

Triumph Bancorp, Inc.
Form 10-Q
October 28, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from _____ to _____

Commission File Number 001-36722

TRIUMPH BANCORP, INC.

(Exact name of registrant as specified in its charter)

Texas 20-0477066
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

12700 Park Central Drive, Suite 1700

Dallas, Texas 75251

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(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, 18,104,543 shares, as of October 25, 2016

TRIUMPH BANCORP, INC.

FORM 10-Q

September 30, 2016

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PART I – FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

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TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

September 30, 2016 and December 31, 2015

(Dollar amounts in thousands, except per share amounts)

| | September 30, 2016 | December 31, 2015 |
|--|-----------------------|----------------------|
| | (Unaudited) | |
| ASSETS | | |
| Cash and due from banks | \$ 26,212 | \$ 23,447 |
| Interest bearing deposits with other banks | 78,513 | 81,830 |
| Total cash and cash equivalents | 104,725 | 105,277 |
| Securities - available for sale | 286,574 | 163,169 |
| Securities - held to maturity, fair value of \$30,849 and \$0, respectively | 29,316 | — |
| Loans held for sale, at fair value | 9,623 | 1,341 |
| Loans, net of allowance for loan and lease losses of \$14,912 and \$12,567, respectively | 1,944,943 | 1,279,318 |
| Federal Home Loan Bank stock, at cost | 8,397 | 3,818 |
| Premises and equipment, net | 45,050 | 22,227 |
| Other real estate owned, net | 8,061 | 5,177 |
| Goodwill | 28,598 | 15,968 |
| Intangible assets, net | 18,851 | 11,886 |
| Bank-owned life insurance | 36,347 | 29,535 |
| Deferred tax assets, net | 20,042 | 15,945 |
| Other assets | 34,963 | 37,652 |
| Total assets | \$ 2,575,490 | \$ 1,691,313 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities | | |
| Deposits | | |
| Noninterest bearing | \$ 339,999 | \$ 168,264 |
| Interest bearing | 1,610,678 | 1,080,686 |
| Total deposits | 1,950,677 | 1,248,950 |
| Customer repurchase agreements | 15,329 | 9,317 |
| Federal Home Loan Bank advances | 230,000 | 130,000 |
| Junior subordinated debentures | 32,640 | 24,687 |
| Subordinated notes | 48,676 | — |
| Other liabilities | 13,647 | 10,321 |
| Total liabilities | 2,290,969 | 1,423,275 |
| Commitments and contingencies - See Note 9 and Note 10 | | |
| Stockholders' equity - See Note 13 | | |
| Preferred Stock Series A | 4,550 | 4,550 |
| Preferred Stock Series B | 5,196 | 5,196 |

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| | | |
|--|--------------|--------------|
| Common stock | 182 | 181 |
| Additional paid-in-capital | 196,306 | 194,297 |
| Treasury stock, at cost | (751) | (560) |
| Retained earnings | 77,846 | 64,097 |
| Accumulated other comprehensive income | 1,192 | 277 |
| Total stockholders' equity | 284,521 | 268,038 |
| Total liabilities and stockholders' equity | \$ 2,575,490 | \$ 1,691,313 |

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the Three and Nine Months Ended September 30, 2016 and 2015

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|--|---------------|---------------------------------------|---------------|
| | 2016 | 2015 | 2016 | 2015 |
| Interest and dividend income: | | | | |
| Loans, including fees | \$23,123 | \$15,716 | \$57,758 | \$46,113 |
| Factored receivables, including fees | 9,021 | 8,829 | 25,482 | 24,992 |
| Taxable securities | 1,154 | 649 | 2,887 | 1,987 |
| Tax exempt securities | 80 | 17 | 93 | 45 |
| Cash deposits | 93 | 92 | 498 | 342 |
| Total interest income | 33,471 | 25,303 | 86,718 | 73,479 |
| Interest expense: | | | | |
| Deposits | 2,408 | 1,764 | 6,421 | 5,001 |
| Junior subordinated debentures | 382 | 283 | 996 | 833 |
| Other borrowings | 263 | 25 | 487 | 44 |
| Total interest expense | 3,053 | 2,072 | 7,904 | 5,878 |
| Net interest income | 30,418 | 23,231 | 78,814 | 67,601 |
| Provision for loan losses | 2,819 | 165 | 4,247 | 3,351 |
| Net interest income after provision for loan losses | 27,599 | 23,066 | 74,567 | 64,250 |
| Noninterest income: | | | | |
| Service charges on deposits | 984 | 710 | 2,338 | 1,988 |
| Card income | 767 | 574 | 1,890 | 1,675 |
| Net OREO gains (losses) and valuation adjustments | 63 | (58) | (1,152) | 20 |
| Net gains (losses) on sale of securities | (68) | 15 | (63) | 257 |
| Net gains on sale of loans | — | 363 | 16 | 1,396 |
| Fee income | 655 | 542 | 1,693 | 1,466 |
| Bargain purchase gain | — | 1,708 | — | 14,217 |
| Asset management fees | 1,553 | 1,744 | 4,787 | 3,976 |
| Other | 2,145 | 700 | 5,239 | 2,731 |
| Total noninterest income | 6,099 | 6,298 | 14,748 | 27,726 |
| Noninterest expense: | | | | |
| Salaries and employee benefits | 14,699 | 12,416 | 39,180 | 37,727 |
| Occupancy, furniture and equipment | 1,921 | 1,575 | 4,948 | 4,702 |
| FDIC insurance and other regulatory assessments | 143 | 252 | 648 | 786 |
| Professional fees | 1,874 | 1,344 | 4,048 | 3,523 |

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| | | | | |
|---|---------|---------|----------|----------|
| Amortization of intangible assets | 958 | 1,179 | 2,652 | 2,838 |
| Advertising and promotion | 779 | 618 | 1,926 | 1,687 |
| Communications and technology | 1,966 | 951 | 4,661 | 2,764 |
| Other | 3,452 | 2,210 | 8,138 | 6,936 |
| Total noninterest expense | 25,792 | 20,545 | 66,201 | 60,963 |
| Net income before income tax | 7,906 | 8,819 | 23,114 | 31,013 |
| Income tax expense | 3,099 | 2,891 | 8,675 | 6,389 |
| Net income | 4,807 | 5,928 | 14,439 | 24,624 |
| Dividends on preferred stock | (301) | (196) | (690) | (583) |
| Net income available to common stockholders | \$4,506 | \$5,732 | \$13,749 | \$24,041 |
| Earnings per common share | | | | |
| Basic | \$0.25 | \$0.32 | \$0.77 | \$1.36 |
| Diluted | \$0.25 | \$0.32 | \$0.76 | \$1.33 |

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three and Nine Months Ended September 30, 2016 and 2015

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

| | Three Months Ended September 30, 2016 | | Nine Months Ended September 30, 2015 | |
|--|--|---------|---|----------|
| Net income | \$4,807 | \$5,928 | \$14,439 | \$24,624 |
| Other comprehensive income: | | | | |
| Unrealized gains (losses) on securities: | | | | |
| Unrealized holding gains (losses) arising during the period | (597) | (204) | 1,396 | 226 |
| Reclassification of amount realized through sale of securities | 68 | (15) | 63 | (257) |
| Tax effect | 196 | 81 | (544) | 6 |
| Total other comprehensive income (loss) | (333) | (138) | 915 | (25) |
| Comprehensive income | \$4,474 | \$5,790 | \$15,354 | \$24,599 |

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Nine Months Ended September 30, 2016 and 2015

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

| | Preferred Stock Liquidation Preference Amount | Common Stock Shares Outstanding | Par Amount | Additional Paid-in- Capital | Treasury Stock Shares Outstanding | Cost | Retained Earnings | Accumulated Other Comprehensive Income | Total Equity |
|---------------------------------------|---|---------------------------------------|---------------|-----------------------------------|---|---------|----------------------|---|-----------------|
| Balance, January 1, 2015 | \$ 9,746 | 17,963,783 | \$ 180 | \$ 191,049 | 10,984 | \$(161) | \$ 35,744 | \$ 951 | \$ 237,509 |
| Issuance of restricted stock awards | — | 77,956 | 1 | (1) | — | — | — | — | — |
| Forfeiture of restricted stock awards | — | (1,667) | — | 23 | 1,667 | (23) | — | — | — |
| Stock based compensation | — | — | — | 2,394 | — | — | — | — | 2,394 |
| Series A Preferred dividends | — | — | — | — | — | — | (273) | — | (273) |
| Series B Preferred dividends | — | — | — | — | — | — | (310) | — | (310) |
| Net income | — | — | — | — | — | — | 24,624 | — | 24,624 |
| Other comprehensive income | — | — | — | — | — | — | — | (25) | (25) |
| Balance, September 30, 2015 | \$ 9,746 | 18,040,072 | \$ 181 | \$ 193,465 | 12,651 | \$(184) | \$ 59,785 | \$ 926 | \$ 263,919 |
| Balance, January 1, 2016 | \$ 9,746 | 18,018,200 | \$ 181 | \$ 194,297 | 34,523 | \$(560) | \$ 64,097 | \$ 277 | \$ 268,038 |
| Issuance of restricted stock awards | — | 101,105 | 1 | (1) | — | — | — | — | — |
| Forfeiture of restricted stock awards | — | (7,274) | — | 111 | 7,274 | (111) | — | — | — |

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| | | | | | | | | | |
|---|-----------|------------|--------|-----------|--------|---------|----------|----------|-----------|
| Excess tax benefit on restricted stock vested | — | — | — | 35 | — | — | — | — | 35 |
| Stock based compensation | — | — | — | 1,864 | — | — | — | — | 1,864 |
| Purchase of treasury stock | — | (5,053) | — | — | 5,053 | (80) | — | — | (80) |
| Series A Preferred dividends | — | — | — | — | — | — | (274) | — | (274) |
| Series B Preferred dividends | — | — | — | — | — | — | (312) | — | (312) |
| TARP Preferred Stock assumed in acquisition | 10,500 | — | — | — | — | — | — | — | 10,500 |
| TARP Preferred dividends | — | — | — | — | — | — | (104) | — | (104) |
| Redemption of TARP Preferred Stock | (10,500) | — | — | — | — | — | — | — | (10,500) |
| Net income | — | — | — | — | — | — | 14,439 | — | 14,439 |
| Other comprehensive income | — | — | — | — | — | — | — | 915 | 915 |
| Balance, September 30, 2016 | \$9,746 | 18,106,978 | \$ 182 | \$196,306 | 46,850 | \$(751) | \$77,846 | \$ 1,192 | \$284,521 |

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended September 30, 2016 and 2015

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

| | Nine Months Ended September 30, | |
|---|------------------------------------|-----------|
| | 2016 | 2015 |
| Cash flows from operating activities: | | |
| Net income | \$ 14,439 | \$ 24,624 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation | 1,905 | 1,608 |
| Net accretion on loans and deposits | (4,833) | (3,905) |
| Amortization of junior subordinated debentures | 225 | 197 |
| Net amortization on securities | 1,242 | 458 |
| Amortization of intangible assets | 2,652 | 2,838 |
| Deferred taxes | (427) | (540) |
| Provision for loan losses | 4,247 | 3,351 |
| Stock based compensation | 1,864 | 2,394 |
| Origination of loans held for sale | (891) | (50,482) |
| Proceeds from sale of loans originated for sale | 2,248 | 52,992 |
| Net (gains) losses on sale of securities | 63 | (257) |
| Net (gain) loss on transfer of loans to loans held for sale | (167) | — |
| Net gains on sale of loans | (16) | (1,396) |
| Net OREO (gains) losses and valuation adjustments | 1,152 | (20) |
| Bargain purchase gain | — | (14,217) |
| Income from CLO warehouse investments | (2,415) | (444) |
| (Increase) decrease in other assets | 3,746 | 146 |
| Increase (decrease) in other liabilities | (3,458) | 3,625 |
| Net cash provided by (used in) operating activities | 21,576 | 20,972 |
| Cash flows from investing activities: | | |
| Purchases of securities available for sale | (3,414) | (20,560) |
| Proceeds from sales of securities available for sale | 24,327 | 17,635 |
| Proceeds from maturities, calls, and pay downs of securities available for sale | 17,330 | 7,896 |
| Purchases of securities held to maturity | (29,117) | — |
| Purchases of loans (shared national credits) | (995) | (25,597) |
| Proceeds from sale of loans | 9,057 | — |
| Net change in loans | (222,326) | (147,556) |
| Purchases of premises and equipment, net | (3,003) | (1,482) |
| Net proceeds from sale of OREO | 1,709 | 2,989 |
| Net cash paid for CLO warehouse investments | (15,000) | (5,000) |
| Net proceeds from CLO warehouse investments | 25,500 | 2,450 |

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| | | |
|---|-----------|-----------|
| Purchases of FHLB and FRB stock, net | (4,029) | (3,089) |
| Cash paid for acquisitions, net of cash acquired | (14,479) | (127,591) |
| Proceeds from sale of loans obtained through Doral Money Inc. acquisition | — | 36,765 |
| Net cash provided by (used in) investing activities | (214,440) | (263,140) |
| Cash flows from financing activities: | | |
| Net increase in deposits | 48,894 | 35,028 |
| Increase (decrease) in customer repurchase agreements | 6,012 | 6,302 |
| Increase (decrease) in Federal Home Loan Bank advances | 100,000 | 58,000 |
| Proceeds from issuance of subordinated notes, net | 48,676 | — |
| Proceeds from the issuance of other borrowings | — | 99,975 |
| Repayment of other borrowings | — | (1,659) |
| Redemption of TARP preferred stock | (10,500) | — |
| Purchase of treasury stock | (80) | — |
| Dividends on preferred stock | (690) | (583) |
| Net cash provided by (used in) financing activities | 192,312 | 197,063 |
| Net increase (decrease) in cash and cash equivalents | (552) | (45,105) |
| Cash and cash equivalents at beginning of period | 105,277 | 160,888 |
| Cash and cash equivalents at end of period | \$104,725 | \$115,783 |
| Supplemental cash flow information: | | |
| Interest paid | \$7,415 | \$5,757 |
| Income taxes paid, net | \$7,478 | \$5,002 |
| Supplemental noncash disclosures: | | |
| Loans transferred to OREO | \$425 | \$747 |
| Premises transferred to OREO | \$2,215 | \$— |
| Securities transferred in satisfaction of other borrowings | \$— | \$98,316 |
| Loan purchases, not yet settled (shared national credits) | \$— | \$3,983 |
| Loans transferred to loans held for sale at fair value | \$18,680 | \$— |
| See accompanying condensed notes to consolidated financial statements. | | |

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

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

Basis of Presentation

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

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

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

Newly Issued, But Not Yet Effective Accounting Standards

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

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

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

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

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

NOTE 2 – Business combinations

Southern Transportation Insurance Agency

On September 1, 2016, the Company acquired Southern Transportation Insurance Agency, Ltd. in an all-cash transaction for \$2,150,000. The purpose of the acquisition was to expand the Company’s product offerings for clients in the transportation industry. The Company recognized an intangible asset of \$1,580,000 and goodwill of \$570,000, which were allocated to the Company’s Banking segment. Goodwill resulted from expected enhanced product offerings and will be amortized for tax purposes.

ColoEast Bankshares, Inc.

On August 1, 2016, the Company acquired 100% of the outstanding common stock of ColoEast Bankshares, Inc. (“ColoEast”) and its community banking subsidiary, Colorado East Bank & Trust, in an all-cash transaction for \$70,000,000. The Company also assumed \$10,500,000 of ColoEast preferred stock issued in conjunction with the U.S. Government’s Treasury Asset Relief Program (“TARP Preferred Stock”). Colorado East Bank & Trust, which was merged into TBK Bank upon closing, offers personal checking, savings, CD, money market, HSA, IRA, NOW and business accounts, as well as commercial and consumer loans from 18 branches and one loan production office

located throughout Colorado and far western Kansas. The acquisition expands the Company's market into Colorado and Kansas and further diversifies the Company's loan, customer, and deposit base.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 | \$57,671 |
| Securities | 161,693 |
| Loans | 460,775 |
| FHLB and Federal Reserve Bank stock | 550 |
| Premises and equipment | 23,940 |
| Other real estate owned | 3,105 |
| Intangible assets | 7,238 |
| Bank-owned life insurance | 6,400 |
| Deferred income taxes | 4,511 |
| Other assets | 10,022 |
| | 735,905 |
| Liabilities assumed: | |
| Deposits | 652,952 |
| Junior subordinated debentures | 7,728 |
| Other liabilities | 6,784 |
| | 667,464 |
| Fair value of net assets acquired | 68,441 |
| Cash paid | 70,000 |
| TARP Preferred Stock assumed | 10,500 |
| Consideration transferred | 80,500 |
| Goodwill | \$12,059 |

The consideration transferred was comprised of a combination of cash and the assumption of ColoEast's TARP Preferred Stock. The Company has recognized goodwill of \$12,059,000, which was calculated as the excess of both the consideration exchanged and 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 this acquisition resulted from expected synergies and expansion into the Colorado and Kansas markets. The goodwill will not be amortized for tax purposes. The initial accounting for the ColoEast acquisition has not been completed because the fair value of certain assets acquired and income taxes associated with the transaction have not yet been finalized.

The TARP Preferred Stock assumed in the acquisition was redeemed by the Company at par on August 31, 2016.

In connection with the ColoEast acquisition, 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 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 on acquired loans at the acquisition date:

| | PCI | Total |
|--|-----|-------|
|--|-----|-------|

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| (Dollars in thousands) | Loans, Excluding PCI Loans | Loans | Loans |
|--------------------------------------|----------------------------------|-----------|------------|
| Commercial real estate | \$ 86,569 | \$ 10,907 | \$ 97,476 |
| Construction, land development, land | 58,718 | 2,933 | 61,651 |
| 1-4 family residential properties | 36,412 | 91 | 36,503 |
| Farmland | 100,977 | 233 | 101,210 |
| Commercial | 151,605 | 5,129 | 156,734 |
| Factored receivables | 694 | — | 694 |
| Consumer | 6,507 | — | 6,507 |
| | \$ 441,482 | \$ 19,293 | \$ 460,775 |

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CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The following presents information at the acquisition date for non-purchase credit impaired loans acquired in the transaction:

| | |
|--|------------|
| (Dollars in thousands) | |
| Contractually required principal and interest payments | \$ 530,404 |
| Contractual cash flows not expected to be collected | \$ 21,272 |
| Fair value at acquisition | \$ 441,482 |

Information about the acquired loan portfolio subject to purchase credit impaired accounting guidance as of August 1, 2016 is as follows

| | |
|--|-----------|
| (Dollars in thousands) | |
| Contractually required principal and interest payments | \$ 25,124 |
| Contractual cash flows not expected to be collected (nonaccretable difference) | 1,707 |
| Expected cash flows at acquisition | 23,417 |
| Interest component of expected cash flows (accretable difference) | 4,124 |
| Fair value of loans acquired with deterioration of credit quality | \$ 19,293 |

The following table presents pro forma information for the three and nine months ended September 30, 2016 and 2015 as if the ColoEast acquisition had occurred at the beginning of 2015. The pro forma information includes adjustments for interest income on loans acquired, interest expense on junior subordinated debentures assumed, depreciation expense on property acquired, amortization of intangibles arising from the transaction, and the related income tax effects. The pro forma financial information is not necessarily indicative of the results of operations that would have occurred had the transaction been completed on the assumed date.

| | Three Months | | Nine Months Ended | |
|-----------------------------------|--------------|-----------|-------------------|-----------|
| | Ended | | September | |
| (Dollars in thousands) | 30, | September | 30, | September |
| | 2016 | 30, 2015 | 2016 | 30, 2015 |
| Net interest income | \$32,792 | \$ 29,941 | \$94,778 | \$ 87,443 |
| Noninterest income | \$6,131 | \$ 7,098 | \$16,463 | \$ 28,507 |
| Net income | \$4,677 | \$ 6,809 | \$14,959 | \$ 25,740 |
| Basic earnings per common share | \$0.25 | \$ 0.37 | \$0.80 | \$ 1.42 |
| Diluted earnings per common share | \$0.24 | \$ 0.37 | \$0.79 | \$ 1.39 |

The operations of ColoEast are included in the Company's operating results beginning August 1, 2016.

Expenses related to the acquisition, including professional fees and integration costs, totaling \$1,618,000 were recorded in noninterest expense in the consolidated statements of income during the three and nine months ended September 30, 2016.

Doral Money Acquisition

On February 27, 2015, the Company entered into a Purchase and Sale Agreement with the Federal Deposit Insurance Corporation ("FDIC"), in its capacity as receiver of Doral Bank, to acquire 100% of the equity of Doral Money, Inc.

("Doral Money"), a subsidiary of Doral Bank, and the management contracts associated with two active collateralized loan obligations ("CLOs") with approximately \$700,000,000 in assets under management. The consideration transferred in the acquisition consisted of cash paid of \$135,864,000. The primary purpose of the acquisition was to expand the CLO assets under management at TCA.

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

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

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

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

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

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

NOTE 3 - SECURITIES

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

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| (Dollars in thousands) September 30, 2016 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--|-------------------|--------------------------------|---------------------------------|---------------|
| Available for sale securities: | | | | |
| U.S. Government agency obligations | \$ 189,313 | \$ 1,374 | \$ (117) | \$ 190,570 |
| Mortgage-backed securities, residential | 25,834 | 596 | (17) | 26,413 |
| Asset backed securities | 13,111 | 33 | (181) | 12,963 |
| State and municipal | 28,933 | 40 | (109) | 28,864 |
| Corporate bonds | 27,323 | 277 | — | 27,600 |
| SBA pooled securities | 162 | 2 | — | 164 |
| Total available for sale securities | \$ 284,676 | \$ 2,322 | \$ (424) | \$ 286,574 |
| | | | | |
| | Amortized Cost | Gross Unrecognized Gains | Gross Unrecognized Losses | Fair Value |
| Held to maturity securities: | | | | |
| CLO securities | \$ 29,316 | \$ 1,595 | \$ (62) | \$ 30,849 |

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

| (Dollars in thousands) | Available for Sale Securities | | Held to Maturity Securities | |
|---|----------------------------------|---------------|--------------------------------|---------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due in one year or less | \$83,649 | \$83,724 | \$— | \$— |
| Due from one year to five years | 135,401 | 136,797 | — | — |
| Due from five years to ten years | 5,443 | 5,449 | 8,454 | 9,011 |
| Due after ten years | 21,076 | 21,064 | 20,862 | 21,838 |
| | 245,569 | 247,034 | 29,316 | 30,849 |
| Mortgage-backed securities, residential | 25,834 | 26,413 | — | — |
| Asset backed securities | 13,111 | | | |