings	73,340	64,097
Accumulated other comprehensive income	1,525	277
Total stockholders’ equity	279,763	268,038
Total liabilities and stockholders' equity	$ 1,783,395	$ 1,691,313

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the Three and Six Months Ended June 30, 2016 and 2015

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest and dividend income:				
Loans, including fees	$18,547	$17,158	$34,635	$30,397
Factored receivables, including fees	8,639	8,654	16,461	16,163
Taxable securities	965	659	1,733	1,337
Tax exempt securities	6	16	13	28
Cash deposits	197	110	405	251
Total interest income	28,354	26,597	53,247	48,176
Interest expense:				
Deposits	2,020	1,667	4,013	3,237
Junior subordinated debentures	312	278	614	550
Other borrowings	115	7	224	19
Total interest expense	2,447	1,952	4,851	3,806
Net interest income	25,907	24,645	48,396	44,370
Provision for loan losses	1,939	2,541	1,428	3,186
Net interest income after provision for loan losses	23,968	22,104	46,968	41,184
Noninterest income:				
Service charges on deposits	695	666	1,354	1,278
Card income	577	578	1,123	1,101
Net OREO gains (losses) and valuation adjustments	(1,204)	52	(1,215)	78
Net gains on sale of securities	—	242	5	242
Net gains on sale of loans	4	491	16	1,033
Fee income	504	502	1,038	924
Bargain purchase gain	—	—	—	12,509
Asset management fees	1,605	1,274	3,234	2,232
Other	1,487	964	3,094	2,031
Total noninterest income	3,668	4,769	8,649	21,428
Noninterest expense:				
Salaries and employee benefits	12,229	12,042	24,481	25,311
Occupancy, furniture and equipment	1,534	1,555	3,027	3,127
FDIC insurance and other regulatory assessments	281	271	505	534
Professional fees	1,101	852	2,174	2,179
Amortization of intangible assets	717	895	1,694	1,659

Advertising and promotion	628	526	1,147	1,069
Communications and technology	1,263	927	2,695	1,813
Other	2,578	2,567	4,686	4,726
Total noninterest expense	20,331	19,635	40,409	40,418
Net income before income tax	7,305	7,238	15,208	22,194
Income tax expense	2,679	2,586	5,576	3,498
Net income	4,626	4,652	9,632	18,696
Dividends on preferred stock	(195)	(195)	(389)	(387)
Net income available to common stockholders	$4,431	$4,457	$9,243	$18,309
Earnings per common share				
Basic	$0.25	$0.25	$0.52	$1.03
Diluted	$0.25	$0.25	$0.51	$1.01

See accompanying condensed notes to consolidated financial statements.

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TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three and Six Months Ended June 30, 2016 and 2015

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	$4,626	$4,652	$9,632	$18,696
Other comprehensive income:				
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) arising during the period	536	(557)	1,993	431
Reclassification of amount realized through sale of securities	—	(242)	(5)	(242)
Tax effect	(199)	292	(740)	(76)
Total other comprehensive income (loss)	337	(507)	1,248	113
Comprehensive income	$4,963	$4,145	$10,880	$18,809

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Six Months Ended June 30, 2016 and 2015

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Preferred Stock – Series A		Preferred Stock – Series B		Common Stock			Treasury Stock				
	Shares Outstanding	Liquidation Preference Amount	Shares Outstanding	Liquidation Preference Amount	Shares Outstanding	Par Amount	Additional Paid-in-Capital	Shares Outstanding	Cost	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
Balance, January 1, 2015	45,500	$4,550	51,956	$5,196	17,963,783	$180	$191,049	10,984	$(161)	$35,744	$951	$237,509
Issuance of restricted stock awards	—	—	—	—	77,956	1	(1)	—	—	—	—	—
Forfeiture of restricted stock awards	—	—	—	—	(667)	—	9	667	(9)	—	—	—
Stock based compensation	—	—	—	—	—	—	1,548	—	—	—	—	1,548
Series A Preferred dividends	—	—	—	—	—	—	—	—	—	(181)	—	(181)
Series B Preferred dividends	—	—	—	—	—	—	—	—	—	(206)	—	(206)
Net income	—	—	—	—	—	—	—	—	—	18,696	—	18,696
Other comprehensive income	—	—	—	—	—	—	—	—	—	—	113	113
Balance, June 30, 2015	45,500	$4,550	51,956	$5,196	18,041,072	$181	$192,605	11,651	$(170)	$54,053	$1,064	$257,479
Balance, January 1, 2016	45,500	$4,550	51,956	$5,196	18,018,200	$181	$194,297	34,523	$(560)	$64,097	$277	$268,038
Issuance of restricted stock awards	—	—	—	—	101,105	1	(1)	—	—	—	—	—
Forfeiture of restricted stock	—	—	—	—	(6,759)	—	101	6,759	(101)	—	—	—

awards												
Excess tax benefit on restricted stock vested	—	—	—	—	—	—	35	—	—	—	—	35
Stock based compensation	—	—	—	—	—	—	1,279	—	—	—	—	1,279
Purchase of treasury stock	—	—	—	—	(5,053)	—	—	5,053	(80)	—	—	(80)
Series A Preferred dividends	—	—	—	—	—	—	—	—	—	(182)	—	(182)
Series B Preferred dividends	—	—	—	—	—	—	—	—	—	(207)	—	(207)
Net income	—	—	—	—	—	—	—	—	—	9,632	—	9,632
Other comprehensive income	—	—	—	—	—	—	—	—	—	—	1,248	1,248
Balance, June 30, 2016	45,500	$4,550	51,956	$5,196	18,107,493	$182	$195,711	46,335	$(741)	$73,340	$1,525	$279,763

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2016 and 2015

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	$9,632	$18,696
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	1,162	1,069
Net accretion on loans and deposits	(3,453)	(2,720)
Amortization of junior subordinated debentures	136	130
Net amortization on securities	326	301
Amortization of intangible assets	1,694	1,659
Deferred taxes	(135)	(366)
Provision for loan losses	1,428	3,186
Stock based compensation	1,279	1,548
Origination of loans held for sale	(891)	(36,220)
Proceeds from loan sales	2,248	36,445
Net gains on sale of securities	(5)	(242)
Net loss on transfer of loans to loans held for sale	81	—
Net gains on sale of loans	(16)	(1,033)
Net OREO (gains) losses and valuation adjustments	1,215	(78)
Bargain purchase gain	—	(12,509)
Income from CLO warehouse investments	(1,758)	(1,151)
(Increase) decrease in other assets	944	608
Increase (decrease) in other liabilities	(801)	3,888
Net cash provided by (used in) operating activities	13,086	13,211
Cash flows from investing activities:		
Purchases of securities available for sale	(3,264)	(15,072)
Proceeds from sales of securities available for sale	4,345	12,559
Proceeds from maturities, calls, and pay downs of securities available for sale	3,872	5,973
Purchases of securities held to maturity	(27,409)	—
Purchases of loans (shared national credits)	(995)	(16,685)
Proceeds from sales of loans (shared national credits)	4,038	—
Net change in loans	(119,071)	(115,935)
Purchases of premises and equipment, net	(779)	(813)
Net proceeds from sale of OREO	528	2,926
Net cash paid for CLO warehouse investments	(10,000)	—
Net proceeds from CLO warehouse investments	14,000	2,450

Purchases of FHLB and FRB stock, net	(2,550)	(804)
Cash paid for acquisitions, net of cash acquired	—	(127,591)
Proceeds from sale of loans obtained through Doral Money Inc. acquisition	—	36,765
Net cash provided by (used in) investing activities	(137,285)	(216,227)
Cash flows from financing activities:		
Net increase in deposits	26,323	24,184
Increase (decrease) in customer repurchase agreements	4,318	3,729
Increase (decrease) in Federal Home Loan Bank advances	50,500	16,000
Proceeds from the issuance of other borrowings	—	99,975
Repayment of other borrowings	—	(1,659)
Purchase of treasury stock	(80)	—
Dividends on preferred stock	(389)	(387)
Net cash provided by (used in) financing activities	80,672	141,842
Net increase (decrease) in cash and cash equivalents	(43,527)	(61,174)
Cash and cash equivalents at beginning of period	105,277	160,888
Cash and cash equivalents at end of period	$61,750	$99,714
Supplemental cash flow information:		
Interest paid	$4,717	$3,629
Income taxes paid, net	$6,018	$2,488
Supplemental noncash disclosures:		
Loans transferred to OREO	$425	$747
Premises transferred to OREO	$2,215	$—
Securities transferred in satisfaction of other borrowings	$—	$98,316
Loan purchases, not yet settled (shared national credits)	$—	$12,929
Loans transferred to loans held for sale at fair value	$4,038	$—

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Triumph Bancorp, Inc. (collectively with its subsidiaries, "Triumph", or the "Company" as applicable) is a financial holding company headquartered in Dallas, Texas. The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Triumph Capital Advisors, LLC ("TCA"), Triumph CRA Holdings, LLC ("TCRA"), TBK Bank, SSB ("TBK Bank"), TBK Bank's wholly owned subsidiary Advance Business Capital LLC, which currently operates under the d/b/a of Triumph Business Capital ("TBC"), and TBK Bank's wholly owned subsidiary Triumph Insurance Group, Inc. ("TIG").

TBK Bank does business under the following names: (i) Triumph Community Bank ("TCB") and Triumph Savings Bank ("TSB") with respect to its community banking business in respective markets; (ii) Triumph Commercial Finance ("TCF") with respect to its asset-based lending, equipment lending and general factoring commercial finance products; (iii) Triumph Healthcare Finance ("THF") with respect to its healthcare asset-based lending business; and (iv) Triumph Premium Finance ("TPF") with respect to its insurance premium financing business.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with United States Generally Accepted Accounting Principles ("GAAP") for interim financial information and in accordance with guidance provided by the Securities and Exchange Commission. Accordingly, the condensed financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all normal and recurring adjustments considered necessary for a fair presentation. Transactions between the subsidiaries have been eliminated. These condensed consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2015. Operating results for the three and six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

The Company has four reportable segments consisting of Factoring, Banking, Asset Management, and Corporate. The Company's Chief Executive Officer uses segment results to make operating and strategic decisions.

Newly Issued, But Not Yet Effective Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. The new standard was originally effective for the Company on January 1, 2017. However, in

August 2015 the FASB issued ASU No. 2015-14, “Revenue from Contracts with Customers – Deferral of the Effective Date” which deferred the mandatory effective date the new standard would take effect to reporting periods beginning after December 15, 2017, with early adoption allowed as of the original effective date for public companies. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”). The guidance affects the accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements of financial instruments. The guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is evaluating the effect that ASU 2016-01 will have on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)” (“ASU 2016-02”). The FASB issued this ASU to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet by lessees for those leases classified as operating leases under current U.S. GAAP and disclosing key information about leasing arrangements. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early application of this ASU is permitted for all entities. The Company is currently assessing the impact that the adoption of this standard will have on the financial condition and results of operations of the Company.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

In March 2016, the FASB issued ASU 2016-09, "Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"). The FASB issued this ASU to improve the accounting for share-based payments. ASU 2016-09 simplifies several aspects of the accounting for share-based payment award transactions, including: the presentation of income tax consequences, classification of awards as either equity or liabilities, classification on the statement of cash flows, and calculation of diluted earnings per share. The amendments in this ASU are effective for fiscal years beginning after December 31, 2016, and interim periods within those years for public business entities. Early adoption is permitted in any interim or annual period provided that the entire ASU is adopted. Adoption of ASU 2016-09 is not expected to have a material impact on the Company's financial statements.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). Among other things, ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better form their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in ASU 2016-13 are effective for fiscal years beginning after December 31, 2019, and interim periods within those years for public business entities that are SEC filers. Early adoption is permitted for fiscal years, and interim periods within those years, beginning after December 15, 2018. The Company is currently assessing the impact that the adoption of this standard will have on the financial condition and results of operations of the Company.

NOTE 2 – Business combinations

ColoEast Bankshares, Inc.

On August 1, 2016, the Company acquired 100% of the outstanding common stock of ColoEast Bankshares, Inc. ("ColoEast") and its community banking subsidiary, Colorado East Bank & Trust, in an all-cash transaction for $70,000,000. Colorado East Bank & Trust, which was merged into TBK Bank upon closing, offers personal checking, savings, CD, money market, HSA, IRA, NOW and business accounts, as well as consumer, commercial and mortgage loans from 18 branches and one loan production office located throughout Colorado and far western Kansas. The acquisition expands the Company's market into Colorado and further diversifies the Company's loan, customer, and deposit base.

The initial accounting for the ColoEast acquisition has not been completed because the fair value of loans, deposits, and numerous other items has not yet been determined.

Doral Money Acquisition

On February 27, 2015, the Company entered into a Purchase and Sale Agreement with the Federal Deposit Insurance Corporation ("FDIC"), in its capacity as receiver of Doral Bank, to acquire 100% of the equity of Doral Money, Inc. ("Doral Money"), a subsidiary of Doral Bank, and the management contracts associated with two active collateralized loan obligations ("CLOs") with approximately $700,000,000 in assets under management. The consideration transferred in the acquisition consisted of cash paid of $135,864,000. The primary purpose of the acquisition was to expand the CLO assets under management at TCA.

On February 26, 2015, the Company entered into a $99,975,000 secured term loan credit facility payable to a third party, with an interest rate equal to LIBOR plus 3.5%, and a maturity date of March 31, 2015. The proceeds from the loan were used by the Company to partially fund the Doral Money acquisition.

The acquisition was completed on March 3, 2015, at which time the Company also repaid the $99,975,000 third party secured term loan credit facility in full by delivering the securities issued by the CLOs that were acquired from Doral Money with an acquisition date fair value of $98,316,000 and cash representing payments received on the CLO securities in the amount of $1,659,000.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

A summary of the fair values of assets acquired, liabilities assumed, net consideration transferred, and the resulting bargain purchase gain is as follows:

(Dollars in thousands)	Initial Values Recorded at Acquisition Date	Measurement Period Adjustments	Adjusted Values
Assets acquired:			
Cash	$ 8,273	$ —	$ 8,273
CLO Securities	98,316	—	98,316
Intangible asset - CLO management contracts	1,918	—	1,918
Loans	36,765	900	37,665
Prepaid corporate income tax	3,014	1,688	4,702
Other assets	772	—	772
	149,058	2,588	151,646
Liabilities assumed:			
Deferred tax liability	663	—	663
Other liabilities	22	(20)	2
	685	(20)	665
Fair value of net assets acquired	148,373	2,608	150,981
Net consideration transferred	135,864	—	135,864
Bargain purchase gain	$ (12,509)	$ (2,608)	$ (15,117)

The Company completed the acquisition via an FDIC bid process for Doral Money as part of the Doral Bank failure and the resulting nontaxable bargain purchase gain represents the excess of the fair value of the net assets acquired over the fair value of the net consideration transferred. The Company subsequently recorded measurement period adjustments related to the finalization of income taxes associated with the transaction and the valuation of loans acquired in the transaction, which increased the bargain purchase gain by $1,708,000 and $900,000 during the three months ended September 30, 2015 and the three months ended December 31, 2015, respectively.

NOTE 3 - SECURITIES

Securities have been classified in the financial statements as available for sale or held to maturity. The amortized cost of securities and their approximate fair values at June 30, 2016 and December 31, 2015 are as follows:

(Dollars in thousands) June 30, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
U.S. Government agency obligations	$ 90,388	$ 1,749	$ —	$ 92,137
Mortgage-backed securities, residential	25,004	623	—	25,627
Asset backed securities	13,179	12	(335)	12,856
State and municipal	1,266	36	—	1,302
Corporate bonds	27,358	351	(11)	27,698
SBA pooled securities	168	2	—	170
Total available for sale securities	$ 157,363	$ 2,773	$ (346)	$ 159,790

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Held to maturity securities:				
CLO securities	$ 27,502	$ 860	$ —	$ 28,362

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands) December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
U.S. Government agency obligations	$ 90,533	$ 518	$ (17)	$ 91,034
Mortgage-backed securities, residential	28,006	361	(27)	28,340
Asset backed securities	17,957	24	(455)	17,526
State and municipal	1,509	17	—	1,526
Corporate bonds	24,542	74	(57)	24,559
SBA pooled securities	183	1	—	184
Total available for sale securities	$ 162,730	$ 995	$ (556)	$ 163,169

The amortized cost and estimated fair value of securities at June 30, 2016, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale Securities		Held to Maturity Securities	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 31,040	$ 31,136	$ —	$ —
Due from one year to five years	86,162	88,132	—	—
Due from five years to ten years	1,534	1,538	—	—
Due after ten years	276	331	27,502	28,362
	119,012	121,137	27,502	28,362
Mortgage-backed securities, residential	25,004	25,627	—	—
Asset backed securities	13,179	12,856	—	—
SBA pooled securities	168	170	—	—
	$ 157,363	$ 159,790	$ 27,502	$ 28,362

For the six months ended June 30, 2016, securities were sold resulting in proceeds of $4,345,000, gross gains of $5,000, and no losses. There were no sales of securities during the three months ended June 30, 2016. For the three and six months ended June 30, 2015, securities were sold resulting in proceeds of $12,559,000, gross gains of $242,000, and no losses.

Securities with a carrying amount of approximately $98,969,000 and $100,034,000 at June 30, 2016 and December 31, 2015, respectively, were pledged to secure customer repurchase agreements, Federal Home Loan Bank advances, and for other purposes required or permitted by law.

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Information pertaining to securities with gross unrealized losses at June 30, 2016 and December 31, 2015, aggregated by investment category and length of time that individual securities have been in a continuous loss position, are summarized as follows:

	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands) June 30, 2016	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale securities:						
U.S. Government agency obligations	$—	$ —	$—	$ —	$—	$ —
Mortgage-backed securities, residential	—	—	—	—	—	—
Asset backed securities	7,947	(335)	—	—	7,947	(335)
State and municipal	—	—	—	—	—	—
Corporate bonds	1,395	(11)	—	—	1,395	(11)
SBA pooled securities	—	—	—	—	—	—
	$9,342	$ (346)	$—	$ —	$9,342	$ (346)

	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands) December 31, 2015	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agency obligations	$10,029	$ (17)	$—	$ —	$10,029	$ (17)
Mortgage-backed securities, residential	4,948	(27)	—	—	4,948	(27)
Asset backed securities	8,031	(416)	4,605	(39)	12,636	(455)
State and municipal	—	—	—	—	—	—
Corporate bonds	10,434	(57)	—	—	10,434	(57)
SBA pooled securities	—	—	—	—	—	—
	$33,442	$ (517)	$4,605	$ (39)	$38,047	$ (556)

Management evaluates securities for other than temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the security for a period of time sufficient to allow for any anticipated recovery in fair value.

As of June 30, 2016, management does not have the intent to sell any of the securities classified as available for sale with unrealized losses in the table above and believes that it is more likely than not that the Company will not have to sell any such securities before a recovery of cost. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe that any of the securities are impaired due to reasons of credit quality. Accordingly, as of June 30, 2016, management believes that the unrealized losses detailed in the previous table are temporary and no other than temporary impairment loss has been recognized in the Company’s consolidated statements of income.

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NOTE 4 - LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES

Loans at June 30, 2016 and December 31, 2015 consisted of the following:

(Dollars in thousands)	June 30, 2016	December 31, 2015
Commercial real estate	$298,991	$291,819
Construction, land development, land	36,498	43,876
1-4 family residential properties	74,121	78,244
Farmland	35,795	33,573
Commercial	574,508	495,356
Factored receivables	237,520	215,088
Consumer	17,339	13,050
Mortgage warehouse	135,746	120,879
Total	1,410,518	1,291,885
Allowance for loan and lease losses	(13,772)	(12,567)
	$1,396,746	$1,279,318

Total loans include net deferred origination and factoring fees totaling $1,114,096 and $1,218,000 at June 30, 2016 and December 31, 2015, respectively.

Loans with carrying amounts of $290,975,000 and $280,289,000 at June 30, 2016 and December 31, 2015, respectively, were pledged to secure Federal Home Loan Bank borrowing capacity.

During the three and six months ended June 30, 2016, loans with a carrying amount of $1,238,000 and $4,119,000, respectively, were transferred to loans held for sale at their fair value of $1,233,000 and $4,038,000, respectively, as the Company made the decision to sell the loans. The declines in fair value of $5,000 and $81,000 for the three and six months ended June 30, 2016, respectively, were recorded as a reduction in other noninterest income in the consolidated statements of income. During the three months ended June 30, 2016, these loans were sold resulting in proceeds equal to their fair values at the time of transfer. No loan transfers were recorded during the six months ended June 30, 2015.

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Allowance for Loan and Lease Losses

The activity in the allowance for loan and lease losses ("ALLL") during the three and six months ended June 30, 2016 and 2015 is as follows:

(Dollars in thousands) Three months ended June 30, 2016	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 1,619	$ 161	$ (1)	$ 13	$ 1,792
Construction, land development, land	198	(17)	—	—	181
1-4 family residential properties	285	(50)	(47)	71	259
Farmland	133	10	—	—	143
Commercial	5,331	1,134	(169)	401	6,697
Factored receivables	4,110	524	(450)	20	4,204
Consumer	222	169	(112)	14	293
Mortgage warehouse	195	8	—	—	203
	$ 12,093	$ 1,939	$ (779)	$ 519	$ 13,772

(Dollars in thousands) Three months ended June 30, 2015	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 1,075	$ 183	$ (54)	$ 10	$ 1,214
Construction, land development, land	344	2	—	—	346
1-4 family residential properties	223	29	(78)	77	251
Farmland	26	2	—	—	28
Commercial	3,996	1,109	(45)	4	5,064
Factored receivables	3,380	1,049	(312)	18	4,135
Consumer	84	61	(52)	67	160
Mortgage warehouse	158	106	—	—	264
	$ 9,286	$ 2,541	$ (541)	$ 176	$ 11,462

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(Dollars in thousands) Six months ended June 30, 2016	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 1,489	$ 290	$ (1)	$ 14	$ 1,792
Construction, land development, land	367	(186)	—	—	181
1-4 family residential properties	274	(28)	(63)	76	259
Farmland	134	9	—	—	143
Commercial	5,276	1,159	(169)	431	6,697
Factored receivables	4,509	84	(458)	69	4,204
Consumer	216	199	(155)	33	293
Mortgage warehouse	302	(99)	—	—	203
	$ 12,567	$ 1,428	$ (846)	$ 623	$ 13,772

(Dollars in thousands) Six months ended June 30, 2015	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 533	$ 773	$ (143)	$ 51	$ 1,214
Construction, land development, land	333	13	—	—	346
1-4 family residential properties	215	119	(183)	100	251
Farmland	19	9	—	—	28
Commercial	4,003	1,102	(47)	6	5,064
Factored receivables	3,462	1,004	(379)	48	4,135
Consumer	140	40	(147)	127	160
Mortgage warehouse	138	126	—	—	264
	$ 8,843	$ 3,186	$ (899)	$ 332	$ 11,462

The following table presents loans individually and collectively evaluated for impairment, as well as purchased credit impaired ("PCI") loans, and their respective ALLL allocations:

(Dollars in thousands)	Loan Evaluation				ALLL Allocations			
June 30, 2016	Individually	Collectively	PCI	Total loans	Individually	Collectively	PCI	Total ALLL
Commercial real estate	$ 687	$ 294,583	$ 3,721	$ 298,991	$ 100	$ 1,251	$ 441	$ 1,792
Construction, land development, land	275	35,121	1,102	36,498	25	156	—	181
1-4 family residential properties	920	70,489	2,712	74,121	1	258	—	259
Farmland	—	35,795	—	35,795	—	143	—	143
Commercial	13,270	558,299	2,939	574,508	2,047	4,650	—	6,697
Factored receivables	3,207	234,313	—	237,520	1,315	2,889	—	4,204
Consumer	34	17,305	—	17,339	—	293	—	293
Mortgage warehouse	—	135,746	—	135,746	—	203	—	203
	$ 18,393	$ 1,381,651	$ 10,474	$ 1,410,518	$ 3,488	$ 9,843	$ 441	$ 13,772

(Dollars in thousands)	Loan Evaluation				ALLL Allocations			
December 31, 2015	Individually	Collectively	PCI	Total loans	Individually	Collectively	PCI	Total ALLL
Commercial real estate	$724	$286,006	$5,089	$291,819	$100	$ 1,034	$355	$ 1,489
Construction, land development, land	—	42,499	1,377	43,876	—	367	—	367
1-4 family residential properties	618	74,714	2,912	78,244	1	273	—	274
Farmland	—	33,573	—	33,573	—	134	—	134
Commercial	7,916	483,587	3,853	495,356	796	4,480	—	5,276
Factored receivables	3,422	211,666	—	215,088	1,694	2,815	—	4,509
Consumer	—	13,050	—	13,050	—	216	—	216
Mortgage warehouse	—	120,879	—	120,879	—	302	—	302
	$12,680	$1,265,974	$13,231	$1,291,885	$2,591	$ 9,621	$355	$ 12,567

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The following is a summary of information pertaining to impaired loans. Loans included in these tables are non-PCI impaired loans and PCI loans that have deteriorated subsequent to acquisition and as a result have been deemed impaired and an allowance recorded. PCI loans that have not deteriorated subsequent to acquisition are not considered impaired and therefore do not require an allowance and are excluded from these tables.

	Impaired Loans and Purchased Credit				
	Impaired Loans With a Valuation Allowance			Impaired Loans Without a Valuation Allowance	
(Dollars in thousands) June 30, 2016	Recorded Investment	Unpaid Principal	Related Allowance	Recorded Investment	Unpaid Principal
Commercial real estate	$ 517	$ 517	$ 100	$ 170	$ 206
Construction, land development, land	275	275	25	—	—
1-4 family residential properties	10	19	1	910	1,031
Farmland	—	—	—	—	—
Commercial	7,164	7,191	2,047	6,106	6,115
Factored receivables	1,980	1,980	1,315	1,227	1,227
Consumer	—	—	—	34	34
Mortgage warehouse	—	—	—	—	—
PCI	1,442	1,679	441	—	—
	$ 11,388	$ 11,661	$ 3,929	$ 8,447	$ 8,613

	Impaired Loans and Purchased Credit				
	Impaired Loans With a Valuation Allowance			Impaired Loans Without a Valuation Allowance	
(Dollars in thousands) December 31, 2015	Recorded Investment	Unpaid Principal	Related Allowance	Recorded Investment	Unpaid Principal
Commercial real estate	$ 531	$ 532	$ 100	$ 193	$ 229
Construction, land development, land	—	—	—	—	—
1-4 family residential properties	14	21	1	604	793
Farmland	—	—	—	—	—
Commercial	1,491	1,520	796	6,425	6,433
Factored receivables	2,850	2,850	1,694	572	572
Consumer	—	—	—	—	—
Mortgage warehouse	—	—	—	—	—
PCI	525	525	355	—	—
	$ 5,411	$ 5,448	$ 2,946	$ 7,794	$ 8,027

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The following table presents average impaired loans and interest recognized on impaired loans for the three and six months ended June 30, 2016 and 2015:

(Dollars in thousands)	Three Months Ended June 30, 2016 Average Impaired Loans	Three Months Ended June 30, 2016 Interest Recognized	Three Months Ended June 30, 2015 Average Impaired Loans	Three Months Ended June 30, 2015 Interest Recognized
Commercial real estate	$702	$ —	$1,926	$ 1
Construction, land development, land	138	—	—	—
1-4 family residential properties	779	—	433	9
Farmland	—	—	—	—
Commercial	12,769	73	4,833	80
Factored receivables	4,074	—	1,957	—
Consumer	35	—	—	—
Mortgage warehouse	—	—	—	—
PCI	1,432	—	721	—
	$19,929	$ 73	$9,870	$ 90

(Dollars in thousands)	Six Months Ended June 30, 2016 Average Impaired Loans	Six Months Ended June 30, 2016 Interest Recognized	Six Months Ended June 30, 2015 Average Impaired Loans	Six Months Ended June 30, 2015 Interest Recognized
Commercial real estate	$706	$ —	$1,928	$ 4
Construction, land development, land	138	2	—	—
1-4 family residential properties	775	4	647	32
Farmland	—	—	—	—
Commercial	10,593	247	4,992	119
Factored receivables	3,309	—	1,958	—
Consumer	16	—	—	—
Mortgage warehouse	—	—	—	—
PCI	983	—	263	—
	$16,520	$ 253	$9,788	$ 155

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The following table presents the unpaid principal and recorded investment for loans at June 30, 2016 and December 31, 2015. The difference between the unpaid principal balance and recorded investment is principally associated with (1) premiums and discounts associated with acquisition date fair value adjustments on acquired loans (both PCI and non-PCI), (2) net deferred origination costs and fees, and (3) previous charge-offs.

(Dollars in thousands) June 30, 2016	Recorded Investment	Unpaid Principal	Difference
Commercial real estate	$298,991	$301,586	$(2,595)
Construction, land development, land	36,498	37,972	(1,474)
1-4 family residential properties	74,121	76,456	(2,335)
Farmland	35,795	35,741	54
Commercial	574,508	575,213	(705)
Factored receivables	237,520	238,660	(1,140)
Consumer	17,339	17,321	18
Mortgage warehouse	135,746	135,746	—
	$1,410,518	$1,418,695	$(8,177)

December 31, 2015	Recorded Investment	Unpaid Principal	Difference
Commercial	$291,819	$299,272	$(7,453)
Construction, land development, land	43,876	45,376	(1,500)
1-4 family residential properties	78,244	81,141	(2,897)
Farmland	33,573	33,533	40
Commercial	495,356	496,719	(1,363)
Factored receivables	215,088	216,201	(1,113)
Consumer	13,050	13,072	(22)
Mortgage warehouse	120,879	120,879	—
	$1,291,885	$1,306,193	$(14,308)

At June 30, 2016 and December 31, 2015, the Company had $23,854,000 and $21,188,000, respectively, of customer reserves associated with factored receivables. These amounts represent customer reserves held to settle any payment disputes or collection shortfalls, may be used to pay customers’ obligations to various third parties as directed by the customer, are periodically released to or withdrawn by customers, and are reported as deposits in the consolidated balance sheets.

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Past Due and Nonaccrual Loans

The following is a summary of contractually past due and nonaccrual loans at June 30, 2016 and December 31, 2015:

(Dollars in thousands) June 30, 2016	30-89 Days Past Due	Past Due 90 Days or More Still Accruing	Nonaccrual	Total
Commercial real estate	$—	$ —	$ 687	$687
Construction, land development, land	—	—	275	275
1-4 family residential properties	320	—	949	1,269
Farmland	—	—	—	—
Commercial	6,377	174	8,666	15,217
Factored receivables	12,703	2,260	—	14,963
Consumer	375	—	34	409
Mortgage warehouse	—	—	—	—
PCI	102	786	5,771	6,659
	$19,877	$ 3,220	$ 16,382	$39,479

(Dollars in thousands) December 31, 2015	30-89 Days Past Due	Past Due 90 Days or More Still Accruing	Nonaccrual	Total
Commercial real estate	$693	$ —	$ 673	$1,366
Construction, land development, land	—	—	—	—
1-4 family residential properties	909	9	533	1,451
Farmland	—	—	—	—
Commercial	3,704	—	2,021	5,725
Factored receivables	12,379	1,931	—	14,310
Consumer	286	—	—	286
Mortgage warehouse	—	—	—	—
PCI	1,092	—	6,867	7,959
	$19,063	$ 1,940	$ 10,094	$31,097

The following table presents information regarding nonperforming loans at the dates indicated:

(Dollars in thousands)	June 30, 2016	December 31, 2015
Nonaccrual loans[1]	$16,382	$ 10,094
Factored receivables greater than 90 days past due	2,260	1,931
Troubled debt restructurings accruing interest	3,359	1,330
	$22,001	$ 13,355

(1) Includes troubled debt restructurings of $2,789,000 and $53,000 at June 30, 2016 and December 31, 2015, respectively.

Credit Quality Information

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, including: current collateral and financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes every loan and is performed on a regular basis. Large groups of smaller balance homogeneous loans, such as consumer loans, are analyzed primarily based on payment status. The Company uses the following definitions for risk ratings:

Pass:

Loans classified as pass are loans with low to average risk and not otherwise classified as substandard or doubtful.

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Substandard:

Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful:

Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

PCI:

At acquisition, PCI loans had the characteristics of substandard loans and it was probable, at acquisition, that all contractually required principal and interest payments would not be collected. The Company evaluates these loans on a projected cash flow basis with this evaluation performed quarterly.

As of June 30, 2016 and December 31, 2015, based on the most recent analysis performed, the risk category of loans is as follows:

(Dollars in thousands) June 30, 2016	Pass	Substandard	Doubtful	PCI	Total
Commercial real estate	$294,273	$ 997	$ —	$3,721	$298,991
Construction, land development, land	35,121	275	—	1,102	36,498
1-4 family residential	70,489	920	—	2,712	74,121
Farmland	35,795	—	—	—	35,795
Commercial	546,663	24,906	—	2,939	574,508
Factored receivables	234,313	2,239	968	—	237,520
Consumer	17,303	36	—	—	17,339
Mortgage warehouse	135,746	—	—	—	135,746
	$1,369,703	$ 29,373	$ 968	$10,474	$1,410,518

(Dollars in thousands) December 31, 2015	Pass	Substandard	Doubtful	PCI	Total
Commercial real estate	$284,753	$ 1,977	$ —	$5,089	$291,819
Construction, land development, land	42,499	—	—	1,377	43,876
1-4 family residential	73,838	1,494	—	2,912	78,244
Farmland	33,573	—	—	—	33,573
Commercial	470,208	21,295	—	3,853	495,356

Factored receivables	212,588	1,019	1,481	—	215,088
Consumer	13,050	—	—	—	13,050
Mortgage warehouse	120,879	—	—	—	120,879
	$1,251,388	$ 25,785	$ 1,481	$13,231	$1,291,885

Troubled Debt Restructurings

The Company had a recorded investment in troubled debt restructurings of $6,148,000 and $1,383,000 as of June 30, 2016 and December 31, 2015, respectively.

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The following table presents loans modified as troubled debt restructurings that occurred during the six months ended June 30, 2016 and 2015:

(Dollars in thousands) June 30, 2016	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	16	$ 5,730	$ 5,730

(Dollars in thousands) June 30, 2015	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	1	$ 148	$ 148

As of June 30, 2016, there have been no defaults on any loans that were modified as troubled debt restructurings during the preceding twelve months. Default is determined at 90 or more days past due. The modifications primarily related to extending the amortization periods of the loans. The Company did not grant principal reductions on any restructured loans.

Purchased Credit Impaired Loans

The Company has loans that were acquired, for which there was, at acquisition, evidence of deterioration of credit quality since origination and for which it was probable, at acquisition, that all contractually required payments would not be collected. The outstanding contractually required principal and interest and the carrying amount of these loans included in the balance sheet amounts of loans at June 30, 2016 and December 31, 2015, are as follows:

	June 30, 2016	December 31, 2015
Contractually required principal and interest:		
Real estate loans	$ 13,277	$ 17,800
Commercial loans	4,032	5,335
Outstanding contractually required principal and interest	$ 17,309	$ 23,135
Gross carrying amount included in loans receivable	$ 10,474	$ 13,231

The changes in accretable yield during the three and six months ended June 30, 2016 and 2015 in regard to loans transferred at acquisition for which it was probable that all contractually required payments would not be collected are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Accretable yield, beginning balance	$2,064	$4,496	$2,593	$4,977
Additions	—	—	—	—
Accretion	(1,518)	(1,031)	(2,034)	(1,460)
Reclassification from nonaccretable to accretable yield	646	585	646	585
Disposals	—	(147)	(13)	(199)
Accretable yield, ending balance	$1,192	$3,903	$1,192	$3,903

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NOTE 5 - GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets consist of the following:

(Dollars in thousands)	June 30, 2016	December 31, 2015
Goodwill	$15,968	$ 15,968

	June 30, 2016			December 31, 2015		
(Dollars in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit intangibles	$14,586	$ (6,855)	$7,731	$14,586	$ (5,765)	$8,821
Other intangible assets	4,830	(2,369)	2,461	4,830	(1,765)	3,065
	$19,416	$ (9,224)	$10,192	$19,416	$ (7,530)	$11,886

The changes in goodwill and intangible assets during the three and six months ended June 30, 2016 and 2015 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2016	2015	2016	2015
Beginning balance	$26,877	$30,211	$27,854	$29,057
Acquired intangibles	—	858	—	2,776
Amortization of intangibles	(717)	(895)	(1,694)	(1,659)
Ending balance	$26,160	$30,174	$26,160	$30,174

NOTE 6 – Variable Interest Entities

Collateralized Loan Obligation Funds – Closed

The Company, through its subsidiary TCA, acts as the asset manager or provides certain middle- and back-office services to the asset manager of various CLO funds. TCA earns asset management fees in accordance with the terms of its asset management or staff and services agreements associated with the CLO funds. TCA earned asset management fees totaling $1,605,000 and $3,234,000 for the three and six months ended June 30, 2016, respectively, and $1,274,000 and $2,232,000 for the three and six months ended June 30, 2015, respectively.

The following table summarizes the closed CLO offerings with assets managed by TCA:

(Dollars in thousands)	Offering Date	Offering Amount
Trinitas CLO I, LTD (Trinitas I)	May 1, 2014	$400,000
Trinitas CLO II, LTD (Trinitas II)	August 4, 2014	$416,000
Doral CLO III, LTD (Doral III)[(1)]	December 17, 2012	$310,800
Trinitas CLO III, LTD (Trinitas III)	June 9, 2015	$409,375

(1) Acquired management contract as part of the Doral Money acquisition discussed in Note 2.

The securities sold in the above CLO offerings were issued in a series of tranches ranging from an AAA rated debt tranche to an unrated tranche of subordinated notes. The Company does not hold any of the securities issued in these CLO offerings. A related party of the Company holds insignificant interests in Trinitas II and Trinitas III.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

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(Unaudited)

The Company performed a consolidation analysis to determine whether the Company was required to consolidate the assets, liabilities, equity or operations of the above closed CLO funds in its financial statements. The Company concluded that the closed CLO funds are variable interest entities; however, the Company, through TCA, does not hold variable interests in the entities as the Company's interest in the CLO funds is limited to the asset management fees payable to TCA under their asset management agreements and the interests of its related parties are insignificant. The Company concluded that the asset management fees were not variable interests in the CLO funds as (a) the asset management fees are commensurate with the services provided, (b) the asset management agreements include only terms, conditions, or amounts that are customarily present in arrangements for similar services negotiated on an arm's-length basis, and (c) the Company does not hold other interests in the CLO funds (including interests held through related parties) that individually or in the aggregate absorb more than an insignificant amount of the CLO funds' expected losses or receive more than an insignificant amount of the CLO funds' expected residual returns. Consequently, the Company concluded that it was not required to consolidate the assets, liabilities, equity or operations of these CLO funds in its financial statements.

The following table summarizes the closed CLO offerings for which TCA is not the asset manager, but provides certain middle- and back-office services to the asset manager:

(Dollars in thousands)	Offering Date	Offering Amount
Trinitas CLO IV, LTD (Trinitas IV)	June 2, 2016	$406,650

The securities sold in the above CLO offering were issued in a series of tranches ranging from an AAA rated debt tranche to an unrated tranche of subordinated notes. The Company holds an investment in the subordinated notes of Trinitas IV with a carrying amount of $1,634,000, which is classified as a held to maturity security within the Company's consolidated balance sheet at June 30, 2016.

The Company performed a consolidation analysis to confirm whether the Company was required to consolidate the assets, liabilities, equity or operations of the above closed CLO fund in its financial statements. The Company concluded that the closed CLO fund is a variable interest entity and that the Company holds a variable interest in the entity in the form of its investment in the subordinated notes of entity. However, the Company also concluded that as TCA is not the named asset manager of the CLO fund, the Company does not have the power to direct the activities that most significantly impact the entity's economic performance. As a result, the Company is not the primary beneficiary and therefore is not required to consolidate the assets, liabilities, equity, or operations of the closed CLO fund in the Company's financial statements.

Collateralized Loan Obligation Funds – Warehouse Phase

On September 21, 2015 and June 17, 2016, Trinitas CLO V, Ltd. ("Trinitas V") and Trinitas CLO VI, Ltd. ("Trinitas VI"), respectively, were formed to be the issuers of CLO offerings. Trinitas V and Trinitas VI are capitalized with subordinated debt issued to the Company and third party investors. Each entity entered into a warehouse credit agreement in order to begin acquiring senior secured loan assets that will comprise the initial collateral pool of the CLOs once issued. When finalized, Trinitas V and Trinitas VI will use the proceeds of the debt and equity interests sold in the offering for the final CLO securitization structures to repay the initial warehouse phase debt and equity holders. In the final CLO securitization structures, interest and principal repayment of the leveraged loans held by

Trinitas V and Trinitas VI will be used to repay debt holders with any excess cash flows used to provide a return on capital to equity investors. During their warehousing periods, TCA acts as portfolio manager for Trinitas V and provides middle- and back-office support as a staff and services provider for Trinitas VI. TCA does not earn management or other fees from Trinitas V or Trinitas VI during the warehouse phase.

At June 30, 2016, the Company's loss exposure to Trinitas V and Trinitas VI is limited to its combined $17,301,000 investment in the entities which is classified as other assets within the Company's consolidated balance sheet.

The Company performed a consolidation analysis of Trinitas V and Trinitas VI during the warehouse phase and concluded that Trinitas V and Trinitas VI are variable interest entities and that the Company holds variable interests in the entities that could potentially be significant to the entities in the form of its investments in the subordinated notes of the entities. However, the Company also concluded that due to certain approval and denial powers available to the senior lender under the warehouse credit facility for Trinitas V which provide for shared decision-making powers, and as the Company is not the named portfolio manager for Trinitas VI, but only acts as staff and services provider, the Company does not have the power to direct the activities that most significantly impact the entities' economic performance. As a result, the Company is not the primary beneficiary and therefore is not required to consolidate the assets, liabilities, equity, or operations of the entities in the Company's financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

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NOTE 7 - Deposits

Deposits at June 30, 2016 and December 31, 2015 are summarized as follows:

(Dollars in thousands)	June 30, 2016	December 31, 2015
Noninterest bearing demand	$170,834	$168,264
Interest bearing demand	235,877	238,833
Individual retirement accounts	64,204	60,971
Money market	120,929	112,214
Savings	77,625	74,759
Certificates of deposit	555,710	543,909
Brokered deposits	49,975	50,000
Total Deposits	$1,275,154	$1,248,950

At June 30, 2016, scheduled maturities of certificates of deposits, individual retirement accounts and brokered deposits are as follows:

(Dollars in thousands)	June 30, 2016
Within one year	$510,421
After one but within two years	120,524
After two but within three years	21,961
After three but within four years	10,956
After four but within five years	6,027
Total	$669,889

Time deposits, including individual retirement accounts, certificates of deposit, and brokered deposits, with individual balances of $250,000 and greater totaled $112,418,000 and $106,258,000 at June 30, 2016 and December 31, 2015, respectively.

NOTE 8 - Legal Contingencies

Various legal claims have arisen from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's consolidated financial statements. The Company does not anticipate any material losses as a result of commitments and contingent liabilities.

Trademark Infringement Lawsuit

On February 18, 2015, a trademark infringement suit was filed in the United States District Court for the Western District of Tennessee Western Division against the Company and certain subsidiaries by Triumph Bancshares, Inc. and Triumph Bank, N.A., asserting that the Company's use of "Triumph" as part of the Company's trademarks and domain names causes a likelihood of confusion, has caused actual confusion, and infringes plaintiffs' trademarks. The suit was settled and did not have a material impact on the financial condition and results of operations of the Company.

NOTE 9 - OFF-BALANCE SHEET LOAN COMMITMENTS

From time to time, the Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments.

The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

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The contractual amounts of financial instruments with off-balance sheet risk were as follows:

	June 30, 2016		December 31, 2015	
(Dollars in thousands)	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	$25,881	$3,950	$6,571	$2,949
Unused lines of credit	45,862	86,396	35,514	81,189
Standby letters of credit	1,072	2,169	1,030	1,999

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being fully drawn upon, the total commitment amounts disclosed above do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if considered necessary by the Company, upon extension of credit, is based on management's credit evaluation of the customer.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. In the event of nonperformance by the customer, the Company has rights to the underlying collateral, which can include commercial real estate, physical plant and property, inventory, receivables, cash and marketable securities. The credit risk to the Company in issuing letters of credit is essentially the same as that involved in extending loan facilities to its customers.

NOTE 10 - Fair Value Disclosures

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The methods of determining the fair value of assets and liabilities presented in this note are consistent with our methodologies disclosed in our annual financial statements.

Assets measured at fair value on a recurring basis are summarized in the table below. There were no liabilities measured at fair value on a recurring basis at June 30, 2016 and December 31, 2015.

(Dollars in thousands)	Fair Value Measurements Using			Total
June 30, 2016	Level 1	Level 2	Level 3	Total Fair Value
Securities available for sale	$—	$159,790	$ —	$159,790

(Dollars in thousands)	Fair Value Measurements Using			Total
December 31, 2015	Level 1	Level 2	Level 3	Total Fair Value
Securities available for sale	$—	$163,169	$ —	$163,169
Loans held for sale	—	1,341	—	1,341

There were no transfers between levels during 2016 or 2015.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

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Assets measured at fair value on a non-recurring basis are summarized in the table below. There were no liabilities measured at fair value on a non-recurring basis at June 30, 2016 and December 31, 2015.

(Dollars in thousands)	Fair Value Measurements Using			Total
June 30, 2016	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans				
Commercial real estate	$—	$ —	$417	$417
Construction, land development, land	—	—	250	250
1-4 family residential properties	—	—	9	9
Commercial	—	—	5,117	5,117
Factored receivables	—	—	665	665
PCI	—	—	1,001	1,001
Other real estate owned [1]				
Commercial	—	—	698	698
Construction, land development, land	—	—	253	253
1-4 family residential properties	—	—	124	124
	$—	$ —	$8,534	$8,534

(Dollars in thousands)	Fair Value Measurements Using			Total
December 31, 2015	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans				
Commercial real estate	$—	$ —	$431	$431
1-4 family residential properties	—	—	13	13
Commercial	—	—	695	695
Factored receivables	—	—	1,156	1,156
PCI	—	—	170	170
Other real estate owned [1]				
1-4 family residential properties	—	—	128	128
Construction, land development, land	—	—	1,377	1,377
	$—	$ —	$3,970	$3,970

[1] Represents the fair value of OREO that was adjusted during the period and subsequent to its initial classification as OREO

Impaired Loans with Specific Allocation of ALLL: A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due pursuant to the contractual terms of the loan agreement. Impairment is measured by estimating the fair value of the loan based on the present value of expected cash flows, the market price of the loan, or the underlying fair value of the loan’s collateral. Fair value of the impaired loan’s collateral is determined by third party appraisals, which are then adjusted for the estimated selling and closing costs related to liquidation of the collateral. For this asset class, the actual valuation methods (income, sales comparable, or cost) vary based on the status of the project or property. For example, land is generally based on the sales comparable method while construction is based on the income and/or sales comparable methods. The unobservable inputs may vary depending on the individual assets with no one of the three methods being the predominant approach. The Company reviews the third party appraisal for appropriateness and adjusts the value downward to consider selling and closing costs, which typically range from 5% to 8% of the appraised value of the underlying collateral.

OREO: OREO is comprised of real estate acquired in partial or full satisfaction of loans. OREO is recorded at its estimated fair value less estimated selling and closing costs at the date of transfer, with any excess of the related loan balance over the fair value less expected selling costs is charged to the ALLL. Subsequent changes in fair value are reported as adjustments to the carrying amount and are recorded against earnings. The Company outsources the valuation of OREO with material balances to third party appraisers. For this asset class, the actual valuation methods (income, sales comparable, or cost) vary based on the status of the project or property. For example, land is generally based on the sales comparable method while construction is based on the income and/or sales comparable methods. The unobservable inputs may vary depending on the individual assets with no one of the three methods being the predominant approach. The Company reviews the third party appraisal for appropriateness and adjusts the value downward to consider selling and closing costs, which typically range from 5% to 8% of the appraised value.

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The estimated fair values of the Company’s financial instruments at June 30, 2016 and December 31, 2015 were as follows:

(Dollars in thousands)	Carrying	Fair Value Measurements Using			Total
June 30, 2016	Amount	Level 1	Level 2	Level 3	Fair Value
Financial assets:					
Cash and cash equivalents	$61,750	$61,750	$—	$—	$61,750
Securities - held to maturity	27,502	—	26,713	1,649	28,362
Loans not previously presented, net	1,389,287	—	—	1,392,276	1,392,276
FHLB stock	6,368	N/A	N/A	N/A	N/A
Accrued interest receivable	5,260	—	5,260	—	5,260
Financial liabilities:					
Deposits	1,275,154	—	1,277,777	—	1,277,777
Customer repurchase agreements	13,635	—	13,635	—	13,635
Federal Home Loan Bank advances	180,500		180,497		180,497
Junior subordinated debentures	24,823	—	25,477	—	25,477
Accrued interest payable	1,348	—	1,348	—	1,348

(Dollars in thousands)	Carrying	Fair Value Measurements Using			Total
December 31, 2015	Amount	Level 1	Level 2	Level 3	Fair Value
Financial assets:					
Cash and cash equivalents	$105,277	$105,277	$—	$—	$105,277
Loans not previously presented, net	1,276,853	—	—	1,281,408	1,281,408
FHLB stock	3,818	N/A	N/A	N/A	N/A
Accrued interest receivable	4,832	—	4,832	—	4,832
Financial liabilities:					
Deposits	1,248,950	—	1,249,751	—	1,249,751
Customer repurchase agreements	9,317	—	9,317	—	9,317
Federal Home Loan Bank advances	130,000	—	130,000	—	130,000
Junior subordinated debentures	24,687	—	23,153	—	23,153
Accrued interest payable	1,231	—	1,231	—	1,231

NOTE 11 - Regulatory Matters

The Company (on a consolidated basis) and TBK Bank are subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company’s or TBK Bank’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and TBK Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The Company is subject to the Basel III regulatory capital framework. Beginning in January 2016, the implementation of the capital conservation buffer was effective for the Company starting at the 0.625% level and increasing 0.625% each year thereafter, until it reaches 2.5% on January 1, 2019. The capital conservation buffer is designed to absorb losses during periods of economic stress and requires increased capital levels for the purpose of capital distributions and other payments. Failure to meet the full amount of the buffer will result in restrictions on the Company’s ability to make capital distributions, including dividend payments and stock repurchases, and to pay discretionary bonuses to executive officers.

Quantitative measures established by regulation to ensure capital adequacy require the Company and TBK Bank to maintain minimum amounts and ratios (set forth in the table below) of total, common equity Tier 1, and Tier 1 capital to risk weighted assets, and of Tier 1 capital to average assets. Management believes, as of June 30, 2016 and December 31, 2015, the Company and TBK Bank meet all capital adequacy requirements to which they are subject, including the capital buffer requirement.

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As of June 30, 2016 and December 31, 2015, TBK Bank's capital ratios exceeded those levels necessary to be categorized as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," TBK Bank must maintain minimum total risk based, common equity Tier 1 risk based, Tier 1 risk based, and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since June 30, 2016 that management believes have changed TBK Bank's category.

The actual capital amounts and ratios for the Company and TBK Bank are presented in the following table as of June 30, 2016 and December 31, 2015.

(Dollars in thousands)	Actual		To Be Adequately Capitalized Under Prompt Corrective Action Provisions		To Be Well Capitalized Under Prompt Corrective Action Provisions	
As of June 30, 2016	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$288,194	18.0%	$127,944	8.0%	N/A	N/A
TBK Bank, SSB	$215,780	14.0%	$122,948	8.0%	$153,685	10.0%
Tier 1 capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$274,253	17.1%	$95,958	6.0%	N/A	N/A
TBK Bank, SSB	$201,915	13.1%	$92,211	6.0%	$122,948	8.0%
Common equity Tier 1 capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$243,086	15.2%	$71,968	4.5%	N/A	N/A
TBK Bank, SSB	$201,915	13.1%	$69,158	4.5%	$99,895	6.5%
Tier 1 capital (to average assets)						
Triumph Bancorp, Inc.	$274,253	16.0%	$68,494	4.0%	N/A	N/A
TBK Bank, SSB	$201,915	12.3%	$65,902	4.0%	$82,378	5.0%
As of December 31, 2015						
Total capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$276,924	19.1%	$115,929	8.0%	N/A	N/A
TBK Bank, SSB	$205,978	14.7%	$111,869	8.0%	$139,836	10.0%
Tier 1 capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$264,239	18.2%	$86,968	6.0%	N/A	N/A

TBK Bank, SSB	$193,293	13.8%	$83,919	6.0%	$111,892	8.0%
Common equity Tier 1 capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$235,253	16.2%	$65,227	4.5%	N/A	N/A
TBK Bank, SSB	$193,293	13.8%	$62,939	4.5%	$90,912	6.5%
Tier 1 capital (to average assets)						
Triumph Bancorp, Inc.	$264,239	16.6%	$63,824	4.0%	N/A	N/A
TBK Bank, SSB	$193,293	12.7%	$61,024	4.0%	$76,280	5.0%

Dividends paid by bank are limited to, without prior regulatory approval, current year earnings and earnings less dividends paid during the preceding two years.

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(Unaudited)

NOTE 12 – STOCKHOLDERS' EQUITY

The following summarizes the capital structure of Triumph Bancorp, Inc.

	Preferred Stock							
	Series A		Series B		Common Stock		Treasury Stock	
	June 2016	December 2015	June 2016	December 2015	June 2016	December 2015	June 2016	December 2015
Number of shares authorized	50,000	50,000	115,000	115,000	50,000,000	50,000,000		
Number of shares issued	45,500	45,500	51,956	51,956	18,153,828	18,052,723		
Number of shares outstanding	45,500	45,500	51,956	51,956	18,107,493	18,018,200	46,335	34,523
Par value per share	$0.01	$0.01	$0.01	$0.01	$0.01	$0.01		
Liquidation preference per share	$100	$100	$100	$100				
Dividend rate	Prime + 2%	Prime + 2%	8.00 %	8.00 %				
Dividend rate - floor	8.00 %	8.00 %	8.00 %	8.00 %				
Subsequent dividend payment dates	Quarterly	Quarterly	Quarterly	Quarterly				
Convertible to common stock	Yes	Yes	Yes	Yes				
Conversion period	Anytime	Anytime	Anytime	Anytime				
Conversion ratio - preferred to common	6.94008	6.94008	6.94008	6.94008				

NOTE 13 – STOCK BASED COMPENSATION

Stock based compensation expense that has been charged against income was $926,000 and $1,279,000 for the three and six months ended June 30, 2016, respectively, and $852,000 and $1,548,000 for the three and six months ended June 30, 2015, respectively.

2014 Omnibus Incentive Plan

The Company's 2014 Omnibus Incentive Plan ("Omnibus Incentive Plan") provides for the grant of nonqualified and incentive stock options, stock appreciation rights, restricted stock awards, restricted stock units, and other awards that may be settled in, or based upon the value of, the Company's common stock. The aggregate number of shares of common stock available for issuance under the Omnibus Incentive Plan is 1,200,000 shares.

Restricted Stock Awards

A summary of changes in the Company's nonvested Restricted Stock Awards ("RSAs") under the Omnibus Incentive Plan for the six months ended June 30, 2016 were as follows:

Nonvested RSAs	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2016	201,270	$ 14.24
Granted	101,105	15.87
Vested	(47,727)	14.60
Forfeited	(6,759)	15.02
Nonvested at June 30, 2016	247,889	$ 14.82

RSAs granted to employees under the Omnibus Incentive Plan typically vest over two to three years. Compensation expense for RSAs granted under the Omnibus Incentive Program will be recognized over the vesting period of the awards based on the fair value of the stock at the issue date. As of June 30, 2016, there was $1,730,000 of unrecognized compensation cost related to nonvested RSAs granted under the Omnibus Incentive Plan. The cost is expected to be recognized over a remaining period of 2.67 years.

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Stock Options

A summary of the changes in the Company’s stock options under the Omnibus Incentive Plan for the six months ended June 30, 2016 were as follows:

Stock Options	Shares	Weighted-Average Exercise Price
Outstanding at January 1, 2016	—	$ —
Granted	164,175	15.87
Exercised	—	—
Forfeited or expired	—	—
Outstanding at June 30, 2016	164,175	$ 15.87

Stock options outstanding at June 30, 2016 had an intrinsic value of $21,000, a weighted-average remaining contractual term of 9.75 years, were all expected to vest, and were not exercisable. The weighted-average grant date fair value of options granted during the six months ended June 30, 2016 was $5.85 per option.

Stock options awarded to employees under the Omnibus Incentive Plan are generally granted with an exercise price equal to the market price of the Company’s common stock at the date of grant, vest over four years, and have ten year contractual terms. The fair value of stock options granted is estimated at the date of grant using the Black-Scholes option-pricing model. Expected volatilities were determined based on historical volatilities of a peer group of companies with a similar size, industry, stage of life cycle, and capital structure. The expected term of the options granted was determined based on the SEC simplified method. The risk-free interest rate for the expected term of the options was derived from the Treasury Constant Maturity yield curve on the valuation date.

The fair value of the stock options granted was determined using the following weighted-average assumptions:

	2016
Risk-free interest rate	1.49 %
Expected Term	6.25 Years
Expected stock price volatility	34.96%
Dividend yield	—

As of June 30, 2016, there was $836,000 of unrecognized compensation cost related to nonvested stock options granted under the Omnibus Incentive Plan. The cost is expected to be recognized over a remaining period of 3.75 years.

NOTE 14 – EARNINGS PER SHARE

The factors used in the earnings per share computation follow:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2016	2015	2016	2015
Basic				
Net income to common stockholders	$4,431	$4,457	$9,243	$18,309
Weighted average common shares outstanding	17,859,604	17,711,527	17,838,267	17,711,527
Basic earnings per common share	$0.25	$0.25	$0.52	$1.03
Diluted				
Net income to common stockholders	$4,431	$4,457	$9,243	$18,309
Dilutive effect of preferred stock	—	—	—	387
Net income to common stockholders - diluted	$4,431	$4,457	$9,243	$18,696
Weighted average common shares outstanding	17,859,604	17,711,527	17,838,267	17,711,527
Add: Dilutive effects of restricted stock	112,880	71,022	113,334	41,492
Add: Dilutive effects of assumed exercises of stock warrants	70,101	31,276	60,330	30,050
Add: Dilutive effects of assumed conversion of Preferred A	—	—	—	315,773
Add: Dilutive effects of assumed conversion of Preferred B	—	—	—	360,578
Average shares and dilutive potential common shares	18,042,585	17,813,825	18,011,931	18,459,420
Dilutive earnings per common share	$0.25	$0.25	$0.51	$1.01

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Shares that were not considered in computing diluted earnings per common share because they were antidilutive are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Shares assumed to be converted from Preferred Stock Series A	315,773	315,773	315,773	—
Shares assumed to be converted from Preferred Stock Series B	360,578	360,578	360,578	—
Restricted stock awards	76,362	—	76,362	—
Stock options	164,175	—	164,175	—

NOTE 15 – BUSINESS SEGMENT INFORMATION

The following table presents the Company’s operating segments. Transactions between segments consist primarily of borrowed funds. Intersegment interest expense is allocated to the Factoring segment based on the Company’s prime rate. The provision for loan loss is allocated based on the segment’s allowance for loan loss determination which considers the effects of charge-offs. Noninterest income and expense directly attributable to a segment are assigned to it. Taxes are paid on a consolidated basis but not allocated for segment purposes The Factoring segment includes only factoring originated by TBC. General factoring services not originated through TBC are included in the Banking segment.

(Dollars in thousands) Three Months Ended June 30, 2016	Factoring	Banking	Asset Management	Corporate	Consolidated
Total interest income	$ 7,939	$ 20,109	$ 33	$ 273	$ 28,354
Intersegment interest allocations	(1,099)	1,099	—	—	—
Total interest expense	—	2,135	—	312	2,447
Net interest income (expense)	6,840	19,073	33	(39)	25,907
Provision for loan losses	555	1,392	—	(8)	1,939
Net interest income after provision	6,285	17,681	33	(31)	23,968
Other noninterest income	496	822	1,614	736	3,668
Noninterest expense	4,962	13,405	1,213	751	20,331
Operating income (loss)	$ 1,819	$ 5,098	$ 434	$ (46)	$ 7,305

(Dollars in thousands) Three Months Ended June 30, 2015	Factoring	Banking	Asset Management	Corporate	Consolidated
Total interest income	$ 8,275	$ 18,189	$ 5	$ 128	$ 26,597
Intersegment interest allocations	(1,017)	1,017	—	—	—
Total interest expense	—	1,674	—	278	1,952
Net interest income (expense)	7,258	17,532	5	(150)	24,645
Provision for loan losses	477	1,971	—	93	2,541
Net interest income after provision	6,781	15,561	5	(243)	22,104
Other noninterest income	450	2,708	1,352	259	4,769
Noninterest expense	4,450	12,707	809	1,669	19,635
Operating income (loss)	$ 2,781	$ 5,562	$ 548	$ (1,653)	$ 7,238

(Dollars in thousands) Six Months Ended June 30, 2016	Factoring	Banking	Asset Management	Corporate	Consolidated
Total interest income	$ 15,124	$ 37,535	$ 64	$ 524	$ 53,247
Intersegment interest allocations	(2,100)	2,100	—	—	—
Total interest expense	—	4,237	—	614	4,851
Net interest income (expense)	13,024	35,398	64	(90)	48,396
Provision for loan losses	85	1,267	—	76	1,428
Net interest income after provision	12,939	34,131	64	(166)	46,968
Other noninterest income	942	2,836	3,285	1,586	8,649
Noninterest expense	9,535	26,987	2,559	1,328	40,409
Operating income (loss)	$ 4,346	$ 9,980	$ 790	$ 92	$ 15,208

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands) Six Months Ended June 30, 2015	Factoring	Banking	Asset Management	Corporate	Consolidated
Total interest income	$ 15,503	$ 32,424	$ 65	$ 184	$ 48,176
Intersegment interest allocations	(1,926)	1,926	—	—	—
Total interest expense	—	3,246	10	550	3,806
Net interest income	13,577	31,104	55	(366)	44,370
Provision for loan losses	368	2,725	—	93	3,186
Net interest income after provision	13,209	28,379	55	(459)	41,184
Bargain purchase gain	—	—	12,509	—	12,509
Other noninterest income	781	5,293	2,309	536	8,919
Noninterest expense	8,762	25,107	3,435	3,114	40,418
Operating income (loss)	$ 5,228	$ 8,565	$ 11,438	$ (3,037)	$ 22,194

(Dollars in thousands) June 30, 2016	Factoring	Banking	Asset Management	Corporate	Eliminations	Consolidated
Total assets	$ 216,649	$ 1,708,861	$ 15,208	$ 311,887	$ (469,210)	$ 1,783,395
Gross loans	$ 206,256	$ 1,338,314	$ 889	$ 13,809	$ (148,750)	$ 1,410,518

(Dollars in thousands) December 31, 2015	Factoring	Banking	Asset Management	Corporate	Eliminations	Consolidated
Total assets	$ 198,629	$ 1,601,072	$ 17,676	$ 303,253	$ (429,317)	$ 1,691,313
Gross loans	$ 186,457	$ 1,223,028	$ 945	$ 18,455	$ (137,000)	$ 1,291,885

item 2

Management's Discussion and Analysis of

Financial Condition and Results of Operations

This section presents management's perspective on our financial condition and results of operations. The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the Company's interim consolidated financial statements and the accompanying notes included elsewhere in this Quarterly Report on Form 10-Q and with the consolidated financial statements and accompanying notes and other detailed information appearing in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. To the extent that this discussion describes prior performance, the descriptions relate only to the periods listed, which may not be indicative of our future financial outcomes. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause results to differ materially from management's expectations. See the "Forward-Looking Statements" section of this discussion for further information on forward-looking statements.

Overview

We are a financial holding company headquartered in Dallas, Texas and registered under the Bank Holding Company Act. Through our wholly owned bank subsidiary, TBK Bank, we offer traditional banking services as well as commercial finance product lines focused on businesses that require specialized financial solutions. Our banking operations include a full suite of lending and deposit products and services focused on our local market areas. These activities generate a stable source of core deposits and a diverse asset base to support our overall operations. Our commercial finance product lines include factoring, asset-based lending, equipment lending, healthcare lending, and premium finance products offered on a nationwide basis. These product offerings supplement the asset generation capacity in our community banking markets and enhance the overall yield of our loan portfolio, enabling us to earn attractive risk-adjusted net interest margins. In addition, through our Triumph Capital Advisors asset management subsidiary, we provide investment management services currently focused on the origination, management, and provision of other services related to collateralized loan obligations. We believe our integrated business model distinguishes us from other banks and non-bank financial services companies in the markets in which we operate. As of June 30, 2016, we had consolidated total assets of $1.783 billion, total loans held for investment of $1.411 billion, total deposits of $1.275 billion and total stockholders' equity of $279.8 million.

Most of our products and services share basic processes and have similar economic characteristics. However, our factoring subsidiary operates in a highly specialized niche and earns substantially higher yields on its factored accounts receivable portfolio than our other lending products. This business also has a legacy and structure as a standalone company. In addition, through our Triumph Capital Advisors asset management subsidiary, we provide fee-based asset management services distinct from our traditional banking offerings and operations. As a result, we have determined our reportable segments are Banking, Factoring, Asset Management, and Corporate. For the six months ended June 30, 2016, our Banking segment generated 66% of our total revenue (comprised of interest and noninterest income, excluding bargain purchase gains), our Factoring segment generated 26% of our total revenue, our Asset Management segment generated 5% of our total revenue, and our Corporate segment generated 3% of our total revenue.

Recent Developments

ColoEast Bankshares, Inc.

On August 1, 2016, the Company acquired 100% of the outstanding common stock of ColoEast Bankshares, Inc. ("ColoEast") and its community banking subsidiary, Colorado East Bank & Trust, in an all-cash transaction for $70 million. Colorado East Bank & Trust, which was merged into TBK Bank upon closing, offers personal checking, savings, CD, money market, HSA, IRA, NOW and business accounts, as well as consumer, commercial and mortgage loans from 18 branches and one loan production office located throughout Colorado and far western Kansas. The acquisition expands the Company's market into Colorado and further diversifies the Company's loan, customer, and deposit base.

As of June 30, 2016, ColoEast had approximately $753 million of total assets, $464 million of loans, and $659 million of deposits. The initial accounting for the ColoEast acquisition has not been completed because the fair value of loans, deposits, and numerous other items has not yet been determined.

Financial Highlights

The Company's key financial highlights as of and for the three and six months ended June 30, 2016, as compared to the prior period, are shown below:

(Dollars in thousands, except per share amounts)	Three Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
Income Statement Data:				
Interest income	$28,354	$26,597	$53,247	$48,176
Interest expense	2,447	1,952	4,851	3,806
Net interest income	25,907	24,645	48,396	44,370
Provision for loan losses	1,939	2,541	1,428	3,186
Net interest income after provision	23,968	22,104	46,968	41,184
Bargain purchase gain	—	—	—	12,509
Other noninterest income	3,668	4,769	8,649	8,919
Noninterest income	3,668	4,769	8,649	21,428
Noninterest expense	20,331	19,635	40,409	40,418
Net income before income taxes	7,305	7,238	15,208	22,194
Income tax expense	2,679	2,586	5,576	3,498
Net income	4,626	4,652	9,632	18,696
Dividends on preferred stock	(195)	(195)	(389)	(387)
Net income available to common stockholders	$4,431	$4,457	$9,243	$18,309
Per Share Data:				
Basic earnings per common share	$0.25	$0.25	$0.52	$1.03
Diluted earnings per common share	$0.25	$0.25	$0.51	$1.01
Weighted average shares outstanding - basic	17,859,604	17,711,527	17,838,267	17,711,527
Weighted average shares outstanding - diluted	18,042,585	17,813,825	18,011,931	18,459,420
Adjusted Per Share Data[(1)]:				
Adjusted diluted earnings per common share	N/A	N/A	N/A	$0.39
Adjusted weighted average shares outstanding - diluted	N/A	N/A	N/A	17,783,069
Performance ratios - Annualized[(2)]:				
Return on average assets	1.07%	1.23%	1.13%	2.55%
Return on average common equity [(1)]	6.64%	7.27%	7.00%	15.37%
Return on average tangible common equity [(1)]	7.37%	8.28%	7.80%	17.54%
Return on average total equity	6.69%	7.30%	7.04%	15.08%
Yield on loans	8.50%	9.49%	8.18%	9.02%
Adjusted yield on loans [(1)]	7.81%	8.96%	7.65%	8.52%
Cost of interest bearing deposits	0.72%	0.65%	0.73%	0.65%
Cost of total deposits	0.63%	0.56%	0.64%	0.56%
Cost of total funds	0.68%	0.63%	0.68%	0.63%
Net interest margin [(1)]	6.53%	7.20%	6.22%	6.67%
Adjusted net interest margin [(1)]	5.98%	6.78%	5.79%	6.28%

Efficiency ratio [1]	68.74 %	66.75 %	70.84 %	72.52 %
Net noninterest expense to average assets [1]	3.85 %	3.95 %	3.73 %	4.06 %

(Dollars in thousands, except per share amounts)	June 30, 2016		December 31, 2015	
Balance Sheet Data:				
Total assets	$1,783,395		$1,691,313	
Cash and cash equivalents	61,750		105,277	
Investment securities	187,292		163,169	
Loans held for sale	—		1,341	
Loans held for investment, net	1,396,746		1,279,318	
Total liabilities	1,503,632		1,423,275	
Noninterest bearing deposits	170,834		168,264	
Interest bearing deposits	1,104,320		1,080,686	
FHLB advances	180,500		130,000	
Junior subordinated debentures	24,823		24,687	
Total stockholders’ equity	279,763		268,038	
Preferred stockholders' equity	9,746		9,746	
Common stockholders' equity (1)	270,017		258,292	
Per Share Data:				
Book value per share	$14.91		$14.34	
Tangible book value per share (1)	$13.47		$12.79	
Shares outstanding end of period	18,107,493		18,018,200	
Asset Quality ratios(3):				
Past due to total loans	2.80	%	2.41	%
Nonperforming loans to total loans	1.56	%	1.03	%
Nonperforming assets to total assets	1.60	%	1.10	%
ALLL to nonperforming loans	62.60	%	94.10	%
ALLL to total loans	0.98	%	0.97	%
Net charge-offs to average loans(4)	0.02	%	0.07	%
Capital ratios:				
Tier 1 capital to average assets	16.02	%	16.56	%
Tier 1 capital to risk-weighted assets	17.14	%	18.23	%
Common equity Tier 1 capital to risk-weighted assets	15.19	%	16.23	%
Total capital to risk-weighted assets	18.01	%	19.11	%
Total stockholders' equity to total assets	15.69	%	15.85	%
Tangible common stockholders' equity ratio (1)	13.88	%	13.85	%

(1) The Company uses certain non-GAAP financial measures to provide meaningful supplemental information regarding the Company’s operational performance and to enhance investors’ overall understanding of such financial performance. The non-GAAP measures used by the Company include the following:

- “Common stockholders’ equity” is defined as total stockholders’ equity at end of period less the liquidation preference value of the preferred stock.
- “Adjusted diluted earnings per common share” is defined as adjusted net income available to common stockholders divided by adjusted weighted average diluted common shares outstanding. Excluded from net income available to common stockholders are material gains and expenses related to merger and acquisition-related activities, including divestitures, net of tax. In our judgment, the adjustments made to net income available to common stockholders

allow management and investors to better assess our performance in relation to our core net income by removing the volatility associated with certain acquisition-related items and other discrete items that are unrelated to our core business. Weighted average diluted common shares outstanding are adjusted as a result of changes in their dilutive properties given the gain and expense adjustments described herein.

- "Net interest margin" is defined as net interest income divided by average interest earning assets.
- "Tangible common stockholders' equity" is common stockholders' equity less goodwill and other intangible assets.

- "Total tangible assets" is defined as total assets less goodwill and other intangible assets.
- "Tangible book value per share" is defined as tangible common stockholders' equity divided by total common shares outstanding. This measure is important to investors interested in changes from period-to-period in book value per share exclusive of changes in intangible assets.
- "Tangible common stockholders' equity ratio" is defined as the ratio of tangible common stockholders' equity divided by total tangible assets. We believe that this measure is important to many investors in the marketplace who are interested in relative changes from period-to period in common equity and total assets, each exclusive of changes in intangible assets.
- "Return on average tangible common equity" is defined as net income available to common stockholders divided by average tangible common stockholders' equity.
- "Efficiency ratio" is defined as noninterest expenses divided by our operating revenue, which is equal to net interest income plus noninterest income. Also excluded are material gains and expenses related to merger and acquisition-related activities, including divestitures. In our judgment, the adjustments made to operating revenue allow management and investors to better assess our performance in relation to our core operating revenue by removing the volatility associated with certain acquisition-related items and other discrete items that are unrelated to our core business.
- "Net noninterest expense to average total assets" is defined as noninterest expenses net of noninterest income divided by total average assets. Excluded are material gains and expenses related to merger and acquisition-related activities, including divestitures. This metric is used by our management to better assess our operating efficiency.
- "Adjusted yield on loans" is our yield on loans after excluding loan accretion from our acquired loan portfolio. Our management uses this metric to better assess the impact of purchase accounting on our yield on loans, as the effect of loan discount accretion is expected to decrease as the acquired loans roll off of our balance sheet, absent the impact, if any, of future acquisitions.
- "Adjusted net interest margin" is net interest margin after excluding loan accretion from the acquired loan portfolio. Our management uses this metric to better assess the impact of purchase accounting on net interest margin, as the effect of loan discount accretion is expected to decrease as the acquired loans mature or roll off of our balance sheet, absent the impact, if any, of future acquisitions.

(2) Amounts have been annualized.

(3) Asset quality ratios exclude loans held for sale.

(4) Net charge-offs to average loans ratios are for the six months ended June 30, 2016 and the year ended December 31, 2015.

GAAP Reconciliation of Non-GAAP Financial Measures

We believe the non-GAAP financial measures included above provide useful information to management and investors that is supplementary to our financial condition, results of operations and cash flows computed in accordance with GAAP; however, we acknowledge that our non-GAAP financial measures have a number of limitations. The following reconciliation table provides a more detailed analysis of the non-GAAP financial measures:

	Three Months Ended June 30,				Six Months Ended June 30,			
(Dollars in thousands, except per share amounts)	2016		2015		2016		2015	
Net income available to common stockholders	N/A		N/A		N/A		$18,309	
Less: bargain purchase gain, nontaxable	N/A		N/A		N/A		12,509	
Add: merger and acquisition expenses, net of tax	N/A		N/A		N/A		158	
Add: incremental bonus related to acquisition, net of tax	N/A		N/A		N/A		1,138	
Less: escrow recovery from DHF, net of tax	N/A		N/A		N/A		195	
Adjusted net income available to common stockholders	N/A		N/A		N/A		$6,901	
Weighted average shares outstanding - diluted	N/A		N/A		N/A		18,459,420	
Less: adjusted effects of assumed preferred stock conversion	N/A		N/A		N/A		676,351	
Adjusted weighted average shares outstanding - diluted	N/A		N/A		N/A		17,783,069	
Adjusted diluted earnings per common share	N/A		N/A		N/A		$0.39	
Net income available to common stockholders	$4,431		$4,457		$9,243		$18,309	
Average tangible common equity	241,666		215,846		238,420		210,554	
Return on average tangible common equity	7.37	%	8.28	%	7.80	%	17.54	%
Efficiency ratio:								
Net interest income	$25,907		$24,645		$48,396		$44,370	
Noninterest income	3,668		4,769		8,649		21,428	
Operating revenue	29,575		29,414		57,045		65,798	
Less: bargain purchase gain, nontaxable	—		—		—		12,509	
Less: escrow recovery from DHF, pre-tax	—		—		—		300	
Adjusted operating revenue	$29,575		$29,414		$57,045		$52,989	
Total noninterest expense	$20,331		$19,635		$40,409		$40,418	
Less: merger and acquisition expenses, pre-tax	—		—		—		243	
Less: incremental bonus related to acquisition, pre-tax	—		—		—		1,750	
Adjusted noninterest expense	$20,331		$19,635		$40,409		$38,425	
Efficiency ratio	68.74	%	66.75	%	70.84	%	72.52	%
Net noninterest expense to average assets ratio:								
Total noninterest expense	$20,331		$19,635		$40,409		$40,418	
Less: merger and acquisition expenses, pre-tax	—		—		—		243	
Less: incremental bonus related to acquisition, pre-tax	—		—		—		1,750	

Adjusted noninterest expense	$20,331	$19,635	$40,409	$38,425
Total noninterest income	$3,668	$4,769	$8,649	$21,428
Less: bargain purchase gain, nontaxable	—	—	—	12,509
Less: escrow recovery from DHF, pre-tax	—	—	—	300
Adjusted noninterest income	3,668	4,769	8,649	8,619
Adjusted net noninterest expenses	$16,663	$14,866	$31,760	$29,806
Average Total Assets	1,742,942	1,511,045	1,712,784	1,480,546
Net noninterest expense to average assets ratio	3.85 %	3.95 %	3.73 %	4.06 %
Reported yield on loans	8.50 %	9.49 %	8.18 %	9.02 %
Effect of accretion income on acquired loans	(0.69 %)	(0.53 %)	(0.53 %)	(0.50 %)
Adjusted yield on loans	7.81 %	8.96 %	7.65 %	8.52 %
Reported net interest margin	6.53 %	7.20 %	6.22 %	6.67 %
Effect of accretion income on acquired loans	(0.55 %)	(0.42 %)	(0.43 %)	(0.39 %)
Adjusted net interest margin	5.98 %	6.78 %		