

Triumph Bancorp, Inc.
Form 10-Q
July 31, 2015

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 June 30, 2015

OR

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

For the transition period from _____ to _____

Commission File Number 001-36722

TRIUMPH BANCORP, INC.

(Exact name of registrant as specified in its charter)

Texas 20-0477066
(State or other jurisdiction of (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, 18,041,072 shares, as of July 31, 2015

TRIUMPH BANCORP, INC.

FORM 10-Q

June 30, 2015

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PART I – FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

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TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

June 30, 2015 and December 31, 2014

(Dollar amounts in thousands, except per share amounts)

	June 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Cash and due from banks	\$ 27,678	\$ 21,312
Interest bearing deposits with other banks	72,036	139,576
Total cash and cash equivalents	99,714	160,888
Securities - available for sale	158,693	162,024
Securities - held to maturity, fair value of \$744 and \$750, respectively	746	745
Loans held for sale, at fair value	4,096	3,288
Loans, net of allowance for loan and lease losses of \$11,462 and \$8,843, respectively	1,141,217	997,035
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	5,707	4,903
Premises and equipment, net	21,677	21,933
Other real estate owned, net	6,322	8,423
Goodwill	15,968	15,968
Intangible assets, net	14,206	13,089
Bank-owned life insurance	29,295	29,083
Deferred tax assets, net	15,582	15,956
Other assets	16,036	14,563
Total assets	\$ 1,529,259	\$ 1,447,898
LIABILITIES AND EQUITY		
Liabilities		
Deposits		
Noninterest bearing	\$ 164,560	\$ 179,848
Interest bearing	1,024,699	985,381
Total deposits	1,189,259	1,165,229
Customer repurchase agreements	13,011	9,282
Federal Home Loan Bank advances	19,000	3,000
Junior subordinated debentures	24,553	24,423
Other liabilities	25,957	8,455
Total liabilities	1,271,780	1,210,389
Commitments and contingencies - See Note 8 and Note 9		
Stockholders' equity - See Note 12		
Preferred Stock Series A	4,550	4,550
Preferred Stock Series B	5,196	5,196
Common stock	181	180
Additional paid-in-capital	192,605	191,049

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Treasury stock, at cost	(170)	(161)
Retained earnings	54,053	35,744
Accumulated other comprehensive income	1,064	951
Total stockholders' equity	257,479	237,509
Total liabilities and stockholders' equity	\$ 1,529,259	\$ 1,447,898

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the Three and Six Months Ended June 30, 2015 and 2014

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Interest and dividend income:				
Loans, including fees	\$17,158	\$13,860	\$30,397	\$28,236
Factored receivables, including fees	8,654	6,838	16,163	12,110
Taxable securities	659	663	1,337	1,319
Tax exempt securities	16	15	28	31
Cash deposits	110	77	251	135
Total interest income	26,597	21,453	48,176	41,831
Interest expense:				
Deposits	1,667	1,141	3,237	2,249
Senior secured note	—	137	—	276
Junior subordinated debentures	278	272	550	543
Other	7	22	19	28
Total interest expense	1,952	1,572	3,806	3,096
Net interest income	24,645	19,881	44,370	38,735
Provision for loan losses	2,541	1,747	3,186	2,672
Net interest income after provision for loan losses	22,104	18,134	41,184	36,063
Noninterest income:				
Service charges on deposits	666	813	1,278	1,552
Card income	578	548	1,101	1,037
Net OREO gains (losses) and valuation adjustments	52	(252)	78	(329)
Net gains on sale of securities	242	—	242	16
Net gains on sale of loans	491	319	1,033	575
Fee income	502	421	924	819
Bargain purchase gain	—	—	12,509	—
Asset management fees	1,274	129	2,232	129
Other	964	655	2,031	1,444
Total noninterest income	4,769	2,633	21,428	5,243
Noninterest expense:				
Salaries and employee benefits	12,042	9,471	25,311	18,347
Occupancy, furniture and equipment	1,555	1,336	3,127	2,725
FDIC insurance and other regulatory assessments	271	280	534	541
Professional fees	852	793	2,179	1,385

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Amortization of intangible assets	895	724	1,659	1,451
Advertising and promotion	526	683	1,069	1,126
Communications and technology	927	945	1,813	1,834
Other	2,567	1,928	4,726	3,647
Total noninterest expense	19,635	16,160	40,418	31,056
Net income before income tax	7,238	4,607	22,194	10,250
Income tax expense	2,586	1,626	3,498	3,542
Net income	4,652	2,981	18,696	6,708
Income attributable to noncontrolling interests	—	(500)	—	(887)
Net income attributable to Triumph Bancorp, Inc.	4,652	2,481	18,696	5,821
Dividends on preferred stock	(195)	(196)	(387)	(388)
Net income available to common stockholders	\$4,457	\$2,285	\$18,309	\$5,433
Earnings per common share				
Basic	\$0.25	\$0.23	\$1.03	\$0.55
Diluted	\$0.25	\$0.23	\$1.01	\$0.55

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three and Six Months Ended June 30, 2015 and 2014

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	\$4,652	\$2,981	\$18,696	\$6,708
Other comprehensive income:				
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) arising during the period	(557)	574	431	1,159
Reclassification of amount realized through sale of securities	(242)	—	(242)	(16)
Tax effect	292	(218)	(76)	(435)
Total other comprehensive income (loss)	(507)	356	113	708
Comprehensive income	4,145	3,337	18,809	7,416
Income attributable to noncontrolling interests	—	(500)	—	(887)
Comprehensive income attributable to Triumph Bancorp, Inc.	\$4,145	\$2,837	\$18,809	\$6,529

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Six Months Ended June 30, 2015 and 2014

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Preferred Stock – Series A		Preferred Stock – Series B		Common Stock		Treasury Stock		Accumulated Other Comprehensive Income		Non-Controlling Interest	Total Equity	
	Shares Outstanding	Liquidation Preference Amount	Shares Outstanding	Liquidation Preference Amount	Shares Outstanding	Par Amount	Additional Paid-in-Capital	Shares Outstanding	Cost	Retained Earnings	Positive		
Balance, January 1, 2014	45,500	\$4,550	51,956	\$5,196	9,832,585	\$98	\$104,631	—	\$—	\$18,992	\$133	\$26,997	\$160,000
Issuance of restricted stock	—	—	—	—	13,511	—	—	—	—	—	—	—	—
Share-based compensation	—	—	—	—	—	—	196	—	—	—	—	—	196
Reversal of treasury stock	—	—	—	—	(277)	—	—	277	(4)	—	—	—	(4)
Share repurchases T-1 and dividends	—	—	—	—	—	—	—	—	—	(730)	—	—	(730)
Share repurchases Series A	—	—	—	—	—	—	—	—	—	(182)	—	—	(182)
Share repurchases Series B	—	—	—	—	—	—	—	—	—	(206)	—	—	(206)
Share repurchases Class B	—	—	—	—	—	—	—	—	—	(63)	—	—	(63)
Share repurchases Class B	—	—	—	—	—	—	—	—	—	—	—	(1,100)	(1,100)
Net income	—	—	—	—	—	—	—	—	—	6,708	—	—	6,708
Other comprehensive income	—	—	—	—	—	—	—	—	—	—	708	—	708
Balance, June 30, 2014	45,500	\$4,550	51,956	\$5,196	9,845,819	\$98	\$104,827	277	\$(4)	\$24,519	\$841	\$25,897	\$165,000
Balance, January 1, 2015	45,500	\$4,550	51,956	\$5,196	17,963,783	\$180	\$191,049	10,984	\$(161)	\$35,744	\$951	\$—	\$237,000

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Change in													
Retained earnings	—	—	—	—	77,956	1	(1)	—	—	—	—	—	—
Retained earnings	—	—	—	—	(667)	—	9	667	(9)	—	—	—	—
Retained earnings	—	—	—	—	—	—	1,548	—	—	—	—	—	1,548
Retained earnings	—	—	—	—	—	—	—	—	—	(181)	—	—	(181)
Retained earnings	—	—	—	—	—	—	—	—	—	(206)	—	—	(206)
Retained earnings	—	—	—	—	—	—	—	—	—	18,696	—	—	18,696
Retained earnings	—	—	—	—	—	—	—	—	—	—	113	—	113
Retained earnings, 30, 2015	45,500	\$4,550	51,956	\$5,196	18,041,072	\$181	\$192,605	11,651	\$(170)	\$54,053	\$1,064	\$—	\$257,000

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2015 and 2014

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$ 18,696	\$ 6,708
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,069	934
Net accretion on loans and deposits	(2,720)	(5,780)
Amortization of junior subordinated debentures	130	125
Net amortization on securities	301	144
Amortization of intangible assets	1,659	1,451
Deferred taxes	(366)	(8)
Provision for loan losses	3,186	2,672
Stock based compensation	1,548	196
Origination of loans held for sale	(36,220)	(24,127)
Proceeds from loan sales	36,445	26,007
Net gains on sale of securities	(242)	(16)
Net gains on sale of loans	(1,033)	(575)
Net OREO (gains) losses and valuation adjustments	(78)	329
Bargain purchase gain	(12,509)	—
(Increase) decrease in other assets	(543)	(3,270)
Increase (decrease) in other liabilities	3,888	(2,373)
Net cash provided by (used in) operating activities	13,211	2,417
Cash flows from investing activities:		
Purchases of securities available for sale	(15,072)	(12,560)
Proceeds from sales of securities available for sale	12,559	6,794
Proceeds from maturities, calls, and pay downs of securities available for sale	5,973	22,687
Purchases of loans (shared national credits)	(16,685)	—
Net change in loans	(115,935)	(85,963)
Purchases of premises and equipment, net	(813)	(508)
Net proceeds from sale of OREO	2,926	2,722
Net proceeds from CLO warehouse investments	2,450	2,500
Purchases of FHLB and FRB stock, net	(804)	(2,174)
Cash paid for acquisitions, net of cash acquired	(127,591)	(49,482)
Proceeds from sale of loans obtained through Doral Money Inc. acquisition	36,765	—
Net cash provided by (used in) investing activities	(216,227)	(115,984)
Cash flows from financing activities:		

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Net increase in deposits	24,184	63,417
Increase (decrease) in customer repurchase agreements	3,729	3,983
Increase (decrease) in Federal Home Loan Bank advances	16,000	49,000
Repayment of senior secured note	—	(629)
Proceeds from the issuance of other borrowings	99,975	—
Repayment of other borrowings	(1,659)	—
Purchase of treasury stock	—	(4)
Distributions on noncontrolling interest and preferred stock	(387)	(1,181)
Redemption of TCF Class B units	—	(1,100)
Net cash provided by financing activities	141,842	113,486
Net increase in cash and cash equivalents	(61,174)	(81)
Cash and cash equivalents at beginning of period	160,888	85,797
Cash and cash equivalents at end of period	\$99,714	\$85,716
Supplemental cash flow information:		
Interest paid	\$3,629	\$4,962
Income taxes paid	\$2,488	\$1,536
Supplemental noncash disclosures:		
Loans transferred to OREO	\$747	\$379
Securities transferred in satisfaction of other borrowings	\$98,316	\$—
Loan purchases, not yet settled (shared national credits)	\$12,929	\$—
Loans transferred to branch assets held for sale	\$—	\$78,071
Premises and equipment transferred to branch assets held for sale	\$—	\$2,260

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Triumph Bancorp, Inc. (collectively with its subsidiaries, Triumph, or the Company, as applicable) is a financial holding company headquartered in Dallas, Texas. The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Triumph Capital Advisors, LLC (TCA), Triumph CRA Holdings, LLC (TCRA), National Bancshares, Inc. (NBI), NBI's wholly owned subsidiary Triumph Community Bank, N.A. (TCB), Triumph Savings Bank, SSB (TSB), TSB's wholly owned subsidiary Advance Business Capital, LLC (ABC), which currently operates under the d/b/a of Triumph Business Capital, and TSB's wholly owned subsidiary Triumph Insurance Group (TIG). In addition, (i) TSB does business under the Triumph Commercial Finance name with respect to its commercial finance business, including asset-based lending, equipment lending and general factoring and (ii) TCB does business under the Triumph Healthcare Finance name with respect to its healthcare asset-based lending business.

The Company has received regulatory approval to merge its subsidiary banks, Triumph Community Bank, N.A. and Triumph Savings Bank, SSB, into a single bank. The combined bank will be named TBK Bank, SSB, and will continue doing business under the Triumph Community Bank and Triumph Savings Bank names in the markets where the Company currently operates under such names.

Basis of Presentation

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

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all normal and recurring adjustments considered necessary for a fair presentation. Transactions between the subsidiaries have been eliminated. These condensed consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2014. Operating results for the three and six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. The Company has four reportable segments consisting of Factoring, Banking, Asset Management, and Corporate. The Company's Chief Executive Officer uses segment results to make operating and strategic decisions.

Adoption of New Accounting Standards

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

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

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

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Newly Issued, But Not Yet Effective Accounting Standards

On May 28, 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" (ASU 2014-09), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. The new standard was originally effective for the Company on January 1, 2017. However, at its July 9, 2015 meeting the FASB agreed to defer the mandatory effective date the new standard would take effect for reporting periods beginning after December 15, 2017, with early adoption allowed as of the original effective date for public companies. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

NOTE 2 – Business combinations AND DIVESTITURES

Doral Money Acquisition

On February 27, 2015, Triumph Bancorp, Inc., through its subsidiary Triumph Capital Advisors, LLC, entered into a Purchase and Sale Agreement with the Federal Deposit Insurance Corporation (FDIC), in its capacity as receiver of Doral Bank, to acquire 100% of the equity of Doral Money, Inc. (DMI), a subsidiary of Doral Bank, and the management contracts associated with two active collateralized loan obligations (CLOs) with approximately \$700,000,000 in assets under management. The consideration transferred in the acquisition consisted of cash paid at closing of \$133,263,000 and a sales price adjustment of \$2,601,000 which was accrued at March 31, 2015 and settled on April 7, 2015, for total consideration transferred of \$135,864,000. The primary purpose of the acquisition was to expand the CLO assets under management at Triumph Capital Advisors, LLC.

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

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

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

(Dollars in thousands)

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Assets acquired:	
Cash	\$8,273
CLO Securities	98,316
Intangible asset - CLO management contracts	1,918
Loans	36,765
Prepaid corporate income tax	3,014
Other assets	772
	149,058
Liabilities assumed:	
Deferred tax liability	663
Other liabilities	22
	685
Fair value of net assets acquired	148,373
Net consideration transferred	135,864
Bargain purchase gain	\$(12,509)

The Company completed the acquisition via an FDIC bid process for DMI as part of the Doral Bank failure and the resulting nontaxable bargain purchase gain represents the excess of the fair value of the net assets acquired over the fair value of the net

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

consideration transferred. As of June 30, 2015, the accounting for income taxes and contingent liabilities associated with the acquisition had not been finalized.

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

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

Sale of Pewaukee Branch

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

Doral Healthcare Acquisition

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

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

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

(Dollars in thousands)	
Assets acquired:	
Loans	\$45,334
Customer relationship intangible	2,029
Premises and equipment	50
Other assets	276

	47,689
Liabilities assumed:	
Customer deposits	128
Fair value of net assets acquired	47,561
Cash paid	49,482
Goodwill	\$1,921

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 - SECURITIES

Securities have been classified in the financial statements as available for sale or held to maturity. The amortized cost of securities and their approximate fair values at June 30, 2015 and December 31, 2014 are as follows:

(Dollars in thousands) June 30, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
U.S. Government agency obligations	\$ 95,749	\$ 944	\$ (21)	\$ 96,672
Mortgage-backed securities, residential	25,742	525	—	26,267
Asset backed securities	18,437	121	(25)	18,533
State and municipal	3,387	26	—	3,413
Corporate bonds	13,510	117	(15)	13,612
SBA pooled securities	194	2	—	196
Total available for sale securities	\$ 157,019	\$ 1,735	\$ (61)	\$ 158,693

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Held to maturity securities:				
Other debt securities	\$ 746	\$ 4	\$ (6)	\$ 744

(Dollars in thousands) December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
U.S. Government agency obligations	\$ 93,150	\$ 691	\$ —	\$ 93,841
Mortgage-backed securities, residential	28,298	580	—	28,878
Asset backed securities	18,559	129	(90)	18,598
State and municipal	6,833	28	—	6,861
Corporate bonds	13,492	144	—	13,636
SBA pooled securities	207	3	—	210
Total available for sale securities	\$ 160,539	\$ 1,575	\$ (90)	\$ 162,024

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
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Held to maturity securities:

Other debt securities	\$ 745	\$ 5	\$ —	\$ 750
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TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The amortized cost and estimated fair value of securities at June 30, 2015, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)	Securities Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$1,270	\$1,272	\$—	\$—
Due from one year to five years	109,156	110,187	746	744
Due from five years to ten years	1,550	1,548	—	—
Due after ten years	670	690	—	—
	112,646	113,697	746	744
Mortgage-backed securities, residential	25,742	26,267	—	—
Asset backed securities	18,437	18,533	—	—
SBA pooled securities	194	196	—	—
	\$157,019	\$158,693	\$746	\$744

For the three and six months ended June 30, 2015, securities were sold resulting in proceeds of \$12,559,000, gross gains of \$242,000, and no losses. For the six months ended June 30, 2014, securities were sold resulting in proceeds of \$6,794,000, gross gains of \$25,000, and gross losses of \$9,000. There were no sales of securities for the three months ended June 30, 2014.

Securities with a carrying amount of approximately \$104,878,000 and \$113,980,000 at June 30, 2015 and December 31, 2014, respectively, were pledged to secure customer repurchase agreements, Federal Home Loan Bank advances, and for other purposes required or permitted by law.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Information pertaining to securities with gross unrealized losses at June 30, 2015 and December 31, 2014, aggregated by investment category and length of time that individual securities have been in a continuous loss position, are summarized as follows:

(Dollars in thousands) June 30, 2015	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale securities:						
U.S. Government agency obligations	\$7,539	\$ (21)	\$—	\$ —	\$7,539	\$ (21)
Mortgage-backed securities, residential	—	—	—	—	—	—
Asset backed securities	4,875	(12)	4,971	(13)	9,846	(25)
State and municipal	—	—	—	—	—	—
Corporate bonds	1,769	(15)	—	—	1,769	(15)
SBA pooled securities	—	—	—	—	—	—
	\$14,183	\$ (48)	\$4,971	\$ (13)	\$19,154	\$ (61)
Held to maturity securities:						
Other debt securities	\$219	\$ (6)	\$—	\$ —	\$219	\$ (6)

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

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

As of June 30, 2015, management does not have the intent to sell any of the securities classified as available for sale with unrealized losses in the table above and believes that it is more likely than not that the Company will not have to sell any such securities before a recovery of cost. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of June 30, 2015, 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.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES

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

	June 30, 2015	December 31, 2014
(Dollars in thousands)		
Commercial real estate	\$234,090	\$249,164
Construction, land development, land	46,743	42,914
1-4 family residential properties	75,588	78,738
Farmland	25,701	22,496
Commercial	454,161	364,567
Factored receivables	199,716	180,910
Consumer	10,993	11,941
Mortgage warehouse	105,687	55,148
Total	1,152,679	1,005,878
Allowance for loan and lease losses	(11,462)	(8,843)
	\$1,141,217	\$997,035

Total loans include net deferred origination fees and costs and deferred factoring fees totaling \$878,000 and \$906,000 at June 30, 2015 and December 31, 2014, respectively.

Loans with carrying amounts of \$168,232,000 and \$141,427,000 at June 30, 2015 and December 31, 2014, respectively, were pledged to secure Federal Home Loan Bank advance capacity.

Allowance for Loan and Lease Losses

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

(Dollars in thousands)	Beginning				Ending
Three months ended June 30, 2015	Balance	Provision	Charge-offs	Recoveries	Balance
Commercial real estate	\$ 1,075	\$ 183	\$ (54)	\$ 10	\$1,214
Construction, land development, land	344	2	—	—	346

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1-4 family residential properties	223	29	(78)	77	251
Farmland	26	2	—	—	28
Commercial	3,996	1,109	(45)	4	5,064
Factored receivables	3,380	1,049	(312)	18	4,135
Consumer	84	61	(52)	67	160
Mortgage warehouse	158	106	—	—	264
	\$ 9,286	\$ 2,541	\$ (541)	\$ 176	\$ 11,462

(Dollars in thousands)	Beginning				Ending
Three months ended June 30, 2014	Balance	Provision	Charge-offs	Recoveries	Balance
Commercial real estate	\$ 402	\$ 60	\$ —	\$ 1	\$ 463
Construction, land development, land	194	48	—	—	242
1-4 family residential properties	203	35	(44)	3	197
Farmland	7	4	—	—	11
Commercial	1,519	811	(1)	3	2,332
Factored receivables	2,173	779	(136)	22	2,838
Consumer	75	(6)	(74)	101	96
Mortgage warehouse	58	16	—	—	74
	\$ 4,631	\$ 1,747	\$ (255)	\$ 130	\$ 6,253

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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