

Triumph Bancorp, Inc.  
Form 10-Q  
December 17, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014

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 (I.R.S. Employer

incorporation or organization) Identification No.)

12700 Park Central Drive, Suite 1700

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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  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  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  (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

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, 17,963,783 shares, as of December 17, 2014

TRIUMPH BANCORP, INC.

FORM 10-Q

SEPTEMBER 30, 2014

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PART I – FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

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## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

September 30, 2014 and December 31, 2013

(Dollar amounts in thousands, except per share amounts)

|  | September<br>30,<br>2014<br>(Unaudited) | December<br>31,<br>2013 |
|--|---|-------------------------|
| <b>ASSETS</b>  |   |                         |
| Cash and due from banks  | \$21,567                                | \$25,352                |
| Interest-bearing deposits with other banks                                 | 54,058                                  | 60,445                  |
| Total cash and cash equivalents  | 75,625                                  | 85,797                  |
| Securities - available for sale  | 165,489                                 | 184,654                 |
| Securities - held to maturity, fair value of \$750 and \$745, respectively | 745                                     | 743                     |
| Loans held for sale  | 7,295                                   | 5,393                   |
| Loans  | 977,139                                 | 881,099                 |
| Allowance for loan and lease losses  | (7,320 )                                | (3,645 )                |
| Loans, net   | 969,819                                 | 877,454                 |
| Federal Home Loan Bank and Federal Reserve Bank stock, at cost             | 5,826                                   | 5,802                   |
| Premises and equipment, net  | 21,744                                  | 23,344                  |
| Other real estate owned (OREO), net  | 10,019                                  | 13,783                  |
| Goodwill and intangible assets, net  | 29,783                                  | 28,518                  |
| Bank-owned life insurance  | 28,955                                  | 28,554                  |
| Other assets   | 32,498                                  | 34,197                  |
| Total assets   | \$1,347,798                             | \$1,288,239             |
| <b>LIABILITIES AND EQUITY</b>  |   |                         |
| <b>Liabilities</b>   |   |                         |
| <b>Deposits</b>  |   |                         |
| Noninterest bearing  | \$154,750                               | \$150,238               |
| Interest bearing   | 950,874                                 | 894,616                 |
| Total deposits   | 1,105,624                               | 1,044,854               |
| Customer repurchase agreements   | 15,644                                  | 11,330                  |
| Federal Home Loan Bank advances  | —                                       | 21,000                  |
| Senior secured note  | 11,630                                  | 12,573                  |
| Junior subordinated debentures   | 24,359                                  | 24,171                  |
| Other liabilities  | 14,713                                  | 13,714                  |
| Total liabilities  | 1,171,970                               | 1,127,642               |
| Commitments and contingencies - See Note 10                                |   |                         |
| Equity - See Note 13   |   |                         |
| <b>Stockholders' equity</b>  |   |                         |
| Preferred Stock Series A   | 4,550                                   | 4,550                   |
| Preferred Stock Series B   | 5,196                                   | 5,196                   |
| Common stock   | 99                                      | 98                      |

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|  |             |             |
|--|-------------|-------------|
| Additional paid-in-capital             | 105,304     | 104,631     |
| Treasury stock, at cost                | (68 )       | —           |
| Retained earnings                      | 34,014      | 18,992      |
| Accumulated other comprehensive income | 836         | 133         |
| Total stockholders' equity             | 149,931     | 133,600     |
| Noncontrolling interests               | 25,897      | 26,997      |
| Total equity                           | 175,828     | 160,597     |
| Total liabilities and equity           | \$1,347,798 | \$1,288,239 |

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, 2014 and 2013

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

|   | Three Months<br>Ended September<br>30,<br>2014 |              | Nine Months<br>Ended September<br>30,<br>2013 |               |
|---|--|--------------|---|---------------|
| <b>Interest income:</b>                                       |  |              |   |               |
| Interest and fees on loans                                    | \$13,706                                       | \$3,915      | \$41,942                                      | \$10,356      |
| Interest and fees on factored receivables                     | 7,681  | 4,881        | 19,791  | 12,733        |
| Interest and dividends on securities                          | 666  | 179          | 1,986   | 607           |
| Interest on tax exempt securities                             | 15   | —            | 46  | —             |
| Interest on cash deposits                                     | 50   | 46           | 185   | 92            |
| <b>Total interest income</b>                                  | <b>22,118</b>                                  | <b>9,021</b> | <b>63,950</b>                                 | <b>23,788</b> |
| <b>Interest expense:</b>                                      |  |              |   |               |
| Deposits  | 1,289  | 890          | 3,538   | 2,457         |
| Federal Home Loan Bank advances                               | 19   | 3            | 43  | 5             |
| Senior secured note   | 134  | —            | 411   | —             |
| Junior subordinated debentures                                | 276  | —            | 819   | —             |
| Other   | 5  | —            | 8   | 1             |
| <b>Total interest expense</b>                                 | <b>1,723</b>                                   | <b>893</b>   | <b>4,819</b>                                  | <b>2,463</b>  |
| <b>Net interest income</b>                                    | <b>20,395</b>                                  | <b>8,128</b> | <b>59,131</b>                                 | <b>21,325</b> |
| Provision for loan losses                                     | 1,375  | 1,735        | 4,047   | 2,355         |
| <b>Net interest income after provision for loan losses</b>    | <b>19,020</b>                                  | <b>6,393</b> | <b>55,084</b>                                 | <b>18,970</b> |
| <b>Noninterest income:</b>                                    |  |              |   |               |
| Service charges on deposits                                   | 838  | —            | 2,451   | —             |
| Card income   | 544  | —            | 1,582   | —             |
| Net realized gains (losses) and valuation adjustments on OREO | (11 )  | 87           | (340 )  | 67            |
| Net gains on sale of loans                                    | 484  | 276          | 1,058   | 352           |
| Fee income  | 448  | 324          | 1,267   | 834           |
| Gain on branch sale   | 12,619   | —            | 12,619  | —             |
| Asset management fees   | 374  | —            | 503   | —             |
| Other   | 508  | 30           | 1,906   | 238           |
| <b>Total noninterest income</b>                               | <b>15,804</b>                                  | <b>717</b>   | <b>21,046</b>                                 | <b>1,491</b>  |
| <b>Noninterest expense:</b>                                   |  |              |   |               |
| Salaries and employee benefits                                | 11,032   | 4,540        | 29,379  | 12,415        |
| Occupancy, furniture and equipment                            | 1,333  | 488          | 3,960   | 1,346         |
| FDIC insurance assessment                                     | 280  | 79           | 821   | 216           |
| Carrying costs for OREO                                       | 73   | 28           | 305   | 181           |
| Professional fees   | 1,043  | 345          | 2,428   | 1,005         |



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|   |         |        |          |          |
|---|---------|--------|----------|----------|
| Amortization of intangible assets                       | 746     | —      | 2,196    | —        |
| Advertising and promotion                               | 1,102   | 175    | 2,228    | 460      |
| Communications and technology                           | 954     | 230    | 2,787    | 659      |
| Other   | 1,898   | 662    | 5,413    | 1,785    |
| Total noninterest expense                               | 18,461  | 6,547  | 49,517   | 18,067   |
| Net income before income tax                            | 16,363  | 563    | 26,613   | 2,394    |
| Income tax expense                                      | 6,089   | 211    | 9,631    | 684      |
| Net income  | 10,274  | 352    | 16,982   | 1,710    |
| Effect of noncontrolling interests and preferred shares | (779 )  | (116 ) | (2,054 ) | (1,189 ) |
| Net income available to common stockholders             | \$9,495 | \$236  | \$14,928 | \$521    |
| Earnings per common share                               |         |        |          |          |
| Basic   | \$0.96  | \$0.03 | \$1.52   | \$0.06   |
| Diluted   | \$0.91  | \$0.03 | \$1.47   | \$0.06   |

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, 2014 and 2013

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

|   | Three Months<br>Ended<br>September 30,<br>2014 |       | Nine Months<br>Ended September<br>30,<br>2013 |         |
|---|--|-------|---|---------|
| Net income  | \$10,274                                       | \$352 | \$16,982                                      | \$1,710 |
| Other comprehensive income:                                       |  |       |   |         |
| Unrealized gains (losses) on securities:                          |  |       |   |         |
| Unrealized holding gains (losses) arising during the period       | (31 )  | (70 ) | 1,138   | (326 )  |
| Reclassification of amount realized through sale of<br>securities | 10   | —     | (26 )   | —       |
| Tax effect  | 16   | 24    | (409 )  | 111     |
| Total other comprehensive income (loss)                           | (5 )   | (46 ) | 703   | (215 )  |
| Comprehensive income  | 10,269   | 306   | 17,685  | 1,495   |
| Income attributable to noncontrolling interests                   | (779 )   | (116) | (2,054 )                                      | (1,189) |
| Comprehensive income attributable to common stockholders          | \$9,490  | \$190 | \$15,631                                      | \$306   |

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, 2014 and 2013

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

|                                     | Preferred Stock – Series A |                               | Preferred Stock – Series B |                               | Common Stock       |            |                            | Treasury Stock     |      | Retained Earnings | Accumulated Other Non-Controlling |          | Total Equity |
|-------------------------------------|----------------------------|-------------------------------|----------------------------|-------------------------------|--------------------|------------|----------------------------|--------------------|------|-------------------|-----------------------------------|----------|--------------|
|                                     | Shares Outstanding         | Liquidation Preference Amount | Shares Outstanding         | Liquidation Preference Amount | Shares Outstanding | Par Amount | Additional Paid-in-Capital | Shares Outstanding | Cost |                   | Income                            | Interest |              |
| Balance, January 1, 2013            | 50,000                     | \$5,000                       | —                          | \$—                           | 4,586,356          | \$46       | \$43,924                   | —                  | \$—  | \$7,086           | \$456                             | \$6,962  | \$63,474     |
| Change offer                        | (4,500)                    | (450)                         | —                          | —                             | 545,069            | 5          | 6,307                      | —                  | —    | (461)             | —                                 | (5,862)  | (461)        |
| Common stock issuance, net of costs | —                          | —                             | —                          | —                             | 3,672,115          | 37         | 42,365                     | —                  | —    | —                 | —                                 | —        | 42,402       |
| Stock based compensation            | —                          | —                             | —                          | —                             | —                  | —          | 86                         | —                  | —    | —                 | —                                 | —        | 86           |
| Dividends on Series A Preferred     | —                          | —                             | —                          | —                             | —                  | —          | —                          | —                  | —    | (542)             | —                                 | —        | (542)        |
| Dividends on Class B                | —                          | —                             | —                          | —                             | —                  | —          | —                          | —                  | —    | (188)             | —                                 | —        | (188)        |
| Net income                          | —                          | —                             | —                          | —                             | —                  | —          | —                          | —                  | —    | 1,710             | —                                 | —        | 1,710        |
| Other comprehensive income          | —                          | —                             | —                          | —                             | —                  | —          | —                          | —                  | —    | —                 | (215)                             | —        | (215)        |
| Balance, September 30, 2013         | 45,500                     | \$4,550                       | —                          | \$—                           | 8,803,540          | \$88       | \$92,682                   | —                  | \$—  | \$7,605           | \$241                             | \$1,100  | \$106,266    |
| Balance, January 1, 2014            | 45,500                     | \$4,550                       | 51,956                     | \$5,196                       | 9,832,585          | \$98       | \$104,631                  | —                  | \$—  | \$18,992          | \$133                             | \$26,997 | \$160,599    |
| Issuance of restricted stock        | —                          | —                             | —                          | —                             | 58,395             | 1          | 54                         | —                  | —    | —                 | —                                 | —        | 55           |
| Stock based compensation            | —                          | —                             | —                          | —                             | —                  | —          | 613                        | —                  | —    | —                 | —                                 | —        | 613          |
| Common stock issuance, net of costs | —                          | —                             | —                          | —                             | 444                | —          | 6                          | —                  | —    | —                 | —                                 | —        | 6            |
| Repurchase of common stock          | —                          | —                             | —                          | —                             | (4,646)            | —          | —                          | 4,646              | (68) | —                 | —                                 | —        | (68)         |

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|                              |        |         |        |         |           |      |           |       |        |          |       |          |           |  |
|------------------------------|--------|---------|--------|---------|-----------|------|-----------|-------|--------|----------|-------|----------|-----------|--|
| Purchase of treasury stock   |        |         |        |         |           |      |           |       |        |          |       |          |           |  |
| Series T-1 and T-2 dividends | —      | —       | —      | —       | —         | —    | —         | —     | —      | (1,313)  | —     | —        | (1,313)   |  |
| Series A Preferred Dividends | —      | —       | —      | —       | —         | —    | —         | —     | —      | (272)    | —     | —        | (272)     |  |
| Series B Preferred Dividends | —      | —       | —      | —       | —         | —    | —         | —     | —      | (311)    | —     | —        | (311)     |  |
| CF Class B Contributions     | —      | —       | —      | —       | —         | —    | —         | —     | —      | (64)     | —     | —        | (64)      |  |
| CF Class B Redemption        | —      | —       | —      | —       | —         | —    | —         | —     | —      | —        | —     | (1,100)  | (1,100)   |  |
| Net income                   | —      | —       | —      | —       | —         | —    | —         | —     | —      | 16,982   | —     | —        | 16,982    |  |
| Other Comprehensive Income   | —      | —       | —      | —       | —         | —    | —         | —     | —      | —        | 703   | —        | 703       |  |
| Balance, September 30, 2014  | 45,500 | \$4,550 | 51,956 | \$5,196 | 9,886,778 | \$99 | \$105,304 | 4,646 | \$(68) | \$34,014 | \$836 | \$25,897 | \$175,820 |  |

See accompanying condensed notes to consolidated financial statements.

## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended September 30, 2014 and 2013

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

|   | Nine Months Ended<br>September 30, |          |
|---|------------------------------------|----------|
|   | 2014                               | 2013     |
| Cash flows from operating activities:   |                                    |          |
| Net income  | \$ 16,982                          | \$ 1,710 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |          |
| Depreciation  | 1,406                              | 403      |
| Net accretion on loans and deposits   | (7,313 )                           | (1,515 ) |
| Amortization of junior subordinated debentures                                    | 188                                | —        |
| Net amortization on securities  | 782                                | 314      |
| Amortization of intangible assets   | 2,196                              | —        |
| Deferred taxes  | 17                                 | 474      |
| Provision for loan losses   | 4,047                              | 2,355    |
| Stock based compensation  | 613                                | 86       |
| Origination of loans held for sale  | (42,283 )                          | —        |
| Proceeds from loan sales  | 48,562                             | 15,319   |
| Net gain on sales of securities   | (26 )                              | —        |
| Net gain on sales of loans  | (1,058 )                           | (352 )   |
| Net realized losses (gains) and valuation adjustments on OREO                     | 340                                | (67 )    |
| Gain on branch sale   | (12,619 )                          | —        |
| Decrease in OREO  | 7                                  | —        |
| Decrease in other assets  | 905                                | 242      |
| Increase in other liabilities   | 1,057                              | 1,157    |
| Net cash provided by operating activities   | 13,803                             | 20,126   |
| Cash flows from investing activities:   |                                    |          |
| Purchases of securities available for sale  | (15,040 )                          | —        |
| Proceeds from sales of securities available for sale                              | 10,859                             | —        |
| Proceeds from maturities, calls, and pay downs of securities available for sale   | 23,700                             | 6,158    |
| Net originations of loans   | (129,472)                          | (70,809) |
| Purchases of premises and equipment, net  | (2,016 )                           | (425 )   |
| Net proceeds from sale of OREO  | 3,792                              | 1,423    |
| Net proceeds from CLO warehouse investments                                       | 50                                 | —        |
| Purchase of FHLB and Federal Reserve Bank stock                                   | (24 )                              | (107 )   |
| Net proceeds from sale of branch  | 57,409                             | —        |
| Cash paid for acquisitions  | (49,482 )                          | —        |

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|   |           |          |
|---|-----------|----------|
| Net cash used in investing activities                             | (100,224) | (63,760) |
| Cash flows from financing activities:                             |           |          |
| Net increase in deposits  | 96,945    | 58,240   |
| Increase in customer repurchase agreements                        | 4,314     | —        |
| Decrease in Federal Home Loan Bank advances                       | (21,000 ) | (10,500) |
| Repayment of senior secured note                                  | (943 )    | —        |
| Exchange offer  | —         | (461 )   |
| Issuance of common stock  | 61        | 42,402   |
| Purchase of Treasury Stock  | (68 )     | —        |
| Distributions on noncontrolling interest and preferred stock      | (1,960 )  | (730 )   |
| Redemption of TCF Class B units                                   | (1,100 )  | —        |
| Net cash provided by financing activities                         | 76,249    | 88,951   |
| Net (decrease) increase in cash and cash equivalents              | (10,172 ) | 45,317   |
| Cash and cash equivalents at beginning of period                  | 85,797    | 15,784   |
| Cash and cash equivalents at end of period                        | \$75,625  | \$61,101 |
| Supplemental cash flow information:                               |           |          |
| Interest paid   | \$6,345   | \$2,416  |
| Income taxes paid   | \$5,720   | \$717    |
| Supplemental noncash disclosures:                                 |           |          |
| Transfers from loans to OREO                                      | \$375     | \$1,445  |
| Loan transfers 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

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations. Triumph Bancorp, Inc. (collectively with its subsidiaries, “TBI”, “Triumph”, or the “Company” as applicable) is a financial holding company headquartered in Dallas, Texas. The accompanying consolidated financial statements include the accounts of TBI 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 majority owned subsidiary Triumph Commercial Finance LLC (TCF), TCF’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.

In the third quarter of 2014, the TCF entity was dissolved and ABC became a wholly owned subsidiary of TSB.

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 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 audited consolidated financial statements and footnotes thereto for the fiscal years ended December 31, 2013 and 2012. Operating results for the three and nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. Furthermore, the acquisition of National Bancshares, Inc. during the fourth quarter of 2013 may impact the comparability of year to date 2014 versus year to date 2013 comparable information. The Company has three reportable segments consisting of Factoring, Banking, and Corporate. The Company’s Chief Executive Officer uses segment results to make operating and strategic decisions.

The consolidated financial statements as of and for the year ended December 31, 2013 and accompanying notes and other detailed information can be found in the Company’s Registration Statement on Form S-1 filed with the Securities and Exchange Commission and declared effective on November 6, 2014.

Adoption of New Accounting Standards:

On January 1, 2013 the Company adopted Accounting Standards Update (ASU) 2013-02, "Comprehensive Income: Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income." ASU 2013-02 requires the Company to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in the Company's consolidated statement of comprehensive income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. The adoption of this ASU is reflected in the accompanying consolidated statements of comprehensive income.

Newly Issued, But Not Yet Effective Accounting Standards:

In January of 2014, FASB issued ASU 2014-04, "Receivables – Troubled Debt Restructurings by Creditors." 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. The ASU is effective for fiscal periods beginning after December 15, 2014. Adoption of this ASU is not expected to have a material impact on the Company's financial statements.

On May 28, 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers", 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 is effective for the Company on January 1, 2017. Early application is not permitted. 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.



## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

## NOTE 2 – Business combinations AND DIVESTITURES

## 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. Under the terms of the agreement, the acquirer assumed branch deposits of \$36,326, purchased selected loans in the local market with a carrying amount of \$78,071, and acquired the premises and equipment associated with the branch. The transaction resulted in the Company recording a pre-tax gain of \$12,619, net of transaction costs.

## 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 Doral Money, which is a subsidiary of Doral Bank. The purpose of the acquisition was to enhance the Company's commercial finance offerings. In conjunction with the acquisition, Doral Healthcare Finance has been rebranded Triumph Healthcare Finance. The acquisition was not considered significant to the Company's financial statements and therefore pro forma financial data and related disclosures are not included.

The Company acquired loans with a fair value of \$45,334 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 and recognized \$1,921 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.

DHF's results of operations are included in the Company's results since the acquisition date.

A summary of the fair values of assets acquired, liabilities assumed, consideration paid, and the resulting goodwill is as follows:

|                                  |          |
|----------------------------------|----------|
| Assets acquired:                 |          |
| Loans                            | \$45,334 |
| Customer relationship intangible | 2,029    |
| Premises and equipment           | 50       |
| Other assets                     | 276      |
|                                  | \$47,689 |
| Liabilities assumed:             |          |
| Customer deposits                | 128      |

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|                                   |          |
|-----------------------------------|----------|
| Fair value of net assets acquired | \$47,561 |
| Cash paid                         | 49,482   |
| Goodwill                          | \$1,921  |

Information about the acquired loan portfolio subject to purchased credit impaired (PCI) loan accounting guidance as of the acquisition date is as follows:

PCI Loans:

|   | PCI     |
|---|---------|
| Contractual balance at acquisition                  | \$5,009 |
| Contractual cash flows not expected to be collected |         |
| (nonaccretable difference)                          | (873 )  |
| Expected cash flows at acquisition                  | \$4,136 |
| Accretable yield                                    | (482 )  |
| Fair value of acquired PCI loans                    | \$3,654 |

## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share amounts)

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Loans acquired and not otherwise classified as PCI are predominately short term in nature and had a gross contractual balance and fair value at acquisition of \$41,680. Substantially all contractual cash flows have been collected on all non-PCI loans acquired.

## NBI Acquisition

Effective October 15, 2013, TBI acquired 100% of NBI, and thereby acquired THE National Bank due to NBI's 100% ownership of THE National Bank. During 2014, THE National Bank was renamed Triumph Community Bank. The primary expected benefits of the acquisition are to (i) provide the Company with increased access to low cost stable core deposit funding and (ii) create the opportunity to achieve improved operating efficiency through the scale provided by a larger consolidated balance sheet.

The Company recorded the assets acquired and the liabilities assumed in the acquisition of NBI at their respective fair values as of the acquisition date. In conjunction with the acquisition, the Company recognized a bargain purchase gain of \$9,014 during the fourth quarter of 2013.

TCB's results of operations are included in the Company's results since the acquisition date.

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

|                                     |           |
|-------------------------------------|-----------|
| Assets acquired:                    |           |
| Cash and cash equivalents           | \$ 89,990 |
| Securities                          | 160,450   |
| Loans                               | 568,358   |
| FHLB and Federal Reserve Bank stock | 4,507     |
| Premises and equipment              | 19,358    |
| Other real estate owned             | 11,285    |
| Intangible assets                   | 15,091    |
| Bank-owned life insurance           | 28,435    |
| Deferred income taxes               | 17,237    |
| Other assets                        | 22,023    |
|                                     | 936,734   |
| Liabilities assumed:                |           |
| Deposits                            | 793,256   |
| Customer repurchase agreements      | 19,927    |
| Senior secured note                 | 11,858    |
| Junior subordinated debentures      | 24,120    |
| Federal Home Loan Bank advances     | 5,003     |

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|  |            |
|--|------------|
| Accrued interest and dividends payable             | 7,282      |
| Other liabilities                                  | 7,988      |
|  | 869,434    |
| Fair value of net assets acquired                  | 67,300     |
| Cash paid to NBI common and preferred shareholders | 15,277     |
| Common stock issued by TBI (1,029,045 shares)      | 11,916     |
| TBI Preferred stock Series B Issued                | 5,196      |
| Senior Preferred Stock, Series T-1 and T-2 assumed | 25,897     |
| Consideration paid                                 | 58,286     |
| Bargain Purchase Gain                              | \$(9,014 ) |

The consideration paid was comprised of a combination of cash and TBI common and preferred stock to all NBI stockholders, and the assumption of NBI's Senior Preferred Stock, Series T-1 and T-2, classified as noncontrolling interest in the consolidated statements of changes in equity.

## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

In addition to the consideration paid TBI (i) retired the outstanding balance of NBI's \$11,858 senior secured note and (ii) retired all \$3,640 of NBI's senior convertible notes outstanding with cash.

## 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, 2014 and December 31, 2013 are as follows:

|   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|---|-------------------|------------------------------|-------------------------------|---------------|
| September 30, 2014                      |                   |                              |                               |               |
| Available for sale securities:          |                   |                              |                               |               |
| U.S. Government agency obligations      | \$ 90,577         | \$ 212                       | \$ (52)                       | ) \$90,737    |
| Mortgage-backed securities, residential | 30,130            | 584                          | (1)                           | ) 30,713      |
| Asset backed securities                 | 18,632            | 192                          | (29)                          | ) 18,795      |
| State and municipal                     | 7,879             | 219                          | —                             | 8,098         |
| Corporate bonds                         | 16,758            | 173                          | —                             | 16,931        |
| SBA pooled securities                   | 212               | 3                            | —                             | 215           |
| Total available for sale securities     | \$ 164,188        | \$ 1,383                     | \$ (82)                       | ) \$165,489   |
| Held to maturity securities:            |                   |                              |                               |               |
| Other - State of Israel bonds           | \$ 745            | \$ 5                         | \$ —                          | \$ 750        |
| December 31, 2013                       |                   |                              |                               |               |
| Available for sale securities:          |                   |                              |                               |               |
| U.S. Government agency obligations      | \$ 95,967         | \$ 91                        | \$ (224)                      | ) \$95,834    |
| Mortgage-backed securities, residential | 35,931            | 355                          | (1)                           | ) 36,285      |
| Asset backed securities                 | 18,811            | 34                           | (6)                           | ) 18,839      |

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|                                     |            |        |         |   |            |
|-------------------------------------|------------|--------|---------|---|------------|
| State and municipal                 | 8,989      | 20     | (4      | ) | 9,005      |
| Corporate bonds                     | 20,817     | 62     | (36     | ) | 20,843     |
| Trust preferred                     | 3,706      | —      | (106    | ) | 3,600      |
| SBA pooled securities               | 244        | 4      | —       |   | 248        |
| Total available for sale securities | \$ 184,465 | \$ 566 | \$ (377 | ) | \$ 184,654 |

|                                     | Amortized<br>Cost | Gross<br>Unrecognized<br>Gains | Gross<br>Unrecognized<br>Losses | Fair<br>Value |
|-------------------------------------|-------------------|--------------------------------|---------------------------------|---------------|
| <b>Held to maturity securities:</b> |                   |                                |                                 |               |
| Other - State of Israel bonds       | \$ 743            | \$ 2                           | \$ —                            | \$ 745        |

## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

The amortized cost and estimated fair value of securities at September 30, 2014, 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.

|   | Securities Available<br>for Sale |               | Held to<br>Maturity |               |
|---|----------------------------------|---------------|---------------------|---------------|
|   | Amortized<br>Cost                | Fair<br>Value | Amortized<br>Cost   | Fair<br>Value |
| Due in one year or less                 | \$1,336                          | \$1,338       | \$225               | \$225         |
| Due from one year to five years         | 94,588                           | 94,900        | 520                 | 525           |
| Due from five years to ten years        | 17,699                           | 17,846        | —                   | —             |
| Due after ten years                     | 1,591                            | 1,682         | —                   | —             |
|   | 115,214                          | 115,766       | 745                 | 750           |
| Mortgage-backed securities, residential | 30,130                           | 30,713        | —                   | —             |
| Asset backed securities                 | 18,632                           | 18,795        | —                   | —             |
| SBA pooled securities                   | 212                              | 215           | —                   | —             |
|   | \$164,188                        | \$165,489     | \$745               | \$750         |

For the three and nine months ended September 30, 2014, securities were sold resulting in proceeds of \$4,065 and \$10,859, respectively, gross gains of \$10 and \$35, respectively, and gross losses of \$0 and \$9, respectively. There were no sales of securities for the three and nine months ended September 30, 2013.

Securities with a carrying amount of approximately \$96,031 and \$87,434 at September 30, 2014 and December 31, 2013, respectively, were pledged to secure securities sold under agreements to repurchase, Federal Home Loan Bank advances, and for other purposes required or permitted by law.

Information pertaining to securities with gross unrealized losses at September 30, 2014 and December 31, 2013, 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<br>Fair | Unrealized | 12 Months or More<br>Fair | Unrealized | Total<br>Fair | Unrealized |
|-----------------------------|------------|---------------------------|------------|---------------|------------|
|-----------------------------|------------|---------------------------|------------|---------------|------------|

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|   | Value    | Losses    | Value   | Losses  | Value    | Losses    |
|---|----------|-----------|---------|---------|----------|-----------|
| September 30, 2014                      |          |           |         |         |          |           |
| U.S. Government agency obligations      | \$14,644 | \$ (52 )  | \$—     | \$ —    | \$14,644 | \$ (52 )  |
| Mortgage-backed securities, residential | 184      | (1 )      | —       | —       | 184      | (1 )      |
| Asset backed securities                 | 9,789    | (29 )     | —       | —       | 9,789    | (29 )     |
| State and municipal                     | —        | —         | —       | —       | —        | —         |
| Corporate bonds                         | —        | —         | —       | —       | —        | —         |
| SBA pooled securities                   | —        | —         | —       | —       | —        | —         |
|   | \$24,617 | \$ (82 )  | \$—     | \$ —    | \$24,617 | \$ (82 )  |
| December 31, 2013                       |          |           |         |         |          |           |
| U.S. Government agency obligations      | \$38,890 | \$ (222 ) | \$1,849 | \$ (2 ) | \$40,739 | \$ (224 ) |
| Mortgage-backed securities, residential | 800      | (1 )      | —       | —       | 800      | (1 )      |
| Asset backed securities                 | 4,913    | (6 )      | —       | —       | 4,913    | (6 )      |
| State and municipal                     | 1,481    | (4 )      | —       | —       | 1,481    | (4 )      |
| Corporate bonds                         | 8,419    | (36 )     | —       | —       | 8,419    | (36 )     |
| Trust preferred                         | 3,600    | (106 )    | —       | —       | 3,600    | (106 )    |
| SBA pooled securities                   | —        | —         | —       | —       | —        | —         |
|   | \$58,103 | \$ (375 ) | \$1,849 | \$ (2 ) | \$59,952 | \$ (377 ) |



## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

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, 2014, management does not have the intent to sell any of the securities classified as available for sale 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 any of the securities are impaired due to reasons of credit quality. Accordingly, as of September 30, 2014, management believes 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.

## NOTE 4 - LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES

Loans at September 30, 2014 and December 31, 2013 consisted of the following:

|                                      | September<br>30,<br>2014 | December<br>31,<br>2013 |
|--------------------------------------|--------------------------|-------------------------|
| Real estate:                         |                          |                         |
| Commercial                           | \$ 261,836               | \$ 331,462              |
| Construction, land development, land | 45,996                   | 37,626                  |
| 1-4 family residential properties    | 80,419                   | 91,301                  |
| Farmland                             | 20,059                   | 20,294                  |
| Total real estate                    | 408,310                  | 480,683                 |
| Commercial                           | 340,316                  | 255,655                 |
| Factored receivables                 | 169,112                  | 117,370                 |
| Consumer                             | 12,527                   | 13,878                  |
| Mortgage warehouse                   | 46,874                   | 13,513                  |
| Total                                | 977,139                  | 881,099                 |
| Allowance for loan and lease losses  | (7,320 )                 | (3,645 )                |

\$ 969,819 \$ 877,454

Total loans include net deferred origination fees and costs totaling \$1,173 and \$997 at September 30, 2014 and December 31, 2013, respectively.

Loans with carrying amounts of \$143,971 and \$166,688 at September 30, 2014 and December 31, 2013, respectively, were pledged to secure Federal Home Loan Bank advance capacity.

## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

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, 2014 and 2013 is as follows:

| Three months ended September 30, 2014 | Beginning Balance | Provision | Charge-offs | Recoveries | Ending Balance |
|---------------------------------------|-------------------|-----------|-------------|------------|----------------|
| <b>Real estate:</b>                   |                   |           |             |            |                |
| Commercial                            | \$ 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             |
| Total real estate                     | 913               | 178       | (174 )      | 4          | 921            |
| 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       |

| Three months ended September 30, 2013 | Beginning Balance | Provision | Charge-offs | Recoveries | Ending Balance |
|---------------------------------------|-------------------|-----------|-------------|------------|----------------|
| <b>Real estate:</b>                   |                   |           |             |            |                |
| Commercial                            | \$ 252            | \$ (154 ) | \$ —        | \$ 129     | \$ 227         |
| Construction, land development, land  | 46                | (7 )      | —           | —          | 39             |
| 1-4 family residential properties     | 98                | (34 )     | (19 )       | 25         | 70             |
| Farmland                              | 5                 | (1 )      | —           | —          | 4              |
| Total real estate                     | 401               | (196 )    | (19 )       | 154        | 340            |
| Commercial                            | 502               | 1,538     | (1,473 )    | —          | 567            |
| Factored receivables                  | 1,532             | 370       | (121 )      | 3          | 1,784          |
| Consumer                              | —                 | —         | —           | —          | —              |
| Mortgage warehouse                    | 15                | 23        | —           | —          | 38             |
|                                       | \$ 2,450          | \$ 1,735  | \$ (1,613 ) | \$ 157     | \$ 2,729       |

| Nine months ended September 30, 2014 | Beginning Balance | Provision | Charge-offs | Recoveries | Ending Balance |
|--------------------------------------|-------------------|-----------|-------------|------------|----------------|
| <b>Real estate:</b>                  |                   |           |             |            |                |
| Commercial                           | \$ 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             |
| Total real estate                    | 565               | 611       | (364 )      | 109        | 921            |

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|                      |          |          |           |        |          |
|----------------------|----------|----------|-----------|--------|----------|
| 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 |

## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

| Nine months ended September 30, 2013 | Beginning |           |             | Recoveries | Ending Balance |
|--------------------------------------|-----------|-----------|-------------|------------|----------------|
|                                      | Balance   | Provision | Charge-offs |            |                |
| Real estate:                         |           |           |             |            |                |
| Commercial                           | \$ 261    | \$ (122 ) | \$ (41 )    | \$ 129     | \$ 227         |
| Construction, land development, land | 40        | (1 )      | —           | —          | 39             |
| 1-4 family residential properties    | 227       | (111 )    | (88 )       | 42         | 70             |
| Farmland                             | 5         | (1 )      | —           | —          | 4              |
| Total real estate                    | 533       | (235 )    | (129 )      | 171        | 340            |
| Commercial                           | 172       | 1,861     | (1,473 )    | 7          | 567            |
| Factored receivables                 | 1,221     | 691       | (183 )      | 55         | 1,784          |
| Consumer                             | —         | —         | —           | —          | —              |
| Mortgage warehouse                   | —         | 38        | —           | —          | 38             |
|                                      | \$ 1,926  | \$ 2,355  | \$ (1,785 ) | \$ 233     | \$ 2,729       |

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

| September 30, 2014                   | Loan Evaluation |              |           |             | ALLL Allocations |              |      |            |
|--------------------------------------|-----------------|--------------|-----------|-------------|------------------|--------------|------|------------|
|                                      | Individual      | Collectively | PCI       | Total loans | Individual       | Collectively | PCI  | Total ALLL |
| Real estate:                         |                 |              |           |             |                  |              |      |            |
| Commercial                           | \$3,671         | \$ 243,632   | \$ 14,533 | \$261,836   | \$—              | \$ 386       | \$—  | \$386      |
| Construction, land development, land | 12              | 44,512       | 1,472     | 45,996      | —                | 340          | —    | 340        |
| 1-4 family residential properties    | 885             | 77,311       | 2,223     | 80,419      | —                | 176          | 6    | 182        |
| Farmland                             | —               | 20,059       | —         | 20,059      | —                | 13           | —    | 13         |
| Total real estate                    | 4,568           | 385,514      | 18,228    | 408,310     | —                | 915          | 6    | 921        |
| Commercial                           | 7,092           | 328,507      | 4,717     | 340,316     | 297              | 2,760        | —    | 3,057      |
| Factored receivables                 | 990             | 168,122      | —         | 169,112     | 849              | 2,288        | —    | 3,137      |
| Consumer                             | —               | 12,527       | —         | 12,527      | —                | 87           | —    | 87         |
| Mortgage warehouse                   | —               | 46,874       | —         | 46,874      | —                | 118          | —    | 118        |
|                                      | \$12,650        | \$ 941,544   | \$ 22,945 | \$977,139   | \$1,146          | \$ 6,168     | \$ 6 | \$ 7,320   |

| December 31, 2013 | Loan Evaluation |              |           |             | ALLL Allocations |              |     |            |
|-------------------|-----------------|--------------|-----------|-------------|------------------|--------------|-----|------------|
|                   | Individual      | Collectively | PCI       | Total loans | Individual       | Collectively | PCI | Total ALLL |
| Real estate:      |                 |              |           |             |                  |              |     |            |
| Commercial        | \$4,489         | \$ 308,326   | \$ 18,647 | \$331,462   | \$—              | \$ 348       | \$— | \$348      |

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|                                      |           |            |           |            |        |          |      |          |
|--------------------------------------|-----------|------------|-----------|------------|--------|----------|------|----------|
| Construction, land development, land | —         | 35,585     | 2,041     | 37,626     | —      | 110      | —    | 110      |
| 1-4 family residential properties    | 842       | 87,987     | 2,472     | 91,301     | 14     | 79       | 7    | 100      |
| Farmland                             | —         | 20,294     | —         | 20,294     | —      | 7        | —    | 7        |
| Total real estate                    | 5,331     | 452,192    | 23,160    | 480,683    | 14     | 544      | 7    | 565      |
| Commercial                           | 5,495     | 248,129    | 2,031     | 255,655    | 15     | 1,130    | —    | 1,145    |
| Factored receivables                 | 763       | 116,607    | —         | 117,370    | 417    | 1,425    | —    | 1,842    |
| Consumer                             | —         | 13,878     | —         | 13,878     | —      | 49       | —    | 49       |
| Mortgage warehouse                   | —         | 13,513     | —         | 13,513     | —      | 44       | —    | 44       |
|                                      | \$ 11,589 | \$ 844,319 | \$ 25,191 | \$ 881,099 | \$ 446 | \$ 3,192 | \$ 7 | \$ 3,645 |

## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

The following is a summary of information pertaining to impaired loans at September 30, 2014 and December 31, 2013:

| September 30, 2014                   | Impaired Loans and Purchased Credit |                  |                   | Impaired Loans Without a Valuation Allowance |                  |
|--------------------------------------|-------------------------------------|------------------|-------------------|--|------------------|
|                                      | Recorded Investment                 | Unpaid Principal | Related Allowance | Recorded Investment                          | Unpaid Principal |
| Real estate:                         |                                     |                  |                   |  |                  |
| Commercial                           | \$ —                                | \$ —             | \$ —              | \$ 1,938                                     | \$ 1,957         |
| Construction, land development, land | —                                   | —                | —                 | 12   | 24               |
| 1-4 family residential properties    | 327                                 | 505              | 6                 | 730  | 1,055            |
| Farmland                             | —                                   | —                | —                 | —  | —                |
| Total real estate                    | 327                                 | 505              | 6                 | 2,680  | 3,036            |
| Commercial                           | 1,029                               | 1,058            | 297               | 6,064  | 6,293            |
| Factored receivables                 | 990                                 | 990              | 849               | —  | —                |
| Consumer                             | —                                   | —                | —                 | —  | —                |
| Mortgage warehouse                   | —                                   | —                | —                 | —  | —                |
|                                      | \$ 2,346                            | \$ 2,553         | \$ 1,152          | \$ 8,744                                     | \$ 9,329         |

| December 31, 2013                    | Impaired Loans and Purchased Credit |                  |                   | Impaired Loans Without a Valuation Allowance |                  |
|--------------------------------------|-------------------------------------|------------------|-------------------|--|------------------|
|                                      | Recorded Investment                 | Unpaid Principal | Related Allowance | Recorded Investment                          | Unpaid Principal |
| Real estate:                         |                                     |                  |                   |  |                  |
| Commercial                           | \$ —                                | \$ —             | \$ —              | \$ 114                                       | \$ 131           |
| Construction, land development, land | —                                   | —                | —                 | —  | —                |
| 1-4 family residential properties    | 127                                 | 169              | 21                | 157  | 166              |
| Farmland                             | —                                   | —                | —                 | —  | —                |
| Total real estate                    | 127                                 | 169              | 21                | 271  | 297              |
| Commercial                           | 215                                 | 215              | 15                | 5,224  | 5,454            |
| Factored receivables                 | 762                                 | 762              | 417               | 1  | —                |
| Consumer                             | —                                   | —                | —                 | —  | —                |
| Mortgage warehouse                   | —                                   | —                | —                 | —  | —                |

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\$1,104 \$ 1,146 \$ 453 \$5,496 \$ 5,751

|                                      | Three Months<br>Ended<br>September 30, 2014 |            | Three Months<br>Ended<br>September 30, 2013 |            |
|--------------------------------------|---|------------|---|------------|
|                                      | Average Interest<br>Impaired                |            | Average Interest<br>Impaired                |            |
|                                      | Loans                                       | Recognized | Loans                                       | Recognized |
| <b>Real estate:</b>                  |   |            |   |            |
| Commercial                           | \$2,201                                     | \$ 17      | \$3,432                                     | \$ 156     |
| Construction, land development, land | 1   | 1          | —   | —          |
| 1-4 family residential properties    | 1,035                                       | 18         | 301   | 8          |
| Farmland                             | —   | —          | —   | —          |
| Total real estate                    | 3,237                                       | 36         | 3,733                                       | 164        |
| Commercial                           | 5,952                                       | 3          | 2,642                                       | —          |
| Factored receivables                 | 381   | —          | 690   | —          |
| Consumer                             | —   | —          | —   | —          |
| Mortgage warehouse                   | —   | —          | —   | —          |
|                                      | \$9,570                                     | \$ 39      | \$7,065                                     | \$ 164     |



## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

|                                      | Nine Months Ended<br>September 30, 2014 |                        | Nine Months Ended<br>September 30, 2013 |                        |
|--------------------------------------|---|------------------------|---|------------------------|
|                                      | Average<br>Impaired<br>Loans            | Interest<br>Recognized | Average<br>Impaired<br>Loans            | Interest<br>Recognized |
| Real estate:                         |   |                        |   |                        |
| Commercial                           | \$2,375                                 | \$ 206                 | \$3,427                                 | \$ 470                 |
| Construction, land development, land | 2                                       | 1                      | —                                       | —                      |
| 1-4 family residential properties    | 1,068                                   | 164                    | 326                                     | 25                     |
| Farmland                             | —                                       | —                      | —                                       | —                      |
| Total real estate                    | 3,445                                   | 371                    | 3,753                                   | 495                    |
| Commercial                           | 6,549                                   | 44                     | 2,642                                   | —                      |
| Factored receivables                 | 381                                     | —                      | 830                                     | —                      |
| Consumer                             | —                                       | —                      | —                                       | —                      |
| Mortgage warehouse                   | —                                       | —                      | —                                       | —                      |
|                                      | \$10,375                                | \$ 415                 | \$7,225                                 | \$ 495                 |

Loans included in the above 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 the tables above.

## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

The following table presents the unpaid principal and recorded investment for loans at September 30, 2014 and December 31, 2013. 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.

|                                      | Recorded<br>Investment | Unpaid<br>Principal | Difference   |
|--------------------------------------|------------------------|---------------------|--------------|
| September 30, 2014                   |                        |                     |              |
| Real estate:                         |                        |                     |              |
| Commercial                           | \$ 261,836             | \$ 277,087          | \$ (15,251 ) |
| Construction, land development, land | 45,996                 | 47,925              | (1,929 )     |
| 1-4 family residential properties    | 80,419                 | 84,220              | (3,801 )     |
| Farmland                             | 20,059                 | 19,973              | 86           |
| Total real estate                    | 408,310                | 429,205             | (20,895 )    |
| Commercial                           | 340,316                | 344,115             | (3,799 )     |
| Factored receivables                 | 169,112                | 170,281             | (1,169 )     |
| Consumer                             | 12,527                 | 12,604              | (77 )        |
| Mortgage warehouse                   | 46,874                 | 46,874              | —            |
|                                      | \$ 977,139             | \$ 1,003,079        | \$ (25,940 ) |
| December 31, 2013                    |                        |                     |              |
| Real estate:                         |                        |                     |              |
| Commercial                           | \$ 331,462             | \$ 351,521          | \$ (20,059 ) |
| Construction, land development, land | 37,626                 | 41,034              | (3,408 )     |
| 1-4 family residential properties    | 91,301                 | 96,742              | (5,441 )     |
| Farmland                             | 20,294                 | 20,145              | 149          |
| Total real estate                    | 480,683                | 509,442             | (28,759 )    |
| Commercial                           | 255,655                | 260,384             | (4,729 )     |
| Factored receivables                 | 117,370                | 118,057             | (687 )       |
| Consumer                             | 13,878                 | 14,006              | (128 )       |
| Mortgage warehouse                   | 13,513                 | 13,513              | —            |
|                                      | \$ 881,099             | \$ 915,402          | \$ (34,303 ) |

At September 30, 2014 and December 31, 2013, the Company had on deposit \$16,435 and \$10,653, respectively, of customer reserves associated with factored receivables. These deposits represent customer reserves held to settle any payment disputes or collection shortfalls and are reported as deposits in the consolidated balance sheets.



## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

Past Due and Nonaccrual Loans: The following is a summary of contractually past due and nonaccrual loans at September 30, 2014 and December 31, 2013:

| September 30, 2014                   | 30-89<br>Days<br>Past<br>Due | Past Due<br>90<br>Days or<br>More<br>Still<br>Accruing | Nonaccrual | Total    |
|--------------------------------------|------------------------------|--|------------|----------|
| <b>Real estate:</b>                  |                              |  |            |          |
| Commercial                           | \$855                        | \$ —   | \$ 5,094   | \$5,949  |
| Construction, land development, land | 75                           | —  | 12         | 87       |
| 1-4 family residential properties    | 779                          | 2  | 1,469      | 2,250    |
| Farmland                             | —                            | —  | —          | —        |
| Total real estate                    | 1,709                        | 2  | 6,575      | 8,286    |
| Commercial                           | 110                          | —  | 10,176     | 10,286   |
| Factored receivables                 | 5,664                        | 813  | —          | 6,477    |
| Consumer                             | 407                          | 2  | —          | 409      |
| Mortgage warehouse                   | —                            | —  | —          | —        |
|                                      | \$7,890                      | \$ 817   | \$ 16,751  | \$25,458 |

| December 31, 2013                    | 30-89<br>Days<br>Past<br>Due | Past Due<br>90<br>Days or<br>More<br>Still<br>Accruing | Nonaccrual | Total    |
|--------------------------------------|------------------------------|--|------------|----------|
| <b>Real estate:</b>                  |                              |  |            |          |
| Commercial                           | \$2,959                      | \$ 47  | \$ 5,417   | \$8,423  |
| Construction, land development, land | 690                          | —  | —          | 690      |
| 1-4 family residential properties    | 1,803                        | 19   | 1,392      | 3,214    |
| Farmland                             | —                            | —  | —          | —        |
| Total real estate                    | 5,452                        | 66   | 6,809      | 12,327   |
| Commercial                           | 2,155                        | 11   | 5,494      | 7,660    |
| Factored receivables                 | 3,836                        | —  | 89         | 3,925    |
| Consumer                             | 591                          | 2  | —          | 593      |
| Mortgage warehouse                   | —                            | —  | —          | —        |
|                                      | \$12,034                     | \$ 79  | \$ 12,392  | \$24,505 |

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 semi-annual basis at TSB and every eighteen months for loans greater than \$500 at TCB. 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

(Dollar amounts in thousands, except per share amounts)

(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 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, 2014 and December 31, 2013 based on the most recent analysis performed, the risk category of loans is as follows:

| September 30, 2014                   | Pass      | Special<br>Mention | Substandard | Doubtful | PCI      | Total     |
|--------------------------------------|-----------|--------------------|-------------|----------|----------|-----------|
| Real estate:                         |           |                    |             |          |          |           |
| Commercial                           | \$238,251 | \$ 2,963           | \$ 6,089    | \$ —     | \$14,533 | \$261,836 |
| Construction, land development, land | 44,512    | —                  | 12          | —        | 1,472    | 45,996    |
| 1-4 family residential               | 77,120    | 231                | 845         | —        | 2,223    | 80,419    |
| Farmland                             | 20,059    | —                  | —           | —        | —        | 20,059    |
| Total real estate                    | 379,942   | 3,194              | 6,946       | —        | 18,228   | 408,310   |
| Commercial                           | 322,647   | 2,490              | 10,462      | —        | 4,717    | 340,316   |
| Factored receivables                 | 168,121   | —                  | 344         | 647      | —        | 169,112   |
| Consumer                             | 12,527    | —                  | —           | —        | —        | 12,527    |
| Mortgage warehouse                   | 46,874    | —                  | —           | —        | —        | 46,874    |
|                                      | \$930,111 | \$ 5,684           | \$ 17,752   | \$ 647   | \$22,945 | \$977,139 |

| December 31, 2013 | Pass | Special<br>Mention | Substandard | Doubtful | PCI | Total |
|-------------------|------|--------------------|-------------|----------|-----|-------|
| Real estate:      |      |                    |             |          |     |       |

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|                                      |           |        |           |        |          |           |
|--------------------------------------|-----------|--------|-----------|--------|----------|-----------|
| Commercial                           | \$308,077 | \$ 557 | \$ 4,180  | \$ —   | \$18,648 | \$331,462 |
| Construction, land development, land | 35,585    | —      | —         | —      | 2,041    | 37,626    |
| 1-4 family residential               | 88,379    | —      | 450       | —      | 2,472    | 91,301    |
| Farmland                             | 20,294    | —      | —         | —      | —        | 20,294    |
| Total real estate                    | 452,335   | 557    | 4,630     | —      | 23,161   | 480,683   |
| Commercial                           | 247,941   | —      | 5,684     | —      | 2,030    | 255,655   |
| Factored receivables                 | 116,607   | —      | 336       | 427    | —        | 117,370   |
| Consumer                             | 13,878    | —      | —         | —      | —        | 13,878    |
| Mortgage warehouse                   | 13,513    | —      | —         | —      | —        | 13,513    |
|                                      | \$844,274 | \$ 557 | \$ 10,650 | \$ 427 | \$25,191 | \$881,099 |

## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

## Troubled Debt Restructurings

Troubled debt restructurings and their effects were immaterial as of September 30, 2014 and December 31, 2013 and for the three and nine months ended September 30, 2014 and 2013.

## NOTE 5 - 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 September 30, 2014 and December 31, 2013, are as follows:

|   | September<br>30,<br>2014 | December<br>31,<br>2013 |
|---|--------------------------|-------------------------|
| Contractually required principal and interest:            |                          |                         |
| Real estate loans   | \$ 30,905                | \$ 35,584               |
| Commercial loans  | 6,962                    | 2,795                   |
| Outstanding contractually required principal and interest | \$ 37,867                | \$ 38,379               |
| Gross carrying amount included in loans receivable        | \$ 22,945                | \$ 25,191               |

The changes in accretable yield during the three and nine months ended September 30, 2014 and 2013 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<br>Ended<br>September 30,<br>2014 |         | Nine Months<br>Ended September<br>30,<br>2013 |         |
|-------------------------------------|--|---------|---|---------|
|                                     | 2014   | 2013    | 2014  | 2013    |
| Accretable yield, beginning balance | \$6,883  | \$2,435 | \$4,587                                       | \$4,244 |



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|   |         |         |         |         |
|---|---------|---------|---------|---------|
| Additions   | —       | —       | 482     | —       |
| Accretion   | (1,910) | (373 )  | (3,868) | (2,180) |
| Reclassification from nonaccretable to accretable yield | —       | —       | 3,922   | —       |
| Disposals   | (10 )   | (1 )    | (160 )  | (3 )    |
| Accretable yield, ending balance                        | \$4,963 | \$2,061 | \$4,963 | \$2,061 |

NOTE 6 - GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets consist of the following:

|                         | September<br>30,<br>2014 | December<br>31,<br>2013 |
|-------------------------|--------------------------|-------------------------|
| Goodwill                | \$ 15,968                | \$ 14,047               |
| Other intangible assets | 13,815                   | 14,471                  |
|                         | \$ 29,783                | \$ 28,518               |

## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

The changes in goodwill and intangible assets during the period are as follows:

|                                    | 2014     |
|------------------------------------|----------|
| Beginning balance, January 1, 2014 | \$28,518 |
| Acquired goodwill                  | 1,921    |
| Acquired intangibles               | 2,054    |
| Divestiture                        | (514 )   |
| Amortization of intangibles        | (2,196 ) |
| Ending balance, September 30, 2014 | \$29,783 |

## NOTE 7 – Variable Interest Entities

## Collateralized Loan Obligation Funds - Closed

The Company, through its subsidiary, Triumph Capital Advisors, LLC (TCA), acts as asset manager to Trinitas CLO I, LTD (Trinitas I) and Trinitas CLO II, LTD (Trinitas II). Trinitas I and Trinitas II are collateralized loan obligation (CLO) funds. Trinitas I and Trinitas II were initially in a “warehouse” phase whereby they were acquiring senior secured corporate loans in anticipation of the securities offerings that completed the final CLO securitization structures. The purchases of these initial warehouse assets was funded by the proceeds from third party debt financing and equity investments made by both the Company and other third parties. On May 1, 2014, Trinitas I completed its CLO securities offering and issued \$400,000 face amount of CLO securities. On August 4, 2014, Trinitas II completed its CLO securities offering by issuing \$416,000 face amount of CLO securities. In connection with the respective offerings, Trinitas I and Trinitas II redeemed the equity securities issued as part of their warehouse phases and repaid and terminated their warehouse credit facilities. TBI earned management fees totaling \$374 and \$503 for the three and nine months ended September 30, 2014, respectively. There were no management fees earned during the three and nine months ended September 30, 2013.

The securities sold in the CLO offerings were issued in a series of tranches ranging from an AAA rated debt tranche to an unrated tranche of subordinated notes. Neither the Company nor any of its related persons acquired or holds any of the securities issued by Trinitas I or Trinitas II in the offerings, other than a de minimis interest held by a related person of the Company in Trinitas II. Effective as of the respective closing dates, TCA began earning asset management fees in accordance with the terms of its asset management agreement with Trinitas I and Trinitas II.

As part of the consummation of the CLO offerings by Trinitas I and Trinitas II, the Company performed a consolidation analysis to confirm, as of the effective date of the offerings, whether the Company was required to consolidate the assets, liabilities, equity or operations of Trinitas I or Trinitas II in its financial statements. The

Company concluded that (a) Trinitas I and Trinitas II remained variable interest entities as of the respective dates of consummation of the offerings, and (b) the Company, through TCA, held variable interests in the entities due to the subordinated and incentive fees payable to TCA under their asset management agreements. However, the Company also concluded that it was not the “primary beneficiary” of Trinitas I or Trinitas II as (x) neither it nor any of its related persons held any investment or interest in the entities outside of the management fees payable to TCA under their asset management agreements other than a de minimis interest held by a related person of the Company in Trinitas II and (y) such management fees constituted standard third party agency fees at prevailing market rates for transactions of this type that could not potentially be significant to the entities. Consequently, the Company concluded that it was not required to consolidate the assets, liabilities, equity or operations of Trinitas I or Trinitas II in its financial statements as of September 30, 2014.

#### Collateralized Loan Obligation Fund – Warehouse Phase

On August 4, 2014, Trinitas CLO III, Ltd. (Trinitas III) was formed to be the issuer of a third CLO offering to be managed by TCA. On August 25, 2014, Trinitas III was capitalized with initial third party equity investments of \$27,550 in addition to the Company’s \$2,450 equity investment and entered into a warehouse credit agreement in order to begin acquiring senior secured loan assets that will comprise the initial collateral pool of the CLO once issued. When finalized, Trinitas III will use the proceeds of the debt and equity interests sold in the offering for the final CLO securitization structure to repay the initial warehouse phase debt and equity holders. In the final CLO securitization structure, interest and principal repayment of the leveraged loans held by Trinitas III will be used to repay debt holders with any excess cash flows used to provide a return on capital to equity investors. TCA will earn a

## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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management fee as the asset manager for Trinitas III that will commence upon the issuance of the final CLO securitization structure, but does not earn management or other fees from Trinitas III during the “warehouse” phase.

At September 30, 2014, the Company’s loss exposure to Trinitas III is limited to its equity investment in the entity which is classified as other assets within the Company’s consolidated balance sheets.

The Company performed a consolidation analysis of Trinitas III during the warehouse phase and concluded that Trinitas III is a variable interest entity and that the Company and its related persons hold variable interests in the entity that could potentially be significant to the entity in the form of equity investments in the entity. However, the Company also concluded that due to certain approval and denial powers available to the lender under the warehouse credit facility for Trinitas III which provide for shared decision-making powers, the Company is not the primary beneficiary and therefore is not required to consolidate the assets, liabilities, equity, or operations of the entity in the Company’s financial statements.

## NOTE 8 - Deposits

Deposits at September 30, 2014 and December 31, 2013 are summarized as follows:

|  | September<br>30, 2014 | December<br>31, 2013 |
|--|-----------------------|----------------------|
| Noninterest bearing demand                     | \$ 154,750            | \$ 150,238           |
| Interest-bearing demand                        | 209,491               | 199,826              |
| Individual Retirement Accounts                 | 54,378                | 54,512               |
| Money Market                                   | 125,371               | 157,406              |
| Savings  | 72,012                | 69,336               |
| Certificates of deposit, \$100,000 and greater | 235,060               | 138,000              |
| Certificates of deposit, less than \$100,000   | 204,543               | 216,940              |
| Other brokered funds                           | 50,019                | 58,596               |
| Total Deposits                                 | \$ 1,105,624          | \$ 1,044,854         |

At September 30, 2014, scheduled maturities of certificates of deposits, individual retirement accounts and brokered deposits are as follows:

|                                   | September<br>30, 2014 |
|-----------------------------------|-----------------------|
| Within one year                   | \$ 301,572            |
| After one but within two years    | 135,218               |
| After two but within three years  | 82,562                |
| After three but within four years | 11,954                |
| After four but within five years  | 12,694                |
| Total                             | \$ 544,000            |

#### NOTE 9 - Legal Contingencies

Various legal claims arise 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.

#### NOTE 10 - 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

## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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.

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

|                           | September 30, 2014 |                  | December 31, 2013 |                  |
|---------------------------|--------------------|------------------|-------------------|------------------|
|                           | Fixed<br>Rate      | Variable<br>Rate | Fixed<br>Rate     | Variable<br>Rate |
| Commitments to make loans | \$6,170            | \$10,800         | \$7,437           | \$4,823          |
| Unused lines of credit    | 35,010             | 199,107          | 33,470            | 104,896          |
| Standby letters of credit | 2,098              | 1,362            | 2,147             | 1,897            |

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 11 - 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.

## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

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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 September 30, 2014 and December 31, 2013.

|  | Fair Value Measurements Using |           |         | Total Fair Value |
|--|-------------------------------|-----------|---------|------------------|
|  | Level 1                       | Level 2   | Level 3 |                  |
| September 30, 2014:                    |                               |           |         |                  |
| Securities available for sale          |                               |           |         |                  |
| U.S. Government agency obligations     | \$—                           | \$90,737  | \$—     | \$90,737         |
| Mortgage-backed securities-residential | —                             | 30,713    | —       | 30,713           |
| Asset backed securities                | —                             | 18,795    | —       | 18,795           |
| State and municipal                    | —                             | 4,603     | 3,495   | 8,098            |
| Corporate bonds                        | —                             | 16,931    | —       | 16,931           |
| SBA pooled securities                  | —                             | 215       | —       | 215              |
|  | \$—                           | \$161,994 | \$3,495 | \$165,489        |
| Loans held for sale                    |                               |           |         |                  |
| Mortgages                              | —                             | 7,295     | —       | 7,295            |
|  | \$—                           | \$7,295   | \$—     | \$7,295          |

|  | Fair Value Measurements Using |           |         | Total Fair Value |
|--|-------------------------------|-----------|---------|------------------|
|  | Level 1                       | Level 2   | Level 3 |                  |
| December 31, 2013:                     |                               |           |         |                  |
| Securities available for sale          |                               |           |         |                  |
| U.S. Government agency obligations     | \$—                           | \$95,834  | \$—     | \$95,834         |
| Mortgage-backed securities-residential | —                             | 36,285    | —       | 36,285           |
| Asset backed securities                | —                             | 18,839    | —       | 18,839           |
| State and municipal                    | —                             | 5,423     | 3,582   | 9,005            |
| Corporate bonds                        | —                             | 20,843    | —       | 20,843           |
| SBA pooled securities                  | —                             | 248       | —       | 248              |
| Trust preferred                        | —                             | 3,600     | —       | 3,600            |
|  | \$—                           | \$181,072 | \$3,582 | \$184,654        |
| Loans held for sale                    |                               |           |         |                  |
| Mortgages                              | —                             | 5,393     | —       | 5,393            |
|  | \$—                           | \$5,393   | \$—     | \$5,393          |

There were no transfers between levels during 2014 or 2013.



At September 30, 2014, the Company classified \$3,495 of municipal securities as level 3. These municipal securities are bond issues for municipal government entities located in northwestern Illinois and are privately placed, non-rated bonds without CUSIP numbers. The municipal securities are valued by an independent third party using matrix pricing according to the municipal bond index that most closely matches the bond issue. Fair values for each maturity of the bond issue are then calculated based on the index yield at the appropriate point on the yield curve. The Company does not make any internal adjustments to the third party bond valuations. The only activity related to the above level 3 securities during the nine months ended September 30, 2014 was associated with immaterial contractual payments and changes in fair value that were recorded in other comprehensive income.

## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

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 September 30, 2014 and December 31, 2013.

|  | Fair Value Measurements Using |         |          | Total Fair Value |
|--|-------------------------------|---------|----------|------------------|
|  | Level 1                       | Level 2 | Level 3  |                  |
| September 30, 2014:                      |                               |         |          |                  |
| Impaired loans                           |                               |         |          |                  |
| 1-4 family residential properties        | \$—                           | \$ —    | \$ 321   | \$321            |
| Commercial                               | —                             | —       | 732      | 732              |
| Factored receivables                     | —                             | —       | 141      | 141              |
| Other real estate owned <sup>(1)</sup> : |                               |         |          |                  |
| 1-4 family residential properties        | —                             | —       | 97       | 97               |
| Commercial                               | —                             | —       | 391      | 391              |
| Construction, land development, land     | —                             | —       | 870      | 870              |
|  | \$—                           | \$ —    | \$ 2,552 | \$2,552          |

|  | Fair Value Measurements Using |         |          | Total Fair Value |
|--|-------------------------------|---------|----------|------------------|
|  | Level 1                       | Level 2 | Level 3  |                  |
| December 31, 2013:                       |                               |         |          |                  |
| Impaired loans                           |                               |         |          |                  |
| 1-4 family residential properties        | \$—                           | \$ —    | \$ 106   | \$106            |
| Commercial                               | —                             | —       | 200      | 200              |
| Factored receivables                     | —                             | —       | 345      | 345              |
| Other real estate owned <sup>(1)</sup> : |                               |         |          |                  |
| 1-4 family residential properties        | —                             | —       | 367      | 367              |
| Commercial                               | —                             | —       | 653      | 653              |
| Construction, land development, land     | —                             | —       | —        | —                |
|  | \$—                           | \$ —    | \$ 1,671 | \$1,671          |

|   | September 30, 2014 | December 31, 2013 |
|---|--------------------|-------------------|
| Provision recorded for loans classified as impaired       | \$699              | \$ 14             |
| Valuation adjustments recorded on other real estate owned | \$363              | \$ 144            |

(1) Represents the fair value of OREO that was adjusted 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. Unobservable inputs for estimated selling and closing costs range from 5% to 8% of the 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.

## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

The estimated fair values of the Company's financial instruments at September 30, 2014 and December 31, 2013 were as follows:

|                                     | September 30, 2014 |                       |                         |                  | Total<br>Fair Value |
|-------------------------------------|--------------------|-----------------------|-------------------------|------------------|---------------------|
|                                     | Carrying<br>Amount | Fair Value<br>Level 1 | Measurements<br>Level 2 | Using<br>Level 3 |                     |
| <b>Financial assets:</b>            |                    |                       |                         |                  |                     |
| Cash and cash equivalents           | \$75,625           | \$75,625              | \$—                     | \$—              | \$75,625            |
| Securities - Held to maturity       | 745                | —                     | 750                     | —                | 750                 |
| Loans, net                          | 969,819            | —                     | —                       | 977,509          | 977,509             |
| FHLB and Federal Reserve Bank stock | 5,826              | N/A                   | N/A                     | N/A              | N/A                 |
| Accrued interest receivable         | 4,127              | —                     | 4,127                   | —                | 4,127               |
| <b>Financial liabilities:</b>       |                    |                       |                         |                  |                     |
| Deposits                            | 1,105,624          | —                     | 1,109,111               | —                | 1,109,111           |
| Customer repurchase agreements      | 15,644             | —                     | 15,644                  | —                | 15,644              |
| Federal Home Loan Bank advances     | —                  | —                     | —                       | —                | —                   |
| Senior secured note                 | 11,630             | —                     | 11,434                  | —                | 11,434              |
| Junior subordinated debentures      | 24,359             | —                     | 24,359                  | —                | 24,359              |
| Accrued interest payable            | 901                | —                     | 901                     | —                | 901                 |
| <b>December 31, 2013</b>            |                    |                       |                         |                  |                     |
|                                     | December 31, 2013  |                       |                         |                  | Total<br>Fair Value |
|                                     | Carrying<br>Amount | Fair Value<br>Level 1 | Measurements<br>Level 2 | Using<br>Level 3 |                     |
| <b>Financial assets:</b>            |                    |                       |                         |                  |                     |
| Cash and cash equivalents           | \$85,797           | \$85,797              | \$—                     | \$—              | \$85,797            |
| Securities - Held to maturity       | 743                | —                     | 745                     | —                | 745                 |
| Loans, net                          | 877,454            | —                     | —                       | 884,307          | 884,307             |
| FHLB and Federal Reserve Bank stock | 5,802              | N/A                   | N/A                     | N/A              | N/A                 |
| Accrued interest receivable         | 3,748              | —                     | 3,748                   | —                | 3,748               |
| <b>Financial liabilities:</b>       |                    |                       |                         |                  |                     |
| Deposits                            | 1,044,854          | —                     | 1,046,226               | —                | 1,046,226           |
| Customer repurchase agreements      | 11,330             | —                     | 11,329                  | —                | 11,329              |
| Federal Home Loan Bank advances     | 21,000             | —                     | 21,000                  | —                | 21,000              |
| Senior secured note                 | 12,573             | —                     | 12,379                  | —                | 12,379              |
| Junior subordinated debentures      | 24,171             | —                     | 24,171                  | —                | 24,171              |
| Accrued interest payable            | 2,426              | —                     | 2,426                   | —                | 2,426               |

NOTE 12 - Regulatory Matters

The Company (on a consolidated basis), TSB and TCB 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, TSB's, or TCB's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company, TSB, and TCB 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.

Quantitative measures established by regulations to ensure capital adequacy require the Company, TSB, and TCB to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk weighted assets, and of Tier 1 capital to average assets.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

As of September 30, 2014, TSB's and TCB'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" they must maintain minimum total risk based, Tier 1 risk based, and Tier 1 leverage ratios as set forth in the table. At September 30, 2014, the most recent notification categorized TSB and TCB as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since September 30, 2014 that management believes would change either institution's category.

In July 2013, federal banking regulators released final rules for the regulation of capital and liquidity for U.S. banking organizations, establishing a new comprehensive capital framework (Basel III) for U.S. banking organizations that will become effective for reporting periods beginning after January 1, 2015 (subject to a phase-in period through January 2019).

In addition, under the final rules, bank holding companies with less than \$15 billion in assets as of December 31, 2009 are allowed to continue to include junior subordinated debentures in Tier 1 capital, subject to certain restrictions. However, if an institution grows to above \$15 billion in assets as a result of an acquisition, or organically grows to above \$15 billion in assets and then makes an acquisition, the combined trust preferred issuances must be phased out of Tier 1 and into Tier 2 capital (75% in 2015 and 100% in 2016). It is possible that the Company may accelerate redemption of the existing junior subordinated debentures. All of the debentures issued to the Trusts, less the common stock of the Trusts, qualified as Tier 1 capital as of September 30, 2014, under guidance issued by the Board of Governors of the Federal Reserve System.

## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

The actual capital amounts and ratios for the Company, TSB, and TCB are presented in the following table as of September 30, 2014 and December 31, 2013:

|  | Actual<br>Amount | Ratio | To Be<br>Adequately<br>Capitalized<br>Under<br>Prompt<br>Corrective<br>Action<br>Provisions<br>Amount | Ratio | To Be Well<br>Capitalized<br>Under<br>Prompt<br>Corrective<br>Action<br>Provisions<br>Amount | Ratio |
|--|------------------|-------|---|-------|--|-------|
| As of September 30, 2014                 |                  |       |   |       |  |       |
| Total capital (to risk weighted assets)  |                  |       |   |       |  |       |
| Triumph Bancorp, Inc.                    | \$ 167,709       | 15.3% | \$ 87,863   | 8.0%  | N/A  | N/A   |
| Triumph Savings Bank, SSB                | \$ 54,819        | 16.9% | \$ 26,027   | 8.0%  | \$ 32,534  | 10.0% |
| Triumph Community Bank                   | \$ 111,152       | 14.5% | \$ 61,428   | 8.0%  | \$ 76,785  | 10.0% |
| Tier 1 capital (to risk weighted assets) |                  |       |   |       |  |       |
| Triumph Bancorp, Inc.                    | \$ 160,280       | 14.6% | \$ 43,942   | 4.0%  | N/A  | N/A   |
| Triumph Savings Bank, SSB                | \$ 51,250        | 15.8% | \$ 13,008   | 4.0%  | \$ 19,511  | 6.0%  |
| Triumph Community Bank                   | \$ 107,293       | 14.0% | \$ 30,714   | 4.0%  | \$ 46,071  | 6.0%  |
| Tier 1 capital (to average assets)       |                  |       |   |       |  |       |
| Triumph Bancorp, Inc.                    | \$ 160,280       | 12.2% | \$ 52,551   | 4.0%  | N/A  | N/A   |
| Triumph Savings Bank, SSB                | \$ 51,250        | 12.8% | \$ 15,991   | 4.0%  | \$ 19,988  | 5.0%  |
| Triumph Community Bank                   | \$ 107,293       | 11.9% | \$ 36,162   | 4.0%  | \$ 45,203  | 5.0%  |
| As of December 31, 2013                  |                  |       |   |       |  |       |
| Total capital (to risk weighted assets)  |                  |       |   |       |  |       |
| Triumph Bancorp, Inc.                    | \$ 145,722       | 14.5% | \$ 80,398   | 8.0%  | N/A  | N/A   |
| Triumph Savings Bank, SSB                | \$ 50,985        | 16.4% | \$ 24,871   | 8.0%  | \$ 31,088  | 10.0% |
| Triumph Community Bank                   | \$ 89,690        | 13.0% | \$ 55,194   | 8.0%  | \$ 68,992  | 10.0% |
| Tier 1 capital (to risk weighted assets) |                  |       |   |       |  |       |
| Triumph Bancorp, Inc.                    | \$ 142,077       | 14.1% | \$ 40,306   | 4.0%  | N/A  | N/A   |
| Triumph Savings Bank, SSB                | \$ 48,064        | 15.5% | \$ 12,404   | 4.0%  | \$ 18,605  | 6.0%  |
| Triumph Community Bank                   | \$ 88,921        | 12.9% | \$ 27,572   | 4.0%  | \$ 41,359  | 6.0%  |

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|                                    |           |       |          |      |          |      |
|------------------------------------|-----------|-------|----------|------|----------|------|
| Tier 1 capital (to average assets) |           |       |          |      |          |      |
| Triumph Bancorp, Inc.              | \$142,077 | 12.9% | \$44,055 | 4.0% | N/A      | N/A  |
| Triumph Savings Bank, SSB          | \$48,064  | 13.6% | \$14,136 | 4.0% | \$17,671 | 5.0% |
| Triumph Community Bank             | \$88,921  | 10.1% | \$35,216 | 4.0% | \$44,020 | 5.0% |

Triumph has made certain commitments to the Federal Reserve Bank, including maintaining TSB's leverage capital ratio (Tier 1 capital to average assets) at no less than 12.0% until January 1, 2015.

TCB's board of directors has agreed to maintain a minimum Tier 1 capital to average assets ratio of 8.0% of adjusted average assets and total risk-based ratio of 10.0%.

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



## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

## NOTE 13 - EQUITY AND NONCONTROLLING INTERESTS

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

|  | Preferred Stock |            | Series B   |            | Common Stock |            | Treasury Stock |          |
|--|-----------------|------------|------------|------------|--------------|------------|----------------|----------|
|  | Series A        |            | Series B   |            | September    | December   | September      | December |
|  | September       | December   | September  | December   | September    | December   | September      | December |
|  | 2014            | 2013       | 2014       | 2013       | 2014         | 2013       | 2014           | 2013     |
| 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     | 9,891,424    | 9,832,585  |                |          |
| Number of shares outstanding           | 45,500          | 45,500     | 51,956     | 51,956     | 9,886,778    | 9,832,585  | 4,646          | —        |
| 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 %     |              |            |                |          |
| Initial dividend payment date          | 3/31/2013       | 3/31/2013  | 12/31/2013 | 12/31/2013 |              |            |                |          |
| 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    |              |            |                |          |

## TCF Non-Cumulative Non-Voting Class B Units Redemption:

On June 15, 2014, TCF redeemed all 11,000 of its non-cumulative non-voting Class B Units at their redemption rate of 102 per unit plus accrued and unpaid dividends through the redemption date. The TCF Class B Units were previously considered and reported as noncontrolling interests to the Company.

NOTE 14 – STOCK BASED COMPENSATION

The Company's Amended and Restricted Stock Plan (the Plan) provided for the issuance of up to 750,000 shares of restricted TBI common stock to officers, directors and employees of the Company and its subsidiaries. As of September 30, 2014, 58,395 restricted stock units (RSUs) had been issued pursuant to the Plan. Compensation expense for RSUs granted under the Plan was recognized over the vesting period of the awards based on the fair value of the stock at the issue date. The fair value of the stock was determined by the Company considering applicable discounts for, among other things, a repurchase option granted to the Company in certain circumstances. RSUs granted to employees under the Plan typically vested one third each year over three years, and therefore fully vested on the third anniversary of the grant date. In August 2014, the Company approved the immediate and full acceleration of vesting on all remaining nonvested RSUs in anticipation of its contemplated initial public offering. As a result, the Company recognized all remaining unrecognized compensation cost associated with these shares during the third quarter of 2014.

Stock based compensation expense that has been charged against income for RSU awards was \$417 and \$613 for the three and nine month periods ended September 30, 2014, respectively, and \$43 and \$86 for the three and nine month periods ended September 30, 2013, respectively.

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CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

A summary of changes in the Company's nonvested RSUs for the nine months ended September 30, 2014 and 2013 were as follows:

| Nonvested RSUs                  | Units    | Weighted-Average<br>Grant-Date<br>Fair Value |
|---------------------------------|----------|--|
| Nonvested at January 1, 2014    | 26,120   | \$ 10.77                                     |
| Granted                         | 32,275   | 14.08  |
| Vested                          | (58,395) | 12.60  |
| Forfeited                       | —        | —  |
| Nonvested at September 30, 2014 | —        | \$ —   |
| Nonvested at January 1, 2013    | —        | \$ —   |
| Granted                         | 26,120   | 10.77  |
| Vested                          | —        | —  |
| Forfeited                       | —        | —  |
| Nonvested at September 30, 2013 | 26,120   | \$ 10.77                                     |

## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

In connection with the Company's initial public offering in November 2014, the Company adopted the 2014 Omnibus Incentive Plan. See Note 17 – Subsequent Events for additional information.

## NOTE 15 – EARNINGS PER SHARE

The factors used in the earnings per share computation follow:

|  | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|--|-------------------------------------|-----------|------------------------------------|-----------|
|  | 2014                                | 2013      | 2014                               | 2013      |
| <b>Basic</b>   |                                     |           |                                    |           |
| Net income to common stockholders  | \$9,495                             | \$236     | \$14,928                           | \$521     |
| Weighted average common shares outstanding                                     | 9,872,923                           | 8,800,670 | 9,850,640                          | 8,078,476 |
| Basic earnings per common share  | \$0.96                              | \$0.03    | \$1.52                             | \$0.06    |
| <b>Diluted</b>   |                                     |           |                                    |           |
| Net income to common stockholders  | \$9,495                             | \$236     | \$14,928                           | \$521     |
| Dilutive effect of preferred stock   | 197                                 | —         | 583                                | —         |
| Net income to common stockholders - diluted                                    | \$9,692                             | \$236     | \$15,511                           | \$521     |
| Weighted average common shares outstanding for basic earnings per common share | 9,872,923                           | 8,800,670 | 9,850,640                          | 8,078,476 |
| Add: Dilutive effects of restricted stock units                                | —                                   | 6,773     | 6,059                              | 3,328     |
| Add: Dilutive effects of assumed exercises of stock warrants                   | 52,881                              | —         | 52,881                             | —         |
| Add: Dilutive effects of assumed conversion of Preferred A                     | 315,773                             | N/A       | 315,773                            | N/A       |
| Add: Dilutive effects of assumed conversion of Preferred B                     | 360,578                             | N/A       | 360,578                            | N/A       |
| Average shares and dilutive potential common shares                            | 10,602,155                          | 8,807,443 | 10,585,931                         | 8,081,804 |
| Dilutive earnings per common share   | \$0.91                              | \$0.03    | \$1.47                             | \$0.06    |

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

|  | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |         |
|--|-------------------------------------|---------|------------------------------------|---------|
|  | 2014                                | 2013    | 2014                               | 2013    |
| Restricted stock units                                       | —                                   | —       | —                                  | —       |
| Warrants   | —                                   | 259,067 | —                                  | 259,067 |
| Shares assumed to be converted from Preferred Stock Series A | —                                   | N/A     | —                                  | N/A     |

Shares assumed to be converted from Preferred Stock Series B — N/A — N/A

## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

## NOTE 16 – BUSINESS SEGMENT INFORMATION

The following 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 ABC. General factoring services not originated through ABC are included in the Banking segment.

| Three Months Ended September 30, 2014 | Factoring | Banking     | Corporate  | Consolidated<br>TBI |
|---------------------------------------|-----------|-------------|------------|---------------------|
| Total interest income                 | \$7,423   | \$14,689    | \$6        | \$22,118            |
| Intersegment interest allocations     | (990 )    | 990         | —          | —                   |
| Total interest expense                | —         | 1,312       | 411        | 1,723               |
| Net interest income (expense)         | 6,433     | 14,367      | (405 )     | 20,395              |
| Provision for loan losses             | 452       | 923         | —          | 1,375               |
| Net interest income after provision   | 5,981     | 13,444      | (405 )     | 19,020              |
| Gain on branch sale                   | —         | 12,619      | —          | 12,619              |
| Other noninterest income              | 431       | 2,345       | 409        | 3,185               |
| Noninterest expense                   | 4,125     | 12,344      | 1,992      | 18,461              |
| Operating income (loss)               | \$2,287   | \$16,064    | \$(1,988 ) | \$16,363            |
| Total assets                          | \$170,088 | \$1,155,434 | \$22,276   | \$1,347,798         |
| Gross loans                           | \$158,129 | \$819,010   | \$—        | \$977,139           |

| Three Months Ended September 30, 2013 | Factoring | Banking | Corporate | Consolidated<br>TBI |
|---------------------------------------|-----------|---------|-----------|---------------------|
| Total interest income                 | \$4,704   | \$4,290 | \$27      | \$9,021             |
| Intersegment interest allocations     | (577 )    | 577     | —         | —                   |
| Total interest expense                | —         | 893     | —         | 893                 |
| Net interest income                   | 4,127     | 3,974   | 27        | 8,128               |
| Provision for loan losses             | 341       | 1,394   | —         | 1,735               |
| Net interest income after provision   | 3,786     | 2,580   | 27        | 6,393               |

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|                                  |           |           |           |            |
|----------------------------------|-----------|-----------|-----------|------------|
| Noninterest income               | 256       | 385       | 76        | 717        |
| Intersegment expense allocations | 14        | (14 )     | —         | —          |
| Noninterest expense              | 2,454     | 3,026     | 1,067     | 6,547      |
| Operating income (loss)          | \$1,574   | \$(47 )   | \$(964 )  | \$ 563     |
| Total assets                     | \$110,571 | \$243,533 | \$ 38,834 | \$ 392,938 |
| Gross loans                      | \$95,065  | \$170,328 | \$—       | \$ 265,393 |

## TRIUMPH BANCORP, INC. AND SUBSIDIARIES

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(Dollar amounts in thousands, except per share amounts)

(Unaudited)

| Nine Months Ended September 30, 2014 | Factoring | Banking     | Corporate   | Consolidated |
|--------------------------------------|-----------|-------------|-------------|--------------|
|                                      |           |             |             | TBI          |
| Total interest income                | \$19,165  | \$44,753    | \$32        | \$63,950     |
| Intersegment interest allocations    | (2,497 )  | 2,497       | —           | —            |
| Total interest expense               | —         | 3,590       | 1,229       | 4,819        |
| Net interest income (expense)        | 16,668    | 43,660      | (1,197 )    | 59,131       |
| Provision for loan losses            | 1,354     | 2,693       | —           | 4,047        |
| Net interest income after provision  | 15,314    | 40,967      | (1,197 )    | 55,084       |
| Gain on branch sale                  | —         | 12,619      | —           | 12,619       |
| Other noninterest income             | 1,218     | 6,256       | 953         | 8,427        |
| Noninterest expense                  | 10,570    | 34,234      | 4,713       | 49,517       |
| Operating income (loss)              | \$5,962   | \$25,608    | \$ (4,957 ) | \$26,613     |
| Total assets                         | \$170,088 | \$1,155,434 | \$22,276    | \$1,347,798  |
| Gross loans                          | \$158,129 | \$819,010   | \$—         | \$977,139    |

| Nine Months Ended September 30, 2013 | Factoring | Banking   | Corporate   | Consolidated |
|--------------------------------------|-----------|-----------|-------------|--------------|
|                                      |           |           |             | TBI          |
| Total interest income                | \$12,381  | \$11,375  | \$32        | \$23,788     |
| Intersegment interest allocations    | (1,508 )  | 1,508     | —           | —            |
| Total interest expense               | 1         | 2,462     | —           | 2,463        |
| Net interest income                  | 10,872    | 10,421    | 32          | 21,325       |
| Provision for loan losses            | 632       | 1,723     | —           | 2,355        |
| Net interest income after provision  | 10,240    | 8,698     | 32          | 18,970       |
| Noninterest income                   | 824       | 569       | 98          | 1,491        |
| Intersegment expense allocations     | 100       | (100 )    | —           | —            |
| Noninterest expense                  | 6,961     | 8,834     | 2,272       | 18,067       |
| Operating income (loss)              | \$4,003   | \$533     | \$ (2,142 ) | \$2,394      |
| Total assets                         | \$110,571 | \$243,533 | \$38,834    | \$392,938    |
| Gross loans                          | \$95,065  | \$170,328 | \$—         | \$265,393    |



NOTE 17 – SUBSEQUENT EVENTS

On November 13, 2014, the Company completed an initial public offering issuing 6,700,000 shares of common stock, \$0.01 par value, at \$12.00 per share for gross proceeds of \$80,400. In addition, on November 20, 2014, the underwriters exercised their option to purchase an additional 1,005,000 shares of common stock from Triumph at the initial public offering price of \$12.00 per share for additional gross proceeds of \$12,060, resulting in total gross proceeds of \$92,460. Net proceeds are expected to be approximately \$83,000 based upon underwriting discounts and estimated offering expenses, which are not yet finalized.

In connection with the offering, the Company adopted the 2014 Omnibus Incentive Plan (Omnibus Incentive Plan). The 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, our common stock. The aggregate number of shares of our common stock available for issuance under the Omnibus Incentive Plan is 1,200,000 shares. On December 1, 2014, the Company granted 378,343 shares of restricted stock to certain officers and employees in accordance with the provisions of the Omnibus Incentive Plan.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

On November 13, 2014, the Company retired our senior secured indebtedness, consisting of a senior secured note with a principal amount of \$11,300, a 1.0% prepayment penalty of \$113, and accrued but unpaid interest of \$41. The senior secured note had an interest rate based at the prime rate with a minimum interest rate of 4.5% and was originally scheduled to mature on October 15, 2018.

On December 2, 2014, the Company received all necessary regulatory approvals to redeem all of the outstanding shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series T1 and Series T2 (TARP Preferred Stock). It is anticipated that the TARP Preferred Stock redemption will be consummated for a total redemption price of approximately \$26,200 on or about December 31, 2014.

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 Registration Statement on Form S-1 declared effective November 6, 2014. 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 last 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 two wholly owned bank subsidiaries, Triumph Savings Bank and Triumph Community Bank, we offer traditional banking products as well as commercial finance product lines focused on businesses that require specialized and tailored 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 and healthcare lending 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. 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 September 30, 2014, we had consolidated total assets of \$1.348 billion, total loans held for investment of \$977 million, total deposits of \$1.106 billion and total stockholders' equity of \$149 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. As a result, we have determined our reportable segments are Banking, Factoring and Corporate. For the nine months ended September 30, 2014, our banking segment generated 74% of our total revenue (comprised of interest and noninterest income, excluding the gain on branch sale), our factoring segment generated 25% of our total revenue, and our corporate segment generated 1% of our total revenue.

#### Recent Developments

On November 13, 2014, the Company completed an initial public offering issuing 6,700,000 shares of common stock, \$0.01 par value, at \$12.00 per share for gross proceeds of \$80.4 million. In addition, on November 20, 2014, the underwriters exercised their option to purchase an additional 1,005,000 shares of common stock from Triumph at the initial public offering price of \$12.00 per share for additional gross proceeds of \$12.1 million, resulting in total gross proceeds of \$92.5 million. Net proceeds are expected to be approximately \$83.0 million based upon underwriting discounts and estimated offering expenses, which are not yet finalized.

In connection with the offering, the Company adopted the 2014 Omnibus Incentive Plan (Omnibus Incentive Plan). The 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, our common stock. The aggregate number of shares of our common stock available for issuance under the Omnibus Incentive Plan is 1,200,000 shares. On December 1, 2014, the Company granted 378,343 shares of restricted stock to certain officers and employees in accordance with the provisions of the Omnibus Incentive Plan.

On November 13, 2014, the Company retired our senior secured indebtedness, consisting of a senior secured note with a principal amount of \$11.3 million, a 1.0% prepayment penalty of \$0.1 million, and accrued but unpaid interest of \$41 thousand. The senior secured note had an interest rate based at the prime rate with a minimum interest rate of 4.5% and was originally scheduled to mature on October 15, 2018.

On December 2, 2014, the Company received all necessary regulatory approvals to redeem all of the outstanding shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series T1 and Series T2 (TARP Preferred Stock). It is anticipated that the TARP Preferred Stock redemption will be consummated for a total redemption price of approximately \$26.2 million on or about December 31, 2014.

#### Impact of Triumph Community Bank Acquisition

The comparability of our consolidated results of operations and our consolidated financial condition presented herein is significantly affected by the Triumph Community Bank acquisition in October 2013. Our consolidated results of operations for the three and nine months ended September 30, 2014 include the operations of Triumph Community Bank. However, our consolidated results of operations for the three and nine months ended September 30, 2013 are unaffected by the acquisition, and therefore exclude the operations of Triumph Community Bank.

In addition, certain of our credit metrics and trends have been, and continue to be, affected by the impact of purchase accounting associated with the Triumph Community Bank acquisition. Under accounting standards for business combinations, we recorded the loans we acquired at fair value without carryover of the seller's ALLL on the date of acquisition. We provide an ALLL on these purchased loans based on credit deterioration subsequent to the acquisition date. Consequently, the size of our ALLL following the acquisition and related metrics, such as our ALLL as a percentage of loans, are not comparable to pre-acquisition periods and are smaller than similar metrics for other financial institutions with loan portfolios of similar size not impacted by purchase accounting. In addition, our net interest margin is impacted by the effect of purchase accounting, as the discounted value of the loan portfolio acquired in the Triumph Community Bank acquisition has positively impacted, and will continue to impact, the overall effective yield over the life of these loans.

## Financial Highlights

The Company's key financial highlights as of and for the three and nine months ended September 30, 2014, as compared to the prior period, are shown below:

| (Dollars in thousands, except per share amounts)                 | Three months ended                   |           | Nine months ended                    |           |   |
|--|--------------------------------------|-----------|--------------------------------------|-----------|---|
|  | September 30,<br>2014<br>(Unaudited) | 2013      | September 30,<br>2014<br>(Unaudited) | 2013      |   |
| <b>Income Statement Data:</b>                                    |                                      |           |                                      |           |   |
| Interest income  | \$22,118                             | \$9,021   | \$63,950                             | \$23,788  |   |
| Interest expense   | 1,723                                | 893       | 4,819                                | 2,463     |   |
| Net interest income  | 20,395                               | 8,128     | 59,131                               | 21,325    |   |
| Provision for loan losses  | 1,375                                | 1,735     | 4,047                                | 2,355     |   |
| Net interest income after provision                              | 19,020                               | 6,393     | 55,084                               | 18,970    |   |
| Gain on branch sale  | 12,619                               | —         | 12,619                               | —         |   |
| Other noninterest income   | 3,185                                | 717       | 8,427                                | 1,491     |   |
| Noninterest income   | 15,804                               | 717       | 21,046                               | 1,491     |   |
| Noninterest expense  | 18,461                               | 6,547     | 49,517                               | 18,067    |   |
| Net income before income taxes                                   | 16,363                               | 563       | 26,613                               | 2,394     |   |
| Income tax expense   | 6,089                                | 211       | 9,631                                | 684       |   |
| Net income   | 10,274                               | 352       | 16,982                               | 1,710     |   |
| Effects of noncontrolling interests and preferred shares         | (779)                                | (116)     | (2,054)                              | (1,189)   |   |
| Net income available to common stockholders                      | \$9,495                              | \$236     | \$14,928                             | \$521     |   |
| <b>Per Share Data:</b>   |                                      |           |                                      |           |   |
| Basic earnings per common share                                  | \$0.96                               | \$0.03    | \$1.52                               | \$0.06    |   |
| Diluted earnings per common share                                | \$0.91                               | \$0.03    | \$1.47                               | \$0.06    |   |
| Weighted average shares outstanding - basic                      | 9,872,923                            | 8,800,670 | 9,850,640                            | 8,078,476 |   |
| Weighted average shares outstanding - diluted                    | 10,602,155                           | 8,807,443 | 10,585,931                           | 8,081,804 |   |
| <b>Adjusted Per Share Data<sup>(1)</sup>:</b>                    |                                      |           |                                      |           |   |
| Adjusted diluted earnings per common share                       | \$0.16                               | \$0.03    | \$0.71                               | \$0.06    |   |
| Adjusted weighted average shares outstanding - diluted           | 9,925,804                            | 8,807,443 | 9,909,580                            | 8,081,804 |   |
| <b>Performance ratios - Annualized<sup>(2)</sup>:</b>            |                                      |           |                                      |           |   |
| Return on average assets   | 3.01                                 | % 0.36    | % 1.71                               | % 0.64    | % |
| Return on average common equity <sup>(1)</sup>                   | 26.84                                | % 0.93    | % 15.08                              | % 0.76    | % |
| Return on average tangible common equity (ROATCE) <sup>(1)</sup> | 34.26                                | % 1.08    | % 19.32                              | % 0.89    | % |
| Return on average total equity                                   | 23.16                                | % 1.32    | % 13.46                              | % 2.31    | % |
| Yield on loans   | 8.66                                 | % 12.86   | % 8.88                               | % 12.49   | % |
| Adjusted yield on loans <sup>(1)</sup>                           | 8.03                                 | % 12.48   | % 7.84                               | % 11.78   | % |
| Cost of interest bearing deposits                                | 0.56                                 | % 1.35    | % 0.52                               | % 1.34    | % |
| Cost of total deposits   | 0.48                                 | % 1.27    | % 0.44                               | % 1.32    | % |
| Cost of total funds  | 0.59                                 | % 1.24    | % 0.56                               | % 1.30    | % |
| Net interest margin <sup>(1)</sup>                               | 6.69                                 | % 9.06    | % 6.71                               | % 8.96    | % |

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|  |       |   |       |   |       |   |       |   |
|--|-------|---|-------|---|-------|---|-------|---|
| Adjusted net interest margin <sup>(1)</sup>              | 6.19  | % | 8.83  | % | 5.91  | % | 8.51  | % |
| Efficiency ratio <sup>(1)</sup>                          | 78.29 | % | 72.72 | % | 73.30 | % | 76.63 | % |
| Net noninterest expense to average assets <sup>(1)</sup> | 4.48  | % | 5.87  | % | 4.14  | % | 6.25  | % |

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|   | September<br>30,<br>2014<br>(Unaudited) | December<br>31,<br>2013 |       |   |
|---|---|-------------------------|-------|---|
| (Dollars in thousands, except per share amounts)          |   |                         |       |   |
| <b>Balance Sheet Data:</b>                                |   |                         |       |   |
| Cash and cash equivalents                                 | \$21,567                                | \$25,352                |       |   |
| Investment Securities                                     | 166,234                                 | 185,397                 |       |   |
| Loans held for sale                                       | 7,295                                   | 5,393                   |       |   |
| Loans held for investment                                 | 977,139                                 | 881,099                 |       |   |
| Allowance for loan losses                                 | (7,320 )                                | (3,645 )                |       |   |
| Total assets  | 1,347,798                               | 1,288,239               |       |   |
| Noninterest bearing deposits                              | 154,750                                 | 150,238                 |       |   |
| Interest bearing deposits                                 | 950,874                                 | 894,616                 |       |   |
| Senior Secured Note                                       | 11,630                                  | 12,573                  |       |   |
| Junior Subordinated Debentures                            | 24,359                                  | 24,171                  |       |   |
| Noncontrolling interests                                  | 25,897                                  | 26,997                  |       |   |
| Preferred stockholders' equity                            | 9,746                                   | 9,746                   |       |   |
| Common stockholders' equity <sup>(1)</sup>                | 140,185                                 | 123,854                 |       |   |
| Total stockholders' equity                                | 175,828                                 | 160,597                 |       |   |
| <b>Per Share Data:</b>                                    |   |                         |       |   |
| Book value per share                                      | \$14.18                                 | \$12.60                 |       |   |
| Tangible book value per share <sup>(1)</sup>              | \$11.17                                 | \$9.70                  |       |   |
| Shares outstanding end of period                          | 9,886,778                               | 9,832,585               |       |   |
| <b>Asset Quality ratios<sup>(3)</sup>:</b>                |   |                         |       |   |
| Past due to total loans                                   | 2.61                                    | %                       | 2.78  | % |
| Nonperforming loans to total loans                        | 1.80                                    | %                       | 1.41  | % |
| Nonperforming assets to total assets                      | 2.05                                    | %                       | 2.03  | % |
| ALLL to nonperforming loans                               | 41.68                                   | %                       | 29.41 | % |
| ALLL to total loans                                       | 0.75                                    | %                       | 0.41  | % |
| Net charge-offs to average loans                          | 0.04                                    | %                       | 0.45  | % |
| <b>Capital ratios:</b>                                    |   |                         |       |   |
| Tier 1 capital to average assets                          | 12.20                                   | %                       | 12.87 | % |
| Tier 1 capital to risk-weighted assets                    | 14.59                                   | %                       | 14.11 | % |
| Total capital to risk-weighted assets                     | 15.27                                   | %                       | 14.47 | % |
| Total equity to total assets                              | 13.05                                   | %                       | 12.47 | % |
| Total stockholders' equity to total assets                | 11.12                                   | %                       | 10.37 | % |
| Tangible common stockholders' equity ratio <sup>(1)</sup> | 8.38                                    | %                       | 7.57  | % |

<sup>(1)</sup>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 gains and expenses related to merger and acquisition-related activities, 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 gains and expenses related to merger and acquisition-related activities. 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 gains and expenses related to merger and acquisition-related activities. 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.
- “Adjusted net interest margin” is net interest margin after excluding loan accretion from the acquired loan portfolio and accretion of net discounts and premiums for acquired time deposits. Our management uses this metric to better assess the impact of purchase accounting on net interest margin, as the effect of loan discount accretion and accretion of net discounts and premiums related to deposits is expected to decrease as the acquired loans and deposits mature or roll off of our balance sheet. We do not make adjustments in this measure to remove the effect of discount accretion on our junior subordinated debentures as these instruments do not mature until September 2033 and July 2036.
- (2) Amounts have been annualized.
- (3) Asset quality ratios exclude loans held for sale.

## 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:

| (Dollars in thousands, except per share amounts)             | Three months ended<br>September 30, |           | Nine months ended<br>September 30, |           |
|--|-------------------------------------|-----------|------------------------------------|-----------|
|  | 2014                                | 2013      | 2014                               | 2013      |
| Net income available to common stockholders                  | \$9,495                             | \$236     | \$14,928                           | \$521     |
| Less: gain on branch sale, net of tax                        | 7,892                               | —         | 7,892                              | —         |
| Adjusted net income available to common stockholders         | \$1,603                             | \$236     | \$7,036                            | \$521     |
| Weighted average shares outstanding - diluted                | 10,602,155                          | 8,807,443 | 10,585,931                         | 8,081,804 |
| Less: adjusted effects of assumed Preferred Stock conversion | 676,351                             | —         | 676,351                            | —         |
| Adjusted weighted average shares outstanding - diluted       | 9,925,804                           | 8,807,443 | 9,909,580                          | 8,081,804 |
| Adjusted diluted earnings per common share                   | \$0.16                              | \$0.03    | \$0.71                             | \$0.06    |
| Net income available to common stockholders                  | \$9,495                             | \$236     | \$14,928                           | \$521     |
| Average tangible common equity                               | 109,944                             | 86,664    | 103,313                            | 78,188    |
| Return on average tangible common equity (ROATCE)            | 34.26                               | % 1.08    | % 19.32                            | % 0.89    |
| Efficiency ratio:  |                                     |           |                                    |           |
| Net interest income  | \$20,395                            | \$8,128   | \$59,131                           | \$21,325  |
| Noninterest income   | 15,804                              | 717       | 21,046                             | 1,491     |
| Operating revenue  | 36,199                              | 8,845     | 80,177                             | 22,816    |
| Less: gain on branch sale                                    | 12,619                              | —         | 12,619                             | —         |
| Adjusted operating revenue                                   | \$23,580                            | \$8,845   | \$67,558                           | \$22,816  |
| Total noninterest expenses                                   | \$18,461                            | \$6,547   | \$49,517                           | \$18,067  |
| Less: merger and acquisition expenses                        | —                                   | 115       | —                                  | 583       |
| Adjusted noninterest expenses                                | \$18,461                            | \$6,432   | \$49,517                           | \$17,484  |
| Efficiency ratio   | 78.29                               | % 72.72   | % 73.30                            | % 76.63   |
| Net noninterest expense to average assets ratio:             |                                     |           |                                    |           |
| Total noninterest expenses                                   | \$18,461                            | \$6,547   | \$49,517                           | \$18,067  |
| Less: Noninterest income, excluding gain on branch sale      | 3,185                               | 717       | 8,427                              | 1,491     |
| Adjusted net noninterest expenses                            | \$15,276                            | \$5,830   | \$41,090                           | \$16,576  |
| Average Total Assets   | 1,354,207                           | 393,776   | 1,328,469                          | 354,788   |
| Net noninterest expense to average assets ratio              | 4.48                                | % 5.87    | % 4.14                             | % 6.25    |

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|   |       |    |       |    |       |    |       |    |
|---|-------|----|-------|----|-------|----|-------|----|
| Reported yield on loans                                 | 8.66  | %  | 12.86 | %  | 8.88  | %  | 12.49 | %  |
| Effect of accretion income on acquired loans            | (0.63 | %) | (0.38 | %) | (1.04 | %) | (0.71 | %) |
| Adjusted yield on loans                                 | 8.03  | %  | 12.48 | %  | 7.84  | %  | 11.78 | %  |
| Reported net interest margin                            | 6.69  | %  | 9.06  | %  | 6.71  | %  | 8.96  | %  |
| Effect of accretion income on acquired loans            | (0.50 | %) | (0.30 | %) | (0.82 | %) | (0.54 | %) |
| Effect of net premium amortization of acquired deposits | —     |    | 0.07  | %  | 0.02  | %  | 0.09  | %  |
| Adjusted net interest margin                            | 6.19  | %  | 8.83  | %  | 5.91  | %  | 8.51  | %  |

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|  | September<br>30,<br>2014 | December<br>31,<br>2013 |      |   |
|--|--------------------------|-------------------------|------|---|
| (Dollars in thousands, except per share amounts) |                          |                         |      |   |
| Total stockholders' equity                       | \$ 149,931               | \$ 133,600              |      |   |
| Less: Preferred stock liquidation preference     | 9,746                    | 9,746                   |      |   |
| Total common stockholders' equity                | 140,185                  | 123,854                 |      |   |
| Less: Goodwill and other intangibles             | 29,783                   | 28,518                  |      |   |
| Tangible common stockholders' equity             | \$ 110,402               | \$ 95,336               |      |   |
| Common shares outstanding                        | 9,886,778                | 9,832,585               |      |   |
| Tangible book value per share                    | \$ 11.17                 | \$ 9.70                 |      |   |
| <br>   |                          |                         |      |   |
| Total assets at end of period                    | \$ 1,347,798             | \$ 1,288,239            |      |   |
| Less: Goodwill and other intangibles             | 29,783                   | 28,518                  |      |   |
| Adjusted total assets at period end              | 1,318,015                | 1,259,721               |      |   |
| Tangible common stockholders' equity ratio       | 8.38                     | %                       | 7.57 | % |

Results of Operations

Net Income

Three months ended September 30, 2014 compared with three months ended September 30, 2013. We earned net income of \$10.3 million for the three months ended September 30, 2014 compared to \$0.4 million for the three months ended September 30, 2013, an increase of \$9.9 million. The increase was the result of a \$12.3 million increase in net interest income, a \$15.1 million increase in noninterest income, and a \$0.4 million reduction in the provision for loan losses, offset by an \$11.9 million increase in noninterest expense and a \$5.9 million increase in income tax expense. Generally, these results reflect both the impact of the acquisition of Triumph Community Bank, whose operations contributed significant additional revenue and added significant additional expense to our operations on a period over period basis, as well as growth in our factoring operations and asset-based lending and equipment lending product lines. In the case of our asset-based lending and equipment lending product lines, such categories grew substantially from start-up operations on a period over period basis, offsetting the upfront costs we incurred in establishing such operations. In addition, the increase in noninterest income during the three months ended September 30, 2014 was impacted by the recording of a pre-tax gain in the amount of \$12.6 million associated with the sale of our Pewaukee, Wisconsin branch in July 2014.

Nine months ended September 30, 2014 compared with nine months ended September 30, 2013. We earned net income of \$17.0 million for the nine months ended September 30, 2014 compared to \$1.7 million for the nine months ended September 30, 2013, an increase of \$15.3 million. The increase was the result of a \$37.8 million increase in net interest income and a \$19.6 million increase in noninterest income, partially offset by a \$1.7 million increase in the provision for loan losses, a \$31.5 million increase in noninterest expense and an \$8.9 million increase in income tax expense. Generally, these results reflect both the impact of the acquisition of Triumph Community Bank, whose operations contributed significant additional revenue and added significant additional expense to our operations on a period over period basis, as well as growth in our factoring operations and asset-based lending and equipment lending product lines. In the case of our asset-based lending and equipment lending product lines, such categories grew substantially from start-up operations on a period over period basis, beginning to offset the upfront costs we incurred in establishing such operations. In addition, the increase in noninterest income during the nine months ended September 30, 2014 was impacted by the recording of a pre-tax gain in the amount of \$12.6 million associated with the sale of our Pewaukee, Wisconsin branch in July 2014.

Details of the changes in the various components of net income are further discussed below.

## Net Interest Income

Our operating results depend primarily on our net interest income, which is the difference between interest income on interest-earning assets, including loans and securities and interest expense incurred on interest-bearing liabilities, including deposits and other borrowed funds. Interest rate fluctuations, as well as changes in the amount and type of interest-earning assets and interest-bearing liabilities, combine to affect net interest income. Our net interest income is affected by changes in the amount and mix of interest-earning assets and interest-bearing liabilities, referred to as a “volume change.” It is also affected by changes in yields earned on interest-earning assets and rates paid on interest-bearing deposits and other borrowed funds, referred to as a “rate change.”

Three months ended September 30, 2014 compared with three months ended September 30, 2013. The following table presents the distribution of average assets, liabilities and equity, as well as interest income and fees earned on average interest-earning assets and interest expense paid on average interest-bearing liabilities for the three-month periods ended September 30, 2014 and 2013:

| (Dollars in thousands)                             | For the three months ended September 30, 2014 |          |              | For the three months ended September 30, 2013 |          |              |
|--|---|----------|--------------|---|----------|--------------|
|  | Average Balance                               | Interest | Average Rate | Average Balance                               | Interest | Average Rate |
| <b>Interest earning assets:</b>                    |   |          |              |   |          |              |
| Cash and due from banks                            | \$55,558                                      | \$50     | 0.36 %       | \$46,143                                      | \$46     | 0.40 %       |
| <b>Investment securities:</b>                      |   |          |              |   |          |              |
| Taxable  | 159,779                                       | 612      | 1.52 %       | 37,735  | 178      | 1.87 %       |
| Tax-exempt   | 6,569   | 15       | 0.91 %       | —   | —        | —            |
| FHLB & Fed Reserve Stock                           | 6,665   | 54       | 3.21 %       | 843   | 1        | 0.47 %       |
| Total Loans <sup>(1)</sup>                         | 980,238                                       | 21,387   | 8.66 %       | 271,394                                       | 8,796    | 12.86 %      |
| Total interest earning assets                      | 1,208,809                                     | 22,118   | 7.26 %       | 356,115                                       | 9,021    | 10.05 %      |
| <b>Noninterest earning assets:</b>                 |   |          |              |   |          |              |
| Cash and due from banks                            | 25,906  |          |              | 10,496  |          |              |
| Premises and equipment                             | 21,436  |          |              | 2,963   |          |              |
| Investment security fair value adjustment          | 1,357   |          |              | 303   |          |              |
| Goodwill and intangible assets                     | 30,386  |          |              | 14,047  |          |              |
| Other real estate owned                            | 10,593  |          |              | 4,180   |          |              |
| Bank-owned life insurance                          | 28,876  |          |              | —   |          |              |
| Other noninterest earning assets                   | 33,711  |          |              | 9,120   |          |              |
| Allowance for loan losses                          | (6,867 )                                      |          |              | (3,448 )                                      |          |              |
| Total assets                                       | \$ 1,354,207                                  |          |              | \$ 393,776                                    |          |              |
| <b>Interest bearing liabilities:</b>               |   |          |              |   |          |              |
| <b>Deposits:</b>                                   |   |          |              |   |          |              |
| Interest Bearing Deposits                          | 215,862                                       | 37       | 0.07 %       | —   | —        | —            |
| Individual Retirement Accounts                     | 51,942  | 148      | 1.13 %       | 30,613  | 152      | 1.97 %       |
| Money market                                       | 126,932                                       | 75       | 0.23 %       | 20,731  | 24       | 0.46 %       |
| Savings deposits                                   | 73,833  | 9        | 0.05 %       | —   | —        | —            |
| Certificates of deposit                            | 396,287                                       | 920      | 0.92 %       | 210,050                                       | 714      | 1.35 %       |
| Other brokered funds                               | 45,235  | 100      | 0.88 %       | —   | —        | —            |
| Total Deposits                                     | 910,091                                       | 1,289    | 0.56 %       | 261,394                                       | 890      | 1.35 %       |
| Short-term borrowings                              | 55,915  | 24       | 0.17 %       | 7,986   | 3        | 0.15 %       |
| Senior Secured Note                                | 11,678  | 134      | 4.55 %       | —   | —        | —            |
| Junior Subordinated Debentures                     | 24,320  | 276      | 4.50 %       | —   | —        | —            |
| Total interest bearing liabilities                 | 1,002,004                                     | 1,723    | 0.68 %       | 269,380                                       | 893      | 1.32 %       |
| <b>Noninterest bearing liabilities and equity:</b> |   |          |              |   |          |              |
| Noninterest bearing demand deposits                | 162,619                                       |          |              | 15,811  |          |              |
| Other liabilities                                  | 13,611  |          |              | 2,224   |          |              |
| Noncontrolling interest                            | 25,897  |          |              | 1,100   |          |              |
| Common stockholders' equity                        | 140,330                                       |          |              | 100,711                                       |          |              |
| Preferred stockholders' equity                     | 9,746   |          |              | 4,550   |          |              |
| Total equity                                       | 175,973                                       |          |              | 106,361                                       |          |              |

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|  |              |           |            |
|--|--------------|-----------|------------|
| Total liabilities and equity                                       | \$ 1,354,207 |           | \$ 393,776 |
| Net interest income  |              | \$ 20,395 | \$ 8,128   |
| Interest spread <sup>(2)</sup>                                     |              | 6.58 %    | 8.73 %     |
| Net interest margin on a fully tax-equivalent basis <sup>(3)</sup> |              | 6.69 %    | 9.06 %     |

1. Balance totals include respective nonaccrual assets.

2. Net interest spread is the yield on average interest-earning assets less the rate on interest-bearing liabilities.

3. Net interest margin is the ratio of net interest income to average interest-earning assets.



We earned net interest income of \$20.4 million for the three months ended September 30, 2014 compared to \$8.1 million for the three months ended September 30, 2013, an increase of \$12.3 million. This increase was driven by a significant increase in the average volume of our interest-earning assets and interest bearing liabilities, which was attributable both to the assets and liabilities acquired in the Triumph Community Bank acquisition and organic growth. Average total interest earning assets increased to \$1.209 billion for the three months ended September 30, 2014 from \$356 million for the three months ended September 30, 2013. Net interest margin declined to 6.69% for the three months ended September 30, 2014 from 9.06% for the three months ended September 30, 2013. This 237 basis point decline in net interest margin is largely due to the shift in our mix of interest earning assets and interest bearing liabilities.

Total interest income earned for the three months ended September 30, 2014 was \$22.1 million, versus \$9.0 million for the three months ended September 30 2014, an increase of \$13.1 million. Interest income earned on the loan portfolio increased \$12.6 million period over period to \$21.4 million, while earnings from investment securities and other earning balances increased \$0.5 million. The increase in loan interest income is largely attributable to the increase in the average balances of the loan portfolio which increased \$709 million in the three months ended September 30, 2014 over the three months ended September 30, 2013. Within the loan portfolio we experienced changes in the mix of average balances for the three months ended September 30, 2014 versus September 30, 2013 with the most significant increases being attributable to the Triumph Community Bank portfolio acquired October 15, 2013, and organic growth in our factored receivables, mortgage warehouse lending, and loan products originated under our Triumph Commercial Finance brand including equipment lending and asset based lending. The 420 basis point decline in the yield earned on the loan portfolio for the three months ended September 30, 2014 of 8.66% compared to 12.86% for the three months ended September 30, 2013 is largely attributable to the change in portfolio composition as the assets acquired in the Triumph Community Bank acquisition, and those we have originated at Triumph Community Bank in our community banking markets following the acquisition, generally have lower yields than our Triumph Savings Bank loan portfolio. See “Financial Condition—Assets” for a description of the changes in our asset mix in the periods following the Triumph Community Bank acquisition.

A component of the yield on our loan portfolio consists of discount accretion on the Triumph Savings Bank legacy portfolio acquired in connection with our original acquisition of Equity Bank in 2010 and the portfolio acquired in the Triumph Community Bank acquisition. The aggregate increased yield on our loan portfolio attributable to this discount accretion was 63 basis points for the three months ended September 30, 2014 and 38 basis points for the three months ended September 30, 2013. Excluding the impact of this discount accretion, the adjusted yield on our loan portfolio was 8.03% and 12.48% for the three months ended September 30, 2014 and 2013, respectively. We anticipate that the contribution of this discount accretion to our interest income will decline over time, but we expect that any resulting decreases in aggregate yield on our loan portfolio will be offset by continued growth in our higher yielding specialized commercial finance product lines. As of September 30, 2014, there was approximately \$12.4 million of purchase discount remaining that is expected to be accreted over the remaining lives of the acquired Equity Bank and acquired Triumph Community Bank loan portfolios.

The decreases in our net interest margin resulting from changes in the average yield in our loan portfolio discussed above were offset in part by a reduction in our average cost of funds as we realized the benefits of the lower rate structure of deposits present at Triumph Community Bank. Our average cost of interest-bearing liabilities declined to 0.68% for the three months ended September 30, 2014 from 1.32% for the three months ended September 30, 2013, a decrease of 64 basis points.

Our adjusted net interest margin, which excludes the impact of the acquired loan discount accretion described above and the amortization of purchase premiums on acquired deposits, was 6.19% and 8.83% for the three months ended September 30, 2014 and 2013, respectively.



The following table shows the effects changes in average balances (volume) and average interest rates (rate) had on the interest earned in our interest-earning assets and the interest incurred on our interest-bearing liabilities for the three-month periods ended September 30, 2014 and 2013:

|                                      | For the three months ended<br>September 30, 2014 vs. 2013<br>Increase<br>(Decrease) Due<br>to: |        |                 |
|--------------------------------------|--|--------|-----------------|
| (Dollars in thousands)               | Rate   | Volume | Net<br>Increase |
| <b>Interest earning assets:</b>      |  |        |                 |
| Cash and Fed funds sold              | \$(4 )   | 8      | 4               |
| <b>Investment securities:</b>        |  |        |                 |
| Taxable                              | (33 )  | 467    | 434             |
| Tax-exempt                           | —  | 15     | 15              |
| FHLB & Fed Reserve Stock             | 6  | 47     | 53              |
| Total Loans                          | (2,875)  | 15,466 | 12,591          |
| Total interest income                | (2,906)  | 16,003 | 13,097          |
| <b>Interest bearing liabilities:</b> |  |        |                 |
| Interest Bearing Deposits            | —  | 37     | 37              |
| Individual Retirement Accounts       | (65 )  | 61     | (4 )            |
| Money market                         | (12 )  | 63     | 51              |
| Savings deposits                     | —  | 9      | 9               |
| Certificates of deposit              | (226 )   | 432    | 206             |
| Other brokered funds                 | —  | 100    | 100             |
| Total Deposits                       | (303 )   | 702    | 399             |
| Short-term borrowings                | —  | 21     | 21              |
| Senior Secured Bank Stock Notes      | —  | 134    | 134             |
| Junior Subordinated Debentures       | —  | 276    | 276             |
| Total interest expense               | (303 )   | 1,133  | 830             |
| Change in net interest income        | \$(2,603)  | 14,870 | 12,267          |

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Nine months ended September 30, 2014 compared with nine months ended September 30, 2013. The following table presents the distribution of average assets, liabilities and equity, as well as interest income and fees earned on average interest-earning assets and interest expense paid on average interest-bearing liabilities for the nine-month periods ended September 30, 2014 and 2013:

| (Dollars in thousands)                             | For the nine months ended September 30,<br>2014 |          | 2013            |                    | Average  |                 | Average         |  |
|--|---|----------|-----------------|--------------------|----------|-----------------|-----------------|--|
|  | Average<br>Balance                              | Interest | Average<br>Rate | Average<br>Balance | Interest | Average<br>Rate | Average<br>Rate |  |
| <b>Interest earning assets:</b>                    |   |          |                 |                    |          |                 |                 |  |
| Cash and due from banks                            | \$72,544  | \$185    | 0.34 %          | \$30,408           | \$92     | 0.40 %          |                 |  |
| <b>Investment securities:</b>                      |   |          |                 |                    |          |                 |                 |  |
| Taxable  | 163,372   | 1,827    | 1.50 %          | 39,922             | 604      | 2.02 %          |                 |  |
| Tax-exempt   | 6,918   | 46       | 0.89 %          | —                  | —        | —               |                 |  |
| FHLB & Fed Reserve Stock                           | 6,007   | 159      | 3.54 %          | 599                | 3        | 0.67 %          |                 |  |
| Total Loans <sup>(1)</sup>                         | 929,909   | 61,733   | 8.88 %          | 247,219            | 23,089   | 12.49 %         |                 |  |
| Total interest earning assets                      | 1,178,750                                       | 63,950   | 7.25 %          | 318,148            | 23,788   | 10.00 %         |                 |  |
| <b>Noninterest earning assets:</b>                 |   |          |                 |                    |          |                 |                 |  |
| Cash and due from banks                            | 26,914  |          |                 | 7,987              |          |                 |                 |  |
| Premises and equipment                             | 22,501  |          |                 | 2,957              |          |                 |                 |  |
| Investment security fair value adjustment          | 1,100   |          |                 | 579                |          |                 |                 |  |
| Goodwill and intangible assets                     | 29,008  |          |                 | 14,047             |          |                 |                 |  |
| Other real estate owned                            | 12,137  |          |                 | 4,560              |          |                 |                 |  |
| Bank-owned life insurance                          | 28,742  |          |                 | —                  |          |                 |                 |  |
| Other noninterest earning assets                   | 34,726  |          |                 | 9,092              |          |                 |                 |  |
| Allowance for loan losses                          | (5,409 )  |          |                 | (2,582 )           |          |                 |                 |  |
| Total assets                                       | \$1,328,469                                     |          |                 | \$354,788          |          |                 |                 |  |
| <b>Interest bearing liabilities:</b>               |   |          |                 |                    |          |                 |                 |  |
| <b>Deposits:</b>                                   |   |          |                 |                    |          |                 |                 |  |
| Interest Bearing Deposits                          | 224,425   | 120      | 0.07 %          | —                  | —        | —               |                 |  |
| Individual Retirement Accounts                     | 52,637  | 432      | 1.10 %          | 29,208             | 418      | 1.91 %          |                 |  |
| Money market                                       | 136,341   | 234      | 0.23 %          | 33,166             | 72       | 0.29 %          |                 |  |
| Savings deposits                                   | 73,460  | 28       | 0.05 %          | 1                  | —        | —               |                 |  |
| Certificates of deposit                            | 368,363   | 2,512    | 0.91 %          | 183,480            | 1,967    | 1.43 %          |                 |  |
| Other brokered funds                               | 51,438  | 212      | 0.55 %          | —                  | —        | —               |                 |  |
| Total Deposits                                     | 906,664   | 3,538    | 0.52 %          | 245,855            | 2,457    | 1.34 %          |                 |  |
| Short-term borrowings                              | 47,641  | 51       | 0.14 %          | 4,841              | 6        | 0.17 %          |                 |  |
| Senior Secured Note                                | 11,990  | 411      | 4.58 %          | —                  | —        | —               |                 |  |
| Junior Subordinated Debentures                     | 24,257  | 819      | 4.51 %          | —                  | —        | —               |                 |  |
| Total interest bearing liabilities                 | 990,552   | 4,819    | 0.65 %          | 250,696            | 2,463    | 1.31 %          |                 |  |
| <b>Noninterest bearing liabilities and equity:</b> |   |          |                 |                    |          |                 |                 |  |
| Noninterest bearing demand deposits                | 158,860   |          |                 | 2,231              |          |                 |                 |  |
| Other liabilities                                  | 10,420  |          |                 | 3,062              |          |                 |                 |  |
| Noncontrolling interest                            | 26,570  |          |                 | 1,964              |          |                 |                 |  |
| Common stockholders' equity                        | 132,321   |          |                 | 92,236             |          |                 |                 |  |
| Preferred stockholders' equity                     | 9,746   |          |                 | 4,599              |          |                 |                 |  |
| Total equity                                       | 168,637   |          |                 | 98,799             |          |                 |                 |  |

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|  |             |          |           |          |
|--|-------------|----------|-----------|----------|
| Total liabilities and equity                                       | \$1,328,469 |          | \$354,788 |          |
| Net interest income  |             | \$59,131 |           | \$21,325 |
| Interest spread <sup>(2)</sup>                                     |             | 6.60     | %         | 8.69 %   |
| Net interest margin on a fully tax-equivalent basis <sup>(3)</sup> |             | 6.71     | %         | 8.96 %   |

<sup>1</sup>. Balance totals include respective nonaccrual assets.

<sup>2</sup>. Net interest spread is the yield on average interest-earning assets less the rate on interest-bearing liabilities.

<sup>3</sup>. Net interest margin is the ratio of net interest income to average interest-earning assets.

We earned net interest income of \$59.1 million for the nine months ended September 30, 2014, compared with \$21.3 million for the nine months ended September 30, 2013, an increase of \$37.8 million. The increase in net interest income was driven by increases in average interest-earning assets, which was attributable both to the presence of the loans and other interest-earning assets acquired in the Triumph Community Bank acquisition, as well as increases in our factored receivables, asset-based lending and equipment lending portfolios as we continued to execute on our growth strategy for such products. The average balance of our interest-earning assets was \$1.179 billion for the nine months ended September 30, 2014 compared to \$318 million for the nine months ended September 30, 2013, an increase of \$861 million.

The growth in net interest income attributable to increases in our average interest-earning assets was offset in part by a decrease in our net interest margin, as the Triumph Community Bank acquisition significantly changed the composition of both our asset and liability portfolio. Net interest margin decreased to 6.71% for the nine months ended September 30, 2014 from 8.96% for the nine months ended September 30, 2013, a decrease of 225 basis points.

The decline in our net interest margin resulted from a decrease in yields on our interest-bearing assets, driven by the same general factors impacting our average yields for the three-month periods ended September 30, 2014 and September 30, 2013. Specifically, the impact of the relatively lower yielding assets acquired in the Triumph Community Bank acquisition more than offset the growth in our higher yielding factoring, asset-based lending, and equipment lending product lines. Our average yield on earning assets decreased to 7.25% for the nine months ended September 30, 2014 from 10.00% for the nine months ended September 30, 2013, a decrease of 275 basis points.

A component of the yield of our loan portfolio consists of discount accretion on the Triumph Savings Bank legacy portfolio acquired in connection with our original acquisition of Equity Bank in 2010 and the portfolio acquired in the Triumph Community Bank acquisition. The aggregate increased yield on our portfolio attributable to this discount accretion was 104 basis points for the nine months ended September 30, 2014 and 71 basis points for the nine months ended September 30, 2013. Excluding the impact of this discount accretion, the adjusted yield on our loan portfolio was 7.84% and 11.78% for the nine months ended September 30, 2014 and 2013, respectively. We anticipate that the contribution of this discount accretion to our overall yield will decline over time, but that any resulting decreases in aggregate yield on our loan portfolio will be offset by continued growth in our higher yielding specialized commercial finance product lines, increasing the percentage of our total loan portfolio represented by such assets. As of September 30, 2014, there was approximately \$12.4 million of purchase discount remaining that is expected to be accreted over the remaining lives of the acquired Equity Bank and acquired Triumph Community Bank loan portfolios.

The decreases in our net interest margin resulting from changes in the average yield in our loan portfolio discussed above were offset in part by a reduction in our average cost of funds as we realized the benefits of the lower rate structure of deposits present at Triumph Community Bank. Our average cost of interest-bearing liabilities fell to 0.65% for the nine months ended September 30, 2014 from 1.31% for the nine months ended September 30, 2013, a decrease of 66 basis points.

Our adjusted net interest margin, which excludes the impact of the acquired loan discount accretion described above and the amortization of purchase premiums on acquired deposits, was 5.91% and 8.51% for the nine months ended September 30, 2014 and 2013, respectively.

The following table shows the effects changes in average balances (volume) and average interest rates (rate) had on the interest earned in our interest-earning assets and the interest incurred on our interest-bearing liabilities for the nine-month periods ended September 30, 2014 and 2013:

| (Dollars in thousands)               | For the nine months ended<br>September 30, 2014 vs. 2013 |        |                 |
|--------------------------------------|--|--------|-----------------|
|                                      | Increase<br>(Decrease) Due<br>to:                        |        |                 |
|                                      | Rate   | Volume | Net<br>Increase |
| <b>Interest earning assets:</b>      |  |        |                 |
| Cash and Fed funds sold              | \$(14 )  | 107    | 93              |
| <b>Investment securities:</b>        |  |        |                 |
| Taxable                              | (158 )   | 1,381  | 1,223           |
| Tax-exempt                           | —  | 46     | 46              |
| FHLB & Fed Reserve Stock             | 13   | 143    | 156             |
| Total Loans                          | (6,677)  | 45,321 | 38,644          |
| Total interest income                | (6,836)  | 46,998 | 40,162          |
| <b>Interest bearing liabilities:</b> |  |        |                 |
| Interest Bearing Deposits            | —  | 120    | 120             |
| Individual Retirement Accounts       | (178 )   | 192    | 14              |
| Money market                         | (15 )  | 177    | 162             |
| Savings deposits                     | —  | 28     | 28              |
| Certificates of deposit              | (716 )   | 1,261  | 545             |
| Other brokered funds                 | —  | 212    | 212             |
| Total Deposits                       | (909 )   | 1,990  | 1,081           |
| Short-term borrowings                | (1 )   | 46     | 45              |
| Senior Secured Bank Stock Notes      | —  | 411    | 411             |
| Junior Subordinated Debentures       | —  | 819    | 819             |
| Total interest expense               | (910 )   | 3,266  | 2,356           |
| Change in net interest income        | \$(5,926)  | 43,732 | 37,806          |

#### Provision for Loan Losses

The provision for loan losses is the amount of expense that, based on our judgment, is required to maintain the allowance for loan and lease losses at an adequate level to absorb probable losses inherent in the loan portfolio at the balance sheet date and that, in management's judgment, is appropriate under GAAP. The determination of the amount of the allowance is complex and involves a high degree of judgment and subjectivity.

Under accounting standards for business combinations, acquired loans are recorded at fair value on the date of acquisition. This fair value adjustment eliminates any of the seller's allowance for loan loss associated with such loans as of such date as any credit exposure associated with such loans is incorporated into the fair value adjustment. The fair value of the loan portfolio acquired in the Triumph Community Bank acquisition was \$568.4 million (compared to an acquired unpaid balance of \$592.6 million). A provision for loan losses is recorded for the emergence of new

probable and estimable losses on acquired loans after the acquisition date.

Our provision for loan losses was \$1.4 million for the three months ended September 30, 2014 compared to \$1.7 million for the three months ended September 30, 2013. The decreased provision was due to a \$1.4 million provision recorded during the three months ended September 30, 2013 related to a defaulted floor plan loan, offset by increased provision due to increased allowance allocation for incurred losses recorded on collectively evaluated loans originated during such period, as we experienced a greater volume of new loan origination for the three months ended September 30, 2014 compared to September 30, 2013, both as a result of growth in our commercial finance product lines and as a result of new loans originated in our Triumph Community Bank loan portfolio. We experienced net charge-offs of \$0.3 million in the three months ended September 30, 2014 compared to net charge-offs of \$1.5 million for the same period in 2013 (\$1.4 million of which related to the defaulted floor plan loan discussed above).



The provision for loan losses was \$4.0 million for the nine months ended September 30, 2014 compared to \$2.4 million for the nine months ended September 30, 2013. This increased provision was primarily due to increased allowance allocation for incurred losses recorded on collectively evaluated loans originated during such period, as we experienced a greater volume of new loan origination for the nine months ended September 30, 2014 compared to September 30, 2013, both as a result of growth in our commercial finance product lines and as a result of new loans originated in our Triumph Community Bank loan portfolio. Net charge-offs were \$0.4 million for the nine months ended September 30, 2014 compared to \$1.6 million for the nine months ended September 30, 2013 (\$1.4 million of which related to the defaulted floor plan loan discussed above). Our ALLL was \$7.3 million as of September 30, 2014 versus \$3.6 million as of December 31, 2013.

#### Noninterest Income

The following table presents the major categories of noninterest income for the three and nine-month periods ended September 30, 2014 and 2013:

| (Dollars in thousands)  | Three Months Ended<br>September 30, |              |                 | Nine Months Ended<br>September 30, |                |                 |
|---|-------------------------------------|--------------|-----------------|------------------------------------|----------------|-----------------|
|   | 2014                                | 2013         | %<br>Change     | 2014                               | 2013           | %<br>Change     |
| Service charges on deposits                                   | 838                                 | —            | 100.0 %         | 2,451                              | —              | 100.0 %         |
| Card income   | 544                                 | —            | 100.0 %         | 1,582                              | —              | 100.0 %         |
| Net realized gains (losses) and valuation adjustments on OREO | (11 )                               | 87           | (112.6 %)       | (340 )                             | 67             | (607.5 %)       |
| Net gains on sale of loans                                    | 484                                 | 276          | 75.4 %          | 1,058                              | 352            | 200.6 %         |
| Fee income  | 448                                 | 324          | 38.3 %          | 1,267                              | 834            | 51.9 %          |
| Gain on branch sale   | 12,619                              | —            | 100.0 %         | 12,619                             | —              | 100.0 %         |
| Asset management fees   | 374                                 | —            | 100.0 %         | 503                                | —              | 100.0 %         |
| Other   | 508                                 | 30           | 1593.3 %        | 1,906                              | 238            | 700.8 %         |
| <b>Total noninterest income</b>                               | <b>\$15,804</b>                     | <b>\$717</b> | <b>2104.2 %</b> | <b>\$21,046</b>                    | <b>\$1,491</b> | <b>1311.5 %</b> |

Three months ended September 30, 2014 compared with three months ended September 30, 2013. We earned noninterest income of \$15.8 million for the three months ended September 30, 2014, compared to \$0.7 million for the three months ended September 30, 2013, an increase of \$15.1 million. This increase was significantly impacted by the realization of a pre-tax gain in the amount of \$12.6 million associated with the sale of our Pewaukee, Wisconsin branch in July 2014 for net cash proceeds of \$57.4 million. Under the terms of the sale, the acquirer assumed branch deposits of \$36.3 million, purchased selected loans in the local market with a carrying amount of \$78.1 million, and acquired \$2.3 million of premises and equipment associated with the branch.

Excluding the branch sale gain, we earned noninterest income of \$3.2 million for the three months ended September 30, 2014 compared to \$0.7 million for the three months ended September 30, 2013, an increase of \$3.1 million. The increase was primarily due to noninterest income earned with respect to new products and services added as part of the Triumph Community Bank acquisition, including service charges on deposit accounts, card income, net gains on sale of residential mortgages originated for sale, other miscellaneous fees and income earned by Triumph Community Bank associated with its trust activities and bank-owned life insurance, as well as check cashing and wire transfer fees.

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**Service Charges on Deposits.** Service charges on deposit accounts, including overdraft and non-sufficient fund fees, increased from zero for the three months ended September 30, 2013 to \$0.8 million for the three months ended September 30, 2014.

**Card Income.** Income from credit and debit card accounts increased from zero for the three months ended September 30, 2013 to \$0.5 million for the three months ended September 30, 2014.

**Net Gains on Sale of Loans.** Net gains on sale of loans, comprised primarily of residential mortgage loans sold, increased 75% due to the increased sales activity resulting from the Triumph Community Bank acquisition.

**Fee Income.** Fee income, comprised primarily of fees and services charges earned from services provided to our factoring clients, increased 38% due to the growth experienced in our factored accounts receivable portfolio.

**Asset Management Fees.** Asset management fees earned by TCA increased from zero for the three months ended September 30, 2013 to \$0.4 million for the three months ended September 30, 2014. The increase was due to asset management fees earned during the three months ended September 30, 2014 which commenced upon the closing of TCA's first CLO offering in May 2014 and second CLO offering in August 2014.

**Other.** Other income increased from \$30 thousand for the three months ended September 30, 2013 to \$0.5 million for the three months ended September 30, 2014, primarily due to new income for check cashing and wire transfer fees at Triumph Community Bank retail branches being reflected in this category, as well as income associated with Triumph Community Bank's trust activities and bank-owned life insurance acquired as part of the Triumph Community Bank acquisition.

Nine months ended September 30, 2014 compared with the nine months ended September 30, 2013. We earned noninterest income of \$21.0 million for the nine months ended September 30, 2014 compared to \$1.5 million for the nine months ended September 30, 2013, an increase of \$19.5 million. This increase was significantly impacted by the realization of a pre-tax gain in the amount of \$12.6 million associated with the sale of our Pewaukee, Wisconsin branch in July 2014 for net cash proceeds of \$57.4 million. Under the terms of the sale, the acquirer assumed branch deposits of \$36.3 million, purchased selected loans in the local market with a carrying amount of \$78.1 million, and acquired \$2.3 million of premises and equipment associated with the branch.

Excluding the branch sale gain, we earned noninterest income of \$8.4 million for the nine months ended September 30, 2014 compared to \$1.5 million for the nine months ended September 30, 2013, an increase of \$6.9 million. This increase was largely due to noninterest income earned with respect to new products and services added as part of the Triumph Community Bank acquisition, including transactional deposit account fees and charges, debit and credit card fee revenue and wire transfer and check cashing fee income.

**Service Charges on Deposits.** Service charges on deposit accounts, including overdraft and non-sufficient fund fees, increased from zero for the nine months ended September 30, 2013 to \$2.5 million for the nine months ended September 30, 2014.

**Card Income.** Income from credit and debit card accounts increased from zero for the nine months ended September 30, 2013 to \$1.6 million for the nine months ended September 30, 2014.

**Net Gains on Sale of Loans.** Net gains on sale of loans, comprised primarily of residential mortgage loans sold, increased 201% due to the increased sales activity resulting from the Triumph Community Bank acquisition.

**Fee Income.** Fee income, comprised primarily of fees and services charges earned from services provided to our factoring clients, increased 52% due to the growth experienced in our factored accounts receivable portfolio.

**Asset Management Fees.** Asset management fees earned by TCA increased from zero for the nine months ended September 30, 2013 to \$0.5 million for the nine months ended September 30, 2014. The increase was due to asset management fees earned during the nine months ended September 30, 2014 which commenced upon the closing of TCA's first CLO offering in May 2014 and second CLO offering in August 2014.

**Other.** Other income increased from \$0.2 million for the nine months ended September 30, 2013 to \$1.9 million for the nine months ended September 30, 2014, primarily due to new income for check cashing and wire transfer fees at Triumph Community Bank retail branches being reflected in this category, as well as income associated with Triumph Community Bank's trust activities and bank-owned life insurance acquired as part of the Triumph Community Bank acquisition.

#### Noninterest Expense

The following table presents the major categories of noninterest expense for the three and nine-month periods ended September 30, 2014 and 2013:

| (Dollars in thousands)         | Three Months Ended<br>September 30, |       |             | Nine Months Ended<br>September 30, |        |             |
|--------------------------------|-------------------------------------|-------|-------------|------------------------------------|--------|-------------|
|                                | 2014                                | 2013  | %<br>Change | 2014                               | 2013   | %<br>Change |
| Salaries and employee benefits | 11,032                              | 4,540 | 143.0 %     | 29,379                             | 12,415 | 136.6 %     |

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|                                    |          |         |         |          |          |         |
|------------------------------------|----------|---------|---------|----------|----------|---------|
| Occupancy, furniture and equipment | 1,333    | 488     | 173.2 % | 3,960    | 1,346    | 194.2 % |
| FDIC insurance assessment          | 280      | 79      | 254.4 % | 821      | 216      | 280.1 % |
| Carrying costs for OREO            | 73       | 28      | 160.7 % | 305      | 181      | 68.5 %  |
| Professional fees                  | 1,043    | 345     | 202.3 % | 2,428    | 1,005    | 141.6 % |
| Amortization of intangible assets  | 746      | —       | 100.0 % | 2,196    | —        | 100.0 % |
| Advertising and promotion          | 1,102    | 175     | 529.7 % | 2,228    | 460      | 384.3 % |
| Communications and technology      | 954      | 230     | 314.8 % | 2,787    | 659      | 322.9 % |
| Other                              | 1,898    | 662     | 186.7 % | 5,413    | 1,785    | 203.2 % |
| Total noninterest expense          | \$18,461 | \$6,547 | 182.0 % | \$49,517 | \$18,067 | 174.1 % |

Three months ended September 30, 2014 compared with three months ended September 30, 2013. Noninterest expense totaled \$18.5 million for the three months ended September 30, 2014 compared to \$6.5 million for the three months ended September 30, 2013, an increase of \$12.0 million. This increase is attributable both to the costs of the significant personnel, facilities and infrastructure acquired in the Triumph Community Bank acquisition, as well as continuing investments made in personnel and infrastructure to support growth in organically generated product lines and other strategic initiatives.

**Salaries and Employee Benefits.** Salaries and employee benefits expenses have historically been our largest category of noninterest expense. Salaries and employee benefits expenses were \$11.0 million for the three months ended September 30, 2014 compared to \$4.5 million for the three months ended September 30, 2013, an increase of \$6.5 million. This increase is primarily attributable to a significant increase in the total size of our workforce between these periods. Our full-time equivalent employees totaled 455.5 and 133.0 at September 30, 2014 and 2013, respectively. Sources of this increased headcount include employees hired as part of the Triumph Community Bank acquisition (approximately 290 additional full-time equivalent employees), as well as additional employees hired to support growth in our commercial finance product lines and other strategic initiatives, including the establishment of our asset management business. Other factors contributing to this increase include merit increases for existing employees, higher health insurance benefit costs, incentive compensation, 401(k) expense, and \$0.4 million related to the immediate and full acceleration of vesting on all remaining nonvested restricted stock units in anticipation of the Company's initial public offering.

**Occupancy, Furniture and Equipment.** Occupancy, furniture and equipment expenses were \$1.3 million for the three months ended September 30, 2014 compared to \$0.5 million for the three months ended September 30, 2013, an increase of \$0.8 million. This increase is primarily attributable to the cost of the retail branches acquired in the Triumph Community Bank acquisition including utilities, rent, depreciation and other occupancy expenses.

**Professional Fees.** Professional fees are primarily comprised of external audit, tax, consulting, and legal fees and were \$1.0 million for the three months ended September 30, 2014 compared to \$0.3 million for the three months ended September 30, 2013, an increase of \$0.7 million. This increase is partially attributable to approximately \$0.3 million of professional fees associated with the Company's preparation to support being a public company in conjunction with the initial public offering of our common stock. In addition, incremental costs were incurred for increased expenses associated with external audit and tax return preparation as a result of the Triumph Community Bank acquisition.

**Amortization of Intangible Assets.** Amortization of intangible assets was \$0.7 million for the three months ended September 30, 2014 compared to zero for the three months ended September 30, 2013. This increase is primarily attributable to the amortization of core deposit intangibles associated with the Triumph Community Bank acquisition and customer relationship intangibles recorded as part of the Doral Healthcare Finance acquisition.

**Advertising and Promotion.** Advertising and promotion expenses were \$1.1 million for the three months ended September 30, 2014 compared to \$0.2 million for the three months ended September 30, 2013, an increase of \$0.9 million. This increase is primarily attributed to \$0.8 million of costs incurred for the marketing and rebranding of Triumph Business Capital and Triumph Community Bank during the period.

**Communications and Technology.** Communications and technology expenses were \$1.0 million for the three months ended September 30, 2014 compared to \$0.2 million for the three months ended September 30, 2013, an increase of \$0.8 million. This increase is attributed both to the communications and technology expense associated with our larger workforce generally and additional hardware and software expenses acquired as part of the Triumph Community Bank acquisition.

**Other.** Increases experienced in other noninterest expense items in the three months ended September 30, 2014 versus the three months ended September 30, 2013 are largely attributable to the impact of incurring the routine expenses of Triumph Community Bank which was acquired in October 2013. Increases in other expenses, loan-related expenses, utilities, postage and subscription expenses totaling \$1.9 million for the three months ended September 30, 2014, are largely attributable to the impact of the Triumph Community Bank acquisition, and continued growth in our

commercial finance products.

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Nine months ended September 30, 2014 compared with the nine months ended September 30, 2013. Noninterest expense totaled \$49.5 million for the nine months ended September 30, 2014 compared to \$18.1 million for the nine months ended September 30, 2013, an increase of \$31.4 million. This increase is attributable both to the costs of the significant personnel, facilities and infrastructure acquired in the Triumph Community Bank acquisition, as well as continued investments we made in personnel and infrastructure to support growth in our commercial finance product lines and other strategic initiatives over the course of the fiscal year.

**Salaries and Employee Benefits.** Salaries and employee benefits expenses have historically been our largest category of noninterest expense. Salaries and employee benefits expenses were \$29.4 million for the nine months ended September 30, 2014 compared to \$12.4 million for the nine months ended September 30, 2013, an increase of \$17.0 million. This increase is primarily attributable to a significant increase in the total size of our workforce between the periods. Our full-time equivalent employees totaled 455.5 and 133.0 at September 30, 2014 and 2013, respectively. Sources of this increased headcount include employees hired as part of the Triumph Community Bank acquisition (approximately 290 additional full-time equivalent employees), as well as additional employees hired to support growth in our commercial finance product lines and other strategic initiatives, including the establishment of our asset management business. Other factors contributing to this increase include merit increases for existing employees, higher health insurance benefit costs, incentive compensation and 401(k) expense.

- **Occupancy, Furniture and Equipment.** Occupancy, furniture and equipment expense was \$4.0 million for the nine months ended September 30, 2014 compared to \$1.3 million for the nine months ended September 30, 2013, an increase of \$2.7 million. This increase was primarily attributable to additional occupancy expenses related to the operation of Triumph Community Bank's offices and retail branch network.

**Professional Fees.** Professional fees are primarily comprised of external audit, tax, consulting, and legal fees and were \$2.4 million for the nine months ended September 30, 2014 compared to \$1.0 million for the nine months ended September 30, 2013, an increase of \$1.4 million. This increase is partially attributable to approximately \$0.4 million of professional fees associated with the Company's preparation to support being a public company in conjunction with the initial public offering of our common stock. In addition, incremental costs were incurred for increased expenses associated with external audit and tax return preparation as a result of the Triumph Community Bank acquisition.

**Amortization of Intangible Assets.** Amortization of intangible assets was \$2.2 million for the nine months ended September 30, 2014 compared to zero for the nine months ended September 30, 2013. This increase is primarily attributable to the amortization of core deposit intangibles associated with the Triumph Community Bank acquisition and customer relationship intangibles recorded as part of the Doral Healthcare Finance acquisition.

**Advertising and Promotion.** Advertising and promotion expenses were \$2.2 million for the nine months ended September 30, 2014 compared to \$0.5 million for the nine months ended September 30, 2013, an increase of \$1.7 million. This increase is primarily attributed to \$1.5 million of costs incurred for the marketing and rebranding of Triumph Business Capital and Triumph Community Bank during the period, as well as increases in general advertising and promotion costs due to the acquisition of Triumph Community Bank.

**Communications and Technology.** Communications and technology expenses were \$2.8 million for the nine months ended September 30, 2014, compared to \$0.7 million for the nine months ended September 30, 2013, an increase of \$2.1 million. This increase is attributed both to the communication and technology expense associated with our larger workforce generally and additional hardware and software expenses assumed as part of the Triumph Community Bank acquisition.

**Other.** Other expenses, including loan-related expenses, utilities, postage, and subscription expenses, were \$5.4 million for the nine months ended September 30, 2014 compared to \$1.8 million for the nine months ended September 30, 2013, an increase of \$3.6 million. Our other expenses increased as a result of the impact of the Triumph Community Bank acquisition.

#### Income Taxes

The amount of income tax expense is influenced by the amount of pre-tax income, the amount of tax-exempt income and the effect of changes in valuation allowances maintained against deferred tax benefits. Income tax expense for the

three months ended September 30, 2014 was \$6.1 million compared to \$0.2 million for the three months ended September 30, 2013. The effective tax rate for the three months ended September 30, 2014 was 37% and was also 37% for the three months ended September 30, 2013.



Income tax expense for the nine months ended September 30, 2014 was \$9.6 million compared to \$0.7 million for the nine months ended September 30, 2013. During the nine months ended September 30, 2014, the effective tax rate was 36% compared to 29% for the nine months ended September 30, 2013. The effective tax rate for the nine months ended September 30, 2013 was lowered by permanent differences attributable to the tax treatment of the initial distributions made to our Triumph Commercial Finance Class B security holders included in noncontrolling interest.

#### Operating Segment Results

Our reportable segments are Factoring, Banking and Corporate which have been determined based upon their business processes and economic characteristics. This determination also gave consideration to the structure and management of various product lines. The factoring segment includes the operations of Triumph Business Capital with revenue derived from factoring services. The banking segment includes the operations of Triumph Savings Bank, and since October 15, 2013 includes the operations of Triumph Community Bank. Our banking segment derives its revenue principally from investments in interest-earning assets as well as noninterest income typical for the banking industry. The banking segment also includes certain factored receivables which are purchased by Triumph Savings Bank under its Triumph Commercial Finance brand as opposed to at Triumph Business Capital. Corporate includes holding company financing and investment activities, management and administrative expenses to support the overall operations of the Company, and the asset management operations of Triumph Capital Advisors.

Reported segments and the financial information of the reported segments are not necessarily comparable with similar information reported by other financial institutions. Furthermore, changes in management structure or allocation methodologies and procedures may result in future changes to previously reported segment financial data.

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 ALLL 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 and are not allocated for segment purposes. Certain factored receivables not originated through Triumph Business Capital are included in the Banking segment.

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Three months ended September 30, 2014 compared with three months ended September 30, 2013. The following tables present our primary operating results for our operating segments as of and for the three-month periods ended September 30, 2014 and 2013, respectively.

| Three Months Ended September 30, 2014 | Factoring | Banking     | Corporate | Consolidated<br>TBI |
|---------------------------------------|-----------|-------------|-----------|---------------------|
| (Dollars in thousands)                |           |             |           |                     |
| Total interest income                 | \$7,423   | \$14,689    | \$6       | \$22,118            |
| Intersegment interest allocations     | (990)     | 990         | —         | —                   |
| Total interest expense                | —         | 1,312       | 411       | 1,723               |
| Net interest income (expense)         | 6,433     | 14,367      | (405)     | 20,395              |
| Provision for loan losses             | 452       | 923         | —         | 1,375               |
| Net interest income after provision   | 5,981     | 13,444      | (405)     | 19,020              |
| Gain on branch sale                   | —         | 12,619      | —         | 12,619              |
| Other noninterest income              | 431       | 2,345       | 409       | 3,185               |
| Noninterest expense                   | 4,125     | 12,344      | 1,992     | 18,461              |
| Operating income (loss)               | \$2,287   | \$16,064    | \$(1,988) | \$16,363            |
| Total assets                          | \$170,088 | \$1,155,434 | \$22,276  | \$1,347,798         |
| Gross loans                           | \$158,129 | \$819,010   | \$—       | \$977,139           |
|                                       |           |             |           |                     |
| Three Months Ended September 30, 2013 | Factoring | Banking     | Corporate | Consolidated<br>TBI |
| (Dollars in thousands)                |           |             |           |                     |
| Total interest income                 | \$4,704   | \$4,290     | \$27      | \$9,021             |
| Intersegment interest allocations     | (577)     | 577         | —         | —                   |
| Total interest expense                | —         | 893         | —         | 893                 |
| Net interest income                   | 4,127     | 3,974       | 27        | 8,128               |
| Provision for loan losses             | 341       | 1,394       | —         | 1,735               |
| Net interest income after provision   | 3,786     | 2,580       | 27        | 6,393               |
| Noninterest income                    | 256       | 385         | 76        | 717                 |
| Intersegment expense allocations      | 14        | (14)        | —         | —                   |
| Noninterest expense                   | 2,454     | 3,026       | 1,067     | 6,547               |
| Operating income (loss)               | \$1,574   | \$(47)      | \$(964)   | \$563               |
| Total assets                          | \$110,571 | \$243,533   | \$38,834  | \$392,938           |
| Gross loans                           | \$95,065  | \$170,328   | \$—       | \$265,393           |

Factoring. Our factoring segment's operating income for the three months ended September 30, 2014 was \$2.3 million, compared with \$1.6 million for the three months ended September 30, 2013, an increase of \$0.7 million. This increase was due to growth in interest and noninterest income as factored receivables in our factoring segment grew from \$95.1 million as of September 30, 2013 to \$158.1 million as of September 30, 2014. Growth experienced in our factoring portfolio resulted from increased marketing efforts and growth initiatives during 2013 and 2014 as well as favorable economic conditions driving increased activity generally in the transportation sector. This increase in income from the growth in our portfolio more than offset the increased variable expenses associated with this growth, mostly personnel costs required to service our larger portfolio. Net interest income was \$6.4 million for the three months ended

September 30, 2014 compared to \$4.1 million for the three months ended September 30, 2013, an increase of \$2.3 million, driven by growth in our portfolio which more than offset the increased intersegment interest allocation attributable to this growth. Noninterest expense was \$4.1 million for the three months ended September 30, 2014 compared with \$2.5 million for the three months ended September 30, 2013, driven primarily by increased personnel costs incurred in connection with growth in our factoring portfolio as well \$0.4 million of costs associated with the rebranding of Triumph Business Capital. Our provision for loan losses was \$0.5 million for the three months ended September 30, 2014 compared with \$0.3 million for the three months ended September 30, 2013. This increased provision was due to increased allowance allocation for incurred losses recorded on collectively evaluated factored receivables purchased during such period, as we experienced a greater volume of new factored receivables purchased for the three months ended September 30, 2014 compared to September 30, 2013.

Banking. Our banking segment's operating income totaled \$16.1 million for the three months ended September 30, 2014 compared to an operating loss of \$47 thousand for the three months ended September 30, 2013. This increase was significantly impacted by the recording of a pre-tax gain in the amount of \$12.6 million associated with the sale of our Pewaukee, Wisconsin branch in July 2014. We also experienced increases in interest income and noninterest income attributable the Triumph Community Bank acquisition, as well as growth in the asset-based loans and equipment loans originated under our Triumph Commercial Finance brand. These increases more than offset the increased operating expenses in personnel, facilities and infrastructure incurred in connection with the Triumph Community Bank acquisition and to support the growth in our asset-based lending and equipment lending. Net interest income was \$14.4 million for the three months ended September 30, 2014, compared to \$4.0 million for the three months ended September 30, 2013, an increase of \$10.4 million, reflecting both the interest income from the loan portfolio acquired in the Triumph Community Bank acquisition and growth in the asset-based loans and equipment loans originated under our Triumph Commercial Finance brand as discussed above, offset in part by increases in our interest expense associated with the larger total pool of interest-bearing liabilities acquired as part of the Triumph Community Bank acquisition. Growth in the volume of these interest-bearing liabilities was mitigated in part by changes in our liability mix as a result for the Triumph Community Bank acquisition, which lowered our overall cost of funds. Excluding the gain on branch sale discussed above, noninterest income was \$2.3 million for the three months ended September 30, 2014 compared to \$0.4 million for the three months ended September 30, 2013. This increase was due primarily to income from the fee-generating transaction products and services acquired as part of the Triumph Community Bank acquisition, most notably service charges and card fees. Noninterest expense was \$12.3 million for the three months ended September 30, 2014, compared with \$3.0 million for the three months ended September 30, 2013, an increase of \$9.3 million, driven primarily by increased expenses in personnel, facilities and infrastructure incurred in connection with the Triumph Community Bank acquisition, as well as increased costs incurred in connection with the growth of our asset-based lending and equipment lending. We also incurred \$0.4 million of expenses during the three months ended September 30, 2014 related to the Triumph Community Bank rebranding. Our provision for loan losses was \$0.9 million for the three months ended September 30, 2014 compared with \$1.4 million for the three months ended September 30, 2013. The decreased provision was due to a \$1.4 million provision recorded during the three months ended September 30, 2013 related to a defaulted floor plan loan, offset by increases during 2014 consistent with the growth in our loan portfolio.

Corporate. The Corporate segment's operating loss totaled \$2.0 million for the three months ended September 30, 2014, compared with \$1.0 million for the three months ended September 30, 2013. Included in this result is an increase in interest expense of \$0.4 million for the three months ended September 30, 2014 related to the junior subordinated debentures issued by NBI, which we acquired as part of the Triumph Community Bank acquisition, and the senior secured bank loan entered into in connection with the Triumph Community Bank acquisition. Also included is an increase of \$0.9 million in noninterest expenses for the three months ended September 30, 2014, related primarily to increases in management and administrative expenses at the holding company level not attributable to an operating segment, increases in personnel and operating expenses related to the company's asset management operations, and \$0.3 million of costs incurred in conjunction with our transition to being a public company. These items were offset in part by increases in noninterest income of \$0.3 million, related primarily to asset management fees earned by the Company's wholly owned subsidiary, Triumph Capital Advisors, which commenced upon the completed offerings of its CLO vehicles.

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Nine months ended September 30, 2014 compared with nine months ended September 30, 2013. The following tables present our primary operating results for our operating segments as of and for the nine-month periods ended September 30, 2014 and 2013, respectively.

| Nine Months Ended September 30, 2014<br>(Dollars in thousands) | Factoring  | Banking      | Corporate | Consolidated |
|--|------------|--------------|-----------|--------------|
|  |            |              |           | TBI          |
| Total interest income  | \$ 19,165  | \$ 44,753    | \$ 32     | \$ 63,950    |
| Intersegment interest allocations                              | (2,497 )   | 2,497        | —         | —            |
| Total interest expense   | -          | 3,590        | 1,229     | 4,819        |
| Net interest income (expense)                                  | 16,668     | 43,660       | (1,197 )  | 59,131       |
| Provision for loan losses                                      | 1,354      | 2,693        | —         | 4,047        |
| Net interest income after provision                            | 15,314     | 40,967       | (1,197 )  | 55,084       |
| Gain on branch sale  | -          | 12,619       | —         | 12,619       |
| Other noninterest income                                       | 1,218      | 6,256        | 953       | 8,427        |
| Noninterest expense  | 10,570     | 34,234       | 4,713     | 49,517       |
| Operating income (loss)  | 5,962      | 25,608       | (4,957 )  | 26,613       |
| Total assets   | \$ 170,088 | \$ 1,155,434 | \$ 22,276 | \$ 1,347,798 |
| Gross loans  | \$ 158,129 | \$ 819,010   | \$ —      | \$ 977,139   |

| Nine Months Ended September 30, 2013<br>(Dollars in thousands) | Factoring  | Banking    | Corporate | Consolidated |
|--|------------|------------|-----------|--------------|
|  |            |            |           | TBI          |
| Total interest income  | \$ 12,381  | \$ 11,375  | \$ 32     | \$ 23,788    |
| Intersegment interest allocations                              | (1,508 )   | 1,508      | —         | —            |
| Total interest expense   | 1          | 2,462      | —         | 2,463        |
| Net interest income  | 10,872     | 10,421     | 32        | 21,325       |
| Provision for loan losses                                      | 632        | 1,723      | —         | 2,355        |
| Net interest income after provision                            | 10,240     | 8,698      | 32        | 18,970       |
| Noninterest income   | 824        | 569        | 98        | 1,491        |
| Intersegment expense allocations                               | 100        | (100 )     | —         | —            |
| Noninterest expense  | 6,961      | 8,834      | 2,272     | 18,067       |
| Operating income (loss)  | 4,003      | 533        | (2,142 )  | 2,394        |
| Total assets   | \$ 110,571 | \$ 243,533 | \$ 38,834 | \$ 392,938   |
| Gross loans  | \$ 95,065  | \$ 170,328 | \$ —      | \$ 265,393   |

Factoring. Our factoring segment's operating income for the nine months ended September 30, 2014 was \$6.0 million, compared with \$4.0 million for the nine months ended September 30, 2013, an increase of \$2.0 million. This increase was due to growth in interest and noninterest income as factored receivables in our factoring segment grew from \$95.1 million as of September 30, 2013 to \$158.1 million as of September 30, 2014. Growth experienced in our factoring portfolio resulted from execution on our growth strategy for such product, increased marketing efforts and initiatives during 2014 as well as favorable economic conditions driving increased activity generally in the transportation sector. This increase in income from the growth in our portfolio more than offset the increased variable expenses associated with this growth, mostly personnel costs required to service our larger portfolio. Net interest income was \$16.7

million for the nine months ended September 30, 2014, compared to \$10.9 million for the nine months ended September 30, 2013, driven by growth in our portfolio which more than offset the increased intersegment interest allocation attributable to this growth. Noninterest expense was \$10.6 million for the nine months ended September 30, 2014, compared with \$7.0 million for the nine months ended September 30, 2013, an increase of \$3.6 million, driven primarily by increased personnel costs incurred in connection with growth in our factoring portfolio as well as \$1.0 million of costs associated with the rebranding of Triumph Business Capital. Our provision for loan losses was \$1.4 million for the nine months ended September 30, 2014, compared with \$0.6 million for the nine months ended September 30, 2013. This increased provision was due to increased allowance allocation for incurred losses recorded on collectively evaluated factored receivables purchased during such period, as we experienced a greater volume of new factored receivables purchased for the nine months ended September 30, 2014 compared to September 30, 2013.

Banking. Our banking segment's operating income totaled \$25.6 million for the nine months ended September 30, 2014 compared to \$0.5 million for the nine months ended September 30, 2013. This increase was significantly impacted by the recording of a pre-tax gain in the amount of \$12.6 million associated with the sale of our Pewaukee, Wisconsin branch in July 2014. We also experienced increases in interest income and noninterest income attributable to the Triumph Community Bank acquisition, as well as growth in the asset-based loans and equipment loans originated under our Triumph Commercial Finance brand experienced during 2014 as we continued to execute on our growth strategy for such products. These increases more than offset the increased operating expenses in personnel, facilities and infrastructure incurred in connection with the Triumph Community Bank acquisition, as well as increased costs and expenses incurred to support the growth in our asset-based lending and equipment lending operations. Net interest income was \$43.7 million for the nine months ended September 30, 2014, compared to \$10.4 million for the nine months ended September 30, 2013, an increase of \$33.3 million, reflecting both the interest income from the loan portfolio acquired in the Triumph Community Bank acquisition as well as growth in the asset-based loans and equipment loans originated under our Triumph Commercial Finance brand as discussed above. Interest income was offset in part by increases in our interest expense associated with the larger total pool of interest-bearing liabilities acquired as part of the Triumph Community Bank acquisition; however, this increase was largely offset by changes in our liability mix as a result of the Triumph Community Bank acquisition, which lowered our overall cost of funds. Excluding the gain on branch sale discussed above, noninterest income was \$6.3 million for the nine months ended September 30, 2014 compared to \$0.6 million for the nine months ended September 30, 2013, attributable primarily to the addition of fee-generating products and services acquired as part of the Triumph Community Bank acquisition, most notably, service charges and card fees. Noninterest expense was \$34.2 million for the nine months ended September 30, 2014, compared with \$8.8 million for the nine months ended September 30, 2013, an increase of \$25.4 million, driven both by increased expenses in personnel, facilities and infrastructure incurred in connection with the Triumph Community Bank acquisition as well as increased costs incurred in connection with the growth of our asset-based lending and equipment lending. We also incurred \$0.6 million of expenses during the nine months ended September 30, 2014 related to the Triumph Community Bank rebranding. Our provision for loan losses was \$2.7 million for the nine months ended September 30, 2014, compared with \$1.7 million for the nine months ended September 30, 2013, driven primarily by growth in our equipment lending product lines.

Corporate. The Corporate segment's operating loss totaled \$5.0 million for the nine months ended September 30, 2014, compared with \$2.1 million for the nine months ended September 30, 2013. Included in this result is an increase in interest expense of \$1.2 million in the nine months ended September 30, 2014 related to the junior subordinated debentures assumed and the senior secured bank loan entered into in connection with the Triumph Community Bank acquisition, and an increase of \$2.4 million in operating expenses for the nine months ended September 30, 2014, related primarily to increases in management and administrative expenses at the holding company level not attributable to the banking and factoring operating segments, as well as increases in personnel and operating expenses related to the company's asset management operations, and \$0.4 million of costs incurred in conjunction with our transition to being a public company. These items were offset in part by increases in noninterest income of \$0.5 million, related primarily to asset management fees earned by the Company's wholly owned subsidiary, Triumph Capital Advisors, which commenced upon the completed offerings of its CLO vehicles.

## Financial Condition

### Assets

Total assets were \$1.348 billion at September 30, 2014, compared to \$1.288 billion at December 31, 2013, an increase of \$60 million due primarily to increases in our commercial finance loan products during 2014 as discussed below.

### Loan Portfolio

Loans held for investment were \$977.1 million at September 30, 2014, compared with \$881.1 million at December 31, 2013. This increase was primarily due to \$45.3 million of healthcare asset-based loans associated with our acquisition of Triumph Healthcare Finance in June 2014 and continued growth in our commercial loans and factored receivables, offset by the sale of \$78.1 million of loans included in the Pewaukee, Wisconsin branch transaction.

We offer a broad range of lending and credit products. Within our Triumph Community Bank subsidiary, we offer a full range of lending products, including commercial real estate, construction and development, residential real estate, general commercial, farmland and consumer loans, focused on our community banking markets in Iowa and Illinois. We also originate a variety of commercial finance products offered on a nationwide basis. These products include our factored receivables, the asset-based loans and equipment loans originated by Triumph Savings Bank under our Triumph Commercial Finance brand, and the healthcare asset-based loans originated by Triumph Community Bank under our Triumph Healthcare Finance brand. In addition, our Triumph Savings Bank subsidiary originates a variety of additional loans, including mortgage warehouse loans and other commercial and commercial real estate loans and maintains a portfolio of loans acquired in connection with our acquisition of Equity Bank in 2010.



The following table shows our loan portfolio by portfolio segments as of September 30, 2014 and December 31, 2013:

| (Dollars in thousands)               | September 30,<br>2014 |               |           | December 31,<br>2013 |               |  |
|--------------------------------------|-----------------------|---------------|-----------|----------------------|---------------|--|
|                                      |                       | % of<br>Total |           |                      | % of<br>Total |  |
| <b>Real estate:</b>                  |                       |               |           |                      |               |  |
| Commercial real estate               | \$261,836             | 27 %          | \$331,462 | 38 %                 |               |  |
| Construction, land development, land | 45,996                | 5 %           | 37,626    | 4 %                  |               |  |
| 1-4 family residential properties    | 80,419                | 8 %           | 91,301    | 10 %                 |               |  |
| Farmland                             | 20,059                | 2 %           | 20,294    | 2 %                  |               |  |
| Total real estate                    | 408,310               | 42 %          | 480,683   | 54 %                 |               |  |
| Commercial                           | 340,316               | 35 %          | 255,655   | 29 %                 |               |  |
| Factored receivables                 | 169,112               | 17 %          | 117,370   | 13 %                 |               |  |
| Consumer                             | 12,527                | 1 %           | 13,878    | 2 %                  |               |  |
| Mortgage warehouse                   | 46,874                | 5 %           | 13,513    | 2 %                  |               |  |
| Total Loans                          | \$977,139             | 100 %         | \$881,099 | 100 %                |               |  |

**Commercial Real Estate Loans.** Our commercial real estate loans were \$261.8 million at September 30, 2014, a decrease of \$69.7 million from \$331.5 million at December 31, 2013, due primarily to the sale of \$42.1 million of these loans in connection with the sale of the Pewaukee, Wisconsin branch. The remainder of the decrease was driven by paydowns that offset new loan activity for the period.

**Construction and Development Loans.** Our construction and development loans were \$46.0 million at September 30, 2014, an increase of \$8.4 million from \$37.6 million at December 31, 2013, due primarily to growth from continued strength of this category in our markets, offset by the sale of \$6.8 million of these loans in connection with the sale of the Pewaukee, Wisconsin branch.

**Residential Real Estate Loans.** Our one-to-four family residential loans were \$80.4 million at September 30, 2014, a decrease of \$10.9 million from \$91.3 million at December 31, 2013, due primarily to the sale of \$11.0 million of these loans in connection with the sale of the Pewaukee, Wisconsin branch.

**Commercial Loans.** Our commercial loans held for investment were \$340.3 million at September 30, 2014, an increase of \$84.6 million from \$255.7 million at December 31, 2013. This increase was driven by our acquisition of Triumph Healthcare Finance as well as continued growth in the asset-based loans and equipment loans originated under our Triumph Commercial Finance brand as we continue to execute on our growth strategy for such products. Asset-based loans originated under our Triumph Commercial Finance brand totaled \$50.0 million in aggregate as of September 30, 2014 compared to \$30.8 million in aggregate as of December 31, 2013. Equipment loans originated under our Triumph Commercial Finance brand totaled \$94.5 million in aggregate as of September 30, 2014 compared to \$49.0 million in aggregate as of December 31, 2013. Asset-based healthcare loans originated under our Triumph Healthcare Finance brand totaled \$40.9 million in aggregate as of September 30, 2014. The increases in these product lines were offset in part by the sale of \$18.2 million of commercial loans in connection with the sale of the Pewaukee, Wisconsin branch.

Factored Receivables. Our factored receivables were \$169.1 million at September 30, 2014, an increase of \$51.7 million from \$117.4 million at December 31, 2013. The growth was primarily due to execution of growth strategy and continued strength in our target markets, particularly in the transportation sector.

Other Loans. Our portfolio also includes real estate loans secured by farmland, consumer loans and mortgage warehouse loans. All of these categories of loans in the aggregate were less than 10% of our total loan portfolio as of September 30, 2014 and December 31, 2013, however, our mortgage warehouse loans did increase to \$46.9 million as of September 30, 2014 compared to \$13.5 million at December 31, 2013 due to new clients and commitments added during the period as a result of successful marketing efforts.

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The following tables set forth the contractual maturities, including scheduled principal repayments, of our loan portfolio and the distribution between fixed and floating interest rate loans as of September 30, 2014 and December 31, 2013.

|                                      | September 30, 2014 |              |          |           |
|--------------------------------------|--------------------|--------------|----------|-----------|
|                                      |                    | After<br>One |          |           |
|                                      |                    | but          | After    |           |
|                                      | One Year<br>or     | within       | Five     |           |
|                                      |                    | Five         | Years    | Total     |
| (Dollars in thousands)               | Less               | Years        | Years    |           |
| Commercial real estate               | \$62,041           | \$170,025    | \$29,770 | \$261,836 |
| Construction, land development, land | 27,165             | 13,043       | 5,788    | 45,996    |
| 1-4 family residential properties    | 16,513             | 30,473       | 33,433   | 80,419    |
| Farmland                             | 2,267              | 10,786       | 7,006    | 20,059    |
| Commercial                           | 136,032            | 185,269      | 19,015   | 340,316   |
| Factored receivables                 | 169,112            | —            | —        | 169,112   |
| Consumer                             | 4,029              | 7,033        | 1,465    | 12,527    |
| Mortgage warehouse                   | 46,874             | —            | —        | 46,874    |
|                                      | \$464,033          | \$416,629    | \$96,477 | \$977,139 |

Sensitivity of loans to changes in interest rates:

|                                      |  |           |          |
|--------------------------------------|--|-----------|----------|
| Predetermined (fixed) interest rates |  | \$275,741 | \$24,863 |
| Floating interest rates              |  | 140,888   | 71,614   |
| Total                                |  | \$416,629 | \$96,477 |

|                                      | December 31, 2013 |              |          |           |
|--------------------------------------|-------------------|--------------|----------|-----------|
|                                      |                   | After<br>One |          |           |
|                                      |                   | but          | After    |           |
|                                      | One Year<br>or    | within       | Five     |           |
|                                      |                   | Five         | Years    | Total     |
| (Dollars in thousands)               | Less              | Years        | Years    |           |
| Commercial real estate               | \$61,798          | \$219,100    | \$50,564 | \$331,462 |
| Construction, land development, land | 17,862            | 15,729       | 4,035    | 37,626    |
| 1-4 family residential properties    | 19,779            | 32,358       | 39,164   | 91,301    |
| Farmland                             | 1,640             | 12,881       | 5,773    | 20,294    |
| Commercial                           | 108,131           | 129,517      | 18,007   | 255,655   |
| Factored receivables                 | 117,370           | —            | —        | 117,370   |
| Consumer                             | 3,928             | 7,848        | 2,102    | 13,878    |

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|                    |           |           |           |           |
|--------------------|-----------|-----------|-----------|-----------|
| Mortgage warehouse | 13,513    | —         | —         | 13,513    |
|                    | \$344,021 | \$417,433 | \$119,645 | \$881,099 |

Sensitivity of loans to changes in interest rates:

|                                      |           |           |  |  |
|--------------------------------------|-----------|-----------|--|--|
| Predetermined (fixed) interest rates | \$302,355 | \$37,691  |  |  |
| Floating interest rates              | 115,078   | 81,954    |  |  |
| Total                                | \$417,433 | \$119,645 |  |  |

As of September 30, 2014, most of the Company's non-factoring business activity is with customers located within certain states. The states of Illinois (30%), Iowa (14%) and Texas (19%) make up 63% of the Company's gross loans, excluding factored receivables. Therefore, the Company's exposure to credit risk is affected by changes in the economies in these states.

Further, a significant majority (91%) of our factored receivables, representing approximately 16% of our total loan portfolio as of September 30, 2014, are receivables purchased from trucking fleets and owner-operators in the transportation industry. Although such concentration may cause our future interest income with respect to our factoring operations to be correlated with demand for the transportation industry in the United States generally, and small-to-mid-sized operators in such industry specifically, we feel the credit risk with respect to our outstanding portfolio is appropriately mitigated as we limit the amount of receivables acquired from individual debtors and creditors thereby achieving diversification across a number of companies and industries.

## Nonperforming Assets

We have established procedures to assist us in maintaining the overall quality of our loan portfolio. In addition, we have adopted underwriting guidelines to be followed by our lending officers and require significant senior management review of proposed extensions of credit exceeding certain thresholds. When delinquencies exist, we rigorously monitor them for any negative or adverse trends. Our loan review procedures include approval of lending policies and underwriting guidelines by the Board of Directors of our bank subsidiaries, independent loan review, approval of large credit relationships by our bank subsidiaries' Management Loan Committees and loan quality documentation procedures. We, like other financial institutions, are subject to the risk that our loan portfolio will be subject to increasing pressures from deteriorating borrower credit due to general economic conditions.

The accrual of interest income on non-purchased credit impaired ("PCI") loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection, or at an earlier date if full collection of interest or principal becomes doubtful. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued when a loan is placed on nonaccrual is reversed from interest income. Interest received on these loans is accounted for on the cash-basis or cost recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The accretion of interest income on PCI loans is discontinued if the estimation of the timing and amount cash flows expected to be collected involves a high degree of uncertainty and cannot be reasonably projected. Such PCI loans are considered nonaccrual and included in our nonaccrual loan totals, but are not considered impaired unless the loans have experienced credit deterioration and an allowance has been recorded subsequent to acquisition. PCI loans for which the timing and amount of expected cash flows can be reasonably estimated accrete interest income, regardless of the contractual past due status of the loan, however, the disclosure of past due status of all PCI loans is based on the contractual terms of the loan, including those placed on nonaccrual due to the contractual payment status of the loan.

We obtain appraisals or other valuations of real property and other collateral which secure loans, and may update these valuations of collateral securing loans categorized as nonperforming loans and potential problem loans. In instances where updated valuations reflect reduced collateral values, an evaluation of the borrower's overall financial condition is made to determine the need, if any, for possible write-downs or appropriate additions to the ALLL.

OREO acquired as a result of foreclosure or as part of an acquisition are held for sale and are initially recorded at fair value less estimated cost to sell at the date of acquisition, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. At the time of acquisition of properties not acquired as part of an acquisition, losses are charged against the ALLL, and gains are realized to the extent fair value exceeds the carrying amount of the foreclosed loan. Improvements to the value of the properties are capitalized, but not in excess of the net realizable value of the property.

The following table sets forth the allocation of our nonperforming assets among our different asset categories as of the dates indicated. We classify nonperforming assets as nonaccrual loans, loans modified under restructurings as a result of the borrower experiencing financial difficulties, factored receivables greater than 90 days past due, and OREO. The balances of nonperforming loans reflect the recorded investment in these assets, including deductions for purchase discounts.

|   | September<br>30,<br>2014 | December<br>31,<br>2013 |      |   |
|---|--------------------------|-------------------------|------|---|
| (Dollars in thousands)                                  |                          |                         |      |   |
| <b>Nonperforming loans:</b>                             |                          |                         |      |   |
| Commercial real estate                                  | \$ 5,094                 | \$ 5,417                |      |   |
| Construction, land development, land                    | 12                       | —                       |      |   |
| 1-4 family residential properties                       | 1,469                    | 1,392                   |      |   |
| Farmland  | —                        | —                       |      |   |
| Commercial  | 10,176                   | 5,494                   |      |   |
| Factored receivables                                    | 813                      | 89                      |      |   |
| Consumer  | —                        | —                       |      |   |
| Mortgage Warehouse                                      | —                        | —                       |      |   |
| Total nonperforming loans                               | 17,564                   | 12,392                  |      |   |
| OREO acquired through foreclosure, net                  | 10,019                   | 13,783                  |      |   |
| Total nonperforming assets                              | \$ 27,583                | \$ 26,175               |      |   |
| Nonperforming assets to total assets                    | 2.05                     | %                       | 2.03 | % |
| Nonperforming loans to total loans held for investment  | 1.80                     | %                       | 1.41 | % |
| Total past due loans to total loans held for investment | 2.61                     | %                       | 2.78 | % |

We had \$17.6 million and \$12.4 million in nonperforming loans, including nonaccrual PCI loans, as of September 30, 2014 and December 31, 2013, respectively. Nonperforming loans increased \$5.2 million from December 31, 2013 to September 30, 2014, primarily due to the addition of two nonperforming loans: (1) a nonaccrual PCI loan with a balance of \$3.5 million acquired and recorded at fair value as part of the Triumph Healthcare Finance acquisition and (2) the downgrade and placement on nonaccrual of a \$2.5 million commercial relationship based upon the bankruptcy filing of the parent company in that relationship, however, the Company's exposure is limited to affiliated entities holding title to real estate or equipment that is leased to the parent company. As a result of these additions to our nonaccrual loans at September 30, 2014, the ratio of our nonperforming assets to total assets increased slightly to 2.05% at September 30, 2014 compared to 2.03% at December 31, 2013 and our ratio of nonperforming loans to total loans increased 39 basis points from 1.41% at December 31, 2013 to 1.80% at September 30, 2014.

Our OREO as of September 30, 2014 totaled \$10.0 million, a decrease of \$3.8 million from the \$13.8 million as of December 31, 2013, primarily due to sales of OREO property during the nine months ended September 30, 2014.

#### Allowance for Loan and Lease Losses

ALLL is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values,

economic conditions and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings ("TDRs") and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. PCI loans are not considered impaired on the acquisition date. For PCI loans, a decline in the present value of current expected cash flows compared to the previously estimated expected cash flows, due in any part to change in credit, is referred to as credit impairment and recorded as a provision for loan losses during the period.

Impaired loans generally include nonaccrual loans, factored receivables greater than 90 days past due, TDRs, partially charged off loans, and PCI loans with subsequent deterioration in expected cash flows. All loans are subject to being individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

TDRs are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a TDR is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For TDRs that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the ALLL. PCI loans accounted for individually (not accounted for in a closed pool of loans with other loans that share common risk characteristics) are subject to the TDR accounting requirements when restructured subsequent to acquisition (loans that were restructured prior to acquisition are not considered TDRs). Modifications subsequent to acquisition of our PCI loans accounted for within a pool with similar risk characteristics are not subject to TDR guidance. Rather, the revised estimated future cash flows of the individually modified loan within a pool are included in the estimated future cash flows of the pool.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company since acquisition. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

Purchased loans are recorded at fair value at the date of acquisition without carryover of the seller's ALLL. Therefore we maintain an ALLL on purchased loans based on credit deterioration subsequent to the acquisition date.

#### Analysis of the Allowance for Loan and Lease Losses

The following table sets forth the ALLL by category of loan:

| (Dollars in thousands) | September 30, 2014 |      | December 31, 2013 |      |
|------------------------|--------------------|------|-------------------|------|
|                        | Allocated% of      | ALLL | Allocated% of     | ALLL |
|                        | Loan               | to   | Loan              | to   |



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|  | Allowance | Portfolio | Loans    | Allowance | Portfolio | Loans    |
|--|-----------|-----------|----------|-----------|-----------|----------|
| Balance at end of each period applicable to: |           |           |          |           |           |          |
| Commercial real estate                       | \$386     | 27        | % 0.15 % | \$348     | 38        | % 0.10 % |
| Construction, land development, land         | 340       | 5         | % 0.74 % | 110       | 4         | % 0.29 % |
| 1-4 family residential properties            | 182       | 8         | % 0.23 % | 100       | 10        | % 0.11 % |
| Farmland                                     | 13        | 2         | % 0.06 % | 7         | 2         | % 0.03 % |
| Commercial                                   | 3,057     | 35        | % 0.90 % | 1,145     | 29        | % 0.45 % |
| Factored receivables                         | 3,137     | 17        | % 1.85 % | 1,842     | 13        | % 1.57 % |
| Consumer                                     | 87        | 1         | % 0.69 % | 49        | 2         | % 0.35 % |
| Mortgage Warehouse                           | 118       | 5         | % 0.25 % | 44        | 2         | % 0.33 % |
| Total Loans                                  | \$7,320   | 100       | % 0.75 % | \$3,645   | 100       | % 0.41 % |

From December 31, 2013 to September 30, 2014, the ALLL increased from \$3.6 million or 0.41% of total loans to \$7.3 million and 0.75% of total loans. The increase was principally driven by an increase in the Company's allowance for collectively evaluated loans. The allowance associated with collectively evaluated loans increased to \$6.2 million at September 30, 2014 from \$3.2 million at December 31, 2013. The increase was driven by growth in commercial finance loans and factored receivables, new lending at Triumph Community Bank following the acquisition, as well as changes in the mix of collectively evaluated loans. Additionally, non-purchased credit impaired loans acquired in the Triumph Community Bank acquisition that matured and were renewed during the period, which previously maintained discounts associated with fair value adjustments recorded at acquisition, required allowance allocations.

The following table presents the unpaid principal and recorded investment for loans at September 30, 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) of which approximately \$12.4 million is expected to be accretable into income over the remaining lives of the acquired loans, (2) net deferred origination costs and fees, and (3) previous charge-offs. The net difference can provide protection from credit loss in addition to the ALLL as future potential charge-offs for an individual loan is limited to the recorded investment plus unpaid accrued interest.

| (Dollars in thousands)<br>September 30, 2014 | Recorded<br>Investment | Unpaid<br>Principal | Difference   |
|--|------------------------|---------------------|--------------|
| <b>Real estate:</b>                          |                        |                     |              |
| Commercial                                   | \$ 261,836             | \$ 277,087          | \$ (15,251 ) |
| Construction, land development, land         | 45,996                 | 47,925              | (1,929 )     |
| 1-4 family residential properties            | 80,419                 | 84,220              | (3,801 )     |
| Farmland                                     | 20,059                 | 19,973              | 86           |
| Total real estate                            | 408,310                | 429,205             | (20,895 )    |
| Commercial                                   | 340,316                | 344,115             | (3,799 )     |
| Factored receivables                         | 169,112                | 170,281             | (1,169 )     |
| Consumer                                     | 12,527                 | 12,604              | (77 )        |
| Mortgage warehouse                           | 46,874                 | 46,874              | —            |
|  | \$ 977,139             | \$ 1,003,079        | \$ (25,940 ) |

At September 30, 2014 and December 31, 2013, we had on deposit \$16.4 million and \$10.7 million, respectively, of customer reserves associated with factored receivables. These deposits represent customer reserves held to settle any payment disputes or collection shortfalls and are reported as deposits on our consolidated balance sheets.

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The following table provides an analysis of the provisions for loan losses, net charge-offs and recoveries for the three and nine months ended September 30, 2014 and 2013, and the effects of those items on our ALLL:

|  | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|--|-------------------------------------|------------|------------------------------------|------------|
|  | 2014                                | 2013       | 2014                               | 2013       |
| (Dollars in thousands)                                     |                                     |            |                                    |            |
| Balance at beginning of period                             | \$6,253                             | \$2,450    | \$3,645                            | \$1,926    |
| Loans charged-off:   |                                     |            |                                    |            |
| Commercial Real Estate                                     | —                                   | —          | —                                  | (41 )      |
| Construction, land development, land                       | (100 )                              | —          | (100 )                             | —          |
| 1-4 family residential properties                          | (74 )                               | (19 )      | (264 )                             | (88 )      |
| Farmland   | —                                   | —          | —                                  | —          |
| Commercial   | —                                   | (1,473 )   | (12 )                              | (1,473 )   |
| Factored receivables                                       | (119 )                              | (121 )     | (294 )                             | (183 )     |
| Consumer   | (100 )                              | —          | (314 )                             | —          |
| Mortgage Warehouse   | —                                   | —          | —                                  | —          |
| Total loans charged-off                                    | \$(393 )                            | \$(1,613 ) | \$(984 )                           | \$(1,785 ) |
| Recoveries of loans charged-off:                           |                                     |            |                                    |            |
| Commercial Real Estate                                     | 1                                   | 129        | 3                                  | 129        |
| Construction, land development, land                       | —                                   | —          | —                                  | —          |
| 1-4 family residential properties                          | 3                                   | 25         | 106                                | 42         |
| Farmland   | —                                   | —          | —                                  | —          |
| Commercial   | 3                                   | —          | 217                                | 7          |
| Factored receivables                                       | 21                                  | 3          | 56                                 | 55         |
| Consumer   | 57                                  | —          | 230                                | —          |
| Mortgage Warehouse   | —                                   | —          | —                                  | —          |
| Total loans recoveries                                     | \$85                                | \$157      | \$612                              | \$233      |
| Net loans charged-off                                      | \$(308 )                            | \$(1,456 ) | \$(372 )                           | \$(1,552 ) |
| Provision for (reversal of) loan losses:                   |                                     |            |                                    |            |
| Commercial Real Estate                                     | (78 )                               | (154 )     | 35                                 | (122 )     |
| Construction, land development, land                       | 198                                 | (7 )       | 330                                | (1 )       |
| 1-4 family residential properties                          | 56                                  | (34 )      | 240                                | (111 )     |
| Farmland   | 2                                   | (1 )       | 6                                  | (1 )       |
| Commercial   | 722                                 | 1,538      | 1,707                              | 1,861      |
| Factored receivables                                       | 397                                 | 370        | 1,533                              | 691        |
| Consumer   | 34                                  | —          | 122                                | —          |
| Mortgage Warehouse   | 44                                  | 23         | 74                                 | 38         |
| Total provision for (reversal of) loan losses              | \$1,375                             | \$1,735    | \$4,047                            | \$2,355    |
| Balance at end of period                                   | \$7,320                             | \$2,729    | \$7,320                            | \$2,729    |
| Average total loans held for investment                    | \$975,080                           | \$271,394  | \$925,904                          | \$247,219  |
| Net charge-offs to average total loans held for investment | 0.03 %                              | 0.54 %     | 0.04 %                             | 0.63 %     |
| Allowance to total loans held for investment               | 0.75 %                              | 1.03 %     | 0.75 %                             | 1.03 %     |

Net loans charged off for the three and nine month periods ended September 30, 2014 were \$0.3 million and \$0.4 million, respectively, down from \$1.5 million and \$1.6 for the three and nine months ended September 30, 2013, respectively. The significant decrease was due primarily to a loss incurred on a \$1.5 million charge off on a floor plan loan during 2013.

Assets Held for Sale

At September 30, 2014 and December 31, 2013, originated mortgage loans held for sale were \$7.3 million and \$5.4 million, respectively. Loan sales of \$22.6 million and \$12.6 million occurred during the three months ended September 30, 2014 and 2013, respectively, and resulted in recognized net gains on sale of \$0.5 million and \$0.3 million in the respective periods. Loan sales of \$48.6 million occurred during the nine months ended September 30, 2014 and resulted in recognized net gains on sale of \$1.1 million, compared with sales of \$15.3 million that resulted in recognized net gains on sale of \$0.4 million for the nine months ended September 30, 2013. At September 30, 2014 and December 31, 2013, no originated mortgage loans held for sale were on nonaccrual status.

Securities

Our investment strategy is oriented towards maintaining liquidity in securities with minimal credit risk. As of September 30, 2014, we have investments classified as held to maturity with an amortized cost of \$0.7 million. The remaining \$165.5 million, or 99.6% of our investments, are classified as available for sale at fair value and can be used for pledging to secure FHLB advances and public deposits, or can be sold to meet liquidity needs.

The following tables set forth the amortized cost and average yield of our securities, by type and contractual maturity as of September 30, 2014 and December 31, 2013:

| (Dollars in thousands)              | Maturity as of September 30, 2014 |               |                |               |                |               |                |               |                |               |
|-------------------------------------|-----------------------------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|
|                                     | 1 Year or Less                    |               | 1 to 5 Years   |               | 5 to 10 Years  |               | Over 10 Years  |               | Total          |               |
|                                     | Amortized Cost                    | Average Yield | Amortized Cost | Average Yield | Amortized Cost | Average Yield | Amortized Cost | Average Yield | Amortized Cost | Average Yield |
| U.S. Government agency obligations  | \$—                               | 0.00 %        | \$76,163       | 1.16 %        | \$14,414       | 2.35 %        | \$—            | 0.00 %        | \$90,577       | 1.36 %        |
| Mortgage-backed securities          | —                                 | 0.00 %        | 355            | 3.49 %        | 1,847          | 1.91 %        | 27,928         | 2.18 %        | 30,130         | 2.18 %        |
| Asset backed securities             | —                                 | 0.00 %        | —              | 0.00 %        | 4,862          | 1.17 %        | 13,770         | 1.73 %        | 18,632         | 1.58 %        |
| State and municipal                 | 1,336                             | 1.30 %        | 3,716          | 1.27 %        | 1,906          | 0.10 %        | 921            | 1.43 %        | 7,879          | 1.01 %        |
| Corporate bonds                     | —                                 | 0.00 %        | 14,709         | 1.64 %        | 1,379          | 1.95 %        | 670            | 5.82 %        | 16,758         | 1.83 %        |
| SBA pooled securities               | —                                 | 0.00 %        | 7              | 1.79 %        | 188            | 2.47 %        | 17             | 2.74 %        | 212            | 2.47 %        |
| Total securities available for sale | \$1,336                           | 1.30 %        | \$94,950       | 1.26 %        | \$24,596       | 1.90 %        | \$43,306       | 2.07 %        | \$164,188      | 1.57 %        |
| Security held-to-maturity           | \$225                             | 1.30 %        | \$520          | 2.76 %        | \$—            | 0.00 %        | \$—            | 0.00 %        | \$745          | 2.32 %        |

| Maturity as of December 31, 2013 |              |               |               |       |  |
|----------------------------------|--------------|---------------|---------------|-------|--|
| 1 Year or Less                   | 1 to 5 Years | 5 to 10 Years | Over 10 Years | Total |  |

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| (Dollars in thousands)              | Amortized Average |        | Amortized Average |        | Amortized Average |        | Amortized Average |        | Amortized Average |        |
|-------------------------------------|-------------------|--------|-------------------|--------|-------------------|--------|-------------------|--------|-------------------|--------|
|                                     | Cost              | Yield  | Cost              | Yield  | Cost              | Yield  | Cost              | Yield  | Cost              | Yield  |
| U.S. Government agency obligations  | \$18,060          | 0.29 % | \$61,714          | 1.00 % | \$14,341          | 2.35 % | \$1,852           | 0.47 % | \$95,967          | 1.07 % |
| Mortgage-backed securities          | —                 | —      | 933               | 1.91 % | 5,139             | 2.17 % | 29,859            | 2.33 % | 35,931            | 2.30 % |
| Asset backed securities             | —                 | —      | —                 | —      | 4,838             | 1.17 % | 13,973            | 1.88 % | 18,811            | 1.70 % |
| State and municipal                 | 1,601             | 1.14 % | 4,048             | 2.13 % | 2,089             | 3.20 % | 1,251             | 4.40 % | 8,989             | 2.51 % |
| Corporate bonds                     | 1,498             | 0.66 % | 17,280            | 1.52 % | 1,368             | 1.96 % | 671               | 5.82 % | 20,817            | 1.63 % |
| Trust preferred                     | —                 | —      | —                 | —      | —                 | —      | 3,706             | 2.37 % | 3,706             | 2.37 % |
| SBA pooled securities               | 2                 | 1.42 % | 9                 | 1.79 % | 95                | 2.50 % | 138               | 2.68 % | 244               | 2.57 % |
| Total securities available for sale | \$21,161          | 1.00 % | \$83,984          | 1.17 % | \$27,870          | 2.15 % | \$51,450          | 2.24 % | \$184,465         | 1.53 % |
| Security held-to-maturity           | \$150             | 1.71 % | \$593             | 2.16 % | \$—               | —      | \$—               | —      | \$743             | 2.07 % |

We held \$165.5 million in securities classified as available for sale as of September 30, 2014, a decrease of \$19.2 million from \$184.7 million at December 31, 2013. This decrease is attributable to normal portfolio management activities, with the net reduction being utilized for general liquidity purposes as overall loan portfolio growth has continued.

## Liabilities

Our total liabilities were \$1.172 billion as of September 30, 2014, an increase of \$44 million, from \$1.128 billion at December 31, 2013. The increase was primarily due to a \$61 million increase in customer deposits offset by a \$21 million decrease in Federal Home Loan advances.

## Deposits

Deposits represent our primary source of funds. We acquired a \$793 million deposit franchise in connection with the Triumph Community Bank acquisition, which reoriented our deposit mix towards lower-cost transactional deposits and away from higher-cost time deposits. We intend to continue to focus on growth in transactional deposit accounts as part of our growth strategy, both in our existing branch networks and through targeted acquisitions.

Our total deposits were \$1.106 billion as of September 30, 2014, compared to \$1.045 billion as of December 31, 2013, an increase of \$61 million. As of September 30, 2014, interest-bearing demand deposits, noninterest-bearing deposits, money market deposits and savings deposits accounted for 51% of our total deposits, while individual retirement accounts and certificates of deposit made up 49% of total deposits. The average cost of interest-bearing deposits was 0.56% and 0.52% for the three and nine months ended September 30, 2014, respectively, on an annualized basis.

The following table summarizes our average deposit balances and weighted average rates as of the three and nine month periods ended September 30, 2014 and 2013:

| (Dollars in thousands)     | Three Months Ended<br>September 30, 2014 |                           |               | Three Months Ended<br>September 30, 2013 |                           |               |
|----------------------------|--|---------------------------|---------------|--|---------------------------|---------------|
|                            | Average<br>Balance                       | Weighted<br>Avg<br>Yields | % of<br>Total | Average<br>Balance                       | Weighted<br>Avg<br>Yields | % of<br>Total |
| Deposits:                  |  |                           |               |  |                           |               |
| Noninterest bearing demand | \$ 162,619                               | 0.00                      | % 15          | \$ 15,811                                | 0.00                      | % 6           |
| Interest bearing demand    | 215,862                                  | 0.07                      | % 20          | —  | 0.00                      | % 0           |
| Individual retirement      | 51,942                                   | 1.13                      | % 5           | 30,613                                   | 1.97                      | % 11          |
| Money market               | 126,932                                  | 0.23                      | % 12          | 20,731                                   | 0.46                      | % 7           |
| Savings                    | 73,833                                   | 0.05                      | % 7           | —  | 0.00                      | % 0           |
| Certificates of deposit    | 396,287                                  | 0.92                      | % 37          | 210,050                                  | 1.35                      | % 76          |
| Other brokered funds       | 45,235                                   | 0.88                      | % 4           | —  | 0.00                      | % 0           |
| Total                      | \$ 1,072,710                             | 0.48                      | % 100         | \$ 277,205                               | 1.27                      | % 100         |

  

| (Dollars in thousands)     | Nine Months Ended September<br>30, 2014 |                           |               | Nine Months Ended<br>September 30, 2013 |                           |               |
|----------------------------|---|---------------------------|---------------|---|---------------------------|---------------|
|                            | Average<br>Balance                      | Weighted<br>Avg<br>Yields | % of<br>Total | Average<br>Balance                      | Weighted<br>Avg<br>Yields | % of<br>Total |
| Deposits:                  |   |                           |               |   |                           |               |
| Noninterest bearing demand | \$ 158,860                              | 0.00                      | % 15          | \$ 2,231                                | 0.00                      | % 1           |
| Interest bearing demand    | 224,425                                 | 0.07                      | % 21          | —                                       | 0.00                      | % 0           |
| Individual retirement      | 52,637                                  | 1.10                      | % 5           | 29,208                                  | 1.91                      | % 12          |
| Money market               | 136,341                                 | 0.23                      | % 13          | 33,166                                  | 0.29                      | % 13          |
| Savings                    | 73,460                                  | 0.05                      | % 7           | 1                                       | 0.00                      | % 0           |
| Certificates of deposit    | 368,363                                 | 0.91                      | % 34          | 183,480                                 | 1.43                      | % 74          |

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|                      |             |      |   |     |   |           |      |   |     |   |
|----------------------|-------------|------|---|-----|---|-----------|------|---|-----|---|
| Other brokered funds | 51,438      | 0.55 | % | 5   | % | —         | 0.00 | % | 0   | % |
| Total                | \$1,065,524 | 0.44 | % | 100 | % | \$248,086 | 1.32 | % | 100 | % |



The following table provides information on the maturity distribution of time deposits of \$100,000 or more as of September 30, 2014 and December 31, 2013:

|                          | September<br>30,<br>2014 | December<br>31,<br>2013 |
|--------------------------|--------------------------|-------------------------|
| (Dollars in thousands)   |                          |                         |
| <b>Maturity</b>          |                          |                         |
| 3 months or less         | \$ 30,227                | \$ 16,167               |
| Over 3 through 6 months  | 24,800                   | 68,146                  |
| Over 6 through 12 months | 93,713                   | 71,723                  |
| Over 12 months           | 109,836                  | 63,350                  |
|                          | \$ 258,576               | \$ 219,386              |

#### Short-Term Borrowings

##### Customer Repurchase Agreements

We held no customer repurchase agreements prior to the Triumph Community Bank acquisition. Customer repurchase agreements outstanding totaled \$15.6 million at September 30, 2014. The maximum amount outstanding at any month end during the nine month period ended September 30, 2014 occurred March 31, 2014 with a balance of \$17.7 million. Customer repurchase agreements outstanding totaled \$11.3 million at December 31, 2013, and the maximum amount outstanding of these agreements at any month end during the last two and one-half months of the fiscal year following the Triumph Community Bank acquisition was \$16.7 million. Our customer repurchase agreements generally have maturities that fall within one year. Variances in these balances are attributable to normal customer behavior and seasonal factors affecting their liquidity positions.

##### FHLB Advances

As part of our overall funding and liquidity management program, from time to time we borrow from the Federal Home Loan Banks of Dallas and Des Moines ("FHLB"). Our FHLB advances are collateralized by assets, including a blanket pledge of certain loans. Our FHLB borrowings totaled zero as of September 30, 2014 and \$21.0 million as of December 31, 2013. Our FHLB borrowings outstanding are short term in nature, generally maturing within one month. The \$21.0 million decrease in borrowings from December 31, 2013 to September 30, 2014 was due to repayment of all outstanding advances which were no longer necessary at September 30, 2014. As of September 30, 2014 and December 31, 2013, we had \$107.5 million and \$110.3 million, respectively, in unused and available advances from the FHLB.

The following table provides a summary of our short-term borrowings at the dates indicated:

|  | September<br>30,<br>2014 | December<br>31,<br>2013 |
|--|--------------------------|-------------------------|
| (Dollars in thousands)                       |                          |                         |
| As of and for the period ended:              |                          |                         |
| Average amount outstanding during the period | \$ 47,641                | \$ 12,297               |
| Amount outstanding at end of period          | 15,644                   | 32,330                  |

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|  |        |   |        |   |
|--|--------|---|--------|---|
| Highest month end balance during the period      | 85,313 |   | 42,639 |   |
| Weighted average interest rate at end of period  | 0.03   | % | 0.06   | % |
| Weighted average interest rate during the period | 0.14   | % | 0.14   | % |

Long-Term Debt

Senior Secured Note

In conjunction with the financing of the Triumph Community Bank acquisition, we entered into a secured note payable to an unaffiliated bank, secured by the common stock of Triumph Community Bank and Triumph Savings Bank. The note had an outstanding principal balance of \$11.6 million and \$12.6 million as of September 30, 2014 and December 31, 2013, respectively. The principal balance was due in full at maturity on October 15, 2018. The note incurred interest at a variable rate based at the prime rate with a minimum interest rate of 4.50%, a prepayment penalty of 1.0% of the unpaid principal, and terms of the note required quarterly principal payments of \$0.3 million plus accrued interest. As noted in the “Recent Developments” section of this discussion, our secured note payable was retired on November 13, 2014.

## Junior Subordinated Debentures

NBI, which became our wholly owned subsidiary as part of the Triumph Community Bank acquisition, has two junior subordinated debentures outstanding with a combined face value of \$33.0 million. These debentures are unsecured obligations and were issued to two trusts that are unconsolidated subsidiaries of NBI. The trusts in turn issued trust preferred securities with identical payment terms to unrelated investors. The debentures mature in September 2033 and July 2036 and may be called at par plus any accrued but unpaid interest; however, we have no current plans to redeem them prior to maturity. Interest on the debentures is calculated quarterly, based on a rate equal to three month LIBOR plus a weighted average spread of 2.28%. As part of the purchase accounting adjustments made with the Triumph Community Bank acquisition, we adjusted the carrying value of the junior subordinated debentures to fair value as of October 15, 2013. The junior subordinated debentures had a combined carrying value of \$24.4 million as of September 30, 2014 and \$24.2 million as of December 31, 2013, and the discount will be amortized through maturity and recognized as a component of interest expense.

The debentures are included on our consolidated balance sheet as liabilities; however, for regulatory purposes, these obligations are eligible for inclusion in regulatory capital, subject to certain limitations. All of the carrying value of \$24.4 million and \$24.2 million was allowed in the calculation of Tier I capital as of September 30, 2014 and December 31, 2013, respectively.

## Capital Resources and Liquidity Management

### Capital Resources

Our stockholders' equity totaled \$149.9 million as of September 30, 2014, an increase of \$16.3 million from \$133.6 million as of December 31, 2013. Stockholders' equity increased during this period primarily due to net income for the period of \$17.0 million. This increase was partially offset during the period by preferred dividends paid on our Series A and Series B preferred stock, Series T-1 and T-2 preferred stock, and the redemption of the Triumph Commercial Finance Class B Units. Triumph Commercial Finance redeemed all of the \$1.1 million outstanding Class B Units at a premium of 2% in accordance with the terms of those instruments. The Company redeemed these Class B Units during June 2014 as it was determined these instruments would no longer qualify as regulatory capital in 2015 under the new regulatory capital standards that will come into effect, and to simplify the capital structure of the Company.

### Liquidity Management

We define liquidity as our ability to generate sufficient cash to fund current loan demand, deposit withdrawals, or other cash demands and disbursement needs, and otherwise to operate on an ongoing basis.

We manage liquidity at the holding company level as well as that of our bank subsidiaries. The management of liquidity at both levels is critical, because the holding company and our bank subsidiaries have different funding needs and sources, and each are subject to regulatory guidelines and requirements which require minimum levels of liquidity. We believe that our liquidity ratios meet or exceed those guidelines and our present position is adequate to meet our current and future liquidity needs.

Our liquidity requirements are met primarily through cash flow from operations, receipt of pre-paid and maturing balances in our loan and investment portfolios, debt financing and increases in customer deposits. Our liquidity position is supported by management of liquid assets and liabilities and access to other sources of funds. Liquid assets include cash, interest-bearing deposits in banks, federal funds sold, securities available for sale and maturing or prepaying balances in our investment and loan portfolios. Liquid liabilities include core deposits, federal funds purchased, securities sold under repurchase agreements and other borrowings. Other sources of funds include the sale

of loans, brokered deposits, the issuance of additional collateralized borrowings such as FHLB advances, the issuance of debt securities, borrowings through the Federal Reserve's discount window and the issuance of common securities. For additional information regarding our operating, investing and financing cash flows, see the Consolidated Statements of Cash Flows provided in our consolidated financial statements.

In addition to the liquidity provided by the sources described above, our subsidiary banks maintain correspondent relationships with other banks in order to sell loans or purchase overnight funds should additional liquidity be needed. As of September 30, 2014, Triumph Savings Bank had unsecured federal funds lines of credit with an unaffiliated bank totaling \$12.5 million, and Triumph Community Bank had unsecured federal funds lines of credit with five unaffiliated banks totaling \$75.0 million, with no amounts advanced against those lines at that time.

## Regulatory Capital Requirements

Our capital management consists of providing equity to support our current and future operations. We 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, Triumph Savings Bank's or Triumph Community Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company, Triumph Savings Bank and Triumph Community Bank each 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.

Quantitative measures established by regulations to ensure capital adequacy require the Company, Triumph Savings Bank and Triumph Community Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk weighted assets, and of Tier 1 capital to average assets. These amounts and ratios as of September 30, 2014 are set forth in the table below.

In conjunction with the acquisitions of Triumph Savings Bank and Triumph Community Bank, we also made further commitments to maintain certain capital levels. With regard to Triumph Savings Bank, we made certain commitments to the Federal Reserve Bank, including maintaining Triumph Savings Bank's leverage capital ratio (Tier 1 capital to average assets) at no less than 12.0% until January 1, 2015. In the case of Triumph Community Bank, we have agreed to maintain a minimum Tier 1 capital to average assets ratio of 8.0% of adjusted average assets and total risk-based ratio of 10.0%.

|   | Actual     | Ratio | To Be Adequately Capitalized Under Prompt Corrective Action Provisions | Ratio | To Be Well Capitalized Under Prompt Corrective Action Provisions | Ratio |
|---|------------|-------|--|-------|--|-------|
| As of September 30, 2014                        |            |       |  |       |  |       |
| <b>Total capital (to risk weighted assets)</b>  |            |       |  |       |  |       |
| Triumph Bancorp, Inc.                           | \$ 167,709 | 15.3% | \$ 87,863  | 8.0%  | N/A  | N/A   |
| Triumph Savings Bank, SSB                       | \$ 54,819  | 16.9% | \$ 26,027  | 8.0%  | \$ 32,534  | 10.0% |
| Triumph Community Bank                          | \$ 111,152 | 14.5% | \$ 61,428  | 8.0%  | \$ 76,785  | 10.0% |
| <b>Tier 1 capital (to risk weighted assets)</b> |            |       |  |       |  |       |
| Triumph Bancorp, Inc.                           | \$ 160,280 | 14.6% | \$ 43,942  | 4.0%  | N/A  | N/A   |
| Triumph Savings Bank, SSB                       | \$ 51,250  | 15.8% | \$ 13,008  | 4.0%  | \$ 19,511  | 6.0%  |
| Triumph Community Bank                          | \$ 107,293 | 14.0% | \$ 30,714  | 4.0%  | \$ 46,071  | 6.0%  |
| <b>Tier 1 capital (to average assets)</b>       |            |       |  |       |  |       |
| Triumph Bancorp, Inc.                           | \$ 160,280 | 12.2% | \$ 52,551  | 4.0%  | N/A  | N/A   |
| Triumph Savings Bank, SSB                       | \$ 51,250  | 12.8% | \$ 15,991  | 4.0%  | \$ 19,988  | 5.0%  |

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Triumph Community Bank                      \$107,293    11.9%    \$36,162    4.0%    \$45,203    5.0%

As of September 30, 2014, Triumph Savings Bank's and Triumph Community 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" they must maintain minimum total risk based, Tier 1 risk based, and Tier 1 leverage ratios as set forth in the table. At September 30, 2014, the most recent notification categorized Triumph Savings Bank and Triumph Community Bank as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since September 30, 2014 that management believes would change either institution's category.

## Contractual Obligations

The following table summarizes our contractual obligations and other commitments to make future payments as of September 30, 2014 excluding purchase accounting adjustments for our junior subordinated debentures and deposits. The amount of the obligations presented in the table reflects principal amounts only and excludes the amount of interest we are obligated to pay. Also excluded from the table are a number of obligations to be settled in cash. These excluded items are reflected in our consolidated balance sheet and include deposits with no stated maturity, trade payables, accrued interest payable and securities sold under repurchase agreements.

| (Dollars in thousands)                   | Payments Due by Period - September 30, 2014 |                   |                   |                  |                  |
|--|---|-------------------|-------------------|------------------|------------------|
|  | Total                                       | Less Than 1 Year  | 1 – 3 Years       | 4 – 5 Years      | After 5 Years    |
| <b>Contractual Obligations:</b>          |   |                   |                   |                  |                  |
| Customer repurchase agreements           | \$ 15,644                                   | \$ 15,644         | \$ —              | \$ —             | \$ —             |
| FHLB advances                            | —   | —                 | —                 | —                | —                |
| Senior secured note                      | 11,630                                      | 1,257             | 2,515             | 7,858            | —                |
| Junior subordinated debentures           | 32,990                                      | —                 | —                 | —                | 32,990           |
| Operating lease agreements               | 10,290                                      | 1,633             | 3,371             | 2,840            | 2,446            |
| Time deposits with stated maturity dates | 544,000                                     | 301,572           | 217,780           | 24,648           | —                |
| <b>Total contractual obligations</b>     | <b>\$ 614,554</b>                           | <b>\$ 320,106</b> | <b>\$ 223,666</b> | <b>\$ 35,346</b> | <b>\$ 35,436</b> |

## Off Balance Sheet Arrangements

In the normal course of business, we enter into various transactions, which, in accordance with GAAP, are not included in our consolidated balance sheets. We enter into these transactions to meet the financing needs of our customers. These transactions include commitments to extend credit and standby and commercial letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in the consolidated balance sheets.

The following table details our commitments associated with outstanding standby and commercial letters of credit and commitments to extend credit. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the amounts shown do not necessarily reflect actual future cash funding requirements.

| (Dollars in thousands)         | September 30, 2014 | December 31, 2013 |
|--------------------------------|--------------------|-------------------|
| <b>Other Commitments:</b>      |                    |                   |
| Commitments to make loans      | \$ 16,970          | \$ 12,260         |
| Unused lines of credit         | 234,117            | 138,366           |
| Standby letters of credit      | 3,460              | 4,044             |
| <b>Total other commitments</b> | <b>\$ 254,547</b>  | <b>\$ 154,670</b> |

## Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements in accordance with U.S. generally accepted accounting principles, or GAAP, requires us to make estimates and judgments that affect our reported amounts of assets, liabilities, income and expenses and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under current circumstances, results of which form the basis for making judgments about the carrying value of certain assets and liabilities that are not readily available from other sources. We evaluate our estimates on an ongoing basis. Actual results may differ from these estimates under different assumptions or conditions.

Accounting policies, as described in detail in the notes to our consolidated financial statements are an integral part of our financial statements. A thorough understanding of these accounting policies is essential when reviewing our reported results of operations and our financial position. We believe that the critical accounting policies and estimates discussed below require us to make difficult, subjective or complex judgments about matters that are inherently uncertain. Changes in these estimates that are likely to occur from period to period, or the use of different estimates that we could have reasonably used in the current period, would have a material impact on our financial position, results of operations or liquidity.



**Purchased Loans.** Purchased loans are recorded at fair value at the date of acquisition based on a discounted cash flow methodology that considered various factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan and whether or not the loan was amortizing, and a discount rate reflecting the Company's assessment of risk inherent in the cash flow estimates. Larger purchased loans are individually evaluated while smaller purchased loans are grouped together according to similar characteristics and were treated in the aggregate when applying various valuation techniques. These cash flow evaluations are inherently subjective as they require material estimates, all of which may be susceptible to significant change.

The cash flows anticipated to be collected on PCI loans are estimated based upon the expected remaining life of the underlying loans, which includes the effects of estimated prepayments. Purchased loans are considered credit impaired if there is evidence of credit deterioration at the date of purchase and if it is probable that not all contractually required payments will be collected. Interest income, through accretion of the difference between the carrying value of the loans and the expected cash flows is recognized on all PCI loans, unless the timing and amount of expected cash flows cannot be reasonably estimated, in which case the PCI loan would be classified as nonaccrual. Expected cash flows are re-estimated quarterly. A decline in the present value of current expected cash flows subsequent to acquisition compared to the previously estimated expected cash flows, due in any part to change in credit, is referred to as credit impairment and recorded as provision for loan losses during the period. PCI loans generally are not classified as impaired on the acquisition date. Declines in the present value of expected cash flows only from the expected timing of such cash flows is recognized prospectively as a decrease in yield on the loan. Improvement in expected cash flows is recognized prospectively as an adjustment to the yield on the loan once any previously recorded impairment is recaptured.

Purchased loans that were not considered PCI at acquisition have premiums or discounts. Premiums and discounts recorded when the loans were recorded at their estimated fair values at acquisition are amortized or accreted over the remaining term of the loan as an adjustment to the related loan's yield. Loans are considered past due or delinquent when the contractual principal or interest due in accordance with the terms of the loan agreement or any portion thereof remains unpaid after the due date of the scheduled payment. The subsequent accounting for acquired non-PCI loans follows the accounting for originated loans.

**Originated Loans.** Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned income, deferred loan fees and costs, and any direct principal charge-offs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income over the remaining life of the loan without anticipating prepayments. Loans are considered past due or delinquent when the contractual principal or interest due in accordance with the terms of the loan agreement or any portion thereof remains unpaid after the due date of the scheduled payment. Loans are classified as nonaccrual when, in the opinion of management, collection of principal or interest is doubtful. Generally, loans are placed in nonaccrual status due to the continued failure to adhere to contractual payment terms by the borrower coupled with other pertinent factors, such as insufficient collateral value.

The accrual of interest income on single family residential mortgage, commercial and commercial real estate loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection, or if full collection of interest or principal becomes uncertain. Consumer loans are typically charged off no later than 120 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not received for a loan placed on nonaccrual is charged against interest income. Interest received on such loans is accounted for on the cash-basis or cost recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

ALLL. The ALLL is a reserve for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered TDRs and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

All loans are subject to being individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment and, accordingly, they are not separately identified for impairment disclosures.

TDRs are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a TDR is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For TDRs that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the ALLL.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company since acquisition. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

Goodwill and Core Deposit Intangibles. Goodwill resulting from business combinations is determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. In the event the fair value of the net assets acquired and liabilities assumed exceeds the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, a bargain purchase gain is recognized.

Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on the Company's balance sheet.

Other intangible assets consist of core deposit and loan customer relationship intangible assets representing the estimated values of acquired relationships with deposit and loan customers arising from acquisitions and are amortized on an accelerated method over their estimated useful lives. The estimated fair value of core deposit intangible assets is based on a discounted cash flow methodology that considers customer attrition rates, cost of the deposit base and maintenance cost. The estimated fair value of loan customer relationship intangible assets is based on a multi-period excess earnings method that considers estimated customer loan renewal rates, portfolio yields, ongoing lending fees and costs, and credit losses.

Fair Values of Financial Instruments. In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and/or the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

In the ordinary course of business, the Company generally does not sell or transfer non-impaired loans and deposits. As such, the disclosures that present the September 30, 2014 and December 31, 2013 estimated fair value for non-impaired loans and deposits are highly judgmental and may not represent amounts to be received if the Company were to sell or transfer such items.

Emerging Growth Company. The JOBS Act permits us, as an "emerging growth company," to take advantage of an extended transition period to comply with new or revised accounting standards and not commence complying with new or revised accounting standards until private companies must do so.

We have elected to not take advantage of the extended transition period that allows an emerging growth company to delay the adoption of certain accounting standards until those standards would otherwise apply to private companies, which means that the financial statements included in this Quarterly Report on Form 10-Q, as well as financial statements we file in the future, will be subject to all new or revised accounting standards generally applicable to public companies. Our election not to take advantage of the extended transition period is irrevocable.

#### Recently Issued Accounting Pronouncements

On January 1, 2015, the Company will adopt Accounting Standards Update (ASU) 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. The ASU is effective for fiscal periods beginning after December 15, 2014. Adoption of this ASU is not expected to have a material impact on the Company’s financial statements.

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. ASU 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2017. Early application is not permitted. 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.

#### Forward-Looking Statements

This document contains forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as “may,” “should,” “could,” “predict,” “potential,” “believe,” “will likely result,” “expect,” “will,” “anticipate,” “seek,” “estimate,” “intend,” “plan,” “projection,” “would” and “outlook,” or the negative version of those other comparable of a future or forward-looking nature. These forward-looking statements are not historical facts and are based on current expectations, estimates and projections about our industry, management’s beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

There are or will be important factors that could cause our actual results to differ materially from those indicated in these forward-looking statements, including, but are not limited to, the following:

- our limited operating history as an integrated company and our recent acquisitions;
- business and economic conditions generally and in the bank and non-bank financial services industries, nationally and within our local market area;
- our ability to mitigate our risk exposures;
- our ability to maintain our historical earnings trends;
- risks related to the integration of acquired businesses and any future acquisitions;
- changes in management personnel;
- interest rate risk;

- concentration of our factoring services in the transportation industry;
- credit risk associated with our loan portfolio;
- lack of seasoning in our loan portfolio;
- deteriorating asset quality and higher loan charge-offs;
- time and effort necessary to resolve nonperforming assets;

- inaccuracy of the assumptions and estimates we make in establishing reserves for probable loan losses and other estimates;
- lack of liquidity;
  - fluctuations in the fair value and liquidity of the securities we hold for sale;
- impairment of investment securities, goodwill, other intangible assets or deferred tax assets;
- risks related to our acting as the asset manager for one or more CLOs;
- our risk management strategies;
- environmental liability associated with our lending activities;
- increased competition in the bank and non-bank financial services industries, nationally, regionally or locally, which may adversely affect pricing and terms;
- the obligations associated with being a public company;
- the accuracy of our financial statements and related disclosures;
- material weaknesses in our internal control over financial reporting;
- system failures or failures to prevent breaches of our network security;
- the institution and outcome of litigation and other legal proceedings against us or to which we become subject;
- changes in carry-forwards of net operating losses;
- changes in federal tax law or policy;
- the impact of recent and future legislative and regulatory changes, including changes in banking, securities and tax laws and regulations, such as the Dodd-Frank Act and their application by our regulators;
- governmental monetary and fiscal policies;
- changes in the scope and cost of FDIC, insurance and other coverages;
- failure to receive regulatory approval for future acquisitions;
- increases in our capital requirements; and
- risk retention requirements under the Dodd-Frank Act.

The foregoing factors should not be construed as exhaustive. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made and we do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. New factors emerge from time to time and it is not possible for us to predict which will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

### ITEM 3

#### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

##### Asset/Liability Management and Interest Rate Risk

The principal objective of our asset and liability management function is to evaluate the interest rate risk within the balance sheet and pursue a controlled assumption of interest rate risk while maximizing net income and preserving adequate levels of liquidity and capital. The Board of Directors of each of our subsidiary banks has oversight of our asset and liability management function, which is managed by our Chief Financial Officer. Our Chief Financial

Officer meets with our senior executive management team regularly to review, among other things, the sensitivity of our assets and liabilities to market interest rate changes, local and national market conditions and market interest rates. That group also reviews our liquidity, capital, deposit mix, loan mix and investment positions.



As a financial institution, our primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on most of our assets and liabilities, and the fair value of all interest-earning assets and interest-bearing liabilities, other than those which have a short term to maturity. Interest rate risk is the potential of economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a loss of current fair values. The objective is to measure the effect on net interest income and to adjust the balance sheet to minimize the inherent risk while at the same time maximizing income.

We manage our exposure to interest rates primarily by structuring our balance sheet in the ordinary course of business. We do not typically enter into derivative contracts for the purpose of managing interest rate risk, but we may elect to do so in the future. Based upon the nature of our operations, we are not subject to foreign exchange or commodity price risk. We do not own any trading assets.

We use an interest rate risk simulation model to test the interest rate sensitivity of net interest income and the balance sheet. Instantaneous parallel rate shift scenarios are modeled and utilized to evaluate risk and establish exposure limits for acceptable changes in net interest margin. These scenarios, known as rate shocks, simulate an instantaneous change in interest rates and use various assumptions, including, but not limited to, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, reinvestment and replacement of asset and liability cash flows. We also analyze the economic value of equity as a secondary measure of interest rate risk. This is a complementary measure to net interest income where the calculated value is the result of the fair value of assets less the fair value of liabilities. The economic value of equity is a longer term view of interest rate risk because it measures the present value of all future cash flows. The impact of changes in interest rates on this calculation is analyzed for the risk to our future earnings and is used in conjunction with the analyses on net interest income.

The following table summarizes simulated change in net interest income versus unchanged rates as of September 30, 2014 and December 31, 2013:

|                   | September 30,<br>2014 |         | December 31,<br>2013 |         |
|-------------------|-----------------------|---------|----------------------|---------|
|                   | Months                |         | Months               |         |
|                   | Following             |         | Following            |         |
|                   | 12 Months             | 13-24   | 12 Months            | 13-24   |
| +400 basis points | 7.9 %                 | 5.4 %   | 1.5 %                | 0.4 %   |
| +300 basis points | 6.0 %                 | 4.0 %   | 0.9 %                | 0.3 %   |
| +200 basis points | 4.0 %                 | 2.7 %   | 0.5 %                | 0.3 %   |
| +100 basis points | 2.0 %                 | 1.4 %   | 0.1 %                | 0.2 %   |
| Flat rates        | 0.0 %                 | 0.0 %   | 0.0 %                | 0.0 %   |
| -100 basis points | (0.5 %)               | (0.5 %) | (0.8 %)              | (1.8 %) |

The following table presents the change in our economic value of equity as of September 30, 2014 and December 31, 2013, assuming immediate parallel shifts in interest rates:

Economic Value of Equity at Risk (%)

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|                   | September<br>30, 2014 |    | December 31, 2013 |    |
|-------------------|-----------------------|----|-------------------|----|
| +400 basis points | 10.1                  | %  | 3.3               | %  |
| +300 basis points | 8.1                   | %  | 2.7               | %  |
| +200 basis points | 5.8                   | %  | 2.1               | %  |
| +100 basis points | 3.1                   | %  | 1.2               | %  |
| Flat rates        | 0.0                   | %  | 0.0               | %  |
| -100 basis points | (5.5                  | %) | (3.1              | %) |

Many assumptions are used to calculate the impact of interest rate fluctuations. Actual results may be significantly different than our projections due to several factors, including the timing and frequency of rate changes, market conditions and the shape of the yield curve. The computations of interest rate risk shown above do not include actions that our management may undertake to manage the risks in response to anticipated changes in interest rates, and actual results may also differ due to any actions taken in response to the changing rates.

As part of our asset/liability management strategy, our management has emphasized the origination of shorter duration loans as well as variable rate loans to limit the negative exposure to a rate increase. The Triumph Community Bank acquisition was in large part a result of management's desire to acquire their deposit transaction accounts, particularly noninterest or low interest-bearing non-maturity deposit accounts, whose cost is less sensitive to changes in interest rates. We intend to focus our strategy on utilizing this acquired deposit base and operating platform to increase these deposit transaction accounts.

#### ITEM 4

##### CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this Quarterly Report on Form 10-Q was performed under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply judgment in evaluating its controls and procedures. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms.

Changes in internal control over financial reporting. There were no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

#### PART II – OTHER INFORMATION

##### Item 1. Legal Proceedings

From time to time we are a party to various litigation matters incidental to the conduct of our business. We are not presently party to any legal proceedings the resolution of which we believe would have a material adverse effect on

our business, prospects, financial condition, liquidity, results of operation, cash flows or capital levels.

#### Item 1A. Risk Factors

There have been no material changes in the Company's risk factors from those disclosed in the Company's Registration Statement on Form S-1 declared effective on November 6, 2014.

#### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

##### Recent Sales of Unregistered Equity Securities

None.

##### Use of Proceeds

On November 13, 2014, we completed an initial offering issuing 6,700,000 shares of common stock, \$0.01 par value, at \$12.00 per share for gross proceeds of \$80.4 million. In addition, on November 20, 2014, the underwriters exercised their option to purchase an additional 1,005,000 shares of common stock from Triumph at the initial public offering price of \$12.00 per share for additional gross proceeds of \$12.1 million, resulting in total gross proceeds of \$92.5 million. Net proceeds are expected to be approximately \$83.0 million based upon underwriting discounts and estimated offering expenses, which are not yet finalized. All of the shares issues and sold in the initial public offering were registered under the Securities Act pursuant to a Registration Statement on Form S-1 (File No. 333-198838), which was declared effective by the SEC on November 6, 2014. Sandler O'Neill + Partners, L.P., Evercore and Wells Fargo Securities, LLC acted as joint book-runners for the offering. Keefe Bruyette & Woods, Inc. and Nomura Securities International, Inc. acted as co-managers for the offering. The offering commenced on November 13, 2014 and did not terminate until the sale of all of the shares offered.

None of the expenses associated with the initial public offering were paid to directors, officers, persons owning 10% or more of any class of equity securities, or to their associates, or to our affiliates.

There has been no material change in the planned use of proceeds from our initial public offering as described in our prospectus effective November 6, 2014, filed with the SEC pursuant to Rule 424(b)(4) under the Securities Act.

#### Item 6. Exhibits

- 3.1 Second Amended and Restated Certificate of Formation of the Registrant, effective November 7, 2014, incorporated by reference to Exhibit 3.1 to Form 8-K filed with the SEC on November 13, 2014.
  - 3.2 Second Amended and Restated Bylaws of the Registrant, effective November 7, 2014, incorporated by reference to Exhibit 3.2 to Form 8-K filed with the SEC on November 13, 2014.
  - 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 XBRL Instance Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TRIUMPH BANCORP, INC.  
(Registrant)

Date: December 17, 2014 /s/ Aaron P. Graft  
Aaron P. Graft  
President and Chief Executive Officer

Date: December 17, 2014 /s/ R. Bryce Fowler  
R. Bryce Fowler  
Chief Financial Officer