Triumph Bancorp, Inc.
Form 10-Q
April 19, 2019

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 March 31, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 001-36722

TRIUMPH BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

12700 Park Central Drive, Suite 1700

Dallas, Texas 75251

(Address of principal executive offices)

(214) 365-6900

(Registrant’s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

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, 26,705,437 shares, as of April 17, 2019

TRIUMPH BANCORP, INC.

FORM 10-Q

March 31, 2019

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PART I – FINANCIAL INFORMATION

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FINANCIAL STATEMENTS

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TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

March 31, 2019 and December 31, 2018

(Dollar amounts in thousands, except per share amounts)

	March 31, 2019 (Unaudited)	December 31, 2018
ASSETS		
Cash and due from banks	$ 61,726	$ 96,218
Interest bearing deposits with other banks	110,224	138,721
Total cash and cash equivalents	171,950	234,939
Securities - equity investments	5,183	5,044
Securities - available for sale	339,465	336,423
Securities - held to maturity, fair value of $7,278 and $7,326, respectively	8,499	8,487
Loans held for sale	610	2,106
Loans, net of allowance for loan and lease losses of $27,605 and $27,571, respectively	3,585,264	3,581,073
Federal Home Loan Bank stock, at cost	21,191	15,943
Premises and equipment, net	84,931	83,392
Other real estate owned, net	3,073	2,060
Goodwill	158,743	158,743
Intangible assets, net	38,272	40,674
Bank-owned life insurance	40,667	40,509
Deferred tax assets, net	7,608	8,438
Other assets	64,327	41,948
Total assets	$ 4,529,783	$ 4,559,779
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest bearing	$ 667,597	$ 724,527
Interest bearing	2,646,843	2,725,822
Total deposits	3,314,440	3,450,349
Customer repurchase agreements	3,727	4,485
Federal Home Loan Bank advances	405,000	330,000
Subordinated notes	48,956	48,929
Junior subordinated debentures	39,200	39,083
Other liabilities	72,244	50,326
Total liabilities	3,883,567	3,923,172
Commitments and contingencies - See Note 8 and Note 9		
Stockholders' equity - See Note 12		
Common stock, 26,709,411 and 26,949,936 shares outstanding, respectively	271	271
Additional paid-in-capital	470,292	469,341

Treasury stock, at cost	(9,881)	(2,288)
Retained earnings	185,274	170,486
Accumulated other comprehensive income (loss)	260	(1,203)
Total stockholders’ equity	646,216	636,607
Total liabilities and stockholders' equity	$ 4,529,783	$ 4,559,779

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the Three Months Ended March 31, 2019 and 2018

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31,	
	2019	2018
Interest and dividend income:		
Loans, including fees	$45,094	$36,883
Factored receivables, including fees	24,556	15,303
Securities	2,644	1,310
FHLB stock	192	105
Cash deposits	778	517
Total interest income	73,264	54,118
Interest expense:		
Deposits	8,218	4,277
Subordinated notes	839	837
Junior subordinated debentures	760	597
Other borrowings	2,136	1,277
Total interest expense	11,953	6,988
Net interest income	61,311	47,130
Provision for loan losses	1,014	2,548
Net interest income after provision for loan losses	60,297	44,582
Noninterest income:		
Service charges on deposits	1,606	1,145
Card income	1,844	1,244
Net OREO gains (losses) and valuation adjustments	209	(88)
Net gains (losses) on sale of securities	(11)	(272)
Fee income	1,612	800
Insurance commissions	919	714
Gain on sale of subsidiary or division	—	1,071
Other	1,359	558
Total noninterest income	7,538	5,172
Noninterest expense:		
Salaries and employee benefits	26,439	19,404
Occupancy, furniture and equipment	4,522	3,054
FDIC insurance and other regulatory assessments	299	199
Professional fees	1,865	1,640
Amortization of intangible assets	2,402	1,117

Advertising and promotion	1,604	1,029
Communications and technology	4,874	3,359
Other	6,561	4,240
Total noninterest expense	48,566	34,042
Net income before income tax	19,269	15,712
Income tax expense	4,481	3,644
Net income	14,788	12,068
Dividends on preferred stock	—	(190)
Net income available to common stockholders	$14,788	$11,878
Earnings per common share		
Basic	$0.55	$0.57
Diluted	$0.55	$0.56

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three Months Ended March 31, 2019 and 2018

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31,	
	2019	2018
Net income	$14,788	$12,068
Other comprehensive income:		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during the period	1,893	(1,708)
Reclassification of amount realized through sale of securities	11	272
Tax effect	(441)	322
Total other comprehensive income (loss)	1,463	(1,114)
Comprehensive income	$16,251	$10,954

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Three Months Ended March 31, 2019 and 2018

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Preferred Stock Liquidation Preference Amount	Common Stock Shares Outstanding	Common Stock Par Amount	Additional Paid-in-Capital	Treasury Stock Shares Outstanding	Treasury Stock Cost	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, January 1, 2018	$ 9,658	20,820,445	$ 209	$ 264,855	91,951	$ (1,784)	$ 119,356	$ (596)	$ 391,698
Issuance of restricted stock awards	—	5,492	—	—	—	—	—	—	—
Stock based compensation	—	—	—	486	—	—	—	—	486
Forfeiture of restricted stock awards	—	(1,574)	—	69	1,574	(69)	—	—	—
Stock options exercised	—	146	—	(4)	—	—	—	—	(4)
Series A Preferred dividends	—	—	—	—	—	—	(90)	—	(90)
Series B Preferred dividends	—	—	—	—	—	—	(100)	—	(100)
Net income	—	—	—	—	—	—	12,068	—	12,068
Other comprehensive income	—	—	—	—	—	—	—	(1,114)	(1,114)
Balance, March 31, 2018	$ 9,658	20,824,509	$ 209	$ 265,406	93,525	$ (1,853)	$ 131,234	$ (1,710)	$ 402,944
Balance, January 1, 2019	$ —	26,949,936	$ 271	$ 469,341	104,063	$ (2,288)	$ 170,486	$ (1,203)	$ 636,607
Issuance of restricted stock	—	8,063	—	—	—	—	—	—	—

awards									
Stock based compensation	—	—	—	911	—	—	—	—	911
Forfeiture of restricted stock awards	—	(1,276)	—	40	1,276	(40)	—	—	—
Purchase of treasury stock	—	(247,312)	—	—	247,312	(7,553)	—	—	(7,553)
Net income	—	—	—	—	—	—	14,788	—	14,788
Other comprehensive income	—	—	—	—	—	—	—	1,463	1,463
Balance, March 31, 2019	$ —	26,709,411	$ 271	$ 470,292	352,651	$ (9,881)	$ 185,274	$ 260	$ 646,216

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31, 2019 and 2018

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31, 2019	2018
Cash flows from operating activities:		
Net income	$14,788	$12,068
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	1,961	1,216
Net accretion on loans	(1,557)	(1,977)
Amortization of subordinated notes issuance costs	27	25
Amortization of junior subordinated debentures	117	111
Net amortization on securities	174	331
Amortization of intangible assets	2,402	1,117
Deferred taxes	389	439
Provision for loan losses	1,014	2,548
Stock based compensation	911	486
Net (gains) losses on sale of debt securities	11	272
Net (gains) losses on equity securities	(139)	75
Origination of loans held for sale	(4,010)	—
Proceeds from sale of loans originated for sale	5,594	—
Net gains on sale of loans	(88)	—
Net OREO (gains) losses and valuation adjustments	(209)	88
Gain on sale of subsidiary or division	—	(1,071)
Net change in operating leases	30	—
(Increase) decrease in other assets	(948)	(1,780)
Increase (decrease) in other liabilities	301	(4,498)
Net cash provided by (used in) operating activities	20,768	9,450
Cash flows from investing activities:		
Purchases of securities available for sale	(60,146)	—
Proceeds from sales of securities available for sale	37,467	34,196
Proceeds from maturities, calls, and pay downs of securities available for sale	21,122	21,210
Proceeds from maturities, calls, and pay downs of securities held to maturity	220	185
Net change in loans	(4,452)	(62,509)
Purchases of premises and equipment, net	(3,500)	(1,181)
(Purchases) redemptions of FHLB stock, net	(5,248)	(502)
Proceeds from sale of subsidiary or division, net	—	73,849
Net cash provided by (used in) investing activities	(14,537)	65,248
Cash flows from financing activities:		
Net increase (decrease) in deposits	(135,909)	(87,850)
Increase (decrease) in customer repurchase agreements	(758)	(4,737)

Increase (decrease) in Federal Home Loan Bank advances	75,000	(10,000)
Stock option exercises	—	(4)
Purchase of treasury stock	(7,553)	—
Dividends on preferred stock	—	(190)
Net cash provided by (used in) financing activities	(69,220)	(102,781)
Net increase (decrease) in cash and cash equivalents	(62,989)	(28,083)
Cash and cash equivalents at beginning of period	234,939	134,129
Cash and cash equivalents at end of period	$171,950	$106,046

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31, 2019 and 2018

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31,	
	2019	2018
Supplemental cash flow information:		
Interest paid	$10,164	$7,562
Income taxes paid, net	$42	$48
Cash paid for operating lease liabilities (See Note 1)	$1,023	$—
Supplemental noncash disclosures:		
Loans transferred to OREO	$804	$83
Lease liabilities arising from obtaining right-of-use assets (See Note 1)	$530	$—

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

On March 16, 2018, the Company sold the assets of Triumph Healthcare Finance (“THF”) and exited its healthcare asset-based lending line of business. THF operated within the Company’s TBK Bank subsidiary. See Note 2 – Business Combinations and Divestitures for details of the THF sale and its impact on our consolidated financial statements.

Principles of Consolidation and Basis of Presentation

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

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all normal and recurring adjustments considered necessary for a fair presentation. Transactions between the subsidiaries have been eliminated. These condensed consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2018. Operating results for the three months ended March 31, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019.

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

Premises and Equipment

The Company leases certain properties and equipment under operating leases. For leases in effect upon adoption of Accounting Standards Update 2016-02, “Leases (Topic 842)” at January 1, 2019 and for any leases commencing thereafter, the Company recognizes a liability to make lease payments, the “lease liability”, and an asset representing the right to use the underlying asset during the lease term, the “right-of-use asset”. The lease liability is measured at the present value of the remaining lease payments, discounted at the Company’s incremental borrowing rate. The right-of-use asset is measured at the amount of the lease liability adjusted for the remaining balance of any lease incentives received, any cumulative prepaid or accrued rent if the lease payments are uneven throughout the lease term, any unamortized initial direct costs, and any impairment of the right-of-use-asset. Operating lease expense consists of a single lease cost calculated so that the remaining cost of the lease is allocated over the remaining lease term on a straight-line basis, variable lease payments not included in the lease liability, and any impairment of the right-of-use asset.

Certain of the Company’s leases contain options to renew the lease; however, these renewal options are not included in the calculation of the lease liabilities as they are not reasonably certain to be exercised. The Company’s leases do not contain residual value guarantees or material variable lease payments. The Company does not have any material restrictions or covenants imposed by leases that would impact the Company’s ability to pay dividends or cause the Company to incur additional financial obligations.

The Company has made an accounting policy election to not apply the recognition requirements in Topic 842 to short-term leases. The Company has also elected to use the practical expedient to make an accounting policy election for property leases to include both lease and nonlease components as a single component and account for it as a lease.

The Company’s leases are not complex; therefore there were no significant assumptions or judgements made in applying the requirements of Topic 842, including the determination of whether the contracts contained a lease, the allocation of consideration in the contracts between lease and nonlease components, and the determination of the discount rates for the leases.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Adoption of New Accounting Standards

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). The FASB issued this ASU to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet by lessees for those leases classified as operating leases under current U.S. GAAP and disclosing key information about leasing arrangements. The new standard was adopted by the Company on January 1, 2019. ASU 2016-02 provides for a modified retrospective transition approach requiring lessees to recognize and measure leases on the balance sheet at the beginning of either the earliest period presented or as of the beginning of the period of adoption. The Company elected to apply ASU 2016-02 as of the beginning of the period of adoption (January 1, 2019) and will not restate comparative periods. Adoption of ASU 2016-02 resulted in the recognition of lease liabilities totaling $21,918,000 and the recognition of right-of-use assets totaling $22,123,000 as of the date of adoption. Lease liabilities and right-of-use assets are reflected in other liabilities and other assets, respectively. The initial balance sheet gross up upon adoption was primarily related to operating leases of certain real estate properties. The Company has no finance leases or material subleases or leasing arrangements for which it is the lessor of property or equipment. The Company has elected to apply the package of practical expedients allowed by the new standard under which the Company need not reassess whether any expired or existing contracts are leases or contain leases, the Company need not reassess the lease classification for any expired or existing lease, and the Company need not reassess initial direct costs for any existing leases. Adoption of ASU 2016-02 is not expected to materially change the Company's recognition of lease expense in future periods. See Note 5 – Premises and Equipment for additional disclosures related to leases.

Newly Issued, But Not Yet Effective Accounting Standards

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). ASU 2016-13 makes significant changes to the accounting for credit losses on financial instruments and disclosures about them. The new current expected credit loss (CECL) impairment model will require an estimate of expected credit losses, measured over the contractual life of an instrument, which considers reasonable and supportable forecasts of future economic conditions in addition to information about past events and current conditions. The standard provides significant flexibility and requires a high degree of judgment with regards to pooling financial assets with similar risk characteristics, determining the contractual terms of said financial assets and adjusting the relevant historical loss information in order to develop an estimate of expected lifetime losses. In addition, ASU 2016-13 amends the accounting for credit losses on debt securities and purchased financial assets with credit deterioration. The amendments in ASU 2016-13 are effective for fiscal years beginning after December 31, 2019, and interim periods within those years for public business entities that are SEC filers. The Company will adopt ASU 2016-13 on January 1, 2020. Early adoption is permitted for fiscal years, and interim periods within those years, beginning after December 15, 2018, however, the Company does not currently plan to early adopt the ASU. ASU 2016-13 permits the use of estimation techniques that are practical and relevant to the Company's circumstances, as long as they are applied consistently over time and faithfully estimate expected credit losses in accordance with the standard. The ASU lists several common credit loss methods that are acceptable such as a discounted cash flow (DCF) method, loss-rate method and roll-rate method. Depending on the nature of each identified pool of financial assets with similar risk characteristics, the Company currently plans on implementing a DCF method or a loss-rate method to estimate expected credit losses. The Company expects ASU 2016-13 to have a significant impact on the Company's accounting policies, internal controls over financial reporting and footnote disclosures. The Company has assessed its data and system needs and has begun designing its financial models to estimate expected credit losses in accordance with the standard. Further development, testing and evaluation of said models is required to determine the impact that adoption of this standard will have on the financial condition and results of operations of the Company.

NOTE 2 – Business combinations AND DIVESTITURES

First Bancorp of Durango, Inc. and Southern Colorado Corp.

Effective September 8, 2018 the Company acquired (i) First Bancorp of Durango, Inc. (“FBD”) and its community banking subsidiaries, The First National Bank of Durango and Bank of New Mexico and (ii) Southern Colorado Corp. (“SCC”) and its community banking subsidiary, Citizens Bank of Pagosa Springs, in all-cash transactions. The acquisitions expanded the Company’s market in Colorado and into New Mexico and further diversified the Company’s loan, customer, and deposit base.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

(Dollars in thousands)	FBD	SCC	Total
Assets acquired:			
Cash and cash equivalents	$151,973	$14,299	$166,272
Securities	237,183	33,477	270,660
Loans held for sale	1,238	—	1,238
Loans	256,384	31,454	287,838
FHLB stock	786	129	915
Premises and equipment	7,495	840	8,335
Other real estate owned	213	—	213
Intangible assets	11,915	2,154	14,069
Other assets	2,715	403	3,118
	669,902	82,756	752,658
Liabilities assumed:			
Deposits	601,194	73,464	674,658
Federal Home Loan Bank advances	737	—	737
Other liabilities	1,313	64	1,377
	603,244	73,528	676,772
Fair value of net assets acquired	66,658	9,228	75,886
Cash consideration transferred	134,667	13,294	147,961
Goodwill	$68,009	$4,066	$72,075

The Company has recognized goodwill of $72,075,000, which was calculated as the excess of both the consideration exchanged and the liabilities assumed as compared to the fair value of identifiable net assets acquired and was allocated to the Company’s Banking segment. The goodwill in these acquisitions resulted from expected synergies and expansion in the Colorado market and into the New Mexico market. The goodwill will be deducted for tax purposes. The intangible assets recognized in the transactions will be amortized utilizing an accelerated method over their ten year estimated useful lives. The initial accounting for the acquisitions has not been completed because the fair values of the assets acquired and liabilities assumed have not yet been finalized.

In connection with the acquisitions, the Company acquired loans both with and without evidence of credit quality deterioration since origination. The acquired loans were initially recorded at fair value with no carryover of any allowance for loan and lease losses. Acquired loans were segregated between those considered to be purchased credit impaired (“PCI”) loans and those without credit impairment at acquisition. The following table presents details of the estimated fair value of acquired loans at the acquisition date:

	Loans Excluding PCI Loans			PCI Loans			Total Loans
(Dollars in thousands)	FBD	SCC	Total	FBD	SCC	Total	Acquired
Commercial real estate	$140,955	$11,894	$152,849	$832	$200	$1,032	$153,881
Construction, land development, land	13,949	5,229	19,178	3,081	—	3,081	22,259
1-4 family residential properties	59,228	10,180	69,408	75	—	75	69,483

Farmland	5,709	1,207	6,916	—	—	—	6,916
Commercial	26,125	2,121	28,246	1,020	—	1,020	29,266
Factored receivables	—	—	—	—	—	—	—
Consumer	5,410	623	6,033	—	—	—	6,033
Mortgage warehouse	—	—	—	—	—	—	—
	$251,376	$31,254	$282,630	$5,008	$200	$5,208	$287,838

Revenue and earnings of FBD and SCC since the acquisition date have not been disclosed as the acquired companies were merged into the Company and separate financial information is not readily available.

Expenses related to the acquisitions, including professional fees and other transaction costs, totaling $5,871,000 were recorded in noninterest expense in the consolidated statements of income during the three months ended September 30, 2018.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Interstate Capital Corporation

On June 2, 2018, the Company acquired substantially all of the operating assets of, and assumed certain liabilities associated with, Interstate Capital Corporation's ("ICC") accounts receivable factoring business and other related financial services. ICC operates out of offices located in El Paso, Texas and Santa Teresa, New Mexico and provides invoice factoring to small and medium-sized businesses.

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

(Dollars in thousands)	
Assets acquired:	
Cash and cash equivalents	$75
Factored receivables	131,017
Premises and equipment	279
Intangible assets	13,920
Other assets	144
	145,435
Liabilities assumed:	
Deposits	7,389
Other liabilities	763
	8,152
Fair value of net assets acquired	137,283
Consideration:	
Cash paid	160,258
Contingent consideration	20,000
Total consideration	180,258
Goodwill	$42,975

ICC's net assets acquired were allocated to the Company's Factoring segment whose factoring operations were significantly expanded as a result of the transaction. The Company has recognized goodwill of $42,975,000, which was calculated as the excess of both the fair value of cash consideration exchanged and the fair value of the contingent liability assumed as compared to the fair value of identifiable net assets acquired and was allocated to the Company's Factoring segment. The goodwill in this acquisition resulted from expected synergies and expansion in the factoring market. The goodwill will be deducted for tax purposes. The intangible assets recognized include a customer relationship intangible asset with an acquisition date fair value of $13,500,000 which will be amortized utilizing an accelerated method over its eight year estimated useful life and a trade name intangible asset with an acquisition date fair value of $420,000 which will be amortized on a straight-line basis over its three year estimated useful life.

Consideration paid included contingent consideration with an acquisition date fair value of $20,000,000. The contingent consideration is based on a proprietary index designed to approximate the rise and fall of transportation invoice prices subsequent to acquisition and is correlated to monthly movements in average invoice prices historically experienced by ICC. At the end of a 30 month earnout period, a final average index price will be calculated and the contingent consideration will be settled in cash based on the final average index price. Final contingent consideration payout will range from $0 to $22,000,000, and the fair value of the associated liability will be remeasured each reporting period with changes in fair value recorded in noninterest income in the consolidated statements of income. The fair value of the contingent consideration was $21,006,000 at March 31, 2019.

Revenue and earnings of ICC since the acquisition date have not been disclosed as the acquired company was merged into the Company and separate financial information is not readily available. The initial accounting for the acquisition has not been completed because the fair values of the assets acquired and liabilities assumed have not yet been finalized.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Expenses related to the acquisition, including professional fees and other transaction costs, totaling $1,094,000 were recorded in noninterest expense in the consolidated statements of income during the three months ended June 30, 2018.

Triumph Healthcare Finance

On January 19, 2018, the Company entered into an agreement to sell the assets (the "Disposal Group") of Triumph Healthcare Finance ("THF") and exit its healthcare asset-based lending line of business. At December 31, 2017, the carrying amount of the Disposal Group was transferred to assets held for sale. The sale closed on March 16, 2018.

A summary of the carrying amount of the assets in the Disposal Group and the gain on sale is as follows:

(Dollars in thousands)	
Carrying amount of assets in the disposal group:	
Loans	$70,147
Premises and equipment, net	19
Goodwill	1,457
Intangible assets, net	958
Other assets	197
Total carrying amount	72,778
Total consideration received	74,017
Gain on sale of division	1,239
Transaction costs	168
Gain on sale of division, net of transaction costs	$1,071

The Disposal Group was included in the Banking segment, and the loans in the Disposal Group were previously included in the commercial loan portfolio.

NOTE 3 - SECURITIES

Equity Securities With Readily Determinable Fair Values

The Company held equity securities with fair values of $5,183,000 and $5,044,000 at March 31, 2019 and December 31, 2018, respectively. The gross realized and unrealized losses recognized on equity securities with readily determinable fair values in noninterest income in the Company's consolidated statements of income were as follows:

	Three Months Ended March 31,	
(Dollars in thousands)	2019	2018
Unrealized gains (losses) on equity securities still held at the reporting date	$139	$(75)

Realized gains (losses) on equity securities sold during the period	—	—
	$ 139	$ (75)

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Debt Securities

Debt securities have been classified in the financial statements as available for sale or held to maturity. The amortized cost of debt securities and their approximate fair values are as follows:

(Dollars in thousands) March 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
U.S. Government agency obligations	$ 88,850	$ 11	$ (517)	$ 88,344
U.S. Treasury notes	1,960	—	(12)	1,948
Mortgage-backed securities, residential	39,691	366	(252)	39,805
Asset backed securities	9,552	1	(37)	9,516
State and municipal	76,371	266	(96)	76,541
CLO securities	58,986	92	(49)	59,029
Corporate bonds	59,034	596	(24)	59,606
SBA pooled securities	4,682	11	(17)	4,676
Total available for sale securities	$ 339,126	$ 1,343	$ (1,004)	$ 339,465

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Held to maturity securities:				
CLO securities	$ 8,499	$ —	$ (1,221)	$ 7,278

(Dollars in thousands) December 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
U.S. Government agency obligations	$ 93,500	$ 9	$ (861)	$ 92,648
U.S. Treasury notes	1,956	—	(24)	1,932
Mortgage-backed securities, residential	39,971	222	(457)	39,736
Asset backed securities	10,165	11	(31)	10,145
State and municipal	118,826	175	(550)	118,451
Corporate bonds	68,804	150	(167)	68,787
SBA pooled securities	4,766	5	(47)	4,724
Total available for sale securities	$ 337,988	$ 572	$ (2,137)	$ 336,423

	Amortized	Gross Unrecognized	Gross Unrecognized	Fair

	Cost	Gains	Losses	Value
Held to maturity securities:				
CLO securities	$ 8,487	$ —	$ (1,161)	$ 7,326

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The amortized cost and estimated fair value of debt securities at March 31, 2019, 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.

(Dollars in thousands)	Available for Sale Securities Amortized Cost	Available for Sale Securities Fair Value	Held to Maturity Securities Amortized Cost	Held to Maturity Securities Fair Value
Due in one year or less	$98,739	$98,551	$—	$—
Due from one year to five years	105,580	105,998	—	—
Due from five years to ten years	16,864	16,872	6,665	5,667
Due after ten years	64,018	64,047	1,834	1,611
	285,201	285,468	8,499	7,278
Mortgage-backed securities, residential	39,691	39,805	—	—
Asset backed securities	9,552	9,516	—	—
SBA pooled securities	4,682	4,676	—	—
	$339,126	$339,465	$8,499	$7,278

Proceeds from sales of debt securities and the associated gross gains and losses are as follows:

(Dollars in thousands)	Three Months Ended March 31, 2019	2018
Proceeds	$37,467	$34,196
Gross gains	$119	$5
Gross losses	$(130)	$(277)

Debt securities with a carrying amount of approximately $67,624,000 and $80,041,000 at March 31, 2019 and December 31, 2018, respectively, were pledged to secure public deposits, customer repurchase agreements, and for other purposes required or permitted by law.

Information pertaining to debt securities with gross unrealized and unrecognized losses, aggregated by investment category and length of time that individual securities have been in a continuous loss position, are summarized as follows:

(Dollars in thousands) March 31, 2019	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Total Unrealized Losses

Available for sale securities:						
U.S. Government agency obligations	$4,965	$ (1)	$80,393	$ (516)	$85,358	$ (517)
U.S. Treasury notes	—	—	1,948	(12)	1,948	(12)
Mortgage-backed securities, residential	2,510	(31)	15,851	(221)	18,361	(252)
Asset backed securities	2,843	(7)	4,970	(30)	7,813	(37)
State and municipal	3,442	(14)	8,320	(82)	11,762	(96)
CLO securities	14,684	(49)	—	—	14,684	(49)
Corporate bonds	1,964	(3)	5,140	(21)	7,104	(24)
SBA pooled securities	673	(5)	2,304	(12)	2,977	(17)
	$31,081	$ (110)	$118,926	$ (894)	$150,007	$ (1,004)

(Dollars in thousands) March 31, 2019	Less than 12 Months Fair Value	 Unrecognized Losses	12 Months or More Fair Value	 Unrecognized Losses	Total Fair Value	 Unrecognized Losses
Held to maturity securities:						
CLO securities	$2,815	$ (301)	$4,463	$ (920)	$7,278	$ (1,221)

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(Dollars in thousands) December 31, 2018	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Total Unrealized Losses
Available for sale securities:						
U.S. Government agency obligations	$17,203	$ (83)	$72,471	$ (778)	$89,674	$ (861)
U.S. Treasury notes	—	—	1,932	(24)	1,932	(24)
Mortgage-backed securities, residential	9,334	(97)	13,910	(360)	23,244	(457)
Asset backed securities	197	(1)	4,970	(30)	5,167	(31)
State and municipal	31,142	(201)	22,478	(349)	53,620	(550)
Corporate bonds	41,874	(166)	149	(1)	42,023	(167)
SBA pooled securities	2,602	(20)	1,451	(27)	4,053	(47)
	$102,352	$ (568)	$117,361	$ (1,569)	$219,713	$ (2,137)

(Dollars in thousands) December 31, 2018	Less than 12 Months Fair Value	Less than 12 Months Unrecognized Losses	12 Months or More Fair Value	12 Months or More Unrecognized Losses	Total Fair Value	Total Unrecognized Losses
Held to maturity securities:						
CLO securities	$2,861	$ (242)	$4,465	$ (919)	$7,326	$ (1,161)

Management evaluates debt 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.

At March 31, 2019, the Company had 144 debt securities in an unrealized loss position. Management does not have the intent to sell any of these securities 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 securities approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe that any of the securities are impaired due to reasons of credit quality. Accordingly, as of March 31, 2019, management believes that the unrealized losses detailed in the previous table are temporary and no other than temporary impairment loss has been recognized in the Company’s consolidated statements of income.

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES

The following table presents the recorded investment and unpaid principal for loans:

(Dollars in thousands)	March 31, 2019 Recorded Investment	Unpaid Principal	Difference	December 31, 2018 Recorded Investment	Unpaid Principal	Difference
Commercial real estate	$1,093,882	$1,101,549	$(7,667)	$992,080	$999,887	$(7,807)
Construction, land development, land	145,002	148,883	(3,881)	179,591	183,664	(4,073)
1-4 family residential properties	194,067	195,639	(1,572)	190,185	191,852	(1,667)
Farmland	156,299	158,743	(2,444)	170,540	173,583	(3,043)
Commercial	1,117,640	1,120,297	(2,657)	1,114,971	1,118,028	(3,057)
Factored receivables	570,663	572,898	(2,235)	617,791	620,103	(2,312)
Consumer	27,941	28,056	(115)	29,822	29,956	(134)
Mortgage warehouse	307,375	307,375	—	313,664	313,664	—
Total	3,612,869	$3,633,440	$(20,571)	3,608,644	$3,630,737	$(22,093)
Allowance for loan and lease losses	(27,605)			(27,571)		
	$3,585,264			$3,581,073		

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The difference between the recorded investment and the unpaid principal is primarily (1) premiums and discounts associated with acquisition date fair value adjustments on acquired loans (both PCI and non-PCI) totaling $17,861,000 and $19,514,000 at March 31, 2019 and December 31, 2018, respectively, and (2) net deferred origination and factoring fees totaling $2,710,000 and $2,579,000 at March 31, 2019 and December 31, 2018, respectively.

At March 31, 2019 and December 31, 2018, the Company had $54,295,000 and $58,566,000, respectively, of customer reserves associated with factored receivables. These amounts represent customer reserves held to settle any payment disputes or collection shortfalls, may be used to pay customers' obligations to various third parties as directed by the customer, are periodically released to or withdrawn by customers, and are reported as deposits in the consolidated balance sheets.

Loans with carrying amounts of $971,582,000 and $847,523,000 at March 31, 2019 and December 31, 2018, respectively, were pledged to secure Federal Home Loan Bank borrowing capacity.

Allowance for Loan and Lease Losses

The activity in the allowance for loan and lease losses ("ALLL") is as follows:

(Dollars in thousands) Three months ended March 31, 2019	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 4,493	$ 692	$ —	$ 1	$ 5,186
Construction, land development, land	1,134	(235)	(78)	85	906
1-4 family residential properties	317	39	(36)	47	367
Farmland	535	43	—	—	578
Commercial	12,865	120	(780)	7	12,212
Factored receivables	7,299	189	(9)	16	7,495
Consumer	615	173	(278)	45	555
Mortgage warehouse	313	(7)	—	—	306
	$ 27,571	$ 1,014	$ (1,181)	$ 201	$ 27,605

(Dollars in thousands) Three months ended March 31, 2018	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 3,435	$ 33	$ —	$ —	$ 3,468
Construction, land development, land	883	107	—	8	998
1-4 family residential properties	293	(48)	—	3	248
Farmland	310	308	—	—	618
Commercial	8,150	1,420	(439)	62	9,193
Factored receivables	4,597	469	(584)	11	4,493
Consumer	783	271	(443)	108	719
Mortgage warehouse	297	(12)	—	—	285
	$ 18,748	$ 2,548	$ (1,466)	$ 192	$ 20,022

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

(Dollars in thousands)	Loan Evaluation				ALLL Allocations			
March 31, 2019	Individually	Collectively	PCI	Total loans	Individually	Collectively	PCI	Total ALLL
Commercial real estate	$7,583	$1,075,768	$10,531	$1,093,882	$532	$ 4,654	$ —	$ 5,186
Construction, land development, land	1,020	137,186	6,796	145,002	21	885	—	906
1-4 family residential properties	1,427	191,536	1,104	194,067	165	202	—	367
Farmland	6,515	149,064	720	156,299	72	506	—	578
Commercial	12,797	1,103,877	966	1,117,640	1,859	10,349	4	12,212
Factored receivables	8,319	562,344	—	570,663	2,750	4,745	—	7,495
Consumer	397	27,544	—	27,941	9	546	—	555
Mortgage warehouse	—	307,375	—	307,375	—	306	—	306
	$38,058	$3,554,694	$20,117	$3,612,869	$5,408	$ 22,193	$ 4	$ 27,605

(Dollars in thousands)	Loan Evaluation				ALLL Allocations			
December 31, 2018	Individually	Collectively	PCI	Total loans	Individually	Collectively	PCI	Total ALLL
Commercial real estate	$7,097	$974,280	$10,703	$992,080	$487	$ 4,006	$ —	$ 4,493
Construction, land development, land	91	172,709	6,791	179,591	21	1,113	—	1,134
1-4 family residential properties	2,333	186,664	1,188	190,185	125	192	—	317
Farmland	7,424	162,735	381	170,540	72	463	—	535
Commercial	17,153	1,096,813	1,005	1,114,971	1,958	10,903	4	12,865
Factored receivables	6,759	611,032	—	617,791	1,968	5,331	—	7,299
Consumer	355	29,467	—	29,822	22	593	—	615
Mortgage warehouse	—	313,664	—	313,664	—	313	—	313
	$41,212	$3,547,364	$20,068	$3,608,644	$4,653	$ 22,914	$ 4	$ 27,571

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The following is a summary of information pertaining to impaired loans. PCI loans that have not deteriorated subsequent to acquisition are not considered impaired and therefore do not require an allowance and are excluded from these tables.

	Impaired Loans and Purchased Credit				
	Impaired Loans With a Valuation Allowance			Impaired Loans Without a Valuation Allowance	
(Dollars in thousands) March 31, 2019	Recorded Investment	Unpaid Principal	Related Allowance	Recorded Investment	Unpaid Principal
Commercial real estate	$5,717	$5,747	$ 532	$1,866	$1,876
Construction, land development, land	91	91	21	929	1,032
1-4 family residential properties	265	248	165	1,162	1,280
Farmland	914	900	72	5,601	5,844
Commercial	4,628	4,644	1,859	8,169	8,365
Factored receivables	8,319	8,319	2,750	—	—
Consumer	26	24	9	371	371
Mortgage warehouse	—	—	—	—	—
PCI	71	55	4	—	—
	$20,031	$20,028	$ 5,412	$18,098	$18,768

	Impaired Loans and Purchased Credit				
	Impaired Loans With a Valuation Allowance			Impaired Loans Without a Valuation Allowance	
(Dollars in thousands) December 31, 2018	Recorded Investment	Unpaid Principal	Related Allowance	Recorded Investment	Unpaid Principal
Commercial real estate	$5,610	$5,614	$ 487	$1,487	$1,520
Construction, land development, land	91	91	21	—	—
1-4 family residential properties	225	216	125	2,108	2,255
Farmland	914	900	72	6,510	6,979
Commercial	5,235	5,254	1,958	11,918	12,089
Factored receivables	6,759	6,759	1,968	—	—
Consumer	63	57	22	292	296
Mortgage warehouse	—	—	—	—	—
PCI	71	55	4	—	—
	$18,968	$18,946	$ 4,657	$22,315	$23,139

The following table presents average impaired loans and interest recognized on impaired loans:

	Three Months Ended March 31, 2019		Three Months Ended March 31, 2018	
(Dollars in thousands)	Average Impaired Loans	Interest Recognized	Average Impaired Loans	Interest Recognized
Commercial real estate	$7,340	$ —	$947	$ —
Construction, land development, land	555	—	137	—
1-4 family residential properties	1,880	1	2,485	2
Farmland	6,969	45	3,977	7
Commercial	14,975	52	27,657	490
Factored receivables	7,539	—	4,234	—
Consumer	376	—	406	1
Mortgage warehouse	—	—	—	—
PCI	71	—	—	—
	$39,705	$ 98	$39,843	$ 500

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Past Due and Nonaccrual Loans

The following is a summary of contractually past due and nonaccrual loans:

(Dollars in thousands) March 31, 2019	Past Due 30-89 Days Still Accruing	Past Due 90 Days or More Still Accruing	Nonaccrual	Total
Commercial real estate	$ 2,320	$ —	$ 7,583	$ 9,903
Construction, land development, land	120	—	1,020	1,140
1-4 family residential properties	1,298	142	1,349	2,789
Farmland	870	—	3,077	3,947
Commercial	8,464	—	10,468	18,932
Factored receivables	38,122	3,821	—	41,943
Consumer	936	—	397	1,333
Mortgage warehouse	—	—	—	—
PCI	11	—	4,082	4,093
	$ 52,141	$ 3,963	$ 27,976	$ 84,080

(Dollars in thousands) December 31, 2018	Past Due 30-89 Days Still Accruing	Past Due 90 Days or More Still Accruing	Nonaccrual	Total
Commercial real estate	$ 2,625	$ 397	$ 7,096	$ 10,118
Construction, land development, land	1,003	—	91	1,094
1-4 family residential properties	2,103	—	1,588	3,691
Farmland	308	—	4,059	4,367
Commercial	3,728	999	14,071	18,798
Factored receivables	41,135	2,152	—	43,287
Consumer	1,005	11	355	1,371
Mortgage warehouse	—	—	—	—
PCI	788	—	3,525	4,313
	$ 52,695	$ 3,559	$ 30,785	$ 87,039

The following table presents information regarding nonperforming loans:

(Dollars in thousands)

	March 31, 2019	December 31, 2018
Nonaccrual loans[1]	$ 27,976	$ 30,785
Factored receivables greater than 90 days past due	3,821	2,152
Troubled debt restructurings accruing interest	2,408	3,117
	$ 34,205	$ 36,054

(1) Includes troubled debt restructurings of $2,971,000 and $3,730,000 at March 31, 2019 and December 31, 2018, respectively.

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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 on a regular basis. Large groups of smaller balance homogeneous loans, such as consumer loans, are analyzed primarily based on payment status. The Company uses the following definitions for risk ratings:

Pass – Pass rated loans have low to average risk and are not otherwise classified.

Classified – Classified loans 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. Certain classified loans have 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 classified loans and it was probable, at acquisition, that all contractually required principal and interest payments would not be collected. The Company evaluates these loans on a projected cash flow basis with this evaluation performed quarterly.

As of March 31, 2019 and December 31, 2018, based on the most recent analysis performed, the risk category of loans is as follows:

(Dollars in thousands) March 31, 2019	Pass	Classified	PCI	Total
Commercial real estate	$1,079,042	$ 4,309	$10,531	$1,093,882
Construction, land development, land	137,186	1,020	6,796	145,002
1-4 family residential	191,364	1,599	1,104	194,067
Farmland	147,671	7,908	720	156,299
Commercial	1,100,564	16,110	966	1,117,640
Factored receivables	563,145	7,518	—	570,663
Consumer	27,539	402	—	27,941
Mortgage warehouse	307,375	—	—	307,375
	$3,553,886	$ 38,866	$20,117	$3,612,869

(Dollars in thousands) December 31, 2018	Pass	Classified	PCI	Total
Commercial real estate	$977,548	$ 3,829	$10,703	$992,080
Construction, land development, land	172,709	91	6,791	179,591

1-4 family residential	187,251	1,746	1,188	190,185
Farmland	161,565	8,594	381	170,540
Commercial	1,093,759	20,207	1,005	1,114,971
Factored receivables	612,577	5,214	—	617,791
Consumer	29,461	361	—	29,822
Mortgage warehouse	313,664	—	—	313,664
	$3,548,534	$ 40,042	$20,068	$3,608,644

Troubled Debt Restructurings

The Company had a recorded investment in troubled debt restructurings of $5,379,000 and $6,847,000 as of March 31, 2019 and December 31, 2018, respectively. The Company had allocated specific allowances for these loans of $331,000 and $286,000 at March 31, 2019 and December 31, 2018, respectively, and had not committed to lend additional amounts.

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The following table presents the pre- and post-modification recorded investment of loans modified as troubled debt restructurings during the three months ended March 31, 2019 and 2018. The Company did not grant principal reductions or interest rate concessions on any restructured loans.

(Dollars in thousands)	Extended Amortization Period	Payment Deferrals	Total Modifications	Number of Loans
March 31, 2019				
Commercial	$ —	$ 84	$ 84	2
March 31, 2018				
1-4 family residential properties	$ 110	$ —	$ 110	3
Commercial	75	—	75	2
	$ 185	$ —	$ 185	5

During the three months ended March 31, 2019, the Company had one relationship consisting of seven loans modified as a troubled debt restructuring with a recorded investment of $688,000 for which there was a payment default within twelve months following the modification. During the three months ended March 31, 2018, the Company had one loan modified as a troubled debt restructuring with a recorded investment of $156,000 for which there was a payment default within twelve months following the modification. Default is determined at 90 or more days past due.

Residential Real Estate Loans In Process of Foreclosure

At March 31, 2019, the Company had $748,000 in 1-4 family residential real estate loans for which formal foreclosure proceedings were in process.

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 are as follows:

	March 31, 2019	December 31, 2018
Contractually required principal and interest:		
Real estate loans	$ 22,643	$ 22,644
Commercial loans	4,021	4,078
Outstanding contractually required principal and interest	$ 26,664	$ 26,722
Gross carrying amount included in loans receivable	$ 20,117	$ 20,068

The changes in accretable yield in regard to loans transferred at acquisition for which it was probable that all contractually required payments would not be collected are as follows:

	Three Months Ended March 31,	
	2019	2018
Accretable yield, beginning balance	$5,711	$2,793
Additions	—	—
Accretion	(411)	(384)
Reclassification from nonaccretable to accretable yield	—	33
Disposals	(17)	—
Accretable yield, ending balance	$5,283	$2,442

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(Unaudited)

NOTE 5 – PREMISES AND EQUIPMENT

The Company leases certain premises and equipment under operating leases. At March 31, 2019, the Company had lease liabilities totaling $21,609,000 and right-of-use assets totaling $21,793,000 related to these leases. Lease liabilities and right-of-use assets are reflected in other liabilities and other assets, respectively. For the three months ended March 31, 2019, the weighted average remaining lease term for operating leases was 6.7 years and the weighted average discount rate used in the measurement of operating lease liabilities was 3.4%.

Lease costs were as follows:

(Dollars in thousands)	Three Months Ended March 31, 2019
Operating lease cost	$ 1,053
Short-term lease cost	—
Variable lease cost	114
Total lease cost	$ 1,167

Rent expense for the three months ended March 31, 2018, prior to the adoption of ASU 2016-02, was $599,000.

There were no sale and leaseback transactions, leveraged leases, or lease transactions with related parties during the three months ended March 31, 2019. At March 31, 2019, the Company had leases that had not yet commenced, but will create approximately $1,500,000 of additional lease liabilities and right-of-use assets for the Company.

A maturity analysis of operating lease liabilities and reconciliation of the undiscounted cash flows to the total operating lease liability is as follows:

(Dollars in thousands)	March 31, 2019
Lease payments due:	
Within one year	$ 3,899
After one but within two years	4,104
After two but within three years	3,761
After three but within four years	3,385
After four but within five years	2,970
After five years	6,181
Total undiscounted cash flows	24,300
Discount on cash flows	(2,691)
Total lease liability	$ 21,609

NOTE 6 - GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets consist of the following:

(Dollars in thousands)	March 31, 2019	December 31, 2018
Goodwill	$ 158,743	$ 158,743

	March 31, 2019			December 31, 2018		
(Dollars in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit intangibles	$ 43,578	$ (17,829)	$ 25,749	$ 43,578	$ (16,266)	$ 27,312
Other intangible assets	15,700	(3,177)	12,523	15,700	(2,338)	13,362
	$ 59,278	$ (21,006)	$ 38,272	$ 59,278	$ (18,604)	$ 40,674

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The changes in goodwill and intangible assets are as follows:

(Dollars in thousands)	Three Months Ended March 31, 2019	2018
Beginning balance	$199,417	$63,778
Acquired goodwill, measurement period adjustment	—	1,680
Acquired intangibles	—	15
Divestiture	—	(433)
Amortization of intangibles	(2,402)	(1,117)
Ending balance	$197,015	$63,923

NOTE 7 – Variable Interest Entities

Collateralized Loan Obligation Funds – Closed

The Company holds investments in the subordinated notes of the following closed CLO funds:

(Dollars in thousands)	Offering Date	Offering Amount
Trinitas CLO IV, LTD (Trinitas IV)	June 2, 2016	$406,650
Trinitas CLO V, LTD (Trinitas V)	September 22, 2016	$409,000
Trinitas CLO VI, LTD (Trinitas VI)	June 20, 2017	$717,100

The carrying amounts of the Company's investments in the subordinated notes of the CLO funds, which represent the Company's maximum exposure to loss as a result of its involvement with the CLO funds, totaled $8,499,000 and $8,487,000 at March 31, 2019 and December 31, 2018, respectively, and are classified as held to maturity securities within the Company's consolidated balance sheets.

The Company performed a consolidation analysis to confirm whether the Company was required to consolidate the assets, liabilities, equity or operations of the closed CLO funds in its financial statements. The Company concluded that the closed CLO funds were variable interest entities and that the Company holds variable interests in the entities in the form of its investments in the subordinated notes of entities. However, the Company also concluded that the Company does not have the power to direct the activities that most significantly impact the entities' economic performance. As a result, the Company was not the primary beneficiary and therefore was not required to consolidate the assets, liabilities, equity, or operations of the closed CLO funds in the Company's financial statements.

NOTE 8 - Legal Contingencies

Various legal claims have arisen from time to time in the normal course of business which, in the opinion of management, do not have a material effect on the Company’s consolidated financial statements.

NOTE 9 - OFF-BALANCE SHEET LOAN COMMITMENTS

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

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

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

	March 31, 2019			December 31, 2018		
(Dollars in thousands)	Fixed Rate	Variable Rate	Total	Fixed Rate	Variable Rate	Total
Unused lines of credit	$207,197	$ 318,911	$526,108	$69,053	$ 433,667	$502,720
Standby letters of credit	1,807	4,063	5,870	2,285	3,931	6,216
Mortgage warehouse commitments	—	306,508	306,508	—	266,458	266,458

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.

Mortgage warehouse commitments are unconditionally cancellable and represent the unused capacity on mortgage warehouse facilities the Company has approved. The Company reserves the right to refuse to buy any mortgage loans offered for sale by a customer, for any reason, at the Company’s sole and absolute discretion.

The Company records an allowance for loan and lease losses on off-balance sheet lending-related commitments through a charge to other noninterest expense on the Company’s consolidated statements of income. At March 31, 2019 and December 31, 2018, the allowance for loan and lease losses on off-balance sheet lending-related commitments totaled $537,000 and $538,000, respectively, and was included in other liabilities on the Company’s consolidated balance sheets.

In addition to the commitments above, the Company had overdraft protection available in the amounts of $2,776,000 and $3,087,000 at March 31, 2019 and December 31, 2018, respectively.

NOTE 10 - Fair Value Disclosures

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

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

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

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

The methods of determining the fair value of assets and liabilities presented in this note are consistent with the methodologies disclosed in Note 15 of the Company's 2018 Form 10-K.

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Assets and liabilities measured at fair value on a recurring basis are summarized in the table below.

(Dollars in thousands) March 31, 2019	Fair Value Measurements Using Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value on a recurring basis				
Securities available for sale				
U.S. Government agency obligations	$—	$88,344	$—	$88,344
U.S. Treasury notes	—	1,948	—	1,948
Mortgage-backed securities, residential	—	39,805	—	39,805
Asset backed securities	—	9,516	—	9,516
State and municipal	—	76,541	—	76,541
CLO securities	—	59,029	—	59,029
Corporate bonds	—	59,606	—	59,606
SBA pooled securities	—	4,676	—	4,676
	$—	$339,465	$—	$339,465
Equity securities				
Mutual fund	$5,183	$—	$—	$5,183
Loans held for sale	$—	$610	$—	$610
Liabilities measured at fair value on a recurring basis				
ICC Contingent consideration	$—	$—	$21,006	$21,006

(Dollars in thousands) December 31, 2018	Fair Value Measurements Using Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value on a recurring basis				
Securities available for sale				
U.S. Government agency obligations	$—	$92,648	$—	$92,648
U.S. Treasury notes	—	1,932	—	1,932
Mortgage-backed securities, residential	—	39,736	—	39,736
Asset backed securities	—	10,145	—	10,145
State and municipal	—	118,451	—	118,451
Corporate bonds	—	68,787	—	68,787

SBA pooled securities	—	4,724	—	4,724
	$—	$336,423	$—	$336,423
Equity securities				
Mutual fund	$5,044	$—	$—	$5,044
Loans held for sale	$—	$2,106	$—	$2,106
Liabilities measured at fair value on a recurring basis				
ICC Contingent consideration	$—	$—	$20,745	$20,745

There were no transfers between levels during 2019 or 2018.

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On June 2, 2018, the Company acquired substantially all of the operating assets of, and assumed certain liabilities associated with, Interstate Capital Corporation's ("ICC") accounts receivable factoring business and other related financial services. Consideration for the acquisition included contingent consideration, which is based on a proprietary index designed to approximate the rise and fall of transportation invoice prices subsequent to acquisition. The index is calculated by a third party data analytics firm and is correlated to monthly movements in average invoice prices historically experienced by ICC. At the end of a 30 month earnout period after closing, a final average index price will be calculated and the contingent consideration will be settled in cash based on the final average index price, with a payout ranging from $0 to $22,000,000. The fair value of the contingent consideration is calculated each reporting period, and changes in the fair value of the contingent consideration are recorded in noninterest income in the consolidated statements of income. At March 31, 2019 and December 31, 2018, the ICC contingent consideration liability was the only recurring fair value measurement with Level 3 unobservable inputs. At March 31, 2019 and December 31, 2018, the fair value calculation of the contingent consideration resulted in a payout of $22,000,000, and discount rates of 2.6% and 2.9%, respectively, were applied to calculate the present value of the contingent consideration. A reconciliation of the opening balance to the closing balance of the fair value of the contingent consideration is as follows:

(Dollars in thousands)	Three Months Ended March 31, 2019
Beginning balance	$20,745
Contingent consideration recognized in business combination	—
Change in fair value of contingent consideration recognized in earnings	261
Consideration settlement payments	—
Ending balance	$21,006

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Assets measured at fair value on a non-recurring basis are summarized in the table below. There were no liabilities measured at fair value on a non-recurring basis at March 31, 2019 and December 31, 2018.

(Dollars in thousands)	Fair Value Measurements Using			Total
March 31, 2019	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans				
Commercial real estate	$ —	$ —	$ 5,185	$ 5,185
Construction, land development, land	—	—	70	70
1-4 family residential properties	—	—	100	100
Farmland	—	—	842	842
Commercial	—	—	2,769	2,769
Factored receivables	—	—	5,569	5,569
Consumer	—	—	17	17
PCI	—	—	67	67
Other real estate owned [1]				
Commercial real estate	—	—	58	58
1-4 family residential properties	—	—	22	22
	$ —	$ —	$ 14,699	$ 14,699

(Dollars in thousands)	Fair Value Measurements Using			Total
December 31, 2018	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans				
Commercial real estate	$ —	$ —	$ 5,123	$ 5,123
Construction, land development, land	—	—	70	70
1-4 family residential properties	—	—	100	100
Farmland	—	—	842	842
Commercial	—	—	3,277	3,277
Factored receivables	—	—	4,791	4,791
Consumer	—	—	41	41
PCI	—	—	67	67
Other real estate owned [1]				
Commercial real estate	—	—	1,095	1,095
	$ —	$ —	$ 15,406	$ 15,406

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

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

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OREO: OREO is primarily 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 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.

The estimated fair values of the Company’s financial instruments not measured at fair value on a recurring or non-recurring basis at March 31, 2019 and December 31, 2018 were as follows:

(Dollars in thousands)	Carrying	Fair Value Measurements Using			Total
March 31, 2019	Amount	Level 1	Level 2	Level 3	Fair Value
Financial assets:					
Cash and cash equivalents	$171,950	$171,950	$—	$—	$171,950
Securities - held to maturity	8,499	—	—	7,278	7,278
Loans not previously presented, gross	3,592,838	—	—	3,567,297	3,567,297
FHLB stock	21,191	N/A	N/A	N/A	N/A
Accrued interest receivable	19,035	19,035	—	—	19,035
Financial liabilities:					
Deposits	3,314,440	—	3,309,683	—	3,309,683
Customer repurchase agreements	3,727	—	3,727	—	3,727
Federal Home Loan Bank advances	405,000	—	405,000	—	405,000
Subordinated notes	48,956	—	52,500	—	52,500
Junior subordinated debentures	39,200	—	41,000	—	41,000
Accrued interest payable	8,368	8,368	—	—	8,368

(Dollars in thousands)	Carrying	Fair Value Measurements Using			Total
December 31, 2018	Amount	Level 1	Level 2	Level 3	Fair Value
Financial assets:					
Cash and cash equivalents	$234,939	$234,939	$—	$—	$234,939
Securities - held to maturity	8,487	—	—	7,326	7,326
Loans not previously presented, gross	3,589,676	—	—	3,505,724	3,505,724
FHLB stock	15,943	N/A	N/A	N/A	N/A
Accrued interest receivable	19,094	19,094	—	—	19,094

Financial liabilities:					
Deposits	3,450,349	—	3,440,570	—	3,440,570
Customer repurchase agreements	4,485	—	4,485	—	4,485
Federal Home Loan Bank advances	330,000	—	330,000	—	330,000
Subordinated notes	48,929	—	50,500	—	50,500
Junior subordinated debentures	39,083	—	40,808	—	40,808
Accrued interest payable	6,722	6,722	—	—	6,722

NOTE 11 - Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and TBK Bank to maintain minimum amounts and ratios (set forth in the table below) of total, common equity Tier 1, and Tier 1 capital to risk weighted assets, and of Tier 1 capital to average assets. Management believes, as of March 31, 2019 and December 31, 2018, the Company and TBK Bank meet all capital adequacy requirements to which they are subject.

As of March 31, 2019 and December 31, 2018, TBK Bank’s capital ratios exceeded those levels necessary to be categorized as “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as “well capitalized,” TBK Bank must maintain minimum total risk based, common equity Tier 1 risk based, Tier 1 risk based, and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since March 31, 2019 that management believes have changed TBK Bank’s category.

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The actual capital amounts and ratios for the Company and TBK Bank are presented in the following table.

(Dollars in thousands)	Actual		Minimum for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
As of March 31, 2019	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$564,354	13.6%	$331,473	8.0%	N/A	N/A
TBK Bank, SSB	$515,835	12.8%	$322,160	8.0%	$402,700	10.0%
Tier 1 capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$487,256	11.8%	$248,606	6.0%	N/A	N/A
TBK Bank, SSB	$487,700	12.1%	$241,621	6.0%	$322,161	8.0%
Common equity Tier 1 capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$448,056	10.8%	$186,453	4.5%	N/A	N/A
TBK Bank, SSB	$487,700	12.1%	$181,216	4.5%	$261,756	6.5%
Tier 1 capital (to average assets)						
Triumph Bancorp, Inc.	$487,256	11.3%	$172,189	4.0%	N/A	N/A
TBK Bank, SSB	$487,700	11.4%	$170,878	4.0%	$213,598	5.0%
As of December 31, 2018						
Total capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$552,398	13.4%	$330,970	8.0%	N/A	N/A
TBK Bank, SSB	$496,526	12.4%	$320,856	8.0%	$401,071	10.0%
Tier 1 capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$475,359	11.5%	$248,227	6.0%	N/A	N/A
TBK Bank, SSB	$468,500	11.7%	$240,642	6.0%	$320,856	8.0%
Common equity Tier 1 capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$436,276	10.5%	$186,170	4.5%	N/A	N/A
TBK Bank, SSB	$468,500	11.7%	$180,482	4.5%	$260,696	6.5%
Tier 1 capital (to average assets)						
Triumph Bancorp, Inc.	$475,359	11.1%	$171,619	4.0%	N/A	N/A
TBK Bank, SSB	$468,500	11.0%	$170,092	4.0%	$212,615	5.0%

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

Beginning in January 2016, the implementation of the capital conservation buffer set forth by the Basel III regulatory capital framework was effective for the Company starting at 0.625% of risk weighed assets above the minimum risk based capital ratio requirements and increasing 0.625% each year thereafter, until it reached 2.5% on January 1, 2019. The capital conservation buffer was 2.5% and 1.875% at March 31, 2019 and December 31, 2018, respectively. The capital conservation buffer is designed to absorb losses during periods of economic stress and requires increased capital levels for the purpose of capital distributions and other payments. Failure to meet the full amount of the buffer will result in restrictions on the Company’s ability to make capital distributions, including dividend payments and stock repurchases, and to pay discretionary bonuses to executive officers. At March 31, 2019 and December 31, 2018, the Company’s and TBK Bank’s risk based capital exceeded the required capital conservation buffer.

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NOTE 12 – STOCKHOLDERS’ EQUITY

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

Common Stock

	March 31, 2019	December 31, 2018
Shares authorized	50,000,000	50,000,000
Shares issued	27,062,062	27,053,999
Treasury shares	(352,651)	(104,063)
Shares outstanding	26,709,411	26,949,936
Par value per share	$0.01	$0.01

Common Stock Offering

On April 12, 2018, the Company completed an underwritten common stock offering issuing 5,405,000 shares of the Company’s common stock, including 705,000 shares sold pursuant to the underwriters’ full exercise of their option to purchase additional shares, at $37.50 per share for total gross proceeds of $202,688,000. Net proceeds from the offering, after deducting the underwriting discount and offering expenses, were $192,053,000.

Stock Repurchase Program

On October 29, 2018, the Company announced that its board of directors had authorized the repurchase of up to $25,000,000 of its outstanding common stock in open market transactions or through privately negotiated transactions. During the three months ended March 31, 2019, the Company repurchased 247,312 shares into treasury stock at an average price of $30.51. No repurchases were made under this program during the three months ended March 31, 2018.

Preferred Stock

The Company has 50,000 shares of Preferred Stock Series A and 115,000 shares of Preferred Stock Series B authorized to be issued.

On October 26, 2018, the 45,500 Preferred Stock Series A shares outstanding with a liquidation value of $4,550,000 were converted to 315,773 shares of common stock at the option of the holders at their preferred to common stock conversion ratio of 6.94008, and the 51,076 Preferred Stock Series B shares outstanding with a liquidation value of $5,108,000 were converted to 354,463 shares of common stock at the option of the holders at their preferred to common stock conversion ratio of 6.94008.

There were no preferred shares issued or outstanding at December 31, 2018 or March 31, 2019.

NOTE 13 – STOCK BASED COMPENSATION

Stock based compensation expense that has been charged against income was $911,000 and $486,000 for the three months ended March 31, 2019 and 2018, respectively.

2014 Omnibus Incentive Plan

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

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Restricted Stock Awards

A summary of changes in the Company's nonvested Restricted Stock Awards ("RSAs") under the Omnibus Incentive Plan for the three months ended March 31, 2019 were as follows:

Nonvested RSAs	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2019	101,213	$ 31.47
Granted	8,063	31.25
Vested	(7,028)	30.88
Forfeited	(1,276)	30.65
Nonvested at March 31, 2019	100,972	$ 31.50

RSAs granted to employees under the Omnibus Incentive Plan typically vest over three to four years, but vesting periods may vary. Compensation expense for RSAs will be recognized over the vesting period of the awards based on the fair value of the stock at the issue date. At March 31, 2019, there was $1,417,000 of unrecognized compensation cost related to nonvested RSAs. The cost is expected to be recognized over a remaining weighted average period of 2.69 years.

Restricted Stock Units

A summary of changes in the Company's nonvested Restricted Stock Units ("RSUs") under the Omnibus Incentive Plan for the three months ended March 31, 2019 were as follows:

Nonvested RSUs	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2019	59,658	$ 38.75
Granted	—	—
Vested	—	—
Forfeited	(1,258)	38.75
Nonvested at March 31, 2019	58,400	$ 38.75

RSUs granted to employees under the Omnibus Incentive Plan vest after five years. Compensation expense for the RSUs will be recognized over the vesting period of the awards based on the fair value of the stock at the issue date. At March 31, 2019, there was $1,848,000 of unrecognized compensation cost related to the nonvested RSUs. The cost is expected to be recognized over a remaining period of 4.09 years.

Performance Stock Units

A summary of changes in the Company's nonvested Performance Stock Units ("PSUs") under the Omnibus Incentive Plan for the three months ended March 31, 2019 were as follows:

Nonvested PSUs	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2019	59,658	$ 38.57
Granted	—	—
Vested	—	—
Forfeited	(1,258)	38.57
Nonvested at March 31, 2019	58,400	$ 38.57

PSUs granted to employees under the Omnibus Incentive Plan vest after five years. The number of shares issued upon vesting will range from 0% to 175% of the PSUs granted based on the Company's relative total shareholder return ("TSR") as compared to the TSR of a specified group of peer banks. Compensation expense for the PSUs will be recognized over the vesting period of the awards based on the fair value of the award at the grant date. The fair value of PSUs granted is estimated using a Monte Carlo simulation. Expected volatilities are determined based on the historical volatilities of the Company and the specified peer group. The risk-free interest rate for the performance period is derived from the Treasury constant maturities yield curve on the valuation date.

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At March 31, 2019, there was $1,839,000 of unrecognized compensation cost related to the nonvested PSUs. The cost is expected to be recognized over a remaining period of 4.09 years.

Stock Options

A summary of changes in the Company's stock options under the Omnibus Incentive Plan for the three months ended March 31, 2019 were as follows:

Stock Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value (In Thousands)
Outstanding at January 1, 2019	231,467	$ 23.43		
Granted	—	—		
Exercised	—	—		
Forfeited or expired	(3,082)	28.78		
Outstanding at March 31, 2019	228,385	$ 23.36	7.68	$ 1,852
Fully vested shares and shares expected to vest at March 31, 2019	228,385	$ 23.36	7.68	$ 1,852
Shares exercisable at March 31, 2019	75,550	$ 17.73	7.09	$ 881

Information related to the stock options for the three months ended March 31, 2019 and 2018 was as follows:

(Dollars in thousands, except per share amounts)	Three Months Ended March 31, 2019	2018
Aggregate intrinsic value of options exercised	$ —	$ 10
Cash received from option exercises	$ —	$ —
Tax benefit realized from option exercises	$ —	$ 2
Weighted average fair value of options granted	$ —	$ —

Stock options awarded to employees under the Omnibus Incentive Plan are generally granted with an exercise price equal to the market price of the Company's common stock at the date of grant, vest over four years, and have ten year contractual terms. Contractual terms of exercisable options may be shortened due to termination of a participant's employment. The fair value of stock options granted is estimated at the date of grant using the Black-Scholes option-pricing model. Expected volatilities are determined based on a blend of the Company's historical volatility and historical volatilities of a peer group of companies with a similar size, industry, stage of life cycle, and capital structure. The expected term of options granted is determined based on the SEC simplified method, which calculates the expected term as the mid-point between the weighted average time to vesting and the contractual term. The risk-free interest rate for the expected term of options is derived from the Treasury constant maturity yield curve on the valuation date.

At March 31, 2019, there was $496,000 of unrecognized compensation cost related to nonvested stock options. The cost is expected to be recognized over a remaining weighted average period of 2.68 years.

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NOTE 14 – EARNINGS PER SHARE

The factors used in the earnings per share computation follow:

(Dollars in thousands)	Three Months Ended March 31, 2019	2018
Basic		
Net income to common stockholders	$14,788	$11,878
Weighted average common shares outstanding	26,679,724	20,721,363
Basic earnings per common share	$0.55	$0.57
Diluted		
Net income to common stockholders	$14,788	$11,878
Dilutive effect of preferred stock	—	190
Net income to common stockholders - diluted	$14,788	$12,068
Weighted average common shares outstanding	26,679,724	20,721,363
Dilutive effects of:		
Assumed conversion of Preferred A	—	315,773
Assumed conversion of Preferred B	—	354,471
Assumed exercises of stock options	64,166	83,872
Restricted stock awards	49,795	85,045
Restricted stock units	—	—
Performance stock units	—	—
Average shares and dilutive potential common shares	26,793,685	21,560,524
Diluted earnings per common share	$0.55	$0.56

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

	Three Months Ended March 31, 2019	2018
Shares assumed to be converted from Preferred Stock Series A	—	—
Shares assumed to be converted from Preferred Stock Series B	—	—
Stock options	50,752	—
Restricted stock awards	13,290	—
Restricted stock units	58,400	—
Performance stock units	58,400	—

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(Unaudited)

NOTE 15 – BUSINESS SEGMENT INFORMATION

The following table presents the Company's operating segments. The accounting policies of the segments are the same as those described in the "Summary of Significant Accounting Policies" in Note 1 of the Company's 2018 Form 10-K. Transactions between segments consist primarily of borrowed funds. Beginning in 2019, intersegment interest expense is allocated to the Factoring segment based on Federal Home Loan Bank advance rates. Prior to 2019, intersegment interest was calculated based on the Company's prime rate. The provision for loan loss is allocated based on the segment's allowance for loan loss determination. Noninterest income and expense directly attributable to a segment are assigned to it. Taxes are paid on a consolidated basis but not allocated for segment purposes. The Factoring segment includes only factoring originated by TBC. General factoring services not originated through TBC are included in the Banking segment.

(Dollars in thousands)

Three Months Ended March 31, 2019	Banking	Factoring	Corporate	Consolidated
Total interest income	$49,121	$23,803	$ 340	