

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014

OR

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

For the transition period from _____ to _____

Commission File Number 001-36722

TRIUMPH BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

incorporation or organization) Identification No.)

12700 Park Central Drive, Suite 1700

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Dallas, Texas 75251

(Address of principal executive offices)

(214) 365-6900

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock — \$0.01 par value, 17,963,783 shares, as of December 17, 2014

TRIUMPH BANCORP, INC.

FORM 10-Q

SEPTEMBER 30, 2014

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PART I – FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

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TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

September 30, 2014 and December 31, 2013

(Dollar amounts in thousands, except per share amounts)

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

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

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the Three and Nine Months Ended September 30, 2014 and 2013

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

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

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

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three and Nine Months Ended September 30, 2014 and 2013

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

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

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Nine Months Ended September 30, 2014 and 2013

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

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

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

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended September 30, 2014 and 2013

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

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

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Net cash used in investing activities	(100,224)	(63,760)
Cash flows from financing activities:		
Net increase in deposits	96,945	58,240
Increase in customer repurchase agreements	4,314	—
Decrease in Federal Home Loan Bank advances	(21,000)	(10,500)
Repayment of senior secured note	(943)	—
Exchange offer	—	(461)
Issuance of common stock	61	42,402
Purchase of Treasury Stock	(68)	—
Distributions on noncontrolling interest and preferred stock	(1,960)	(730)
Redemption of TCF Class B units	(1,100)	—
Net cash provided by financing activities	76,249	88,951
Net (decrease) increase in cash and cash equivalents	(10,172)	45,317
Cash and cash equivalents at beginning of period	85,797	15,784
Cash and cash equivalents at end of period	\$75,625	\$61,101
Supplemental cash flow information:		
Interest paid	\$6,345	\$2,416
Income taxes paid	\$5,720	\$717
Supplemental noncash disclosures:		
Transfers from loans to OREO	\$375	\$1,445
Loan transfers to branch assets held for sale	\$78,071	\$—
Premises and equipment transferred to branch assets held for sale	\$2,260	\$—

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments considered necessary for a fair presentation. Transactions between the subsidiaries have been eliminated. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes thereto for the fiscal years ended December 31, 2013 and 2012. Operating results for the three and nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. Furthermore, the acquisition of National Bancshares, Inc. during the fourth quarter of 2013 may impact the comparability of year to date 2014 versus year to date 2013 comparable information. The Company has three reportable segments consisting of Factoring, Banking, and Corporate. The Company’s Chief Executive Officer uses segment results to make operating and strategic decisions.

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

Adoption of New Accounting Standards:

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

Newly Issued, But Not Yet Effective Accounting Standards:

In January of 2014, FASB issued ASU 2014-04, "Receivables – Troubled Debt Restructurings by Creditors." ASU 2014-04 affects all creditors when an in substance repossession or foreclosure of residential real estate property collateralizing a consumer mortgage loan in satisfaction of a receivable has occurred. The ASU is effective for fiscal periods beginning after December 15, 2014. Adoption of this ASU is not expected to have a material impact on the Company's financial statements.

On May 28, 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers", which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

NOTE 2 – Business combinations AND DIVESTITURES

Sale of Pewaukee Branch

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

Doral Healthcare Acquisition

On June 13, 2014, Triumph Bancorp, Inc., through its subsidiary, Triumph Community Bank, acquired the lending platform and certain assets of Doral Healthcare Finance (DHF), an asset based lender focused exclusively on the healthcare industry. DHF was a division of Doral Money, which is a subsidiary of Doral Bank. The purpose of the acquisition was to enhance the Company's commercial finance offerings. In conjunction with the acquisition, Doral Healthcare Finance has been rebranded Triumph Healthcare Finance. The acquisition was not considered significant to the Company's financial statements and therefore pro forma financial data and related disclosures are not included.

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

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

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

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

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

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

PCI Loans:

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

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

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

NBI Acquisition

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

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

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

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

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

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

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

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

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

NOTE 3 - SECURITIES

Securities have been classified in the financial statements as available for sale or held to maturity. The amortized cost of securities and their approximate fair values at September 30, 2014 and December 31, 2013 are as follows:

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

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

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

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

The amortized cost and estimated fair value of securities at September 30, 2014, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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

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

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

Information pertaining to securities with gross unrealized losses at September 30, 2014 and December 31, 2013, aggregated by investment category and length of time that individual securities have been in a continuous loss position, are summarized as follows:

	Less than 12 Months Fair Unrealized	12 Months or More Fair Unrealized	Total Fair	Unrealized
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	Value	Losses	Value	Losses	Value	Losses
September 30, 2014						
U.S. Government agency obligations	\$14,644	\$ (52)	\$—	\$ —	\$14,644	\$ (52)
Mortgage-backed securities, residential	184	(1)	—	—	184	(1)
Asset backed securities	9,789	(29)	—	—	9,789	(29)
State and municipal	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
SBA pooled securities	—	—	—	—	—	—
	\$24,617	\$ (82)	\$—	\$ —	\$24,617	\$ (82)

December 31, 2013						
U.S. Government agency obligations	\$38,890	\$ (222)	\$1,849	\$ (2)	\$40,739	\$ (224)
Mortgage-backed securities, residential	800	(1)	—	—	800	(1)
Asset backed securities	4,913	(6)	—	—	4,913	(6)
State and municipal	1,481	(4)	—	—	1,481	(4)
Corporate bonds	8,419	(36)	—	—	8,419	(36)
Trust preferred	3,600	(106)	—	—	3,600	(106)
SBA pooled securities	—	—	—	—	—	—
	\$58,103	\$ (375)	\$1,849	\$ (2)	\$59,952	\$ (377)

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

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

As of September 30, 2014, management does not have the intent to sell any of the securities classified as available for sale in the table above and believes that it is more likely than not that the Company will not have to sell any such securities before a recovery of cost. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of September 30, 2014, management believes the unrealized losses detailed in the previous table are temporary and no other than temporary impairment loss has been recognized in the Company's consolidated statements of income.

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES

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

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

\$ 969,819 \$ 877,454

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

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

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

Allowance for Loan and Lease Losses: The activity in the allowance for loan and lease losses (ALLL) during the three and nine months ended September 30, 2014 and 2013 is as follows:

Three months ended September 30, 2014	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Real estate:					
Commercial	\$ 463	\$ (78)	\$ —	\$ 1	\$ 386
Construction, land development, land	242	198	(100)	—	340
1-4 family residential properties	197	56	(74)	3	182
Farmland	11	2	—	—	13
Total real estate	913	178	(174)	4	921
Commercial	2,332	722	-	3	3,057
Factored receivables	2,838	397	(119)	21	3,137
Consumer	96	34	(100)	57	87
Mortgage warehouse					