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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x 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 incorporation or organization)	(I.R.S. Employer Identification No.)

12700 Park Central Drive, Suite 1700

Dallas, Texas 75251

(Address of principal executive offices)

(214) 365-6900

(Registrant's telephone number, including area code)

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

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 x 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 x (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 x

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

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

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,		Nine Months Ended September 30,	
	2014	2013	2014	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

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	2013	Nine Months Ended September 30, 2014	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					
	Shares Outstanding	Liquidation Preference Amount	Shares Outstanding	Liquidation Preference Amount	Shares Outstanding	Par Amount	Additional Paid-in-Capital	Shares Outstanding	Cost	Retained Earnings	Accumulated Other Comprehensive Income	Non Controlling Interest	Total Equity
lance, nuary 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
mmon stock uance, net of sts	—	—	—	—	3,672,115	37	42,365	—	—	—	—	—	42,402
ock based mpensation	—	—	—	—	—	—	86	—	—	—	—	—	86
BI Series A eferred vidends	—	—	—	—	—	—	—	—	—	(542)	—	—	(542
CF Class B stributions	—	—	—	—	—	—	—	—	—	(188)	—	—	(188
t income	—	—	—	—	—	—	—	—	—	1,710	—	—	1,710
her mprehensive ss	—	—	—	—	—	—	—	—	—	—	(215)	—	(215
lance, ptember 30, 13	45,500	$4,550	—	$—	8,803,540	$88	$92,682	—	$—	$7,605	$241	$1,100	$106,26
lance, nuary 1, 2014	45,500	$4,550	51,956	$5,196	9,832,585	$98	$104,631	—	$—	$18,992	$133	$26,997	$160,59
esting of stricted stock its	—	—	—	—	58,395	1	54	—	—	—	—	—	55
ock based mpensation	—	—	—	—	—	—	613	—	—	—	—	—	613
mmon stock uance, net of sts	—	—	—	—	444	—	6	—	—	—	—	—	6
	—	—	—	—	(4,646)	—	—	4,646	(68)	—	—	—	(68

rchase of asury stock													
ries T-1 and 2 dividends	—	—	—	—	—	—	—	—	—	(1,313)	—	—	(1,313
3I Series A eferred vidends	—	—	—	—	—	—	—	—	—	(272)	—	—	(272
3I Series B eferred vidends	—	—	—	—	—	—	—	—	—	(311)	—	—	(311
CF Class B stributions	—	—	—	—	—	—	—	—	—	(64)	—	—	(64
CF Class B demption	—	—	—	—	—	—	—	—	—	—	—	(1,100)	(1,100
t income	—	—	—	—	—	—	—	—	—	16,982	—	—	16,982
her mprehensive come	—	—	—	—	—	—	—	—	—	—	703	—	703
lance, ptember 30, 14	45,500	$4,550	51,956	$5,196	9,886,778	$99	$105,304	4,646	$(68)	$34,014	$836	$25,897	$175,82

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)	—

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

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

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

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Held to maturity securities:				
Other - State of Israel bonds	$ 745	$ 5	$ —	$ 750

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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

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		12 Months or More		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized

	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)

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(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.

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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	74	44	—	—	118
	$ 6,253	$ 1,375	$ (393)	$ 85	$ 7,320

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

Nine months ended September 30, 2014	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Real estate:					
Commercial	$ 348	$ 35	$ —	$ 3	$ 386
Construction, land development, land	110	330	(100)	—	340
1-4 family residential properties	100	240	(264)	106	182
Farmland	7	6	—	—	13
Total real estate	565	611	(364)	109	921

Commercial	1,145	1,707	(12)	217	3,057
Factored receivables	1,842	1,533	(294)	56	3,137
Consumer	49	122	(314)	230	87
Mortgage warehouse	44	74	—	—	118
	$ 3,645	$ 4,047	$ (984)	$ 612	$ 7,320

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

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

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

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

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

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

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

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

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

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

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

Loans included in the above tables are non-PCI impaired loans and PCI loans that have deteriorated subsequent to acquisition and as a result have been deemed impaired and an allowance recorded. PCI loans that have not deteriorated subsequent to acquisition are not considered impaired and therefore do not require an allowance and are excluded from the tables above.

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The following table presents the unpaid principal and recorded investment for loans at September 30, 2014 and December 31, 2013. The difference between the unpaid principal balance and recorded investment is principally associated with (1) premiums and discounts associated with acquisition date fair value adjustments on acquired loans (both PCI and non-PCI), (2) net deferred origination costs and fees, and (3) previous charge-offs.

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

December 31, 2013	Recorded Investment	Unpaid Principal	Difference
Real estate:			
Commercial	$ 331,462	$ 351,521	$ (20,059)
Construction, land development, land	37,626	41,034	(3,408)
1-4 family residential properties	91,301	96,742	(5,441)
Farmland	20,294	20,145	149
Total real estate	480,683	509,442	(28,759)
Commercial	255,655	260,384	(4,729)
Factored receivables	117,370	118,057	(687)
Consumer	13,878	14,006	(128)
Mortgage warehouse	13,513	13,513	—
	$ 881,099	$ 915,402	$ (34,303)

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

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

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

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

Credit Quality Information: The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, including: current collateral and financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes every loan and is performed on a semi-annual basis at TSB and every eighteen months for loans greater than $500 at TCB. Large groups of smaller balance homogeneous loans, such as consumer loans, are analyzed primarily based on payment status. The Company uses the following definitions for risk ratings:

Pass:

Loans classified as pass are loans with low to average risk and not otherwise classified as special mention, substandard or doubtful.

Special Mention:

Loans classified as special mention have low to acceptable risks. Liquidity, asset quality, and debt service coverage are as a whole satisfactory and performance is generally as agreed.

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Substandard:

Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful:

Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

PCI:

At acquisition, PCI loans had the characteristics of substandard loans and it was probable, at acquisition, that all contractually required principal payments would not be collected. The Company evaluates these loans on a projected cash flow basis with this evaluation performed quarterly.

As of September 30, 2014 and December 31, 2013 based on the most recent analysis performed, the risk category of loans is as follows:

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

December 31, 2013	Pass	Special Mention	Substandard	Doubtful	PCI	Total
Real estate:						

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

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Troubled Debt Restructurings

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

NOTE 5 - PURCHASED CREDIT IMPAIRED LOANS

The Company has loans that were acquired, for which there was, at acquisition, evidence of deterioration of credit quality since origination and for which it was probable, at acquisition, that all contractually required payments would not be collected. The outstanding contractually required principal and interest and the carrying amount of these loans included in the balance sheet amounts of loans at September 30, 2014 and December 31, 2013, are as follows:

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

The changes in accretable yield during the three and nine months ended September 30, 2014 and 2013 in regard to loans transferred at acquisition for which it was probable that all contractually required payments would not be collected are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Accretable yield, beginning balance	$6,883	$2,435	$4,587	$4,244

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

NOTE 6 - GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets consist of the following:

	September 30, 2014	December 31, 2013
Goodwill	$ 15,968	$ 14,047
Other intangible assets	13,815	14,471
	$ 29,783	$ 28,518

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

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

NOTE 7 – Variable Interest Entities

Collateralized Loan Obligation Funds - Closed

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

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

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

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

Collateralized Loan Obligation Fund – Warehouse Phase

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

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

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

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

NOTE 8 - Deposits

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

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

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

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

NOTE 9 - Legal Contingencies

Various legal claims arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's consolidated financial statements. The Company does not anticipate any material losses as a result of commitments and contingent liabilities.

NOTE 10 - OFF-BALANCE SHEET LOAN COMMITMENTS

From time to time, the Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The Company's exposure

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to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments.

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

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

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being fully drawn upon, the total commitment amounts disclosed above do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if considered necessary by the Company, upon extension of credit, is based on management's credit evaluation of the customer.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. In the event of nonperformance by the customer, the Company has rights to the underlying collateral, which can include commercial real estate, physical plant and property, inventory, receivables, cash and marketable securities. The credit risk to the Company in issuing letters of credit is essentially the same as that involved in extending loan facilities to its customers.

NOTE 11 - Fair Value Disclosures

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

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

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

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

The methods of determining the fair value of assets and liabilities presented in this note are consistent with our methodologies disclosed in our annual financial statements.

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Assets measured at fair value on a recurring basis are summarized in the table below. There were no liabilities measured at fair value on a recurring basis at September 30, 2014 and December 31, 2013.

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

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

There were no transfers between levels during 2014 or 2013.

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

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Assets measured at fair value on a non-recurring basis are summarized in the table below. There were no liabilities measured at fair value on a non-recurring basis at September 30, 2014 and December 31, 2013.

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

December 31, 2013:	Fair Value Measurements Using Level 1	Level 2	Level 3	Total Fair Value
Impaired loans				
1-4 family residential properties	$—	$ —	$ 106	$106
Commercial	—	—	200	200
Factored receivables	—	—	345	345
Other real estate owned [1]:				
1-4 family residential properties	—	—	367	367
Commercial	—	—	653	653
Construction, land development, land	—	—	—	—
	$—	$ —	$ 1,671	$1,671

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

[1] Represents the fair value of OREO that was adjusted subsequent to its initial classification as OREO

Impaired Loans with Specific Allocation of ALLL: A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due pursuant to the contractual terms of the loan agreement. Impairment is measured by estimating the fair value of the loan based on the present value of expected cash flows, the market price of the loan, or the underlying fair value of the loan's collateral. Fair value of the impaired loan's collateral is determined by third party appraisals, which are then adjusted for the estimated selling and closing costs related to liquidation of the collateral. Unobservable inputs for estimated selling and closing costs range from 5% to 8% of the value of the underlying collateral.

OREO: OREO is comprised of real estate acquired in partial or full satisfaction of loans. OREO is recorded at its estimated fair value less estimated selling and closing costs at the date of transfer, with any excess of the related loan balance over the fair value less expected selling costs is charged to the ALLL. Subsequent changes in fair value are reported as adjustments to the carrying amount and are recorded against earnings. The Company outsources the valuation of OREO with material balances to third party appraisers. For this asset class, the actual valuation methods (income, sales comparable, or cost) vary based on the status of the project or property. For example, land is generally based on the sales comparable method while construction is based on the income and/or sales comparable methods. The unobservable inputs may vary depending on the individual assets with no one of the three methods being the predominant approach. The Company reviews the third party appraisal for appropriateness and adjusts the value downward to consider selling and closing costs, which typically range from 5% to 8% of the appraised value.

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

	September 30, 2014				
	Carrying	Fair Value Measurements Using			Total
	Amount	Level 1	Level 2	Level 3	Fair Value
Financial assets:					
Cash and cash equivalents	$75,625	$75,625	$—	$—	$75,625
Securities - Held to maturity	745	—	750	—	750
Loans, net	969,819	—	—	977,509	977,509
FHLB and Federal Reserve Bank stock	5,826	N/A	N/A	N/A	N/A
Accrued interest receivable	4,127	—	4,127	—	4,127
Financial liabilities:					
Deposits	1,105,624	—	1,109,111	—	1,109,111
Customer repurchase agreements	15,644	—	15,644	—	15,644
Federal Home Loan Bank advances	—	—	—	—	—
Senior secured note	11,630	—	11,434	—	11,434
Junior subordinated debentures	24,359	—	24,359	—	24,359
Accrued interest payable	901	—	901	—	901

	December 31, 2013				
	Carrying	Fair Value Measurements Using			Total
	Amount	Level 1	Level 2	Level 3	Fair Value
Financial assets:					
Cash and cash equivalents	$85,797	$85,797	$—	$—	$85,797
Securities - Held to maturity	743	—	745	—	745
Loans, net	877,454	—	—	884,307	884,307
FHLB and Federal Reserve Bank stock	5,802	N/A	N/A	N/A	N/A
Accrued interest receivable	3,748	—	3,748	—	3,748
Financial liabilities:					
Deposits	1,044,854	—	1,046,226	—	1,046,226
Customer repurchase agreements	11,330	—	11,329	—	11,329
Federal Home Loan Bank advances	21,000	—	21,000	—	21,000
Senior secured note	12,573	—	12,379	—	12,379
Junior subordinated debentures	24,171	—	24,171	—	24,171
Accrued interest payable	2,426	—	2,426	—	2,426

NOTE 12 - Regulatory Matters

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

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

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

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

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

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

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

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

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

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

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

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NOTE 13 - EQUITY AND NONCONTROLLING INTERESTS

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

	Preferred Stock				Common Stock		Treasury Stock	
	Series A		Series B					
	September 2014	December 2013	September 2014	December 2013	September 2014	December 2013	September 2014	December 2013
Number of shares authorized	50,000	50,000	115,000	115,000	50,000,000	50,000,000		
Number of shares issued	45,500	45,500	51,956	51,956	9,891,424	9,832,585		
Number of shares outstanding	45,500	45,500	51,956	51,956	9,886,778	9,832,585	4,646	—
Par value per share	$0.01	$0.01	$0.01	$0.01	$0.01	$0.01		
Liquidation preference per share	$100	$100	$100	$100				
Dividend rate	Prime + 2%	Prime + 2%	8.00 %	8.00 %				
Dividend rate - floor	8.00 %	8.00 %	8.00 %	8.00 %				
Initial dividend payment date	3/31/2013	3/31/2013	12/31/2013	12/31/2013				
Subsequent dividend payment dates	Quarterly	Quarterly	Quarterly	Quarterly				
Convertible to common stock	Yes	Yes	Yes	Yes				
Conversion period	Anytime	Anytime	Anytime	Anytime				
Conversion ratio - preferred to common	6.94008	6.94008	6.94008	6.94008				

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

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

NOTE 14 – STOCK BASED COMPENSATION

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

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

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

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

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

NOTE 15 – EARNINGS PER SHARE

The factors used in the earnings per share computation follow:

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

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

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

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

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NOTE 16 – BUSINESS SEGMENT INFORMATION

The following presents the Company’s operating segments. Transactions between segments consist primarily of borrowed funds. Intersegment interest expense is allocated to the factoring segment based on the Company’s prime rate. The provision for loan loss is allocated based on the segment’s allowance for loan loss determination which considers the effects of charge-offs. Noninterest income and expense directly attributable to a segment are assigned to it. Taxes are paid on a consolidated basis but not allocated for segment purposes The Factoring segment includes only factoring originated by ABC. General factoring services not originated through ABC are included in the Banking segment.

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

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

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

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

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

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

NOTE 17 – SUBSEQUENT EVENTS

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

In connection with the offering, the Company adopted the 2014 Omnibus Incentive Plan (Omnibus Incentive Plan). The Omnibus Incentive Plan provides for the grant of nonqualified and incentive stock options, stock appreciation rights, restricted stock awards, restricted stock units, and other awards that may be settled in, or based upon the value of, our common stock. The aggregate number of shares of our common stock available for issuance under the Omnibus Incentive Plan is 1,200,000 shares. On December 1, 2014, the Company granted 378,343 shares of restricted stock to certain officers and employees in accordance with the provisions of the Omnibus Incentive Plan.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

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

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

item 2

Management's Discussion and Analysis of

Financial Condition and Results of Operations

This section presents management's perspective on our financial condition and results of operations. The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the Company's interim consolidated financial statements and the accompanying notes included elsewhere in this Quarterly Report on Form 10-Q and with the consolidated financial statements and accompanying notes and other detailed information appearing in the Company's Registration Statement on Form S-1 declared effective November 6, 2014. To the extent that this discussion describes prior performance, the descriptions relate only to the periods listed, which may not be indicative of our future financial outcomes. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause results to differ materially from management's expectations. See the last section of this discussion for further information on forward-looking statements.

Overview

We are a financial holding company headquartered in Dallas, Texas and registered under the Bank Holding Company Act. Through our two wholly owned bank subsidiaries, Triumph Savings Bank and Triumph Community Bank, we offer traditional banking products as well as commercial finance product lines focused on businesses that require specialized and tailored financial solutions. Our banking operations include a full suite of lending and deposit products and services focused on our local market areas. These activities generate a stable source of core deposits and a diverse asset base to support our overall operations. Our commercial finance product lines include factoring, asset-based lending, equipment lending and healthcare lending products offered on a nationwide basis. These product offerings supplement the asset generation capacity in our community banking markets and enhance the overall yield of our loan portfolio, enabling us to earn attractive risk-adjusted net interest margins. We believe our integrated business model distinguishes us from other banks and non-bank financial services companies in the markets in which we operate. As of September 30, 2014, we had consolidated total assets of $1.348 billion, total loans held for investment of $977 million, total deposits of $1.106 billion and total stockholders' equity of $149 million.

Most of our products and services share basic processes and have similar economic characteristics. However, our factoring subsidiary operates in a highly specialized niche and earns substantially higher yields on its factored accounts receivable portfolio than our other lending products. This business also has a legacy and structure as a standalone company. As a result, we have determined our reportable segments are Banking, Factoring and Corporate. For the nine months ended September 30, 2014, our banking segment generated 74% of our total revenue (comprised of interest and noninterest income, excluding the gain on branch sale), our factoring segment generated 25% of our total revenue, and our corporate segment generated 1% of our total revenue.

Recent Developments

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

In connection with the offering, the Company adopted the 2014 Omnibus Incentive Plan (Omnibus Incentive Plan). The Omnibus Incentive Plan provides for the grant of nonqualified and incentive stock options, stock appreciation rights, restricted stock awards, restricted stock units, and other awards that may be settled in, or based upon the value of, our common stock. The aggregate number of shares of our common stock available for issuance under the Omnibus Incentive Plan is 1,200,000 shares. On December 1, 2014, the Company granted 378,343 shares of restricted stock to certain officers and employees in accordance with the provisions of the Omnibus Incentive Plan.

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

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

Impact of Triumph Community Bank Acquisition

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

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

Financial Highlights

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

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

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

(Dollars in thousands, except per share amounts)	September 30, 2014 (Unaudited)	December 31, 2013
Balance Sheet Data:		
Cash and cash equivalents	$21,567	$25,352
Investment Securities	166,234	185,397
Loans held for sale	7,295	5,393
Loans held for investment	977,139	881,099
Allowance for loan losses	(7,320)	(3,645)
Total assets	1,347,798	1,288,239
Noninterest bearing deposits	154,750	150,238
Interest bearing deposits	950,874	894,616
Senior Secured Note	11,630	12,573
Junior Subordinated Debentures	24,359	24,171
Noncontrolling interests	25,897	26,997
Preferred stockholders' equity	9,746	9,746
Common stockholders' equity (1)	140,185	123,854
Total stockholders' equity	175,828	160,597
Per Share Data:		
Book value per share	$14.18	$12.60
Tangible book value per share (1)	$11.17	$9.70
Shares outstanding end of period	9,886,778	