Triumph Bancorp, Inc.
Form 10-Q
November 02, 2015

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 September 30, 2015

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 ¨ |
| Non-accelerated filer x (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, 18,040,072 shares, as of October 30, 2015

TRIUMPH BANCORP, INC.

FORM 10-Q

September 30, 2015

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

September 30, 2015 and December 31, 2014

(Dollar amounts in thousands, except per share amounts)

| | September 30, 2015 (Unaudited) | December 31, 2014 |
|---|---|---|
| ASSETS | | |
| Cash and due from banks | $ 23,256 | $ 21,312 |
| Interest bearing deposits with other banks | 92,527 | 139,576 |
| Total cash and cash equivalents | 115,783 | 160,888 |
| Securities - available for sale | 156,820 | 162,024 |
| Securities - held to maturity, fair value of $745 and $750, respectively | 747 | 745 |
| Loans held for sale, at fair value | 2,174 | 3,288 |
| Loans, net of allowance for loan and lease losses of $11,544 and $8,843, respectively | 1,173,757 | 997,035 |
| Federal Home Loan Bank and Federal Reserve Bank stock, at cost | 7,992 | 4,903 |
| Premises and equipment, net | 21,807 | 21,933 |
| Other real estate owned, net | 6,201 | 8,423 |
| Goodwill | 15,968 | 15,968 |
| Intangible assets, net | 13,027 | 13,089 |
| Bank-owned life insurance | 29,406 | 29,083 |
| Deferred tax assets, net | 15,838 | 15,956 |
| Other assets | 21,943 | 14,563 |
| Total assets | $ 1,581,463 | $ 1,447,898 |
| LIABILITIES AND EQUITY | | |
| Liabilities | | |
| Deposits | | |
| Noninterest bearing | $ 167,931 | $ 179,848 |
| Interest bearing | 1,032,105 | 985,381 |
| Total deposits | 1,200,036 | 1,165,229 |
| Customer repurchase agreements | 15,584 | 9,282 |
| Federal Home Loan Bank advances | 61,000 | 3,000 |
| Junior subordinated debentures | 24,620 | 24,423 |
| Other liabilities | 16,304 | 8,455 |
| Total liabilities | 1,317,544 | 1,210,389 |
| 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 | 181 | 180 |
| Additional paid-in-capital | 193,465 | 191,049 |

| | | |
|---|---|---|
| Treasury stock, at cost | (184 ) | (161 ) |
| Retained earnings | 59,785 | 35,744 |
| Accumulated other comprehensive income | 926 | 951 |
| Total stockholders’ equity | 263,919 | 237,509 |
| Total liabilities and stockholders' equity | $ 1,581,463 | $ 1,447,898 |

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the Three and Nine Months Ended September 30, 2015 and 2014

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Interest and dividend income: | | | | |
| Loans, including fees | $15,716 | $13,706 | $46,113 | $41,942 |
| Factored receivables, including fees | 8,829 | 7,681 | 24,992 | 19,791 |
| Taxable securities | 649 | 666 | 1,987 | 1,986 |
| Tax exempt securities | 17 | 15 | 45 | 46 |
| Cash deposits | 92 | 50 | 342 | 185 |
| Total interest income | 25,303 | 22,118 | 73,479 | 63,950 |
| Interest expense: | | | | |
| Deposits | 1,764 | 1,289 | 5,001 | 3,538 |
| Senior secured note | — | 134 | — | 411 |
| Junior subordinated debentures | 283 | 276 | 833 | 819 |
| Other borrowings | 25 | 24 | 44 | 51 |
| Total interest expense | 2,072 | 1,723 | 5,878 | 4,819 |
| Net interest income | 23,231 | 20,395 | 67,601 | 59,131 |
| Provision for loan losses | 165 | 1,375 | 3,351 | 4,047 |
| Net interest income after provision for loan losses | 23,066 | 19,020 | 64,250 | 55,084 |
| Noninterest income: | | | | |
| Service charges on deposits | 710 | 811 | 1,988 | 2,363 |
| Card income | 574 | 544 | 1,675 | 1,582 |
| Net OREO gains (losses) and valuation adjustments | (58) | (11) | 20 | (340) |
| Net gains on sale of securities | 15 | 10 | 257 | 26 |
| Net gains on sale of loans | 363 | 484 | 1,396 | 1,058 |
| Fee income | 542 | 448 | 1,466 | 1,267 |
| Bargain purchase gain | 1,708 | — | 14,217 | — |
| Gain on branch sale | — | 12,619 | — | 12,619 |
| Asset management fees | 1,744 | 374 | 3,976 | 503 |
| Other | 700 | 525 | 2,731 | 1,968 |
| Total noninterest income | 6,298 | 15,804 | 27,726 | 21,046 |
| Noninterest expense: | | | | |
| Salaries and employee benefits | 12,416 | 11,032 | 37,727 | 29,379 |
| Occupancy, furniture and equipment | 1,575 | 1,319 | 4,702 | 4,044 |

| | | | | |
|---|---|---|---|---|
| FDIC insurance and other regulatory assessments | 252 | 280 | 786 | 821 |
| Professional fees | 1,344 | 1,043 | 3,523 | 2,428 |
| Amortization of intangible assets | 1,179 | 746 | 2,838 | 2,196 |
| Advertising and promotion | 618 | 1,102 | 1,687 | 2,228 |
| Communications and technology | 951 | 954 | 2,764 | 2,787 |
| Other | 2,210 | 1,985 | 6,936 | 5,634 |
| Total noninterest expense | 20,545 | 18,461 | 60,963 | 49,517 |
| Net income before income tax | 8,819 | 16,363 | 31,013 | 26,613 |
| Income tax expense | 2,891 | 6,089 | 6,389 | 9,631 |
| Net income | 5,928 | 10,274 | 24,624 | 16,982 |
| Income attributable to noncontrolling interests | — | (582 ) | — | (1,471 ) |
| Net income attributable to Triumph Bancorp, Inc. | 5,928 | 9,692 | 24,624 | 15,511 |
| Dividends on preferred stock | (196 ) | (197 ) | (583 ) | (583 ) |
| Net income available to common stockholders | $5,732 | $9,495 | $24,041 | $14,928 |
| Earnings per common share | | | | |
| Basic | $0.32 | $0.96 | $1.36 | $1.52 |
| Diluted | $0.32 | $0.91 | $1.33 | $1.47 |

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three and Nine Months Ended September 30, 2015 and 2014

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

| | Three Months Ended September 30, 2015 | Three Months Ended September 30, 2014 | Nine Months Ended September 30, 2015 | Nine Months Ended September 30, 2014 |
|---|---|---|---|---|
| Net income | $5,928 | $10,274 | $24,624 | $16,982 |
| Other comprehensive income: | | | | |
| Unrealized gains (losses) on securities: | | | | |
| Unrealized holding gains (losses) arising during the period | (204) | (31) | 226 | 1,138 |
| Reclassification of amount realized through sale of securities | (15) | 10 | (257) | (26) |
| Tax effect | 81 | 16 | 6 | (409) |
| Total other comprehensive income (loss) | (138) | (5) | (25) | 703 |
| Comprehensive income | 5,790 | 10,269 | 24,599 | 17,685 |
| Income attributable to noncontrolling interests | — | (582) | — | (1,471) |
| Comprehensive income attributable to Triumph Bancorp, Inc. | $5,790 | $9,687 | $24,599 | $16,214 |

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Nine Months Ended September 30, 2015 and 2014

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

| | Preferred Stock – Series A | | Preferred Stock – Series B | | Common Stock | | | Treasury Stock | | | Accumulated | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares Outstanding | Liquidation Preference Amount | Shares Outstanding | Liquidation Preference Amount | Shares Outstanding | Par Amount | Additional Paid-in-Capital | Shares Outstanding | Cost | Retained Earnings | Other Comprehensive Income | Non Controlling Interest | Total Equity |
| ance, ary 1, 2014 | 45,500 | $4,550 | 51,956 | $5,196 | 9,832,585 | $98 | $104,631 | — | $— | $18,992 | $133 | $26,997 | $160,5 |
| ing of icted stock s | — | — | — | — | 58,395 | 1 | 54 | — | — | — | — | — | 55 |
| k based pensation | — | — | — | — | — | — | 613 | — | — | — | — | — | 613 |
| mon stock ance, net of sts | — | — | — | — | 444 | — | 6 | — | — | — | — | — | 6 |
| hase of ury stock | — | — | — | — | (4,646 ) | — | — | 4,646 | (68 ) | — | — | — | (68 |
| es T-1 and dividends | — | — | — | — | — | — | — | — | — | (1,313 ) | — | — | (1,31 |
| es A erred dends | — | — | — | — | — | — | — | — | — | (272 ) | — | — | (272 |
| es B erred dends | — | — | — | — | — | — | — | — | — | (311 ) | — | — | (311 |
| Class B ibutions | — | — | — | — | — | — | — | — | — | (64 ) | — | — | (64 |
| Class B mption | — | — | — | — | — | — | — | — | — | — | — | (1,100 ) | (1,10 |
| income | — | — | — | — | — | — | — | — | — | 16,982 | — | — | 16,98 |
| er prehensive me | — | — | — | — | — | — | — | — | — | — | 703 | — | 703 |
| | 45,500 | $4,550 | 51,956 | $5,196 | 9,886,778 | $99 | $105,304 | 4,646 | $(68 ) | $34,014 | $836 | $25,897 | $175,8 |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| nce, ember 30, 4 | | | | | | | | | | | | | |
| nce, ary 1, 2015 | 45,500 | $4,550 | 51,956 | $5,196 | 17,963,783 | $180 | $191,049 | 10,984 | $(161) | $35,744 | $951 | $— | $237,5 |
| ance of icted stock rds | — | — | — | — | 77,956 | 1 | (1 ) | — | — | — | — | — | — |
| eiture of icted stock rds | — | — | — | — | (1,667 ) | — | 23 | 1,667 | (23 ) | — | — | — | — |
| k based pensation | — | — | — | — | — | — | 2,394 | — | — | — | — | — | 2,394 |
| es A erred dends | — | — | — | — | — | — | — | — | — | (273 ) | — | — | (273 |
| es B erred dends | — | — | — | — | — | — | — | — | — | (310 ) | — | — | (310 |
| income | — | — | — | — | — | — | — | — | — | 24,624 | — | — | 24,62 |
| er prehensive me | — | — | — | — | — | — | — | — | — | — | (25 ) | — | (25 |
| nce, ember 30, 5 | 45,500 | $4,550 | 51,956 | $5,196 | 18,040,072 | $181 | $193,465 | 12,651 | $(184) | $59,785 | $926 | $— | $263,9 |

See accompanying condensed notes to consolidated financial statements.

5

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended September 30, 2015 and 2014

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2015 | 2014 |
| Cash flows from operating activities: | | |
| Net income | $24,624 | $16,982 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation | 1,608 | 1,406 |
| Net accretion on loans and deposits | (3,905) | (7,313) |
| Amortization of junior subordinated debentures | 197 | 188 |
| Net amortization on securities | 458 | 782 |
| Amortization of intangible assets | 2,838 | 2,196 |
| Deferred taxes | (540) | 17 |
| Provision for loan losses | 3,351 | 4,047 |
| Stock based compensation | 2,394 | 613 |
| Origination of loans held for sale | (50,482) | (42,283) |
| Proceeds from loan sales | 52,992 | 48,562 |
| Net gains on sale of securities | (257) | (26) |
| Net gains on sale of loans | (1,396) | (1,058) |
| Net OREO (gains) losses and valuation adjustments | (20) | 340 |
| Bargain purchase gain | (14,217) | — |
| Gain on branch sale | — | (12,619) |
| (Increase) decrease in other assets | 146 | 912 |
| Increase (decrease) in other liabilities | 3,181 | 1,057 |
| Net cash provided by (used in) operating activities | 20,972 | 13,803 |
| Cash flows from investing activities: | | |
| Purchases of securities available for sale | (20,560) | (15,040) |
| Proceeds from sales of securities available for sale | 17,635 | 10,859 |
| Proceeds from maturities, calls, and pay downs of securities available for sale | 7,896 | 23,700 |
| Purchases of loans (shared national credits) | (25,597) | — |
| Net change in loans | (147,556) | (129,472) |
| Purchases of premises and equipment, net | (1,482) | (2,016) |
| Net proceeds from sale of OREO | 2,989 | 3,792 |
| Net proceeds from (cash paid for) CLO warehouse investments | (2,550) | 50 |
| Purchases of FHLB and FRB stock, net | (3,089) | (24) |
| Cash paid for acquisitions, net of cash acquired | (127,591) | (49,482) |
| Net proceeds from sale of branch | — | 57,409 |
| Proceeds from sale of loans obtained through Doral Money Inc. acquisition | 36,765 | — |

| | | |
|---|---|---|
| Net cash provided by (used in) investing activities | (263,140) | (100,224) |
| Cash flows from financing activities: | | |
| Net increase in deposits | 35,028 | 96,945 |
| Increase (decrease) in customer repurchase agreements | 6,302 | 4,314 |
| Increase (decrease) in Federal Home Loan Bank advances | 58,000 | (21,000) |
| Repayment of senior secured note | — | (943) |
| Proceeds from the issuance of other borrowings | 99,975 | — |
| Repayment of other borrowings | (1,659) | — |
| Issuance of common stock | — | 61 |
| Purchase of treasury stock | — | (68) |
| Distributions on noncontrolling interest and preferred stock | (583) | (1,960) |
| Redemption of TCF Class B units | — | (1,100) |
| Net cash provided by (used in) financing activities | 197,063 | 76,249 |
| Net increase (decrease) in cash and cash equivalents | (45,105) | (10,172) |
| Cash and cash equivalents at beginning of period | 160,888 | 85,797 |
| Cash and cash equivalents at end of period | $115,783 | $75,625 |
| Supplemental cash flow information: | | |
| Interest paid | $5,757 | $6,345 |
| Income taxes paid | $5,002 | $5,720 |
| Supplemental noncash disclosures: | | |
| Loans transferred to OREO | $747 | $375 |
| Securities transferred in satisfaction of other borrowings | $98,316 | $— |
| Loan purchases, not yet settled (shared national credits) | $3,983 | $— |
| Loans transferred to branch assets held for sale | $— | $78,071 |
| Premises and equipment transferred to branch assets held for sale | $— | $2,260 |

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), National Bancshares, Inc. (NBI), NBI's wholly owned subsidiary Triumph Community Bank, N.A. (TCB), Triumph Savings Bank, SSB (TSB), TSB's wholly owned subsidiary Advance Business Capital, LLC (ABC), which currently operates under the d/b/a of Triumph Business Capital, and TSB's wholly owned subsidiary Triumph Insurance Group (TIG). In addition, (i) TSB does business under the Triumph Commercial Finance name with respect to its commercial finance business, including asset-based lending, equipment lending and general factoring and (ii) TCB does business under the Triumph Healthcare Finance name with respect to its healthcare asset-based lending business and the Triumph Premium Finance name with respect to its insurance premium financing business.

Effective October 1, 2015 the Company completed the merger of its subsidiary banks, Triumph Community Bank, N.A. and Triumph Savings Bank, SSB, into a single bank. The combined bank is named TBK Bank, SSB, is a direct subsidiary of Triumph Bancorp, Inc., and will continue doing business under the Triumph Community Bank and Triumph Savings Bank names in the markets where the Company currently operates under such names. In addition, National Bancshares, Inc. was merged into Triumph Bancorp, Inc.

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, 2014. Operating results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

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.

Adoption of New Accounting Standards

Effective January 1, 2015, the Company adopted Accounting Standards Update (ASU) No. 2014-04, "Receivables – Troubled Debt Restructurings by Creditors" (ASU 2014-04). Issued in January 2014, ASU 2014-04 affects all creditors when an in substance repossession or foreclosure of residential real estate property collateralizing a consumer mortgage loan in satisfaction of a receivable has occurred. Adoption of this ASU did not have a material impact on the Company's financial statements.

Issued in June 2014, ASU No. 2014-11, "Transfers and Servicing (Topic 860) - Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosure" (ASU 2014-11) aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. Effective for interim periods beginning after March 31, 2015, the ASU requires entities to disclose certain information about transfers accounted for as sales in transactions that are economically similar to repurchase agreements. In addition, disclosures are required related to collateral, remaining contractual tenor, and the potential risks associated with repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions. Adoption of this ASU did not have a material impact on the Company's financial statements as the Company's repurchase agreements consist primarily of overnight customer sweep agreements secured by pledged U.S. Government agency and residential mortgage-backed securities.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Effective January 1, 2015, the Company retrospectively adopted ASU No. 2015-02, “Amendments to the Consolidation Analysis” (ASU 2015-02). Issued in February 2015, ASU 2015-02 simplifies consolidation accounting by reducing the number of consolidation models and changing various aspects of current GAAP, including certain consolidation criteria for variable interest entities. Adoption of this ASU did not have a material impact on the Company’s financial statements.

Effective July 1, 2015, the Company retrospectively adopted ASU No. 2015-16, “Business Combinations – Simplifying the Accounting for Measurement-Period Adjustments” (ASU 2015-16). Issued in September 2015, ASU 2015-16 requires that an acquirer in a business combination recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. Upon adoption of this ASU, the Company’s financial statements reflect measurement period adjustments in the reporting period in which the adjustment amounts were determined.

Newly Issued, But Not Yet Effective Accounting Standards

On May 28, 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.

NOTE 2 – Business combinations AND DIVESTITURES

Doral Money Acquisition

On February 27, 2015, Triumph Bancorp, Inc., through its subsidiary Triumph Capital Advisors, LLC, 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. (DMI), 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 at closing of $133,263,000 and a sales price adjustment of $2,601,000 which was accrued at March 31, 2015 and settled on April 7, 2015, for total consideration transferred of $135,864,000. The primary purpose of the acquisition was to expand the CLO assets under management at Triumph Capital Advisors, LLC.

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 DMI 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 DMI 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 estimated 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 | — | 36,765 |
| Prepaid corporate income tax | 3,014 | 1,688 | 4,702 |
| Other assets | 772 | — | 772 |
| | 149,058 | 1,688 | 150,746 |
| Liabilities assumed: | | | |
| Deferred tax liability | 663 | — | 663 |
| Other liabilities | 22 | (20) | 2 |
| | 685 | (20) | 665 |
| Fair value of net assets acquired | 148,373 | 1,708 | 150,081 |
| Net consideration transferred | 135,864 | — | 135,864 |
| Bargain purchase gain | $ (12,509) | $ (1,708) | $ (14,217) |

The Company completed the acquisition via an FDIC bid process for DMI 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 recorded measurement period adjustments during the three months ended September 2015 related to the finalization of income taxes associated with the transaction. As a result, the bargain purchase gain was increased by $1,708,000, which is reflected in the consolidated statements of income for the three and nine months ended September 30, 2015. As of September 30, 2015, the accounting for contingent liabilities and certain real estate valuations associated with the acquisition had not been finalized.

The Company incurred pre-tax expenses related to the acquisition of approximately $243,000 which are included in professional fees in the consolidated statements of income in the period incurred.

In addition, during March 2015 the Company sold the loans acquired in the DMI acquisition to third parties for a sales price equal to their acquisition date fair value of $36,765,000. No gains or losses were recognized on the sales.

Sale of Pewaukee Branch

On July 11, 2014, Triumph Community Bank sold its operating branch in Pewaukee, Wisconsin, which constituted its sole branch in the state, to a third party for net cash proceeds of $57,409,000. Under the terms of the agreement, the acquirer assumed branch deposits of $36,326,000, purchased selected loans in the local market with a carrying amount of $78,071,000, and acquired the premises and equipment associated with the branch. The transaction resulted in the Company recording a pre-tax gain of $12,619,000, net of transaction costs, in the third quarter of 2014.

Doral Healthcare Acquisition

On June 13, 2014, Triumph Bancorp, Inc., through its subsidiary, Triumph Community Bank, acquired the lending platform and certain assets of Doral Healthcare Finance (DHF), an asset-based lender focused exclusively on the healthcare industry. DHF was a division of DMI which was a subsidiary of Doral Bank. The purpose of the acquisition was to enhance the Company's commercial finance offerings. In conjunction with the acquisition, DHF was rebranded Triumph Healthcare Finance.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The Company acquired loans with a fair value of $45,334,000 at the acquisition date in addition to other assets and liabilities. Under the terms of the agreement, the Company paid cash in the amount of $49,482,000 and recognized $1,921,000 in goodwill that was allocated to the Company's Banking segment. Goodwill represents the excess of the fair value of consideration transferred over the fair value of net assets acquired. Goodwill resulted from a combination of expected enhanced service offerings and cross-selling opportunities. Goodwill will be amortized for tax purposes, but not for financial reporting purposes.

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 September 30, 2015 and December 31, 2014 are as follows:

| (Dollars in thousands)<br>September 30, 2015 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Available for sale securities: | | | | |
| U.S. Government agency obligations | $ 90,606 | $ 1,405 | $ — | $ 92,011 |
| Mortgage-backed securities, residential | 24,051 | 472 | — | 24,523 |
| Asset backed securities | 18,373 | 59 | (628) | 17,804 |
| State and municipal | 3,375 | 21 | — | 3,396 |
| Corporate bonds | 18,773 | 131 | (7) | 18,897 |
| SBA pooled securities | 188 | 1 | — | 189 |
| Total available for sale securities | $ 155,366 | $ 2,089 | $ (635) | $ 156,820 |

| | Amortized Cost | Gross Unrecognized Gains | Gross Unrecognized Losses | Fair Value |
|---|---|---|---|---|
| Held to maturity securities: | | | | |
| Other debt securities | $ 747 | $ 3 | $ (5) | $ 745 |

| (Dollars in thousands)<br>December 31, 2014 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Available for sale securities: | | | | |

| | | | | |
|---|---|---|---|---|
| U.S. Government agency obligations | $ 93,150 | $ 691 | $ — | $ 93,841 |
| Mortgage-backed securities, residential | 28,298 | 580 | — | 28,878 |
| Asset backed securities | 18,559 | 129 | (90) | 18,598 |
| State and municipal | 6,833 | 28 | — | 6,861 |
| Corporate bonds | 13,492 | 144 | — | 13,636 |
| SBA pooled securities | 207 | 3 | — | 210 |
| Total available for sale securities | $ 160,539 | $ 1,575 | $ (90) | $ 162,024 |

| | Amortized Cost | Gross Unrecognized Gains | Gross Unrecognized Losses | Fair Value |
|---|---|---|---|---|
| Held to maturity securities: | | | | |
| Other debt securities | $ 745 | $ 5 | $ — | $ 750 |

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The amortized cost and estimated fair value of securities at September 30, 2015, 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 | $ 1,263 | $ 1,265 | $ 149 | $ 150 |
| Due from one year to five years | 109,268 | 110,770 | 598 | 595 |
| Due from five years to ten years | 1,554 | 1,566 | — | — |
| Due after ten years | 669 | 703 | — | — |
| | 112,754 | 114,304 | 747 | 745 |
| Mortgage-backed securities, residential | 24,051 | 24,523 | — | — |
| Asset backed securities | 18,373 | 17,804 | — | — |
| SBA pooled securities | 188 | 189 | — | — |
| | $ 155,366 | $ 156,820 | $ 747 | $ 745 |

For the three and nine months ended September 30, 2015, securities were sold resulting in proceeds of $5,076,000 and $17,635,000, respectively, gross gains of $15,000 and $257,000, respectively, and no losses. For the three and nine months ended September 30, 2014, securities were sold resulting in proceeds of $4,065,000 and $10,859,000, respectively, gross gains of $10,000 and $35,000, respectively, and gross losses of $0 and $9,000, respectively.

Securities with a carrying amount of approximately $81,142,000 and $113,980,000 at September 30, 2015 and December 31, 2014, respectively, were pledged to secure customer repurchase agreements, Federal Home Loan Bank advances, and for other purposes required or permitted by law.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Information pertaining to securities with gross unrealized losses at September 30, 2015 and December 31, 2014, 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)<br>September 30, 2015 | 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 | 7,952 | (581) | 4,941 | (47) | 12,893 | (628) |
| State and municipal | — | — | — | — | — | — |
| Corporate bonds | 5,248 | (7) | — | — | 5,248 | (7) |
| SBA pooled securities | — | — | — | — | — | — |
| | $13,200 | $ (588) | $4,941 | $ (47) | $18,141 | $ (635) |
| | | | | | | |
| Held to maturity securities: | | | | | | |
| Other debt securities | $220 | $ (5) | $— | $ — | $220 | $ (5) |

| | Less than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| (Dollars in thousands)<br>December 31, 2014 | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Government agency obligations | $— | $ — | $— | $ — | $— | $ — |
| Mortgage-backed securities, residential | — | — | — | — | — | — |
| Asset backed securities | 8,703 | (82) | 4,959 | (8) | 13,662 | (90) |
| State and municipal | — | — | — | — | — | — |
| Corporate bonds | — | — | — | — | — | — |
| SBA pooled securities | — | — | — | — | — | — |
| | $8,703 | $ (82) | $4,959 | $ (8) | $13,662 | $ (90) |

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 September 30, 2015, 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 September 30, 2015, 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.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES

Loans at September 30, 2015 and December 31, 2014 consisted of the following:

| (Dollars in thousands) | September 30, 2015 | December 31, 2014 |
|---|---|---|
| Commercial real estate | $ 247,175 | $ 249,164 |
| Construction, land development, land | 52,446 | 42,914 |
| 1-4 family residential properties | 77,043 | 78,738 |
| Farmland | 25,784 | 22,496 |
| Commercial | 468,055 | 364,567 |
| Factored receivables | 201,803 | 180,910 |
| Consumer | 10,632 | 11,941 |
| Mortgage warehouse | 102,363 | 55,148 |
| Total | 1,185,301 | 1,005,878 |
| Allowance for loan and lease losses | (11,544) | (8,843) |
| | $ 1,173,757 | $ 997,035 |

Total loans include net deferred origination and factoring fees totaling $798,000 and $906,000 at September 30, 2015 and December 31, 2014, respectively.

Loans with carrying amounts of $207,661,000 and $141,427,000 at September 30, 2015 and December 31, 2014, respectively, were pledged to secure Federal Home Loan Bank borrowing capacity.

Allowance for Loan and Lease Losses

The activity in the allowance for loan and lease losses (ALLL) during the three and nine months ended September 30, 2015 and 2014 is as follows:

| (Dollars in thousands)<br>Three months ended September 30, 2015 | Beginning Balance | Provision | Charge-offs | Recoveries | Ending Balance |
|---|---|---|---|---|---|
| Commercial real estate | $ 1,214 | $ 189 | $ (9) | $ 1 | $ 1,395 |
| Construction, land development, land | 346 | 97 | — | — | 443 |

| | | | | | |
|---|---|---|---|---|---|
| 1-4 family residential properties | 251 | 44 | (20 ) | 4 | 279 |
| Farmland | 28 | 1 | — | — | 29 |
| Commercial | 5,064 | 210 | — | 34 | 5,308 |
| Factored receivables | 4,135 | (475 ) | (72 ) | 21 | 3,609 |
| Consumer | 160 | 107 | (97 ) | 55 | 225 |
| Mortgage warehouse | 264 | (8 ) | — | — | 256 |
| | $ 11,462 | $ 165 | $ (198 ) | $ 115 | $ 11,544 |

| (Dollars in thousands)<br>Three months ended September 30, 2014 | Beginning<br>Balance | Provision | Charge-offs | Recoveries | Ending<br>Balance |
|---|---|---|---|---|---|
| Commercial real estate | $ 463 | $ (78 ) | $ — | $ 1 | $ 386 |
| Construction, land development, land | 242 | 198 | (100 ) | — | 340 |
| 1-4 family residential properties | 197 | 56 | (74 ) | 3 | 182 |
| Farmland | 11 | 2 | — | — | 13 |
| Commercial | 2,332 | 722 | — | 3 | 3,057 |
| Factored receivables | 2,838 | 397 | (119 ) | 21 | 3,137 |
| Consumer | 96 | 34 | (100 ) | 57 | 87 |
| Mortgage warehouse | 74 | 44 | — | — | 118 |
| | $ 6,253 | $ 1,375 | $ (393 ) | $ 85 | $ 7,320 |

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

| (Dollars in thousands) Nine months ended September 30, 2015 | Beginning Balance | Provision | Charge-offs | Recoveries | Ending Balance |
|---|---|---|---|---|---|
| Commercial real estate | $ 533 | $ 962 | $ (152 ) | $ 52 | $ 1,395 |
| Construction, land development, land | 333 | 110 | — | — | 443 |
| 1-4 family residential properties | 215 | 163 | (203 ) | 104 | 279 |
| Farmland | 19 | 10 | — | — | 29 |
| Commercial | 4,003 | 1,312 | (47 ) | 40 | 5,308 |
| Factored receivables | 3,462 | 529 | (451 ) | 69 | 3,609 |
| Consumer | 140 | 147 | (244 ) | 182 | 225 |
| Mortgage warehouse | 138 | 118 | — | — | 256 |
| | $ 8,843 | $ 3,351 | $ (1,097 ) | $ 447 | $ 11,544 |

| (Dollars in thousands) Nine months ended September 30, 2014 | Beginning Balance | Provision | Charge-offs | Recoveries | Ending Balance |
|---|---|---|---|---|---|
| Commercial real estate | $ 348 | $ 35 | $ — | $ 3 | $ 386 |
| Construction, land development, land | 110 | 330 | (100 ) | — | 340 |
| 1-4 family residential properties | 100 | 240 | (264 ) | 106 | 182 |
| Farmland | 7 | 6 | — | — | 13 |
| Commercial | 1,145 | 1,707 | (12 ) | 217 | 3,057 |
| Factored receivables | 1,842 | 1,533 | (294 ) | 56 | 3,137 |
| Consumer | 49 | 122 | (314 ) | 230 | 87 |
| Mortgage warehouse | 44 | 74 | — | — | 118 |
| | $ 3,645 | $ 4,047 | $ (984 ) | $ 612 | $ 7,320 |

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 | | | |
|---|---|---|---|---|---|---|---|---|
| September 30, 2015 | Individually | Collectively | PCI | Total loans | Individually | Collectively | PCI | Total ALLL |
| Commercial real estate | $ 731 | $ 240,885 | $ 5,559 | $ 247,175 | $ 100 | $ 940 | $ 355 | $ 1,395 |
| Construction, land development, land | — | 51,061 | 1,385 | 52,446 | — | 443 | — | 443 |
| 1-4 family residential properties | 568 | 74,444 | 2,031 | 77,043 | 1 | 278 | — | 279 |
| Farmland | — | 25,784 | — | 25,784 | — | 29 | — | 29 |
| Commercial | 2,403 | 461,494 | 4,158 | 468,055 | 597 | 4,711 | — | 5,308 |
| Factored receivables | 1,340 | 200,463 | — | 201,803 | 949 | 2,660 | — | 3,609 |
| Consumer | — | 10,632 | — | 10,632 | — | 225 | — | 225 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Mortgage warehouse | — | 102,363 | — | 102,363 | — | 256 | — | 256 |
| | $5,042 | $1,167,126 | $13,133 | $1,185,301 | $1,647 | $ 9,542 | $355 | $ 11,544 |

| (Dollars in thousands) | Loan Evaluation | | | | ALLL Allocations | | | |
|---|---|---|---|---|---|---|---|---|
| December 31, 2014 | Individually | Collectively | PCI | Total loans | Individually | Collectively | PCI | Total ALLL |
| Commercial real estate | $1,934 | $238,640 | $8,590 | $249,164 | $— | $ 533 | $— | $ 533 |
| Construction, land development, land | — | 41,431 | 1,483 | 42,914 | — | 333 | — | 333 |
| 1-4 family residential properties | 627 | 76,041 | 2,070 | 78,738 | — | 215 | — | 215 |
| Farmland | — | 22,496 | — | 22,496 | — | 19 | — | 19 |
| Commercial | 7,188 | 353,022 | 4,357 | 364,567 | 716 | 3,287 | — | 4,003 |
| Factored receivables | 1,271 | 179,639 | — | 180,910 | 1,033 | 2,429 | — | 3,462 |
| Consumer | — | 11,941 | — | 11,941 | — | 140 | — | 140 |
| Mortgage warehouse | — | 55,148 | — | 55,148 | — | 138 | — | 138 |
| | $11,020 | $978,358 | $16,500 | $1,005,878 | $1,749 | $ 7,094 | $— | $ 8,843 |

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Loans included in the tables below 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 the tables below.

The following is a summary of information pertaining to impaired loans at September 30, 2015 and December 31, 2014:

| (Dollars in thousands) September 30, 2015 | Impaired Loans and Purchased Credit Impaired Loans With a Valuation Allowance Recorded Investment | Unpaid Principal | Related Allowance | Impaired Loans Without a Valuation Allowance Recorded Investment | Unpaid Principal |
|---|---|---|---|---|---|
| Commercial real estate | $532 | $ 532 | $ 100 | $199 | $ 247 |
| Construction, land development, land | — | — | — | — | — |
| 1-4 family residential properties | 15 | 22 | 1 | 553 | 715 |
| Farmland | — | — | — | — | — |
| Commercial | 1,711 | 1,740 | 597 | 692 | 690 |
| Factored receivables | 1,340 | 1,340 | 949 | — | — |
| Consumer | — | — | — | — | — |
| Mortgage warehouse | — | — | — | — | — |
| PCI | 525 | 525 | 355 | — | — |
| | $4,123 | $ 4,159 | $ 2,002 | $1,444 | $ 1,652 |

| (Dollars in thousands) December 31, 2014 | Impaired Loans and Purchased Credit Impaired Loans With a Valuation Allowance Recorded Investment | Unpaid Principal | Related Allowance | Impaired Loans Without a Valuation Allowance Recorded Investment | Unpaid Principal |
|---|---|---|---|---|---|
| Commercial real estate | $— | $ — | $ — | $1,934 | $ 1,960 |
| Construction, land development, land | — | — | — | — | — |
| 1-4 family residential properties | — | — | — | 627 | 748 |
| Farmland | — | — | — | — | — |
| Commercial | 1,845 | 2,527 | 716 | 5,343 | 5,368 |
| Factored receivables | 1,271 | 1,271 | 1,033 | — | — |
| Consumer | — | — | — | — | — |
| Mortgage warehouse | — | — | — | — | — |

| | | | | | |
|---|---|---|---|---|---|
| PCI | — | — | — | — | — |
| | $3,116 | $ 3,798 | $ 1,749 | $7,904 | $ 8,076 |

15

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

| | Three Months Ended September 30, 2015 | | Three Months Ended September 30, 2014 | |
|---|---|---|---|---|
| (Dollars in thousands) | Average Impaired Loans | Interest Recognized | Average Impaired Loans | Interest Recognized |
| Commercial real estate | $1,327 | $ 8 | $1,023 | $ 25 |
| Construction, land development, land | — | — | 12 | 1 |
| 1-4 family residential properties | 479 | 10 | 660 | 16 |
| Farmland | — | — | — | — |
| Commercial | 2,599 | 68 | 6,779 | 3 |
| Factored receivables | 1,992 | — | 522 | — |
| Consumer | — | — | — | — |
| Mortgage warehouse | — | — | — | — |
| PCI | 525 | — | 13 | — |
| | $6,922 | $ 86 | $9,009 | $ 45 |

| | Nine Months Ended September 30, 2015 | | Nine Months Ended September 30, 2014 | |
|---|---|---|---|---|
| (Dollars in thousands) | Average Impaired Loans | Interest Recognized | Average Impaired Loans | Interest Recognized |
| Commercial real estate | $1,332 | $ 12 | $2,113 | $ 181 |
| Construction, land development, land | — | — | — | — |
| 1-4 family residential properties | 802 | 42 | 1,018 | 145 |
| Farmland | — | — | — | — |
| Commercial | 4,796 | 187 | 5,642 | 40 |
| Factored receivables | 1,305 | — | 381 | 9 |
| Consumer | — | — | — | — |
| Mortgage warehouse | — | — | — | — |
| PCI | 263 | — | 13 | 9 |
| | $8,498 | $ 241 | $9,167 | $ 384 |

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the unpaid principal and recorded investment for loans at September 30, 2015 and December 31, 2014. 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)<br>September 30, 2015 | Recorded Investment | Unpaid Principal | Difference |
|---|---|---|---|
| Commercial real estate | $247,175 | $257,519 | $(10,344) |
| Construction, land development, land | 52,446 | 53,966 | (1,520) |
| 1-4 family residential properties | 77,043 | 79,911 | (2,868) |
| Farmland | 25,784 | 25,700 | 84 |
| Commercial | 468,055 | 469,888 | (1,833) |
| Factored receivables | 201,803 | 202,837 | (1,034) |
| Consumer | 10,632 | 10,676 | (44) |
| Mortgage warehouse | 102,363 | 102,363 | — |
| | $1,185,301 | $1,202,860 | $(17,559) |

| December 31, 2014 | Recorded Investment | Unpaid Principal | Difference |
|---|---|---|---|
| Commercial | $249,164 | $263,060 | $(13,896) |
| Construction, land development, land | 42,914 | 44,609 | (1,695) |
| 1-4 family residential properties | 78,738 | 82,263 | (3,525) |
| Farmland | 22,496 | 22,400 | 96 |
| Commercial | 364,567 | 366,753 | (2,186) |
| Factored receivables | 180,910 | 181,817 | (907) |
| Consumer | 11,941 | 12,012 | (71) |
| Mortgage warehouse | 55,148 | 55,148 | — |
| | $1,005,878 | $1,028,062 | $(22,184) |

At September 30, 2015 and December 31, 2014, the Company had $20,708,000 and $18,976,000, 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.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Past Due and Nonaccrual Loans

The following is a summary of contractually past due and nonaccrual loans at September 30, 2015 and December 31, 2014:

| (Dollars in thousands) September 30, 2015 | 30-89 Days Past Due | Past Due 90 Days or More Still Accruing | Nonaccrual | Total |
|---|---|---|---|---|
| Commercial real estate | $230 | $ — | $ 678 | $908 |
| Construction, land development, land | 160 | — | — | 160 |
| 1-4 family residential properties | 789 | 8 | 533 | 1,330 |
| Farmland | — | — | — | — |
| Commercial | 4,267 | 878 | 2,331 | 7,476 |
| Factored receivables | 8,050 | 1,311 | — | 9,361 |
| Consumer | 281 | — | — | 281 |
| Mortgage warehouse | — | — | — | — |
| PCI | 141 | — | 5,681 | 5,822 |
| | $13,918 | $ 2,197 | $ 9,223 | $25,338 |

| (Dollars in thousands) December 31, 2014 | 30-89 Days Past Due | Past Due 90 Days or More Still Accruing | Nonaccrual | Total |
|---|---|---|---|---|
| Commercial real estate | $643 | $ — | $ 1,995 | $2,638 |
| Construction, land development, land | — | — | — | — |
| 1-4 family residential properties | 584 | 49 | 638 | 1,271 |
| Farmland | — | — | — | — |
| Commercial | 114 | — | 7,188 | 7,302 |
| Factored receivables | 7,202 | 651 | — | 7,853 |
| Consumer | 296 | — | — | 296 |
| Mortgage warehouse | — | — | — | — |
| PCI | 260 | — | 6,206 | 6,466 |
| | $9,099 | $ 700 | $ 16,027 | $25,826 |

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 special mention, substandard or doubtful.

Special Mention:

Loans classified as special mention have low to acceptable risks. Liquidity, asset quality, and debt service coverage are as a whole satisfactory and performance is generally as agreed.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 September 30, 2015 and December 31, 2014 based on the most recent analysis performed, the risk category of loans is as follows:

| (Dollars in thousands) September 30, 2015 | Pass | Special Mention | Substandard | Doubtful | PCI | Total |
|---|---|---|---|---|---|---|
| Commercial real estate | $233,839 | $ 2,073 | $ 5,704 | $ — | $5,559 | $247,175 |
| Construction, land development, land | 51,061 | — | — | — | 1,385 | 52,446 |
| 1-4 family residential | 74,462 | — | 550 | — | 2,031 | 77,043 |
| Farmland | 25,784 | — | — | — | — | 25,784 |
| Commercial | 444,461 | 3,581 | 15,855 | — | 4,158 | 468,055 |
| Factored receivables | 200,498 | — | 621 | 684 | — | 201,803 |
| Consumer | 10,632 | — | — | — | — | 10,632 |
| Mortgage warehouse | 102,363 | — | — | — | — | 102,363 |
| | $1,143,100 | $ 5,654 | $ 22,730 | $ 684 | $13,133 | $1,185,301 |

| (Dollars in thousands) December 31, 2014 | Pass | Special Mention | Substandard | Doubtful | PCI | Total |
|---|---|---|---|---|---|---|
| Commercial real estate | $231,627 | $ 2,344 | $ 6,603 | $ — | $8,590 | $249,164 |
| Construction, land development, land | 41,431 | — | — | | | |