Triumph Bancorp, Inc.
Form 10-Q
July 21, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017

OR

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

Commission File Number 001-36722

TRIUMPH BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

12700 Park Central Drive, Suite 1700

Dallas, Texas 75251

(Address of principal executive offices)

(214) 365-6900

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically 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
Emerging growth company		

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

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

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

Common Stock — $0.01 par value, 18,137,776 shares, as of July 17, 2017

TRIUMPH BANCORP, INC.

FORM 10-Q

June 30, 2017

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PART I – FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

June 30, 2017 and December 31, 2016

(Dollar amounts in thousands, except per share amounts)

	June 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Cash and due from banks	$ 37,341	$ 38,613
Interest bearing deposits with other banks	80,161	75,901
Total cash and cash equivalents	117,502	114,514
Securities - available for sale	227,206	275,029
Securities - held to maturity, fair value of $26,366 and $30,821, respectively	26,036	29,352
Loans, net of allowance for loan and lease losses of $19,797 and $15,405, respectively	2,275,303	2,012,219
Federal Home Loan Bank stock, at cost	14,566	8,430
Premises and equipment, net	43,957	45,460
Other real estate owned, net	10,740	6,077
Goodwill	28,810	28,810
Intangible assets, net	14,511	17,721
Bank-owned life insurance	36,852	36,509
Deferred tax assets, net	15,111	18,825
Other assets	26,090	48,121
Total assets	$ 2,836,684	$ 2,641,067
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest bearing	$ 381,042	$ 363,351
Interest bearing	1,691,139	1,652,434
Total deposits	2,072,181	2,015,785
Customer repurchase agreements	14,959	10,490
Federal Home Loan Bank advances	340,000	230,000
Subordinated notes	48,780	48,734
Junior subordinated debentures	32,943	32,740
Other liabilities	17,354	13,973
Total liabilities	2,526,217	2,351,722
Commitments and contingencies - See Note 8 and Note 9		
Stockholders' equity - See Note 12		
Preferred Stock	9,658	9,746
Common stock	182	182
Additional paid-in-capital	198,570	197,157
Treasury stock, at cost	(1,759)	(1,374)

Retained earnings	103,658	83,910
Accumulated other comprehensive income (loss)	158	(276)
Total stockholders’ equity	310,467	289,345
Total liabilities and stockholders' equity	$ 2,836,684	$ 2,641,067

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the Three and Six Months Ended June 30, 2017 and 2016

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Interest and dividend income:				
Loans, including fees	$30,663	$18,547	$55,848	$34,635
Factored receivables, including fees	10,812	8,639	19,979	16,461
Securities	1,738	958	3,349	1,723
FHLB stock	36	13	78	23
Cash deposits	289	197	616	405
Total interest income	43,538	28,354	79,870	53,247
Interest expense:				
Deposits	3,057	2,020	5,926	4,013
Subordinated notes	836	—	1,671	—
Junior subordinated debentures	475	312	940	614
Other borrowings	613	115	957	224
Total interest expense	4,981	2,447	9,494	4,851
Net interest income	38,557	25,907	70,376	48,396
Provision for loan losses	1,447	1,939	9,125	1,428
Net interest income after provision for loan losses	37,110	23,968	61,251	46,968
Noninterest income:				
Service charges on deposits	977	695	1,957	1,354
Card income	917	577	1,744	1,123
Net OREO gains (losses) and valuation adjustments	(112)	(1,204)	(101)	(1,215)
Net gains (losses) on sale of securities	—	—	—	5
Net gains on sale of loans	—	4	—	16
Fee income	637	504	1,220	1,038
Asset management fees	—	1,605	1,717	3,234
Gain on sale of subsidiary	—	—	20,860	—
Other	2,783	1,487	5,090	3,094
Total noninterest income	5,202	3,668	32,487	8,649
Noninterest expense:				
Salaries and employee benefits	16,012	12,229	37,970	24,481
Occupancy, furniture and equipment	2,348	1,534	4,707	3,016
FDIC insurance and other regulatory assessments	270	281	496	505
Professional fees	1,238	1,101	3,206	2,174

Amortization of intangible assets	911	717	2,022	1,694
Advertising and promotion	911	628	1,849	1,147
Communications and technology	2,233	1,263	4,407	2,695
Other	3,398	2,578	7,501	4,697
Total noninterest expense	27,321	20,331	62,158	40,409
Net income before income tax	14,991	7,305	31,580	15,208
Income tax expense	5,331	2,679	11,447	5,576
Net income	9,660	4,626	20,133	9,632
Dividends on preferred stock	(193)	(195)	(385)	(389)
Net income available to common stockholders	$9,467	$4,431	$19,748	$9,243
Earnings per common share				
Basic	$0.53	$0.25	$1.10	$0.52
Diluted	$0.51	$0.25	$1.07	$0.51

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three and Six Months Ended June 30, 2017 and 2016

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$9,660	$4,626	$20,133	$9,632
Other comprehensive income:				
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) arising during the period	357	536	691	1,993
Reclassification of amount realized through sale of securities	—	—	—	(5)
Tax effect	(133)	(199)	(257)	(740)
Total other comprehensive income (loss)	224	337	434	1,248
Comprehensive income	$9,884	$4,963	$20,567	$10,880

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Six Months Ended June 30, 2017 and 2016

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Preferred Stock	Common Stock			Treasury Stock			Accumulated	
	Liquidation Preference Amount	Shares Outstanding	Par Amount	Additional Paid-in-Capital	Shares Outstanding	Cost	Retained Earnings	Other Comprehensive Income	Total Equity
Balance, January 1, 2016	$ 9,746	18,018,200	$ 181	$ 194,297	34,523	$ (560)	$ 64,097	$ 277	$ 268,038
Issuance of restricted stock awards	—	101,105	1	(1)	—	—	—	—	—
Stock based compensation	—	—	—	1,279	—	—	—	—	1,279
Forfeiture of restricted stock awards	—	(6,759)	—	101	6,759	(101)	—	—	—
Excess tax benefit on restricted stock vested	—	—	—	35	—	—	—	—	35
Purchase of treasury stock		(5,053)	—	—	5,053	(80)		—	(80)
Series A Preferred dividends	—	—	—	—	—	—	(182)	—	(182)
Series B Preferred dividends	—	—	—	—	—	—	(207)	—	(207)
Net income	—	—	—	—	—	—	9,632	—	9,632
Other comprehensive income	—	—	—	—	—	—	—	1,248	1,248
Balance, June 30, 2016	$ 9,746	18,107,493	$ 182	$ 195,711	46,335	$ (741)	$ 73,340	$ 1,525	$ 279,763
Balance, January 1, 2017	$ 9,746	18,078,247	$ 182	$ 197,157	76,118	$ (1,374)	$ 83,910	$ (276)	$ 289,345
Issuance of restricted stock	—	40,541	—	—	—	—	—	—	—

awards									
Stock based compensation	—	—	—	1,025	—	—	—	—	1,025
Forfeiture of restricted stock awards	—	(843)	—	19	843	(19)	—	—	—
Stock option exercises, net	—	22,731	—	281	—	—	—	—	281
Purchase of treasury stock	—	(14,197)	—	—	14,197	(366)	—	—	(366)
Preferred stock converted to common stock	(88)	6,106	—	88	—	—	—	—	—
Series A Preferred dividends	—	—	—	—	—	—	(181)	—	(181)
Series B Preferred dividends	—	—	—	—	—	—	(204)	—	(204)
Net income	—	—	—	—	—	—	20,133	—	20,133
Other comprehensive income	—	—	—	—	—	—	—	434	434
Balance, June 30, 2017	$ 9,658	18,132,585	$ 182	$ 198,570	91,158	$ (1,759)	$ 103,658	$ 158	$ 310,467

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2017 and 2016

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net income	$20,133	$9,632
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	1,925	1,162
Net accretion on loans and deposits	(3,965)	(3,453)
Amortization of subordinated notes issuance costs	46	—
Amortization of junior subordinated debentures	203	136
Net amortization on securities	837	326
Amortization of intangible assets	2,022	1,694
Deferred taxes	3,457	(135)
Provision for loan losses	9,125	1,428
Stock based compensation	1,025	1,279
Origination of loans held for sale	—	(891)
Proceeds from sale of loans originated for sale	—	2,248
Net (gains) losses on sale of securities	—	(5)
Net (gain) loss on loans transferred to loans held for sale	46	81
Net gains on sale of loans	—	(16)
Net OREO (gains) losses and valuation adjustments	101	1,215
Gain on sale of subsidiary	(20,860)	—
Income from CLO warehouse investments	(1,954)	(1,758)
(Increase) decrease in other assets	5,010	944
Increase (decrease) in other liabilities	3,296	(801)
Net cash provided by (used in) operating activities	20,447	13,086
Cash flows from investing activities:		
Purchases of securities available for sale	(5,042)	(3,264)
Proceeds from sales of securities available for sale	—	4,345
Proceeds from maturities, calls, and pay downs of securities available for sale	51,819	3,872
Purchases of securities held to maturity	(5,092)	(27,409)
Proceeds from maturities, calls, and pay downs of securities held to maturity	9,308	—
Purchases of loans (shared national credits)	—	(995)
Proceeds from sale of loans	1,919	4,038
Net change in loans	(265,788)	(119,071)
Purchases of premises and equipment, net	(699)	(779)
Net proceeds from sale of OREO	1,588	528

Net cash paid for CLO warehouse investments	—	(10,000)
Net proceeds from CLO warehouse investments	20,000	14,000
(Purchases) redemptions of FHLB stock, net	(6,136)	(2,550)
Proceeds from sale of subsidiary, net	10,269	—
Net cash provided by (used in) investing activities	(187,854)	(137,285)
Cash flows from financing activities:		
Net increase in deposits	56,396	26,323
Increase (decrease) in customer repurchase agreements	4,469	4,318
Increase (decrease) in Federal Home Loan Bank advances	110,000	50,500
Stock option exercises	281	—
Purchase of treasury stock	(366)	(80)
Dividends on preferred stock	(385)	(389)
Net cash provided by (used in) financing activities	170,395	80,672
Net increase (decrease) in cash and cash equivalents	2,988	(43,527)
Cash and cash equivalents at beginning of period	114,514	105,277
Cash and cash equivalents at end of period	$117,502	$61,750

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2017 and 2016

(Dollar amounts in thousands, except per share amounts)

(Unaudited)

	Six Months Ended June 30,	
	2017	2016
Supplemental cash flow information:		
Interest paid	$8,996	$4,717
Income taxes paid, net	$4,655	$6,018
Supplemental noncash disclosures:		
Loans transferred to OREO	$6,079	$425
Premises transferred to OREO	$273	$2,215
Loans transferred to loans held for sale	$1,919	$4,038
Consideration received from sale of subsidiary	$12,123	$—

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

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

On March 31, 2017 the Company sold its membership interests in its wholly owned subsidiary Triumph Capital Advisors, LLC (“TCA”). See Note 2 – Business Combinations and Divestitures for details of the TCA sale and its impact on the Company’s consolidated financial statements.

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 (“SEC”). Accordingly, the condensed financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all normal and recurring adjustments considered necessary for a fair presentation. Transactions between the subsidiaries have been eliminated. These condensed consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2016. Operating results for the three and six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

The Company has four reportable segments consisting of Banking, Factoring, Asset Management, and Corporate. The Company’s Chief Executive Officer uses segment results to make operating and strategic decisions. On March 31, 2017 the Company sold its membership interests in TCA, which comprised the entirety of the Asset Management segment’s operations. See Note 2 – Business Combinations and Divestitures for details of the TCA sale and its impact on the Company’s consolidated financial statements.

Adoption of New Accounting Standards

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-09, “Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”). The FASB issued this ASU to improve the accounting for share-based payments. ASU 2016-09 simplifies several aspects of the accounting for share-based payment award transactions, including: the presentation of income tax consequences, classification of awards as either equity or liabilities, classification on the statement of cash flows, and calculation of diluted earnings per share. The new standard was effective for the Company on January 1, 2017. Adoption of ASU 2016-09 did not have a material impact on the Company’s consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, “Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities” (“ASU 2017-08”). These amendments shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The guidance is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. As permitted by the amendment, the Company elected to early adopt the provisions of this ASU as of January 1, 2017. Adoption of ASU 2017-08 did not have a material impact on the Company’s consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Newly Issued, But Not Yet Effective Accounting Standards

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2018. Adoption of the ASU is not expected to have a significant impact on the Company's consolidated financial statements and related disclosures. The Company's primary sources of revenue are derived from interest and dividends earned on loans, investment securities, and other financial instruments that are not within the scope of ASU 2014-09. The Company's revenue recognition pattern for revenue streams within the scope of ASU 2014-09, including but not limited to service charges on deposit accounts and gains/losses on the sale of OREO, is not expected to change significantly from current practice. The standard permits the use of either the full retrospective or modified retrospective transition method. The Company is currently planning to use the modified retrospective transition method which requires application of ASU 2014-09 to uncompleted contracts at the date of adoption. Periods prior to the date of adoption are not retrospectively revised, but a cumulative effect of adoption is recognized for the impact of the ASU on uncompleted contracts at the date of adoption.

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"). The guidance affects the accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements of financial instruments. ASU 2016-01 will be effective for the Company on January 1, 2018 and is not expected to have a significant impact on our consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). The FASB issued this ASU to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet by lessees for those leases classified as operating leases under current U.S. GAAP and disclosing key information about leasing arrangements. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early application of this ASU is permitted for all entities. Adoption of ASU 2016-02 is not expected to have a material impact on the Company's consolidated financial statements. The Company leases certain properties and equipment under operating leases that will result in the recognition of lease assets and lease liabilities on the Company's balance sheet under the ASU, however, the majority of the Company's properties and equipment are owned, not leased. At June 30, 2017, the Company had contractual operating lease commitments of approximately $6,937,000, before considering renewal options that are generally present.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). Among other things, ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to form their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, ASU 2016-13 amends the accounting for credit losses on debt securities and purchased financial assets with credit deterioration. The amendments in ASU 2016-13 are effective for fiscal years beginning after

December 31, 2019, and interim periods within those years for public business entities that are SEC filers. Early adoption is permitted for fiscal years, and interim periods within those years, beginning after December 15, 2018, however, the Company does not currently plan to early adopt the ASU. The Company is currently assessing the impact that the adoption of this standard will have on the financial condition and results of operations of the Company.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 2 – Business combinations AND DIVESTITURES

Independent Bank Colorado Branches

On June 23, 2017, the Company entered into an agreement to acquire 9 branch locations in Colorado from Independent Bank Group, Inc.'s banking subsidiary Independent Bank. TBK Bank will purchase approximately $100,000,000 in loans and assume approximately $168,000,000 in deposits associated with the branches for an estimated aggregate deposit premium of $7,000,000 or 4.17%. The actual premium will be based on a 30 day average of deposit balances at the time the transaction closes. The transaction is expected to close during the fourth quarter of 2017 and is subject to certain closing conditions, including receipt of regulatory approval and other customary closing conditions.

Triumph Capital Advisors, LLC

On March 31, 2017, the Company sold its wholly owned asset management subsidiary, Triumph Capital Advisors, LLC, to an unrelated third party. The transaction was completed to enhance shareholder value and provide a platform for TCA to operate without the impact of regulations intended for depository institutions and their holding companies.

A summary of the consideration received and the gain on sale is as follows

(Dollars in thousands)	
Consideration received (fair value):	
Cash	$10,554
Loan receivable	10,500
Revenue share	1,623
Total consideration received	22,677
Carrying value of TCA membership interest	1,417
Gain on sale of subsidiary	21,260
Transaction costs	400
Gain on sale of subsidiary, net of transaction costs	$20,860

The Company financed a portion of the consideration received with a $10,500,000 term credit facility. Terms of the floating rate credit facility provide for quarterly principal and interest payments with an interest rate floor of 5.50%, maturing on March 31, 2023. The Company received a $25,000 origination fee associated with the term credit facility that was deferred and is being accreted over the contractual life of the loan as a yield adjustment.

In addition, the Company is entitled to receive an annual earn-out payment representing 3% of TCA's future annual gross revenue, with a total maximum earn-out amount of $2,500,000. The revenue share earn-out was considered contingent consideration which the Company recorded as an asset at its estimated fair value of $1,623,000 on the date of sale.

The Company incurred pre-tax expenses related to the transaction, including professional fees and other direct transaction costs, totaling $400,000 which were netted against the gain on sale of subsidiary in the consolidated statements of income.

Southern Transportation Insurance Agency

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

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

ColoEast Bankshares, Inc.

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

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

(Dollars in thousands)	Initial Values Recorded at Acquisition Date	Measurement Period Adjustments	Adjusted Values
Assets acquired:			
Cash and cash equivalents	$ 57,671	$ —	$ 57,671
Securities	161,693	—	161,693
Loans	460,775	—	460,775
FHLB and Federal Reserve Bank stock	550	—	550
Premises and equipment	23,940	—	23,940
Other real estate owned	3,105	(143)	2,962
Intangible assets	7,238	—	7,238
Bank-owned life insurance	6,400	—	6,400
Deferred income taxes	4,511	(70)	4,441
Other assets	10,022	—	10,022
	735,905	(213)	735,692
Liabilities assumed:			
Deposits	652,952	—	652,952
Junior subordinated debentures	7,728	—	7,728
Other liabilities	6,784	—	6,784
	667,464	—	667,464
Fair value of net assets acquired	68,441	(213)	68,228
Cash paid	70,000	—	70,000
TARP Preferred Stock assumed	10,500	—	10,500
Consideration transferred	80,500	—	80,500
Goodwill	$ 12,059	$ 213	$ 12,272

The consideration transferred was comprised of a combination of cash and the assumption of ColoEast's TARP Preferred Stock. The Company recognized goodwill of $12,272,000, which included measurement period adjustments related to the final valuation of other real estate owned acquired in the transaction and the finalization of income taxes associated with the transaction. Goodwill was calculated as the excess of both the consideration exchanged and liabilities assumed as compared to the fair value of identifiable net assets acquired and was allocated to the Company's Banking segment. The goodwill in this acquisition resulted from expected synergies and expansion into the Colorado and Kansas markets. The goodwill is not being amortized for tax purposes.

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

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

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

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

NOTE 3 - SECURITIES

Securities have been classified in the financial statements as available for sale or held to maturity. The amortized cost of securities and their approximate fair values at June 30, 2017 and December 31, 2016 are as follows:

(Dollars in thousands) June 30, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
U.S. Government agency obligations	$ 133,704	$ 564	$ (463)	$ 133,805
U.S. Treasury notes	4,830	43	—	4,873
Mortgage-backed securities, residential	22,233	389	(115)	22,507
Asset backed securities	12,889	21	(111)	12,799
State and municipal	25,361	23	(233)	25,151

Corporate bonds	25,793	114	(3)	25,904
SBA pooled securities	144	—	—	144
Mutual fund	2,000	23	—	2,023
Total available for sale securities	$ 226,954	$ 1,177	$ (925)	$ 227,206

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Held to maturity securities:				
CLO securities	$ 26,036	$ 948	$ (618)	$ 26,366

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands) December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
U.S. Government agency obligations	$ 180,945	$ 640	$ (643)	$ 180,942
Mortgage-backed securities, residential	24,710	453	(173)	24,990
Asset backed securities	13,031	30	(159)	12,902
State and municipal	27,339	6	(708)	26,637
Corporate bonds	27,287	106	(3)	27,390
SBA pooled securities	156	1	—	157
Mutual fund	2,000	11	—	2,011
Total available for sale securities	$ 275,468	$ 1,247	$ (1,686)	$ 275,029

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Held to maturity securities:				
CLO securities	$ 29,352	$ 1,527	$ (58)	$ 30,821

The amortized cost and estimated fair value of securities at June 30, 2017, 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.

	Available for Sale Securities		Held to Maturity Securities	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 56,482	$ 56,454	$ —	$ —
Due from one year to five years	111,026	111,240	—	—
Due from five years to ten years	6,859	6,790	12,875	13,513
Due after ten years	15,321	15,249	13,161	12,853
	189,688	189,733	26,036	26,366
Mortgage-backed securities, residential	22,233	22,507		