Triumph Bancorp, Inc.
Form 10-K
February 12, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

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<br>(State or other jurisdiction of incorporation or organization) | 20-0477066<br>(I.R.S. Employer Identification No.) |
| 12700 Park Central Drive, Suite 1700<br>Dallas, TX<br>(Address of principal executive offices) | 75251<br>(Zip Code) |

Registrant's telephone number, including area code: (214) 365-6900

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

| Title of Class: | Name of Exchange on Which Registered: |
| --- | --- |
| Common Stock, Par Value $0.01 Per Share | NASDAQ |

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES NO

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 for 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 every Interactive Data File required to be submitted 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 such files). YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", "and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | |
| --- | --- |
| Large accelerated filer | Accelerated filer |
| Non-accelerated filer | 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

The aggregate market value of the shares of common stock held by non-affiliates based on the closing price of the common stock on the NASDAQ Global Market on June 30, 2018 was approximately $985,067,000.

The number of shares of Registrant's Common Stock outstanding as of February 8, 2019 was 26,701,460.

Portions of the Registrant's Definitive Proxy Statement relating to the Annual Meeting of Stockholders, which will be filed within 120 days after December 31, 2018, are incorporated by reference into Part III of this Report.

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PART I

ITEM 1. BUSINESS.

Overview

Triumph Bancorp, Inc. (“we”, “Triumph” or the “Company”), is a financial holding company headquartered in Dallas, Texas and registered under the Bank Holding Company Act of 1956, as amended (the “BHC Act”). Through our wholly owned bank subsidiary, TBK Bank, SSB (“TBK Bank”), we offer traditional banking services as well as commercial finance products to businesses that require specialized financial solutions. Our community 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 products include factoring, asset-based lending, equipment lending, and premium finance 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 December 31, 2018, we had consolidated total assets of $4.560 billion, total loans held for investment of $3.609 billion, total deposits of $3.450 billion and total stockholders’ equity of $636.6 million.

Our business is conducted through three reportable segments (Banking, Factoring, and Corporate). For the year ended December 31, 2018, our banking segment generated 66% of our total revenue (comprised of interest and noninterest income), our factoring segment generated 33% of our total revenue, and our corporate segment generated 1% of our total revenue. On March 31, 2017, we sold our 100% membership interest in Triumph Capital Advisors, LLC (“TCA”) and discontinued fee based asset management services. TCA operations for the years ended December 31, 2017 and 2016 are reflected in our Corporate segment, along with the gain on sale of our membership interest in TCA.

Our Corporate Structure

We operate our business through several corporate entities.

- TBK Bank, SSB is a Texas state savings bank. TBK Bank operates retail branch networks in three geographic markets, (i) a mid-western division consisting of ten branches in the Quad Cities Metropolitan Area of Iowa and Illinois, together with seven other branches throughout central and northwestern Illinois and one branch in northeastern Illinois, (ii) a western division consisting of thirty branches located throughout central and eastern Colorado and two branches in far western Kansas, and (iii) a mountain division consisting of seven branches in southern Colorado and three branches in New Mexico. Through this branch network, we offer our customers a variety of financial products and services that both augment our revenue (fee and interest income) and help us expand and retain our core deposit network, including checking and savings accounts, debit cards, and electronic banking. TBK Bank also operates one location in Dallas, Texas, in which we maintain our corporate office, provide centralized treasury management services, originate certain commercial finance, mortgage warehouse, and commercial real estate loan products, and operate a branch that is dedicated to deposit gathering activities. During 2018, we announced that TBK Bank is planning to open a new full service branch in Dallas, Texas that is expected to open in 2019. Through TBK Bank, we originate a full suite of commercial and retail loans including commercial real estate, general commercial, commercial agriculture, mortgage warehouse, one-to-four family residential and construction and development loans, primarily focused on customers in and around our primary market areas. In addition, TBK Bank originates many of our commercial finance products and services, including asset-based loans,

equipment finance loans, general factoring products, and premium finance loans. These commercial finance products and services are offered on a nationwide basis.

- Advance Business Capital LLC (d/b/a "Triumph Business Capital") is a Delaware limited liability company and wholly owned subsidiary of TBK Bank that focuses on providing working capital financing through the purchase of accounts receivable, a product known as factoring. A substantial portion of Triumph Business Capital's factoring relationships are currently originated with small-to-mid-sized owner-operators, trucking fleets and freight brokers in the transportation industry, with an increasing representation in non-transportation sectors such as energy services, temporary staffing, and government contracting. Triumph Business Capital operates out of our Coppell, Texas location and employs a network of nationwide sales personnel.
- Triumph Insurance Group, Inc. is a Texas corporation and a wholly owned subsidiary of TBK Bank. Triumph Insurance Group was formed to provide insurance brokerage services, primarily focused on the insurance needs of our commercial finance and agriculture lending clients.

Lending and Factoring Activities

We offer a broad range of lending and factoring products. Our business lending categories include commercial, commercial real estate, factoring, agriculture, construction and development, and mortgage warehouse facilities. Consumer lending represents a small portion of our overall loan portfolio and is focused primarily on meeting the needs of customers in our retail banking markets. Our strategy is to maintain a broadly diversified loan portfolio by type and location.

A substantial portion of our lending is in the areas surrounding our community banking operations in Iowa, Illinois, Colorado, New Mexico, and Kansas. We expect that we will continue to focus on the commercial and personal credit needs of businesses and individuals in these markets. We also have a significant amount of lending in Texas, the home of our corporate headquarters and a significant portion of our commercial finance operations. With respect to our commercial finance products, we also seek out customers and maintain loan production offices or sales personnel for such product lines on a nationwide basis.

The following is a discussion of our major types of lending activity:

Commercial Loans. We offer commercial loans to small-to-mid-sized businesses across a variety of industries. These loans include general commercial and industrial loans, loans to purchase capital equipment and business loans for working capital and operational purposes.

A portion of our commercial loan portfolio consists of commercial finance products including asset-based loans, equipment loans, and premium finance loans. A more detailed description of these product lines is set forth below:

- Asset-Based Loans. We originate asset-based loans to borrowers to support general working capital needs. Our asset-based loan structure involves advances of loan proceeds against a "borrowing base," which typically consists of accounts receivable, identified readily marketable inventory or other collateral of the borrower. The maximum amount a customer may borrow at any time is fixed as a percentage of the borrowing base outstanding. These loans typically bear interest at a floating rate comprised of LIBOR or the prime rate plus a premium and include certain other transaction fees, such as origination and unused line fees. We target asset-based loan facilities between $1 million and $20 million and originate asset-based loans across a variety of industries.
- Equipment Loans. We originate equipment loans primarily secured by new or used revenue producing, essential-use equipment from major manufacturers that is movable, may be used in more than one type of business, and generally has broad resale markets. Core markets include transportation, construction, and waste. Our equipment loans are typically fully amortizing, fixed rate loans secured by the underlying collateral with a term of three to five years.
- Premium Finance Loans. We originate premium finance loans that provide customized premium financing solutions for the acquisition of property and casualty insurance coverage. In effect, these short term premium finance loans allow insureds to pay their insurance premiums over the life of the underlying policy, instead of paying the entire premium at the outset.

Commercial Real Estate Loans. We originate real estate loans to finance commercial property that is owner-occupied as well as commercial property owned by real estate investors. The real estate securing our existing commercial real estate loans includes a wide variety of property types, such as office buildings, warehouses, production facilities, hotels and mixed-use residential/commercial and multifamily properties. We originate these loans both in our community banking markets and on a nationwide basis.

Factored Receivables. As a part of our commercial finance product offerings, we offer factoring services to our customers, primarily in the transportation sector. In contrast to a lending relationship, in a factoring transaction we directly purchase the receivables generated by our clients at a discount to their face value. These transactions are structured to provide our clients with immediate liquidity to meet operating expenses when there is a mismatch between payments to our client for a good or service and the incurrence of operating costs required to provide such good or service. For example, in the transportation industry, invoices are typically paid 30 to 60 days after delivery whereas the truckers providing such transportation services require immediate funds to pay for fuel and other operating costs.

Our transportation factoring clients include small owner-operator trucking companies (one-to-four trucks), mid-sized fleets (5-to-50 trucks) and freight broker relationships whereby we manage all carrier payments on behalf of a broker client. Factoring for transportation businesses constituted approximately 79% of our total factoring portfolio as of December 31, 2018, calculated based on the gross receivables from the purchase of invoices from such trucking businesses compared to our total gross receivables in the purchase of factored receivables as of such date. The features

and pricing of our transportation factoring relationships vary by client type. Typically our smaller owner-operator relationships are structured as “non-recourse” relationships (i.e., we retain the credit risk associated with the ability of the account debtor on an invoice we purchase to ultimately make payment) and our larger relationships are structured as “recourse” relationships (i.e., our client agrees to repurchase from us any invoices for which payment is not ultimately received from the account debtor).

Our non-transportation factoring business targets small businesses with annual sales between $1 million and $50 million in industries such as manufacturing, distribution, and staffing.

Agriculture Loans. We originate a variety of loans to borrowers in the agriculture industry, including (i) real estate loans secured by farmland, (ii) equipment financing for specific agriculture equipment, including irrigation systems, (iii) crop input loans primarily focused on corn, wheat and soybeans, and (iv) loans secured by cattle and other livestock. We originate these loans primarily in the areas surrounding our community banking markets in Iowa, Illinois, Colorado, New Mexico, and Kansas.

Commercial Construction, Land and Land Development Loans. We offer loans to small-to-mid-sized businesses to construct owner-user properties, as well as loans to developers of commercial real estate investment properties and residential developments. These loans are typically disbursed as construction progresses and carry interest rates that vary with the prime rate. In certain instances, these loans can be converted to commercial real estate loans upon completion of their associated projects.

Mortgage Warehouse Facilities. Mortgage warehouse arrangements allow unaffiliated mortgage originators to close one-to-four family real estate loans in their own name and manage its cash flow needs until the loans are sold to investors. Although not bound by any legally binding commitment, when a purchase decision is made, we purchase a 100% interest in the mortgage loans originated by our mortgage banking company customers using a Purchase/Repurchase agreement. The mortgage banking company customer closes mortgage loans consistent with underwriting standards established by the Agencies (FNMA, FHLMC and GNMA) and approved investors and, once all pertinent documents are received, the mortgage note is delivered by the Company to the investor selected by the originator.

The mortgage warehouse customers are located across the U.S. and originate loans primarily through traditional retail, wholesale and correspondent business models. These customers are strategically targeted for their experienced management teams and thoroughly analyzed to ensure long-term and profitable business models. By using this approach, we believe that this type of lending carries a lower risk profile than other one-to-four family mortgage loans held for investment in our portfolio, due to the short-term nature (averaging less than 30 days) of the exposure and the additional strength offered by the mortgage originator sponsorship.

At December 31, 2018, maximum aggregate outstanding purchases ranged in size from $10 million to $100 million. Typical covenants include minimum tangible net worth, maximum leverage and minimum liquidity. As loans age, the Company requires loan curtailments to reduce our risk involving loans that are not purchased by investors on a timely basis.

At December 31, 2018, the Company had 13 mortgage banking company customers with a maximum aggregate exposure of $590 million and an actual aggregate outstanding balance of $314 million. The average mortgage loan being purchased by the Company reflects a blend of both Conforming and Government loan characteristics, including an average loan to value ratio (LTV) of 88%, an average credit score of 681 and an average loan size of $239,866. These characteristics illustrate the low risk profile of loans purchased under the mortgage warehouse arrangements. To date, we have not experienced a loss on any of our mortgage warehouse loans.

Residential Real Estate Loans. We originate first and second mortgage loans to our individual customers primarily for the purchase of primary and secondary residences, with a focus on offering these loans as an additional product offering to customers in our retail banking markets. We made the determination to recommence offering loans of this type in 2018 in order to further augment our product offerings and enhance overall customer experience.

Consumer Loans. We also originate personal loans for our retail banking customers. These loans originate exclusively out of our community banking operations in Iowa, Illinois, Colorado, New Mexico, and Kansas.

Other Products and Services

Triumph Pay. As an additional product and service in the transportation and logistics industries where we have substantial factoring expertise, we offer our TriumphPay platform as a payments solution to freight broker and shipper clients. The TriumphPay platform allows such clients to make all their carrier payments through our proprietary application. The TriumphPay application also permits carriers to elect payment options, including a “Quick Pay” feature which generates revenue by allowing such carrier to receive payment for such invoice at a discount in advance of its normal payment terms.

Additional Products and Services. We offer a full range of commercial and retail banking services to our customers, including checking and savings accounts, debit cards, and electronic banking services. These products both augment our revenue and help us expand our core deposit network. We also seek to make these additional banking products and services (many of which are not offered by non-bank lenders) to our commercial finance clients in order to improve acquisition and retention of these clients. Through Triumph Insurance Group, an insurance brokerage agency focused on meeting the insurance needs of our commercial clients, particularly our factoring clients in the transportation industry and our equipment lending clients, as well as our agriculture lending clients, we provide insurance brokerage services. We believe these ancillary product offerings have the ability to diversify our revenue and increase customer acquisition and retention for our primary product lines.

Credit Risk Management

We mitigate credit risk through disciplined underwriting of each transaction we originate, as well as active credit management processes and procedures to manage risk and minimize loss throughout the life of a transaction. We seek to maintain a broadly diversified loan portfolio in terms of type of customer, type of loan product, geographic area and industries in which our business customers are engaged. We have developed tailored underwriting criteria and credit management processes for each of the various loan product types we offer our customers.

Underwriting

In evaluating each potential loan relationship, we adhere to a disciplined underwriting evaluation process including the following:

- understanding of the customer's financial condition and ability to repay the loan;
- verifying that the primary and secondary sources of repayment are adequate in relation to the amount and structure of the loan;
- observing appropriate loan to value guidelines for collateral secured loans;
- maintaining our targeted levels of diversification for the loan portfolio, including industry, collateral, geography, and product type; and
- ensuring that each loan is properly documented with perfected liens on collateral.

Our non-owner occupied commercial real estate loans are generally secured by income producing property with adequate margins, supported by a history of profitable operations and cash flows and proven operating stability in the case of commercial loans. Our commercial real estate loans and commercial loans are often supported by personal guarantees from the principals of the borrower.

With respect to our asset-based loans, in addition to an overall evaluation of the borrower and the transaction considering the applicable criteria set forth above, we also engage in an evaluation of the assets comprising the borrowing base for such loans, to confirm that such assets are readily recoverable and recoverable at rates in excess of the advance rate for such loans.

Our factoring relationships in particular require a specialized underwriting process. For each factoring transaction, in addition to a credit evaluation of our client, we also evaluate the creditworthiness of underlying account debtors, because account debtors represent the substantive underlying credit risk. Transportation factoring also presents the additional challenge of underwriting high volumes of invoices of predominantly low value per invoice and managing credit requests for a large industry pool of account debtors. We facilitate this process through a proprietary web-based "Online Broker Credit" application, which processes invoice purchase approval requests for our clients through an online proprietary scoring model and delivers either preliminary responses for small dollar requests or immediate referral to our servicing personnel for larger dollar requests. We also set and monitor concentration limits for individual account debtors that are tracked across all of our clients (as multiple clients may have outstanding invoices from a particular account debtor).

Our bank implements its underwriting evaluation and approval process through a tiered system of loan authorities. Under these authorities, transactions at certain identified levels are eligible to be approved by a designated officer or a combination of designated officers. Transactions above such individual thresholds require approval of a management-level loan committee. Transactions above the approval levels for our management-level loan committee must be approved by an executive loan committee comprised of directors of TBK Bank. Our underwriting and approval processes also employ limits we believe to be appropriate as to loan type and category, loan size, and other attributes.

Ongoing Credit Risk Management

We also perform ongoing risk monitoring and review processes for all credit exposures. Although we grade and classify our loans internally, we have an independent third party professional firm perform regular loan reviews to confirm loan classification. We strive to identify potential problem loans early in an effort to seek resolution of these situations before the loans create a loss, record any necessary charge-offs promptly and maintain adequate allowance levels for probable loan losses incurred in the loan portfolio. In general, whenever a particular loan or overall borrower relationship is downgraded to pass-watch or substandard based on one or more standard loan grading factors, our credit officers engage in active evaluation of the asset to determine the appropriate resolution strategy. Management regularly reviews the status of the watch list and classified assets portfolio as well as the larger credits in the portfolio.

In addition to our general credit risk management processes, we employ specialized risk management processes and procedures for certain of our commercial finance products, in particular our asset-based lending and factoring products. With respect to our asset-based lending relationships, we generally require dominion over the borrower's cash accounts in order to actively control and manage the cash flows from the conversion of borrowing base collateral into cash and its application to the loan. We also engage in active review and monitoring of the borrowing base collateral itself, including field audits typically conducted on a 90-180 day cycle.

With respect to our factoring operations, we employ a proprietary risk management program whereby each client is assigned a risk score based on measurable criteria. Our risk model is largely geared toward early detection and mitigation of fraud, which we believe represents the most material risk of loss in this asset class. Risk scores are presented on a daily basis through a proprietary software application. These risk scores are then used to assign such client into a particular classification level. The classification level is not a predictor of loss exposure but rather the determinant for monitoring levels and servicing protocols, such as the percentage requirements for collateral review and invoice verification prior to purchase. This scoring and risk allocation methodology helps us to manage and control fraud and credit risk.

Marketing

We market our loans and other products and services through a variety of channels. Fundamentally, we focus on a high-touch direct sales model and building long-term relationships with our customers. In our community banking markets, our lending officers actively solicit new and existing businesses in the communities we serve. For our commercial finance product lines, we typically maintain sales personnel across the country with designated regional responsibilities for clients within their territories. We market our products and services through secondary channels, including e-marketing and search engine optimization, as well as key strategic sourcing relationships. Importantly, while we seek to ensure that the pricing on all of our loans and factoring products is competitive, we also attempt to distinguish ourselves with our clients on criteria other than price, including service, industry knowledge and a more complete value proposition than our competitors. We believe that our suite of complementary commercial finance product options and our other available banking services, including treasury management services and our insurance brokerage initiatives, allow us to offer full-service banking relationships to clients and industries that have historically been served by smaller non-bank commercial finance companies.

Deposits

Deposits are our primary source of funds to support our earning assets. We offer depository products, including checking, savings, money market and certificates of deposit with a variety of rates. Deposits at our bank subsidiary are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. In addition, required deposit balances associated with our commercial loan arrangements and treasury management relationships maintained by our commercial lending clients provide an additional source of deposits. In our community banking markets, we have a network of 60 deposit-taking branch offices. We also maintain a branch office in Dallas, Texas, dedicated to deposit generation activities.

Competitors

The bank and non-bank financial services industries in our markets and the surrounding areas are highly competitive. We compete with a wide range of regional and national banks located in our market areas as well as non-bank commercial finance and factoring companies on a nationwide basis. We experience competition in both lending and attracting funds from commercial banks, savings associations, credit unions, consumer finance companies, pension trusts, mutual funds, insurance companies, mortgage bankers and brokers, brokerage and investment banking firms, non-bank lenders, government agencies and certain other non-financial institutions. Many of these competitors have more assets, capital and lending limits, and resources than we do and may be able to conduct more intensive and broader-based promotional efforts to reach both commercial and individual customers. Competition for deposit

products can depend heavily on pricing because of the ease with which customers can transfer deposits from one institution to another.

Supervision and Regulation

Banking is a complex, highly regulated industry. Consequently, our growth and earnings performance can be affected, not only by management decisions and general and local economic conditions, but also by the statutes administered by and the regulations and policies of, various governmental regulatory authorities. These authorities include, but are not limited to, the Federal Reserve, the FDIC, the Texas Department of Savings and Mortgage Lending (“TDSML”), the Internal Revenue Service (“IRS”), and state taxing authorities. The effect of these statutes, regulations and policies and any changes to any of them can be significant and cannot be predicted.

The primary goals of the bank regulatory scheme are to maintain a safe and sound banking system and to facilitate the conduct of sound monetary policy. In furtherance of those goals, the U.S. Congress and the individual states have created numerous regulatory agencies and enacted numerous laws, such as the Dodd-Frank Act, that govern banks and the banking industry. The system of supervision and regulation applicable to the Company establishes a comprehensive framework for our operations and is intended primarily for the protection of the FDIC's deposit insurance funds, our depositors and the public, rather than the stockholders and creditors.

New regulations and statutes are regularly proposed that contain wide-ranging proposals for altering the structures, regulations and competitive relationships of financial institutions operating in the United States. The federal banking agencies have issued a number of significant new regulations as a result of the Dodd-Frank Act and a number of additional regulations are pending or may be proposed. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which any of our businesses may be affected by any new regulation or statute.

The following is an attempt to summarize some of the relevant laws, rules and regulations governing banks and bank holding companies, but does not purport to be a complete summary of all applicable laws, rules and regulations governing banks. The descriptions are qualified in their entirety by reference to the specific statutes and regulations discussed.

Bank Holding Company Regulation

The Company is a financial holding company registered under the BHC Act and is subject to supervision and regulation by the Federal Reserve. Federal laws subject bank holding companies to particular restrictions on the types of activities in which they may engage and to a range of supervisory requirements and activities, including regulatory enforcement actions, for violation of laws and policies.

Activities Closely Related to Banking

The BHC Act prohibits a bank holding company, with certain limited exceptions, from acquiring direct or indirect ownership or control of any voting shares of any company that is not a bank or from engaging in any activities other than those of banking, managing or controlling banks and certain other subsidiaries or furnishing services to or performing services for its subsidiaries. Bank holding companies also may engage in or acquire interests in companies that engage in a limited set of activities that are closely related to banking or managing or controlling banks. If a bank holding company has become a financial holding company (an "FHC"), as we have, it may engage in a broader set of activities, including insurance underwriting and broker-dealer services as well as activities that are jointly determined by the Federal Reserve and the U.S. Treasury to be financial in nature or incidental to such financial activity. FHCs may also engage in activities that are determined by the Federal Reserve to be complementary to financial activities. The Company has elected to be an FHC. To maintain FHC status, the bank holding company and all subsidiary depository institutions must be well managed and "well capitalized." Additionally, all subsidiary depository institutions must have received at least a "Satisfactory" rating on its most recent Community Reinvestment Act ("CRA") examination. Failure to meet these requirements may result in limitations on activities and acquisitions.

Safe and Sound Banking Practices

Bank holding companies are not permitted to engage in unsafe and unsound banking practices. The Federal Reserve may order a bank holding company to terminate an activity or control of a non-bank subsidiary if such activity or control constitutes a significant risk to the financial safety, soundness or stability of a subsidiary bank and is inconsistent with sound banking principles.

Consistent with the Dodd-Frank Act codification of the Federal Reserve's policy that bank holding companies must serve as a source of financial strength for their subsidiary banks, the Federal Reserve has stated that, as a matter of

prudence, a bank holding company generally should not maintain a rate of distributions to stockholders unless its available net income has been sufficient to fully fund the distributions and the prospective rate of earnings retention appears consistent with a bank holding company's capital needs, asset quality and overall financial condition. In addition, we are subject to certain restrictions on the making of distributions as a result of the requirement that our subsidiary bank maintains an adequate level of capital as described below. Limitations on our subsidiary bank paying dividends could, in turn, affect our ability to pay dividends to our stockholders. For more information concerning our subsidiary bank's ability to pay dividends, see below.



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In addition, the Federal Reserve Supervisory Letter SR 09-4 provides guidance on the declaration and payment of dividends, capital redemptions and capital repurchases by a bank holding company. Supervisory Letter SR 09-4 provides that, as a general matter, a bank holding company should eliminate, defer or significantly reduce its dividends if: (i) the bank holding company's net income available to stockholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends, (ii) the bank holding company's prospective rate of earnings retention is not consistent with the bank holding company's capital needs and overall current and prospective financial condition or (iii) the bank holding company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. Failure to do so could result in a supervisory finding that the bank holding company is operating in an unsafe and unsound manner. Capital rules and their implementing regulations also require a holding company to get the prior approval of the Federal Reserve prior to any redemption or repurchase of its own equity securities.

The Federal Reserve has broad authority to prohibit activities of bank holding companies and their non-banking subsidiaries which represent unsafe and unsound banking practices or which constitute violations of laws or regulations. Notably, the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") provides that the Federal Reserve Board can assess civil money penalties for such practices or violations which can be as high as $1 million per day. FIRREA contains expansive provisions regarding the scope of individuals and entities against which such penalties may be assessed.

Annual Reporting and Examinations

The Company is required to file annual and quarterly reports with the Federal Reserve and such additional information as the Federal Reserve may require pursuant to the BHC Act. The Federal Reserve may examine a bank holding company or any of its subsidiaries and charge the bank holding company for the cost of such an examination. The Company is also subject to reporting and disclosure requirements under state and federal securities laws.

Rules on Regulatory Capital

Regulatory capital rules pursuant to the Basel III requirements, released in July 2013, implemented higher minimum capital requirements for bank holding companies and banks effective on January 1, 2015. The rules include a common equity Tier 1 capital requirement and establish criteria that instruments must meet to be considered common equity Tier 1 capital, additional Tier 1 capital or Tier 2 capital. These enhancements were designed to both improve the quality and increase the quantity of capital required to be held by banking organizations, better equipping the U.S. banking system to deal with adverse economic conditions. The capital rules require banks and bank holding companies to maintain a minimum common equity Tier 1 ("CET1") capital ratio of 4.5%, a total Tier 1 capital ratio of 6%, a total capital ratio of 8% and a leverage ratio of 4%. Bank holding companies are also required to hold a capital conservation buffer of CET1 capital of 2.5% to avoid limitations on capital distributions and executive compensation payments. Under the rules, bank holding companies must maintain a total risk-based capital ratio of 10% and a total Tier 1 risk-based capital ratio of 6% to be considered "well capitalized" for purposes of certain rules and requirements.

The capital rules also require banks to maintain a CET1 capital ratio of 6.5%, a total Tier 1 capital ratio of 8%, a total capital ratio of 10% and a leverage ratio of 5% to be deemed "well capitalized" for purposes of certain rules and prompt corrective action requirements. The risk-based ratios include a "capital conservation buffer" of 2.5%. The capital conservation buffer requirement began being phased in in January 2016 at 0.625% of risk-weighted assets and increased by that amount each year until it was fully implemented in January 2019. An institution is subject to limitations on certain activities including payment of dividends, share repurchases and discretionary bonuses to executive officers if its capital level is below the buffer amount. This buffer will help to ensure that banking organizations conserve capital when it is most needed, allowing them to better weather periods of economic stress.

The regulatory capital rules attempt to improve the quality of capital by implementing changes to the definition of capital. Among the most important changes are stricter eligibility criteria for regulatory capital instruments that would

disallow the inclusion of instruments, such as trust preferred securities, in Tier 1 capital going forward and new constraints on the inclusion of minority interests, mortgage-servicing assets, deferred tax assets and certain investments in the capital of unconsolidated financial institutions. In addition, the rules require that most regulatory capital deductions be made from common equity Tier 1 capital.

The Federal Reserve may also set higher capital requirements for holding companies whose circumstances warrant it. For example, holding companies experiencing internal growth or making acquisitions are expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets. At this time, the bank regulatory agencies are more inclined to impose higher capital requirements to meet well-capitalized standards and future regulatory change could impose higher capital standards as a routine matter. The Company’s regulatory capital ratios and those of its subsidiary bank are in excess of the levels established for “well-capitalized” institutions under the rules.

The regulatory capital rules also set forth certain changes in the methods of calculating certain risk-weighted assets, which in turn affects the calculation of risk-based ratios. Under the rules, higher or more sensitive risk weights are assigned to various categories of assets, including, certain credit facilities that finance the acquisition, development or construction of real property, certain exposures or credits that are 90 days past due or on nonaccrual, foreign exposures and certain corporate exposures. In addition, the rules include (i) alternative standards of credit worthiness consistent with the Dodd-Frank Act, (ii) greater recognition of collateral and guarantees and (iii) revised capital treatment for derivatives and repo-style transactions.

In addition, the rules include certain exemptions to address concerns about the regulatory burden on community banks. For example, banking organizations with less than $15 billion in consolidated assets as of December 31, 2009 are permitted to include in Tier 1 capital trust preferred securities and cumulative perpetual preferred stock issued and included in Tier 1 capital prior to May 19, 2010 on a permanent basis, without any phase out. Community banks were also able to elect on a one time basis in their March 31, 2015 quarterly filings to opt-out of the requirement to include most accumulated other comprehensive income (“AOCI”) components in the calculation of CET1 capital and, in effect, retain the AOCI treatment under the current capital rules. Under the rules, we elected to make the one-time permanent election to continue to exclude AOCI from capital.

Imposition of Liability for Undercapitalized Subsidiaries

The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”) required each federal banking agency to revise its risk-based capital standards to ensure that those standards take adequate account of interest rate risk, concentration of credit risk and the risks of nontraditional activities, as well as reflect the actual performance and expected risk of loss on multifamily mortgages.

As discussed above, in accordance with the law, each federal banking agency has specified, by regulation, the levels at which an insured institution would be considered “well capitalized,” adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. As of December 31, 2018, the Company’s subsidiary bank exceeded the capital levels required to be deemed “well capitalized.”

Additionally, FDICIA requires bank regulators to take prompt corrective action to resolve problems associated with insured depository institutions. In the event an institution becomes undercapitalized, it must submit a capital restoration plan.

Under these prompt corrective action provisions of FDICIA, if a controlled bank is undercapitalized, then the regulators could require the bank to submit a capital restoration plan. If an institution becomes significantly undercapitalized or critically undercapitalized, additional and significant limitations are placed on the institution. The capital restoration plan of an undercapitalized institution will not be accepted by the regulators unless each company having control of the undercapitalized institution guarantees the subsidiary’s compliance with the capital restoration plan until it becomes adequately capitalized. The Company has control of its subsidiary bank for the purpose of this statute.

Further, by statute and regulation, a bank holding company must serve as a source of financial and managerial strength to each bank that it controls and, under appropriate circumstances, may be required to commit resources to support each such controlled bank. This support may be required at times when the bank holding company may not have the resources to provide the support. In addition, if the Federal Reserve believes that a bank holding company’s activities, assets or affiliates represent a significant risk to the financial safety, soundness or stability of a controlled bank, then the Federal Reserve could require the bank holding company to terminate the activities, liquidate the assets or divest the affiliates. The regulators may require these and other actions in support of controlled banks even if such actions are not in the best interests of the bank holding company or its stockholders.

Acquisitions by Bank Holding Companies

The BHC Act requires every bank holding company to obtain the prior approval of the Federal Reserve before it may acquire all or substantially all of the assets of any bank or ownership or control of any voting shares of any bank if after such acquisition it would own or control, directly or indirectly, more than 5% of the voting shares of such bank. In approving bank acquisitions by bank holding companies, the Federal Reserve is required to consider the financial and managerial resources and future prospects of the bank holding company and banks concerned, the convenience and needs of the communities to be served, the effect on competition as well as the financial stability of the United States. The Attorney General of the United States may, within 30 days after approval of an acquisition by the Federal Reserve, bring an action challenging such acquisition under the federal antitrust laws, in which case the effectiveness of such approval is stayed pending a final ruling by the courts. Under certain circumstances, the 30-day period may be shortened to 15 days.

Control Acquisitions

The Change in Bank Control Act ("CBCA") prohibits a person or group of persons from acquiring "control" of a bank holding company unless the Federal Reserve has been notified and has not objected to the transaction. Under a rebuttable presumption established by the Federal Reserve, the acquisition of 10% or more of a class of voting stock of a bank holding company with a class of securities registered under Section 12 of the Exchange Act, such as the Company, would, under the circumstances set forth in the presumption, constitute acquisition of control of the Company.

In addition, the CBCA prohibits any entity from acquiring 25% (the BHC Act has a lower limit for acquirers that are existing bank holding companies) or more of a bank holding company's or bank's voting securities, or otherwise obtaining control or a controlling influence over a bank holding company or bank without the approval of the Federal Reserve. On September 22, 2008, the Federal Reserve Board issued a policy statement on equity investments in bank holding companies and banks, which states that the Federal Reserve generally will not consider an entity's investment to be "controlling" if the entity owns or controls less than 25% of the voting shares and 33% total equity of the bank holding company or bank and has limited business relationships, director representation or other indicia of control. Depending on the nature of the overall investment and the capital structure of the banking organization, the Federal Reserve will permit, based on the policy statement, noncontrolling investments in the form of voting and nonvoting shares that represent in the aggregate (i) less than one-third of the total equity of the banking organization (and less than one-third of any class of voting securities, assuming conversion of all convertible nonvoting securities held by the entity) and (ii) less than 15% of any class of voting securities of the banking organization.

Anti-Tying Restrictions

Bank holding companies and their affiliates are prohibited from tying the provision of certain services, such as extensions of credit, to other services offered by a holding company or its affiliates.

Bank Regulation

TBK Bank

TBK Bank is a Texas state savings bank and is subject to various requirements and restrictions under the laws of the United States and Texas and to regulation, supervision and regular examination by the FDIC and the TDSML. TBK Bank is required to file reports with the FDIC and the TDSML concerning its activities and financial condition in addition to obtaining regulatory approvals before entering into certain transactions such as mergers with, or acquisitions of, other financial institutions. The regulators have the power to enforce compliance with applicable banking statutes and regulations. Those regulations include requirements to maintain reserves against deposits, restrictions on the nature and amount of loans that may be made and the interest that may be charged on loans and restrictions relating to investments and other activities of TBK Bank.

Standards for Safety and Soundness

As part of FDICIA's efforts to promote the safety and soundness of depository institutions and their holding companies, appropriate federal banking regulators are required to have in place regulations specifying operational and management standards (addressing internal controls, loan documentation, credit underwriting and interest rate risk), asset quality and earnings. As discussed above, the Federal Reserve and the FDIC have extensive authority to police unsafe or unsound practices and violations of applicable laws and regulations by depository institutions and their holding companies. For example, the FDIC may terminate the deposit insurance of any institution that it determines has engaged in an unsafe or unsound practice. The agencies can also assess civil money penalties of up to $1 million per day, issue cease-and-desist or removal orders, seek injunctions and publicly disclose such actions.

The ability of TBK Bank, as a Texas state savings bank, to pay dividends is restricted under the Texas Finance Code. Pursuant to the Texas Finance Code, a Texas state savings bank may declare and pay a dividend out of current or retained earnings, in cash or additional stock, to the holders of record of the stock outstanding on the date the dividend is declared. However, without the prior approval of the TDSML, a cash dividend may not be declared by the board of a Texas state savings bank that the TDSML considers to be in an unsafe condition or to have less than zero total retained earnings on the date of the dividend declaration.

TBK Bank is also subject to certain restrictions on the payment of dividends as a result of the requirement that it maintain an adequate level of capital in accordance with guidelines promulgated from time to time by the federal regulators.

The present and future dividend policy of TBK Bank is subject to the discretion of its board of directors. In determining whether to pay dividends to Triumph and, if made, the amount of the dividends, the board of directors of TBK Bank considers many of the same factors discussed above. TBK Bank cannot guarantee that they will have the financial ability to pay dividends to Triumph, or if dividends are paid, that they will be sufficient for Triumph to make distributions to stockholders. TBK Bank is not obligated to pay dividends.

Restrictions on Transactions with Affiliates

Section 23A of the Federal Reserve Act imposes quantitative and qualitative limits on transactions between a bank and any affiliate and requires certain levels of collateral for such loans. It also limits the amount of advances to third parties which are collateralized by the securities or obligations of the Company. Section 23B of the Federal Reserve Act requires that certain transactions between the Company's subsidiary bank and its affiliates must be on terms substantially the same, or at least as favorable, as those prevailing at the time for comparable transactions with or involving other nonaffiliated companies. In the absence of such comparable transactions, any transaction between the bank and its affiliates must be on terms and under circumstances, including credit standards, which in good faith would be offered to or would apply to nonaffiliated companies.

Capital Adequacy

In addition to the capital rules applicable to both banks and bank holding companies discussed above, under the prompt corrective action regulations, the federal bank regulators are required and authorized to take supervisory actions against undercapitalized banks. For this purpose a bank is placed in one of the following five categories based on the bank's capital:

- well-capitalized (at least 5% leverage capital, 6.5% common equity Tier 1 risk-based capital, 8% Tier 1 risk-based capital and 10% total risk-based capital);
- adequately capitalized (at least 4% leverage capital, 4.5% common equity Tier 1 risk-based capital, 6% Tier 1 risk-based capital and 8% total risk-based capital);
- undercapitalized (less than 4% leverage capital, 4.5% common equity Tier 1 risk-based capital, 6% Tier 1 risk-based capital and 8% total risk-based capital);
- significantly undercapitalized (less than 3% leverage capital, 3% common equity Tier 1 risk-based capital, 4% Tier 1 risk-based capital and 6% total risk-based capital); and
- critically undercapitalized (less than 2% tangible capital).

Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. Generally, subject to a narrow exception, banking regulators must appoint a receiver or conservator for an institution that is "critically undercapitalized." The federal banking agencies have specified by regulation the relevant capital level for each category. An institution that is categorized as "undercapitalized," "significantly undercapitalized," or "critically undercapitalized" is required to submit an acceptable capital restoration plan to its appropriate federal banking agency.

Failure to meet capital guidelines could subject our subsidiary bank to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting brokered deposits and other restrictions on our business.

Deposit Insurance

The FDIC insures the deposits of federally insured banks up to prescribed statutory limits for each depositor, through the Deposit Insurance Fund ("DIF") and safeguards the safety and soundness of the banking and thrift industries. The amount of FDIC assessments paid by each insured depository institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors.

The FDIC's deposit insurance premium assessment is based on an institution's average consolidated total assets minus average tangible equity.

We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. At least semi-annually, the FDIC will update its loss and income projections for the DIF and, if needed, will increase or

decrease assessment rates, following notice-and-comment rulemaking, if required. If there are additional bank or financial institution failures or if the FDIC otherwise determines to increase assessment rates, TBK Bank may be required to pay higher FDIC insurance premiums. Any future increases in FDIC insurance premiums may have a material and adverse effect on our earnings.

Consumer Financial Protection Bureau

The Consumer Financial Protection Bureau ("CFPB") is granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Act, the Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act and certain other statutes. The CFPB has examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets. Depository institutions with less than $10 billion in assets, such as our subsidiary depository institution, are subject to rules promulgated by the CFPB, which may increase their compliance risk and the costs associated with their compliance efforts, but the banks will continue to be examined and supervised by federal banking regulators for consumer compliance purposes. The CFPB has authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products.

The CFPB has issued regulatory guidance and has proposed, or will be proposing, regulations on issues that directly relate to our business. Although it is difficult to predict the full extent to which the CFPB's final rules impact the operations and financial condition of our subsidiary bank, such rules may have a material impact on the bank's compliance costs, compliance risk and fee income.

Privacy

Under the Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records, financial institutions are required to disclose their policies for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing personal financial information with nonaffiliated third parties except for third parties that market the institutions' own products and services. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing through electronic mail to consumers.

The Patriot Act, International Money Laundering Abatement and Financial Anti-Terrorism Act and Bank Secrecy Act

A major focus of governmental policy on financial institutions has been aimed at combating money laundering and terrorist financing. The Patriot Act and the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 substantially broadened the scope of U.S. anti-money laundering laws and penalties, specifically related to the Bank Secrecy Act and expanded the extra-territorial jurisdiction of the United States. The U.S. Treasury has issued a number of implementing regulations which apply various requirements of the Patriot Act to financial institutions such as TBK Bank. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers.

Failure of a financial institution and its holding company to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with relevant laws and regulations, could have serious legal, reputational and financial consequences for the institution. Because of the significance of regulatory emphasis on these requirements, TBK Bank will continue to expend significant staffing, technology and financial resources to maintain programs designed to ensure compliance with applicable laws and regulations and an effective audit function for testing of the bank's compliance with the Bank Secrecy Act on an ongoing basis.

Community Reinvestment Act

The CRA requires that, in connection with examinations of financial institutions within its jurisdiction, the FDIC and the state banking regulators, as applicable, evaluate the record of each financial institution in meeting the credit needs of its local community, including low and moderate-income neighborhoods. These facts are also considered in

evaluating mergers, acquisitions and applications to open a branch or facility. Failure to adequately meet these criteria could impose additional requirements and limitations on us. Additionally, we must publicly disclose the terms of various CRA-related agreements.

Qualified Thrift Lender

As a Texas state savings bank, TBK Bank is required to meet a Qualified Thrift Lender (“QTL”) test to avoid certain restrictions on its activities. TBK Bank is currently, and expects to remain, in compliance with QTL standards.

Other Regulations

Interest and other charges that our subsidiary bank collects or contracts for are subject to state usury laws and federal laws concerning interest rates.



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Our bank's loan operations are also subject to federal laws applicable to credit transactions, such as:

- the federal Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- the Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- the Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- the Fair Credit Reporting Act, governing the use and provision of information to credit reporting agencies;
- the Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and
- the rules and regulations of the various governmental agencies charged with the responsibility of implementing these federal laws.

In addition, our subsidiary bank's deposit operations are subject to the Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve to implement that act, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

Concentrated Commercial Real Estate Lending Regulations

The Federal Reserve and other federal banking regulatory agencies promulgated guidance governing financial institutions with concentrations in commercial real estate lending. The guidance provides that a bank has a concentration in commercial real estate lending if (i) total reported loans for construction, land development and other land represent 100% or more of total capital or (ii) total reported loans secured by multifamily and non-farm residential properties and loans for construction, land development and other land represent 300% or more of total capital and the bank's commercial real estate loan portfolio has increased 50% or more during the prior 36 months. If a concentration is present, management must employ heightened risk management practices including board and management oversight and strategic planning, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing and increasing capital requirements.

All of the above laws and regulations add significantly to the cost of operating the Company and our subsidiary depository institution and thus have a negative impact on profitability. We would also note that there has been a tremendous expansion experienced in recent years by certain financial service providers that are not subject to the same rules and regulations as the Company and our subsidiary depository institution. These institutions, because they are not so highly regulated, have a competitive advantage over us and our subsidiary depository institution and may continue to draw large amounts of funds away from banking institutions, with a continuing adverse effect on the banking industry in general.

Effect of Governmental Monetary Policies

The commercial banking business is affected not only by general economic conditions but also by both U.S. fiscal policy and the monetary policies of the Federal Reserve. Some of the instruments of fiscal and monetary policy available to the Federal Reserve include changes in the discount rate on member bank borrowings, the fluctuating availability of borrowings at the "discount window," open market operations, the imposition of and changes in reserve requirements against member banks' deposits and assets of foreign branches, the imposition of and changes in reserve requirements against certain borrowings by banks and their affiliates and the placing of limits on interest rates that member banks may pay on time and savings deposits. Such policies influence to a significant extent the overall growth of bank loans, investments and deposits and the interest rates charged on loans or paid on time and savings deposits. We cannot predict the nature of future fiscal and monetary policies and the effect of such policies on the future business and our earnings.

Employees

As of December 31, 2018, we had 1,121.5 full-time equivalent employees. None of our employees are represented by any collective bargaining unit or are a party to a collective bargaining agreement.

Available Information

The Company's internet address is www.triumphbancorp.com. The Company makes available at this address, free of charge, its annual report on Form 10-K, its annual reports to stockholders, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (the "SEC"). These documents are also available on the SEC's website at www.sec.gov.

ITEM 1A. RISK FACTORS.

Our business and results of operations are subject to numerous risks and uncertainties, many of which are beyond our control. The material risks and uncertainties that management believes affect the Company are described below. Additional risks and uncertainties that management is not aware of or that management currently deems immaterial may also impair the Company's business operations. This report is qualified in its entirety by these risk factors. If any of the following risks actually occur, our business, financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of our securities could decline significantly, and you could lose all or part of your investment. Some statements in the following risk factors constitute forward-looking statements. Please refer to "Cautionary Note Regarding Forward-Looking Statements" in Item 7 of this report.

Risks Relating to Our Business

Acquisitions may disrupt our business and dilute stockholder value. We may not be able to overcome the integration, costs and other risks associated with our recently completed and possible future acquisitions, which could adversely affect our growth and profitability.

Our business strategy focuses on both organic growth and targeted acquisitions. We anticipate that any future acquisitions would involve substantial transaction expenses and expenses associated with integrating the operations of the acquired businesses with our operations. These expenses may exceed the savings that we expect to receive for the elimination of duplicative expenses and the realization of economies of scale. We may fail to realize some or all of the anticipated benefits of our recently completed and possible future acquisitions if the integration process for these acquisitions takes longer or is more costly than expected or otherwise fails to meet our expectations. Such integration processes will be a time-consuming and expensive process that could significantly disrupt our existing services, even if effectively and efficiently planned and implemented.

In addition, our acquisition activities could be material to our business and involve a number of risks, including the following:

- incurring time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions, resulting in our attention being diverted from the operation of our existing business;
- using inaccurate estimates and judgments to evaluate credit, operations, management, tax and market risks with respect to the target institution or assets;
- exposure to potential asset quality issues of the target company;
- intense competition from other banking organizations and other acquirers for acquisitions;
- potential exposure to unknown or contingent liabilities of banks and businesses we acquire, including, without limitation, liabilities for regulatory and compliance issues;
- inability to realize the expected revenue increases, cost savings, increases in geographic or product presence and other projected benefits of the acquisition;
- the time and expense required to integrate the operations and personnel of the combined businesses;
- experiencing higher operating expenses relative to operating income from the new operations;
- creating an adverse short term effect on our results of operations;
- losing key employees and customers;
- significant problems relating to the conversion of the financial and customer data of the entity;
- integration of acquired customers into our financial and customer product systems;
- potential changes in banking or tax laws or regulations that may affect the target company; or
- risks of impairment to goodwill or other than temporary impairment of investment securities.

Depending on the condition of any institution or assets or liabilities that we may acquire, that acquisition may, at least in the near term, adversely affect our capital and earnings and, if not successfully integrated with our organization, may continue to have such effects over a longer period. We may not be successful in overcoming these risks or any

other problems encountered in connection with potential acquisitions and any acquisition we may consider will be subject to prior regulatory approval. Our inability to overcome these risks could have an adverse effect on our profitability, return on equity and return on assets, our ability to implement our business strategy and enhance stockholder value, which, in turn, could have an adverse effect on our business, financial condition and results of operations.

As a business operating in the bank and non-bank financial services industries, our business and operations may be adversely affected in numerous and complex ways by weak economic conditions.

As a business operating in the bank and non-bank financial services industries, our business and operations are sensitive to general business and economic conditions in the United States. If the U.S. economy weakens, our growth and profitability from our lending, deposit and asset management services could be constrained. Uncertainty about the federal fiscal policymaking process, the medium and long-term fiscal outlook of the federal and state governments (including possible ratings downgrades) and future tax rates (or other amendments to the Internal Revenue Code of 1986, as amended (the "Code") or to state tax laws) is a concern for businesses, consumers and investors in the United States. In addition, economic conditions in foreign countries, including uncertainty over the stability of the Euro and Chinese Yuan currencies, could affect the stability of global financial markets, which could hinder U.S. economic growth. Weak national economic conditions are characterized by deflation, fluctuations in debt and equity capital markets, a lack of liquidity and/or depressed prices in the secondary market for mortgage loans, increased delinquencies on mortgage, consumer and commercial loans, residential and commercial real estate price declines and lower home sales and commercial activity. The current economic environment is also characterized by interest rates at historically low levels, and our ability to retain or grow our deposit base could be hindered by higher market interest rates in the future. All of these factors may be detrimental to our business and the interplay between these factors can be complex and unpredictable. Our business is also significantly affected by monetary and related policies of the U.S. federal government and its agencies. Changes in any of these policies are influenced by macroeconomic conditions and other factors that are beyond our control. Adverse economic conditions and government policy responses to such conditions could have an adverse effect on our business, financial condition and results of operations.

We may be adversely affected by the soundness of other financial institutions.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Bank and non-bank financial services companies are interrelated as a result of trading, clearing, counterparty and other relationships. We have exposure to different industries and counterparties and through transactions with counterparties in the bank and non-bank financial services industries, including brokers and dealers, commercial banks, investment banks and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more bank or non-bank financial services companies, or the bank or non-bank financial services industries generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. These losses or defaults could have an adverse effect on our business, financial condition and results of operations.

We rely heavily on our management team and could be adversely affected by the unexpected loss of key officers.

We are led by an experienced core management team with substantial experience in the markets that we serve and the financial products that we offer. Our operating strategy focuses on providing products and services through long-term relationship managers. Accordingly, our success depends in large part on the performance of our key personnel, as well as on our ability to attract, motivate and retain highly qualified senior and middle management. Competition for employees is intense, and the process of locating key personnel with the combination of skills and attributes required to execute our business plan may be lengthy. We may not be successful in retaining our key employees and the unexpected loss of services of one or more of our key personnel could have a material adverse effect on our business because of their skills, knowledge of our market and financial products, years of industry experience, long-term customer relationships and the difficulty of promptly finding qualified replacement personnel. If the services of any of our key personnel should become unavailable for any reason, we may not be able to identify and hire qualified persons on terms acceptable to us, which could have an adverse effect on our business, financial condition and results of operations.

We are subject to interest rate risk, which could adversely affect our financial condition and profitability.

The majority of our banking assets and liabilities are monetary in nature and subject to risk from changes in interest rates. Like most financial institutions, our earnings are significantly dependent on our net interest income, the principal component of our earnings, which is the difference between interest earned by us from our interest earning assets, such as loans and investment securities, and interest paid by us on our interest bearing liabilities, such as deposits and borrowings. We expect that we will periodically experience “gaps” in the interest rate sensitivities of our assets and liabilities, meaning that either our interest bearing liabilities will be more sensitive to changes in market interest rates than our interest earning assets, or vice versa. In either event, if market interest rates should move contrary to our position, this “gap” will negatively impact our earnings. The impact on earnings is more adverse when the slope of the yield curve flattens, that is, when short term interest rates increase more than long-term interest rates or when long-term interest rates decrease more than short term interest rates. Many factors impact interest rates, including governmental monetary policies, inflation, recession, changes in unemployment, the money supply and international disorder and instability in domestic and foreign financial markets.

Interest rate increases often result in larger payment requirements for our borrowers, which increases the potential for default. At the same time, the marketability of the property securing a loan may be adversely affected by any reduced demand resulting from higher interest rates. In a declining interest rate environment, there may be an increase in prepayments on loans as borrowers refinance their loans at lower rates. Changes in interest rates also can affect the value of loans, securities and other assets. An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans may lead to an increase in nonperforming assets and a reduction of income recognized, which could have a material adverse effect on our results of operations and cash flows. Further, when we place a loan on nonaccrual status, we reverse any accrued but unpaid interest receivable, which decreases interest income. At the same time, we continue to have a cost to fund the loan, which is reflected as interest expense, without any interest income to offset the associated funding expense. Thus, an increase in the amount of nonperforming assets would have an adverse impact on net interest income. If short term interest rates continue to remain at their historically low levels for a prolonged period and assuming longer-term interest rates fall further, we could experience net interest margin compression as our interest earning assets would continue to reprice downward while our interest bearing liability rates could fail to decline in tandem. Such an occurrence would have an adverse effect on our net interest income and could have an adverse effect on our business, financial condition and results of operations.

Our acquisition history and continued planned acquisitions as part of our growth strategy may make it difficult for investors to evaluate our business, financial condition and results of operations and also impairs our ability to accurately forecast our future performance.

We have grown historically through multiple acquisitions, and we anticipate to continue acquisitions in the future as part of our growth strategy.  On October 15, 2013, we acquired National Bancshares, Inc. and its banking subsidiary, THE National Bank, N.A., which represented a significant portion of our total operations immediately following such acquisition.  On August 1, 2016, we completed our acquisition of ColoEast Bankshares, Inc. and its wholly owned subsidiary bank, Colorado East Bank & Trust.  In 2017, we acquired nine branches in Colorado from Independent Bank Group, Inc.'s banking subsidiary, Independent Bank, on October 6, 2017, and we acquired Valley Bancorp, Inc. and its subsidiary bank, Valley Bank & Trust, effective December 9, 2017. In 2018, we acquired substantially all of the operating assets of, and assumed certain liabilities associated with, Interstate Capital Corporation's accounts receivable factoring business and other related financial services on June 2, 2018, and we acquired First Bancorp of Durango, Inc. and its two community banking subsidiaries, The First National Bank of Durango and Bank of New Mexico, and Southern Colorado Corp. ("SCC") and its community banking subsidiary, Citizens Bank of Pagosa Springs, effective September 8, 2018. In addition, we expect additional acquisitions in the future as part of our growth strategy.  Our previous acquisitions may make it more difficult for investors to evaluate historical trends in our financial results and operating performance, as the impact of such acquisitions make it more difficult to identify organic trends that would be reflected absent such acquisitions. In addition, our strategic plan assumes additional merger and acquisition activity to improve our operating leverage and to create a partial source of excess liquidity to support our organic loan growth, which has historically grown at a faster rate than our ability to grow transactional deposits.  Consequently, predictions and forecasts about our future revenue and expense will depend in part on our ability to source and execute acquisitions, the terms of such acquisitions, and the specific attributes of the acquired companies, each of which are subject to factors outside of our control and which may vary materially depending on any future acquisition targets ultimately pursued.  Thus any predictions or forecasts about our future operations may not be as accurate as they would be if we were to pursue a primarily organic growth strategy.

New lines of business or new products and services may subject us to additional risks. A failure to successfully manage these risks may have a material adverse effect on our business.

As part of our growth strategy, we have implemented and may continue to implement new lines of business, offer new products and services within our existing lines of business or shift the focus to our asset mix. There are substantial risks and uncertainties associated with these efforts, particularly in instances where such product lines are not fully mature. In developing and marketing new lines of business and/or new products and services and/or shifting the focus of our asset mix, we may invest significant time and resources. Initial timetables for the introduction and development

of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have an adverse effect on our business, financial condition and results of operations.

Our factoring services are concentrated in the transportation industry and economic conditions or other factors negatively impacting the transportation industry could adversely affect our factoring business.

Factoring for small-to-mid-sized trucking businesses constituted approximately 79% of our total factoring portfolio as of December 31, 2018, calculated based on the gross receivables from the purchase of invoices from such trucking businesses compared to our total gross receivables in the purchase of factored receivables as of such date. Given the concentration of our factoring business in the transportation industry, economic conditions or other factors that negatively impact the transportation industry could impact our factoring revenues, as the revenues we earn from purchasing transportation invoices are directly correlated with the amount of transportation activity generated by our factoring clients (i.e., the volume of transportation invoices they are able to generate by providing their services). Reductions in economic activity will typically cause a decrease in the volume of goods in commerce available to be transported by our factoring clients. Increased costs associated with operating a trucking business, such as may be caused by increases in the prices of oil and diesel fuel, may cause a diminished demand for trucking services as our clients pass those costs along to their customers. Conversely, decreases in the price of diesel fuel may cause the size of our factoring portfolio to decrease, as the price of diesel fuel typically positively correlates with the size of the invoices we purchase from our factoring clients. Additionally, the factoring industry may not continue its historical growth and we may face increased competition. Our failure to compete effectively in our market could restrain our growth or cause us to lose market share. Any of such events could impact the returns we realize on our factoring activity or result in a decrease in the overall amount of our factoring activity and could have an adverse effect on our business, financial condition and results of operations.

Additional regulations and rule making impacting the transportation industry may have a disproportionate impact on the small-to-mid-sized trucking businesses that comprise our primary transportation factoring clients and adversely affect our factoring business.

Our primary transportation factoring clients are small-to-mid-sized owner-operators and trucking fleets. Recently implemented federal regulations, and regulations proposed to be implemented in the future, may significantly increase the costs and expenses associated with owning or operating a trucking fleet. These regulations include rule making proposed by the Federal Motor Carrier Safety Administration of the United States Department of Transportation (“FMCSA”) under the Compliance, Safety, Accountability (“CSA”) initiative, maximum hours of service limitations imposed by the FMCSA, electronic log requirements, and regulations proposed by the federal Food and Drug Administration (“FDA”) requiring increased labeling and monitoring by carriers of any commodity transported that is regulated by the FDA. The costs and burdens of compliance with these requirements will have a disproportionate impact on the small-to-mid-sized trucking businesses that comprise our client base and may force some or all of these businesses out of the market. Such an occurrence could impact the returns we realize on our factoring activity or result in a decrease in the overall amount of our factoring activity and could have an adverse effect on our business, financial condition and results of operations.

Our asset-based lending and factoring products may expose us to an increased risk of fraud.

We rely on the structural features embedded in our asset-based lending and factoring products to mitigate the credit risk associated with such products. With respect to our asset-based loans, we limit our lending to a percentage of the customer’s borrowing base assets that we believe can be readily liquidated in the event of financial distress of the borrower. With respect to our factoring products, we purchase the underlying invoices of our customers and become the direct payee under such invoices, thus transferring the credit risk in such transactions from our customers to the underlying account debtors on such invoices. In the event one or more of our customers fraudulently represents the existence or valuation of borrowing base assets in the case of an asset-based loan, or the existence or validity of an invoice we purchase in the case of a factoring transaction, we may advance more funds to such customer than we otherwise would and lose the benefit of the structural protections of our products with respect to such advances. In such event we could be exposed to material additional losses with respect to such loans or factoring products. Although we believe we have controls in place to monitor and detect fraud with respect to our asset-based lending and

factoring products, there is no guarantee such controls will be effective. We have experienced fraud with respect to these products in the past and we anticipate that we will experience such fraud in the future. Losses from such fraudulent activity could have a material impact on our business, financial condition and results of operations.

Our commercial finance clients, particularly with respect to our factoring and asset-based lending product lines, may lack the operating history, cash flows or balance sheet necessary to support other financing options and may expose us to additional credit risk, especially if our additional controls for such products are ineffective in mitigating such additional risks.

A significant portion of our loan portfolio consists of commercial finance products. Some of these commercial finance products, particularly asset-based loans and our factored receivables, arise out of relationships with clients who lack the operating history, cash flows or balance sheet necessary to qualify for other financing options. We attempt to control for the additional credit risk in these relationships through credit management processes employed in connection with these transactions. However, if such controls are ineffective in controlling this additional risk or if we fail to follow the procedures we have established for managing this additional risk, we could be exposed to additional losses with respect to such product lines that could have an adverse effect on our business, financial condition and results of operations.

Our agriculture loans may expose us to risk of credit defaults due to changes in commodity prices.

Our agriculture loans generally consist of (i) real estate loans secured by farmland, (ii) equipment financing for specific agriculture equipment, including irrigation systems, (iii) crop input loans primarily focused on corn, wheat and soybeans, and (iv) loans secured by cattle and other livestock. Decreases in commodity prices, such as currently impacting the agriculture industry, may negatively affect both the cash flows of the borrowers and the value of the collateral supporting such loans. Although we attempt to account for the possibility of such commodity price fluctuations in underwriting, structuring and monitoring our agriculture loans, there is no guarantee that efforts will be successful and we may experience increased delinquencies or defaults in this portfolio or be required to increase our provision for loan losses, which could have an adverse effect on our business, financial condition and results of operations.

Lack of seasoning in portions of our loan portfolio could increase risk of credit defaults in the future.

As a result of our growth over the past several years, certain portions of our loan portfolio, such as the asset-based loans and equipment loans originated as part of our commercial finance portfolio, are of relatively recent origin. Loans may not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process referred to as "seasoning." As a result, a portfolio of older loans will usually behave more predictably than a newer portfolio. Because such portions of our portfolio are relatively new, the current level of delinquencies and defaults may not represent the level that may prevail as the portfolio becomes more seasoned. If delinquencies and defaults increase, we may be required to increase our provision for loan losses, which could have an adverse effect on our business, financial condition and results of operations.

We may not be able to adequately measure and limit the credit risk associated with our loan portfolio, our business and financial condition, which could adversely affect profitability.

As a part of our products and services, we make commercial and commercial real estate loans. The principal economic risk associated with each class of loans is the creditworthiness of the borrower, which is affected by the strength of the relevant business market segment, local market conditions and general economic conditions. Additional factors related to the credit quality of commercial loans include the quality of the management of the business and the borrower's ability both to properly evaluate changes in the supply and demand characteristics affecting our market for products and services and to effectively respond to those changes. Additional factors related to the credit quality of commercial real estate loans include tenant vacancy rates and the quality of management of the property. A failure to effectively measure and limit the credit risk associated with our loan portfolio could have an adverse effect on our business, financial condition and results of operations.

The small-to-mid-sized businesses that comprise a material portion of our loan portfolio may have fewer resources to weather a downturn in the economy, which may impair a borrower's ability to repay a loan to us, which could materially harm our operating results.

A significant element of our growth strategy involves offering our commercial finance products to small-to-mid-sized businesses. These small-to-mid-sized businesses frequently have smaller market share than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience significant volatility in operating results. Any one or more of these factors may impair the borrower's ability to repay a loan. In addition, the success of a small-to-mid-sized business often depends on the management talents and efforts of one or two persons or a small group of persons and the death, disability or resignation of one or more of these persons could have a material adverse impact on the business and its ability to repay a loan. Economic downturns and other events that negatively impact our market areas could cause us to incur substantial credit losses that could have an adverse effect on our business, financial condition and results of operations.

Our concentration of large loans to certain borrowers may increase our credit risk.

While we attempt to monitor the concentration of our loan portfolio by borrower, geography and industry, we nonetheless may have concentrations in these areas that increase the risk to our loan portfolio resulting from adverse changes impacting such borrowers, geographies or industries. For example, we have made a significant number of large loans to a small number of borrowers, resulting in a concentration of large loans to these borrowers. Consequently, we may have significant exposure if any of these borrowers becomes unable to pay their loan obligations as a result of economic or market conditions, or personal circumstances, such as divorce or death. In addition, a large portion of our loans are made in our community banking markets of Iowa, Illinois, Colorado, New Mexico, and Kansas and in Texas, the home of our corporate headquarters and the majority of our commercial finance operations. We also have lending concentrations in industries such as transportation, construction and energy services. As a result, the performance of our portfolio could be adversely impacted by economic or market conditions affecting these geographies or industries, such as the impact of falling oil prices on the energy services industry specifically or the Texas economy more generally, all of which could have an adverse effect on our business, financial condition and results of operations.

The amount of our nonperforming assets may increase significantly, resulting in additional losses and costs and expenses that will negatively affect our operations.

At December 31, 2018, we had a total of approximately $38.3 million of nonperforming assets or approximately 0.84% of total assets. Should the amount of nonperforming assets increase in the future, we may incur losses and the costs and expenses to maintain such assets likewise can be expected to increase and potentially negatively affect earnings. Any additional increase in losses due to such assets could have an adverse effect on our business, financial condition and results of operations. Such effects may be particularly pronounced in a market of reduced real estate values and excess inventory.

The amount of other real estate owned (“OREO”) may increase significantly, resulting in additional losses and costs and expenses that will negatively affect our operations.

At December 31, 2018, the amount of OREO we held totaled $2.1 million. In the event the amount of OREO should increase due to an increase in defaults on bank loans, our losses and the costs and expenses to maintain the real estate, likewise would increase. Any additional increase in losses and maintenance costs and expenses due to OREO may have material adverse effects on our business, financial condition and results of operations. Such effects may be particularly pronounced in a market of reduced real estate values and excess inventory, which may make the disposition of OREO properties more difficult, increase maintenance costs and expenses and may reduce our ultimate realization from any OREO sales, which could have an adverse effect on our business, financial condition and results of operations.

Nonperforming assets take significant time and resources to resolve and adversely affect our results of operations and financial condition.

Nonperforming assets adversely affect our net income in various ways. We generally do not record interest income on nonperforming loans or OREO, thereby adversely affecting our income and increasing loan administration costs. When we take collateral in foreclosures and similar proceedings, we are required to mark the related asset to the then fair value of the collateral less estimated selling costs, which may ultimately result in a loss. An increase in the level of nonperforming assets increases our risk profile and may impact the capital levels regulators believe are appropriate in light of the ensuing risk profile. While we reduce problem assets through loan workouts, restructurings and otherwise, decreases in the value of the underlying collateral, or in these borrowers’ performance or financial condition, whether or not due to economic and market conditions beyond our control, could have an adverse effect on our business, financial condition and results of operations. In addition, the resolution of nonperforming assets requires significant commitments of time from management, which may materially and adversely impact their ability to

perform their other responsibilities. There can be no assurance that we will not experience future increases in nonperforming assets.

Our ALLL and fair value adjustments for loans acquired in acquisitions may prove to be insufficient to absorb potential losses in our loan portfolio, which may adversely affect our business, financial condition and results of operations.

ALLL is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. The provision for loan losses is charged against earnings in order to maintain our ALLL and reflects management’s best estimate of probable incurred losses inherent in our loan portfolio at the balance sheet date.

As of December 31, 2018, our ALLL as a percentage of total loans was 0.76% and as a percentage of total nonperforming loans was 76.47%. Additional loan losses will likely occur in the future and may occur at a rate greater than we have previously experienced. We may be required to take additional provisions for loan losses in the future to further supplement our ALLL, either due to management's decision to do so or requirements by our banking regulators. In addition, bank regulatory agencies will periodically review our ALLL and the value attributed to nonaccrual loans or to real estate acquired through foreclosure. Such regulatory agencies may require us to recognize future charge-offs. These adjustments could have an adverse effect on our business, financial condition and results of operations. Further, the Financial Accounting Standards Board has adopted a new accounting standard that will be effective for our fiscal year beginning on January 1, 2020. This standard, referred to as Current Expected Credit Loss, or CECL, will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and recognize the expected credit losses as allowances for loan losses. This will change the current method of providing allowances for loan losses that are probable and incurred which may require us to increase our allowance for loan losses, and may greatly increase the types of data we would need to collect and review to determine the appropriate level of the allowance for loan losses. It may also result in even small changes to future forecasts having a significant impact on the allowance, which could make the allowance more volatile, and regulators may impose additional capital buffers to absorb this volatility.

The application of the acquisition method of accounting in our acquisitions has impacted our allowance. Under the acquisition method of accounting, all loans acquired in acquisitions were recorded in our consolidated financial statements at their fair value at the time of acquisition and the related allowance was eliminated because credit quality, among other factors, was considered in the determination of fair value. To the extent that our estimates of fair value are too high, we could incur losses associated with the acquired loans. The allowance associated with our purchased credit impaired ("PCI") loans reflects a deterioration in cash flows since acquisition resulting from our quarterly re-estimation of cash flows, which involves cash flow projections and significant judgment on timing of loan resolution.

A lack of liquidity could adversely affect our operations and jeopardize our business, financial condition and results of operations.

Liquidity is essential to our business. We rely on our ability to generate deposits and effectively manage the repayment and maturity schedules of our loans and investment securities, respectively, to ensure that we have adequate liquidity to fund our operations. An inability to raise funds through deposits, borrowings, the sale of our investment securities, Federal Home Loan Bank advances, the sale of loans and other sources could have a substantial negative effect on our liquidity. Our most important source of funds consists of deposits. Deposit balances can decrease when customers perceive alternative investments as providing a better risk/return tradeoff. If customers move money out of bank deposits and into other investments, we would lose a relatively low-cost source of funds, increasing our funding costs and reducing our net interest income and net income.

Other primary sources of funds consist of cash flows from operations, investment maturities and sales of investment securities and proceeds from the issuance and sale of our equity and debt securities to investors. Additional liquidity is provided by the ability to borrow from the Federal Home Loan Bank and our ability to raise brokered deposits. We also may borrow funds from third-party lenders, such as other financial institutions. Our access to funding sources in amounts adequate to finance or capitalize our activities, or on terms that are acceptable to us, could be impaired by factors that affect us directly or the bank or non-bank financial services industries or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the bank or non-bank financial services industries.

As of December 31, 2018, approximately $1.059 billion, or 30.7%, of our deposits consisted of interest bearing demand deposits and money market accounts. Based on past experience, we believe that our deposit accounts are relatively stable sources of funds. If we increase interest rates paid to retain deposits, our earnings may be adversely affected, which could have an adverse effect on our business, financial condition and results of operations.

Historically, our loan portfolio has grown at a faster rate than our ability to organically grow transactional deposits in our community banking markets. We have offset this trend in part through acquiring additional banks with excess liquidity. If we are unable to find suitable acquisition targets meeting this profile in the future, or are unable to successfully consummate acquisitions of such targets, we will likely be required to rely on higher cost sources of funding, such as certificates of deposit, to fund continued loan growth, which could have an adverse effect on our business, financial condition and results of operations.

Any decline in available funding could adversely impact our ability to originate loans, invest in securities, meet our expenses, pay dividends to our stockholders or to fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, financial condition and results of operations.

The fair value of our investment securities can fluctuate due to factors outside of our control.

As of December 31, 2018, the fair value of our investment securities portfolio was approximately $348.8 million. Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. These factors include, but are not limited to, rating agency actions in respect to the securities, defaults by the issuer or with respect to the underlying securities and changes in market interest rates and instability in the capital markets. Any of these factors, among others, could cause other-than-temporary impairments and realized and/or unrealized losses in future periods and declines in other comprehensive income, which could have an adverse effect on our business, financial condition and results of operations. The process for determining whether impairment of a security is other-than-temporary usually requires complex, subjective judgments about the future financial performance and liquidity of the issuer and any collateral underlying the security to assess the probability of receiving all contractual principal and interest payments on the security.

Impairment of investment securities, goodwill, other intangible assets or deferred tax assets could require charges to earnings, which could result in a negative impact on our results of operations.

In assessing whether the impairment of investment securities is other-than-temporary, management considers the length of time and extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer and the intent and ability to retain our investment in the security for a period of time sufficient to allow for any anticipated recovery in fair value in the near term.

Under current accounting standards, goodwill is not amortized but, instead, is subject to impairment tests on at least an annual basis or more frequently if an event occurs or circumstances change that reduce the fair value of a reporting unit below its carrying amount. A decline in our stock price or occurrence of a triggering event following any of our quarterly earnings releases and prior to the filing of the periodic report for that period could, under certain circumstances, cause us to perform a goodwill impairment test and result in an impairment charge being recorded for that period which was not reflected in such earnings release. In the event that we conclude that all or a portion of our goodwill may be impaired, a non-cash charge for the amount of such impairment would be recorded to earnings. Such a charge would have no impact on tangible capital. At December 31, 2018, we had goodwill of $158.7 million, representing approximately 25% of total equity.

The Company's intangible assets primarily relate to core deposits and customer relationships. Intangible assets with definite useful lives are amortized on an accelerated basis over their estimated life. Intangible assets, premises and equipment and other long-lived assets are tested for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable from future undiscounted cash flows. A triggering event following any of our quarterly earnings releases and prior to the filing of the periodic report for that period could, under certain circumstances, cause us to perform an intangible asset impairment test and result in an impairment charge being recorded for that period which was not reflected in such earnings release. In the event that we conclude that all or a portion of our intangible assets may be impaired, a non-cash charge for the amount of such impairment would be recorded to earnings. Such a charge would have no impact on tangible capital. At December 31, 2018, we had intangible assets of $40.7 million, representing approximately 6% of total equity.

In assessing the potential for realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Assessing the need for, or the sufficiency of, a valuation allowance requires management to evaluate all available evidence, both negative and positive, including the recent trend of quarterly earnings. Positive evidence necessary to overcome the negative evidence includes whether future taxable income in sufficient amounts and character within the carryback and carryforward periods is available under the tax law, including the use of tax planning strategies. When negative evidence (e.g., cumulative losses in recent years, history of operating loss or tax credit carryforwards expiring unused) exists, more positive evidence than negative evidence will be necessary. We have concluded that, based on the level of positive evidence, it

is more likely than not that at December 31, 2018 all but $0.3 million which is recorded as a valuation allowance of the deferred tax asset will be realized. At December 31, 2018, net deferred tax assets were approximately $8.4 million. The impact of each of these impairment matters could have a material adverse effect on our business, results of operations and financial condition.

Our risk management strategies may not be fully effective in mitigating our risk exposures in all market environments or against all types of risk.

We have devoted significant resources to develop our risk management policies and procedures and expect to continue to do so in the future. Nonetheless, our risk management strategies may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated. As our products and services change and grow and the markets in which we operate evolve, our risk management strategies may not always adapt to those changes. Some of our methods of managing risk are based upon our use of observed historical market behavior and management's judgment. As a result, these methods may not predict future risk exposures, which could be significantly greater than the historical measures indicate. Management of market, credit, liquidity, operational, legal, regulatory and compliance risks requires, among other things, policies and procedures to record properly and verify a large number of transactions and events and these policies and procedures may not be fully effective. While we employ a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate every economic and financial outcome or the timing of such outcomes. Any of these circumstances could have an adverse effect on our business, financial condition and results of operations.

Risks for environmental liability apply to the properties under consideration as well as properties that are contiguous or upgradient to the subject properties.

In the course of our business, we may purchase real estate in connection with our acquisition and expansion efforts, or we may foreclose on and take title to real estate that serves as collateral on loans we make. As a result, we could be subject to environmental liabilities with respect to those properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or we may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property.

The cost of removal or abatement may not substantially exceed the value of the affected properties or the loans secured by those properties, that we may not have adequate remedies against the prior owners or other responsible parties and we may not be able to resell the affected properties either before or after completion of any such removal or abatement procedures. If material environmental problems are discovered before foreclosure, we generally will not foreclose on the related collateral or will transfer ownership of the loan to a subsidiary. It should be noted, however, that the transfer of the property or loans to a subsidiary may not protect us from environmental liability. Furthermore, despite these actions on our part, the value of the property as collateral will generally be substantially reduced and, as a result, we may suffer a loss upon collection of the loan. Currently, we are not a party to any legal proceedings involving potential liability to us under applicable environmental laws. Any significant environmental liabilities could have an adverse effect on our business, financial condition and results of operations.

We face significant competition to attract and retain customers, which could adversely affect our growth and profitability.

We operate in the highly competitive bank and non-bank financial services industries and face significant competition for customers from bank and non-bank competitors, particularly regional and nationwide institutions, including U.S. banks, mortgage banking companies, consumer finance companies, credit unions, insurance companies and other institutional lenders and purchasers of loans in originating loans, attracting deposits and providing other financial services. Many of our competitors are significantly larger and have significantly more resources, greater name recognition and more extensive and established branch networks than we do. Because of their scale, many of these competitors can be more aggressive than we can on loan and deposit pricing. Also, many of our non-bank competitors

have fewer regulatory constraints and may have lower cost structures. We expect competition to continue to intensify due to financial institution consolidation; legislative, regulatory and technological changes; and the emergence of alternative banking sources.

Our ability to compete successfully will depend on a number of factors, including, among other things:

- our ability to build and maintain long-term customer relationships while ensuring high ethical standards and safe and sound banking practices;
- the scope, relevance and pricing of products and services that we offer;
- customer satisfaction with our products and services;
- industry and general economic trends; and
- our ability to keep pace with technological advances and to invest in new technology.

Increased competition could require us to increase the rates that we pay on deposits or lower the rates that we offer on loans, which could reduce our profitability. Our failure to compete effectively in our market could restrain our growth or cause us to lose market share, which could have an adverse effect on our business, financial condition and results of operations.

The accuracy of our financial statements and related disclosures could be affected if the judgments, assumptions or estimates used in our critical accounting policies are inaccurate.

The preparation of financial statements and related disclosure in conformity with GAAP requires us to make judgments, assumptions and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. Our critical accounting policies, which are included in Item 7 of this report captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations", describe those significant accounting policies and methods used in the preparation of our consolidated financial statements that we consider "critical" because they require judgments, assumptions and estimates that materially affect our consolidated financial statements and related disclosures. As a result, if future events differ significantly from the judgments, assumptions and estimates in our critical accounting policies, those events or assumptions could have a material impact on our consolidated financial statements and related disclosures.

Additionally, as a result of our recent acquisitions, our financial results are heavily influenced by the application of the acquisition method of accounting. The acquisition method of accounting requires management to make assumptions regarding the assets purchased and liabilities assumed to determine their fair value. If our assumptions are incorrect, any resulting change or modification could have an adverse effect on our business, financial condition and results of operations.

If we fail to correct any material weakness that we subsequently identify in our internal control over financial reporting or otherwise fail to maintain effective internal control over financial reporting, we may not be able to report our financial results accurately and timely, in which case our business may be harmed, investors may lose confidence in the accuracy and completeness of our financial reports and the price of our common stock may decline.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting and for evaluating and reporting on our system of internal control. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. As a public company, we are required to comply with the Sarbanes-Oxley Act and other rules that govern public companies. In particular, we are required to certify our compliance with Section 404 of the Sarbanes-Oxley Act, which requires us to furnish annually a report by management on the effectiveness of our internal control over financial reporting. In addition, our independent registered public accounting firm is required to report on the effectiveness of our internal control over financial reporting.

If we identify material weaknesses in our internal control over financial reporting in the future, if we cannot comply with the requirements of the Sarbanes-Oxley Act in a timely manner or attest that our internal control over financial reporting is effective, or if our independent registered public accounting firm cannot express an opinion as to the effectiveness of our internal control over financial reporting when required, we may not be able to report our financial results accurately and timely. As a result, investors, counterparties and customers may lose confidence in the accuracy and completeness of our financial reports; our liquidity, access to capital markets and perceptions of our creditworthiness could be adversely affected; and the market price of our common stock could decline. In addition, we could become subject to investigations by the stock exchange on which our securities are listed, the SEC, the Federal Reserve, the FDIC, or other regulatory authorities, which could require additional financial and management resources. These events could have an adverse effect on our business, financial condition and results of operations.

We face significant operational risks due to the high volume and the high dollar value nature of transactions we process.

We operate in many different businesses in diverse markets and rely on the ability of our employees and systems to process transactions. Operational risk is the risk of loss resulting from our operations, including but not limited to, the risk of fraud by employees or persons outside our Company, the execution of unauthorized transactions, errors relating to transaction processing and technology, breaches of our internal control systems, compliance failures, business continuation and disaster recovery issues and other external events. Insurance coverage may not be available for such losses, or where available, such losses may exceed insurance limits. This risk of loss also includes the potential legal actions that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulatory standards, adverse business decisions or their implementation and customer attrition due to potential negative publicity. In the event of a breakdown in the internal control system, improper operation of systems or improper employee actions, we could suffer financial loss, face regulatory action and suffer damage to our reputation.

To the extent we engage in derivative transactions, we will be exposed to credit and market risk, which could adversely affect our profitability and financial condition.

While we do not currently engage in material derivative or hedging activity, we may in the future manage interest rate risk by, among other things, utilizing derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. To the extent we engage in derivative transactions, we will be exposed to credit and market risk. If the counterparty fails to perform, credit risk exists to the extent of the fair value gain in the derivative. Market risk exists to the extent that interest rates change in ways that are significantly different from what we expect when we enter into the derivative transaction. The existence of credit and market risk associated with any derivative instruments we enter into could adversely affect our net interest income and, therefore, could have an adverse effect on our business, financial condition and results of operations.

System failure or cyber security breaches of our network security could subject us to increased operating costs as well as litigation and other potential losses.

The computer systems and network infrastructure we use could be vulnerable to hardware and cyber security issues. Our operations are dependent upon our ability to protect our computer equipment against damage from fire, power loss, telecommunications failure or a similar catastrophic event. We could also experience a breach by intentional or negligent conduct on the part of employees or other internal sources. Any damage or failure that causes an interruption in our operations could have an adverse effect on our financial condition and results of operations. In addition, our operations are dependent upon our ability to protect the computer systems and network infrastructure utilized by us, including our Internet banking activities, against damage from physical break-ins, cyber security breaches and other disruptive problems caused by the Internet or other users. Such computer break-ins and other disruptions would jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability, damage our reputation and inhibit the use of our Internet banking services by current and potential customers. We regularly add additional security measures to our computer systems and network infrastructure to mitigate the possibility of cyber security breaches, including firewalls and penetration testing. However, it is difficult or impossible to defend against every risk being posed by changing technologies as well as criminal intent on committing cyber-crime. Increasing sophistication of cyber criminals and terrorists make keeping up with new threats difficult and could result in a breach. Controls employed by our information technology department and cloud vendors could prove inadequate. A breach of our security that results in unauthorized access to our data could expose us to a disruption or challenges relating to our daily operations, as well as to data loss, litigation, damages, fines and penalties, significant increases in compliance costs and reputational damage, any of which could have an adverse effect on our business, financial condition and results of operations.

If our trademarks and trade names are not adequately protected, or if we are deemed to infringe the trademarks or trade names of others, then we may not be able to build name recognition in our markets of interest and our business may be adversely affected.

Our registered or unregistered trademarks or trade names may be challenged, infringed, or determined to be infringing on other marks. Competitors may have adopted or may adopt trade names or trademarks similar to ours, thereby impeding our ability to build brand identity and possibly leading to market confusion. In addition, there could be potential trade name or trademark infringement claims brought by owners of other registered trademarks or trademarks that incorporate variations of our registered or unregistered trademarks or trade names. Additionally, our efforts to enforce or protect our proprietary rights related to trademarks, trade secrets, domain names, copyrights or other intellectual property may be ineffective and could result in substantial costs and diversion of resources. Each of the foregoing could adversely impact our financial condition or results of operations.

We are subject to litigation, which could result in substantial judgment or settlement costs and legal expenses.

We are regularly involved in litigation matters in the ordinary course of business. We believe that these litigation matters should not have a material adverse effect on our business, financial condition, results of operations or future prospects. We cannot assure you, however, that we will be able to successfully defend or resolve any current or future litigation matters, in which case those litigation matters could have an adverse effect on our business, financial condition and results of operations.

We may invest in CLO securities or CLO warehouse financing structures, which may expose us to losses in connection with such investments.

As part of our relationship with our former Triumph Capital Advisors subsidiary, we currently hold investments in certain CLO subordinated notes or preference shares or other CLO securities, and may continue to make such investments in the future. The subordinated notes or preference shares of a CLO are usually entitled to all of the income generated by the CLO after the CLO pays all of the interest due on the debt notes and its expenses. However, there will be little or no income available to the CLO subordinated notes or preference shares if there are defaults on the underlying collateral in excess of certain amounts or if the recoveries on such defaulted collateral are less than certain amounts. Similarly, any investment we make in debt securities of a CLO that are junior to other debt securities of the entity will be payable only in the event that the underlying collateral generates sufficient income to make the interest payments on the securities of the CLO that are senior to any such junior debt instruments. Consequently, the value of any investment we make in the subordinated notes, preference shares or other debt securities of CLOs could decrease substantially depending on the performance of the underlying collateral in such CLO. In addition, the subordinated notes, preference shares and other debt securities of CLOs are generally illiquid, and because they represent a leveraged investment in the CLO's assets, their value will generally fluctuate more than the values of the underlying collateral. As of December 31, 2018, we had investments with a carrying amount of $8.5 million in the subordinated notes of three CLOs.

In addition, we have historically, and may in the future, invest in the subordinated notes or preference shares of CLO warehouse financing structures. Such investments will be entitled to all income generated by the underlying investments acquired during the warehouse period after the financing cost from warehouse credit facility is paid, but will bear the first loss incurred on such investments if they decrease in value and the CLO or other investment product is unable to be issued and the warehouse portfolio is liquidated. In such event, the subordinate note or preference share investors in such CLO warehouse would be exposed to losses up to the total amount of such investment if the CLO or other investment product does not close and the underlying investment pool is liquidated for a loss. Such a scenario may become more likely in times of economic distress or when the loans comprising the collateral pool of such warehouse, although still performing, may have declined in market value. Although we generally expect CLO warehouse arrangements to last approximately six to nine months before a CLO is issued, the CLO issuer may not be able to complete the issuance within the expected time frame or at all. We did not hold any CLO warehouse investments as of December 31, 2018.

Risks Relating to the Regulation of Our Industry

Our business, financial condition, results of operations and future prospects could be adversely affected by the highly regulated environment in which we operate.

As a financial holding company, we are subject to federal supervision and regulation. Federal regulation of the banking industry, along with tax and accounting laws, regulations, rules and standards, may limit our operations significantly and control the methods by which we conduct business, as they limit those of other banking organizations. Many of these regulations are intended to protect depositors, the public or the FDIC insurance funds, not stockholders. Regulatory requirements affect our lending practices, capital structure, investment practices, dividend policy and many other aspects of our business. There are laws and regulations which restrict transactions between us and our subsidiaries. These requirements may constrain our operations and the adoption of new laws and changes to or repeal of existing laws may have a further impact on our business, financial condition, results of operations and future prospects. Also, the burden imposed by those federal and state regulations may place banks in general and our Company in particular, at a competitive disadvantage compared to less regulated competitors.

We are also subject to requirements with respect to the confidentiality of information obtained from clients concerning their identity, business, personal financial information, employment and other matters. We require our personnel to agree to keep all such information confidential and we monitor compliance. Failure to comply with confidentiality

requirements could result in material liability and adversely affect our business, financial condition, results of operations and future prospects.

Bank holding companies and financial institutions are extensively regulated and currently face an uncertain regulatory environment. Applicable laws, regulations, interpretations, enforcement policies and accounting principles have been subject to significant changes in recent years and may be subject to significant future changes. We cannot assure our stockholders that such future changes will not have an adverse effect on our business, financial condition and results of operations.

Federal and state regulatory agencies may adopt changes to their regulations or change the manner in which existing regulations are applied. We cannot predict the substance or effect of pending or future legislation or regulation or the application of laws and regulations to our Company. Compliance with current and potential regulation and scrutiny may significantly increase our costs, impede the efficiency of our internal business processes, require us to increase our regulatory capital and limit our ability to pursue business opportunities in an efficient manner by requiring us to expend significant time, effort and resources to ensure compliance. Additionally, evolving regulations and guidance concerning executive compensation may impose limitations on us that affect our ability to compete successfully for executive and management talent.

The CFPB was created under the Dodd-Frank Act to centralize responsibility for consumer financial protection with broad rulemaking authority to administer and carry out the purposes and objectives of the "Federal consumer financial laws and to prevent evasions thereof," with respect to all financial institutions that offer financial products and services to consumers. The CFPB is also authorized to prescribe rules applicable to any covered person or service provider, identifying and prohibiting acts or practices that are "unfair, deceptive, or abusive" in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service ("UDAAP authority"). The ongoing broad rulemaking powers of the CFPB and its UDAAP authority have the potential to have a significant impact on the operations of financial institutions offering consumer financial products or services. The CFPB has indicated that they are reviewing current and proposed regulations related to a variety of consumer financial products or services. If the CFPB's actions related to current and proposed regulations limit our ability to provide such financial products or services it may have an adverse effect on our business.

In addition, regulators may elect to alter the standards or the interpretation of the standards used to measure regulatory compliance or used to determine the adequacy of liquidity, certain risk management or other operational practices for bank or non-bank financial services companies. Such actions may impact our ability to implement our strategy and could affect us in substantial and unpredictable ways and could have an adverse effect on our business, financial condition and results of operations. Furthermore, the regulatory agencies have extremely broad discretion in their interpretation of the regulations and laws and their interpretation of the quality of our loan portfolio, securities portfolio and other assets. If any regulatory agency's assessment of the quality of our assets differs from our assessment, we may be required to take additional charges that would have the effect of materially reducing our earnings, capital ratios and share price.

Legislative and regulatory actions taken now or in the future may increase our costs and impact our business, governance structure, financial condition or results of operations.

We are subject to extensive regulation by multiple regulatory bodies. These regulations may affect the manner and terms of delivery of our services. If we do not comply with governmental regulations, we may be subject to fines, penalties, lawsuits or material restrictions on our businesses in the jurisdiction where the violation occurred, which may adversely affect our business operations. Changes in these regulations can significantly affect the services that we provide as well as our costs of compliance with such regulations. In addition, adverse publicity and damage to our reputation arising from the failure or perceived failure to comply with legal, regulatory or contractual requirements could affect our ability to attract and retain customers.

Government regulatory agencies and political bodies continue to place increased focus and scrutiny on the bank or nonbank financial services industries.

New proposals for legislation may be introduced in the U.S. Congress that could further substantially increase regulation of the bank and non-bank financial services industries, impose restrictions on the operations and general ability of firms within the industry to conduct business consistent with historical practices, including in the areas of compensation, interest rates, financial product offerings and disclosures and have an effect on bankruptcy proceedings with respect to consumer residential real estate mortgages, among other things. Federal and state regulatory agencies also frequently adopt changes to their regulations or change the manner in which existing regulations are applied. Certain aspects of current or proposed regulatory or legislative changes to laws applicable to the financial industry, if enacted or adopted, may impact the profitability of our business activities, require more oversight or change certain of our business practices, including the ability to offer new products, obtain financing, attract deposits, make loans and achieve satisfactory interest spreads and could expose us to additional costs, including increased compliance costs. These changes also may require us to invest significant management attention and resources to make any necessary changes to operations to comply and could have an adverse effect on our business, financial condition and results of operations.

Federal and state regulators periodically examine our business and we may be required to remediate adverse examination findings.

The Federal Reserve, the FDIC, and the TDSML periodically examine our business, including our compliance with laws and regulations. If, as a result of an examination, a banking agency were to determine that our financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we were in violation of any law or regulation, they may take a number of different remedial actions as they deem appropriate. These actions include the power to enjoin "unsafe or unsound" practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to assess civil money penalties, to fine or remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance and place us into receivership or conservatorship. In addition, our asset management business is subject to inspection and examination by the SEC. Any regulatory action against us could have an adverse effect on our business, financial condition and results of operations.

Our FDIC deposit insurance premiums and assessments may increase.

The deposits of our bank subsidiary are insured by the FDIC up to legal limits and, accordingly, subject our bank subsidiary to the payment of FDIC deposit insurance assessments. The bank's regular assessments are based on our bank subsidiary's average consolidated total assets minus average tangible equity as well as by risk classification, which includes regulatory capital levels and the level of supervisory concern. High levels of bank failures since the beginning of the financial crisis and increases in the statutory deposit insurance limits have increased resolution costs to the FDIC and put significant pressure on the DIF. In order to maintain a strong funding position and restore the reserve ratios of the DIF, the FDIC has, in the past, increased deposit insurance assessment rates and charged a special assessment to all FDIC-insured financial institutions. Further increases in assessment rates or special assessments may occur in the future, especially if there are significant additional financial institution failures. Any future special assessments, increases in assessment rates or required prepayments in FDIC insurance premiums could reduce our profitability or limit our ability to pursue certain business opportunities, which could have an adverse effect on our business, financial condition and results of operations.

The Federal Reserve may require us to commit capital resources to support our subsidiary bank.

As a matter of policy, the Federal Reserve expects a bank holding company to act as a source of financial and managerial strength to a subsidiary bank and to commit resources to support such subsidiary bank. The Dodd-Frank Act codified the Federal Reserve's policy on serving as a source of financial strength. Under the "source of strength" doctrine, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to a subsidiary bank. A capital injection may be required at times when the holding company may not have the resources to provide it and therefore may be required to borrow the funds or raise capital. Any loans by a holding company to its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company's bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the institution's general unsecured creditors, including the holders of its note obligations. Thus, any borrowing that must be done by the bank holding company to make a required capital injection becomes more difficult and expensive and could have an adverse effect on our business, financial condition and results of operations.

Future acquisitions generally will require regulatory approvals and failure to obtain them would restrict our growth.

We intend to explore complementing and expanding our products and services by pursuing strategic acquisitions. Generally, any acquisition of target financial institutions, banking centers or other banking assets by us will require approval by and cooperation from, a number of governmental regulatory agencies, possibly including the Federal Reserve and the FDIC, as well as state banking regulators. In acting on applications, federal banking regulators consider, among other factors:

- the effect of the acquisition on competition;
- the financial condition, liquidity, results of operations, capital levels and future prospects of the applicant and the bank(s) involved;
- the quantity and complexity of previously consummated acquisitions;
- the managerial resources of the applicant and the bank(s) involved;
- the convenience and needs of the community, including the record of performance under the Community Reinvestment Act of 1977;
- the effectiveness of the applicant in combating money-laundering activities;
- the applicant's regulatory compliance record; and
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- the extent to which the acquisition would result in greater or more concentrated risks to the stability of the United States banking or financial system.

Such regulators could deny our application based on the above criteria or other considerations, which would restrict our growth, or the regulatory approvals may not be granted on terms that are acceptable to us. For example, we could be required to sell banking centers as a condition to receiving regulatory approvals and such a condition may not be acceptable to us or may reduce the benefit of any acquisition. In addition, we may be required to make certain capital commitments to our regulators in connection with any acquisition. The existence of such capital requirements, or the failure to meet any such requirements, may have material adverse effect on our stockholders.

Future legislation or actions could harm our competitive position.

In addition to the enactment of the Dodd-Frank Act, various legislative bodies have also recently been considering altering the existing framework governing creditors' rights, including legislation that would result in or allow loan modifications of various sorts. Such legislation may change banking statutes and the operating environment in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business; limit or expand permissible activities; or affect the competitive balance among banks, savings associations, credit unions and other financial institutions. We cannot predict whether new legislation will be enacted and, if enacted, the effect that it or any regulations would have on our activities, financial condition or results of operations.

We are subject to commercial real estate lending guidance issued by the federal banking regulators that impacts our operations and capital requirements.

The federal banking regulators have issued final guidance regarding concentrations in commercial real estate lending directed at institutions that have particularly high concentrations of commercial real estate loans within their lending portfolios. This guidance suggests that institutions whose commercial real estate loans exceed certain percentages of capital should implement heightened risk management practices appropriate to their concentration risk and may be required to maintain higher capital ratios than institutions with lower concentrations in commercial real estate lending. Based on our commercial real estate concentration as of December 31, 2018, we believe that we are operating within the guidelines. However, increases in our commercial real estate lending could subject us to additional supervisory analysis. We cannot guarantee that any risk management practices we implement will be effective to prevent losses relating to our commercial real estate portfolio. Management has implemented controls to monitor our commercial real estate lending concentrations, but we cannot predict the extent to which this guidance will continue to impact our operations or capital requirements.

Regulatory initiatives regarding bank capital requirements may require heightened capital.

Regulatory capital rules, released in July 2013, implemented higher minimum capital requirements for bank holding companies and banks. The rules include a common equity Tier 1 capital requirement and establish criteria that instruments must meet to be considered common equity Tier 1 capital, additional Tier 1 capital or Tier 2 capital. These rules were intended to both improve the quality and increase the quantity of capital required to be held by banking organizations, better equipping the U.S. banking system to deal with adverse economic conditions. The capital rules require banks and bank holding companies to maintain a minimum common equity Tier 1 capital ratio of 4.5%, a total Tier 1 capital ratio of 6%, a total capital ratio of 8% and a leverage ratio of 4%. Bank holding companies are also required to hold a capital conservation buffer of common equity Tier 1 capital of 2.5% to avoid limitations on capital distributions and executive compensation payments. The capital rules also require banks and bank holding companies to maintain a common equity Tier 1 capital ratio of 6.5%, a total Tier 1 capital ratio of 8%, a total capital ratio of 10% and a leverage ratio of 5% to be deemed "well capitalized" for purposes of certain rules and prompt corrective action requirements.

The Federal Reserve may also set higher capital requirements for holding companies whose circumstances warrant it. For example, holding companies experiencing internal growth or making acquisitions are expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets. At this time, the bank regulatory agencies are more inclined to impose higher capital requirements to meet well-capitalized standards and future regulatory change could impose higher capital standards as a routine matter. The Company's and its subsidiary's regulatory capital ratios currently are in excess of the levels established for "well-capitalized" institutions.

These standards require the Company or our bank subsidiary to maintain materially more capital, with common equity as a more predominant component, or manage the configuration of our assets and liabilities to comply with formulaic liquidity requirements. Such regulation could significantly impact our return on equity, financial condition, operations,

capital position and ability to pursue business opportunities which could have an adverse effect on our business, financial condition and results of operations.



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We are subject to numerous laws designed to protect consumers, including the CRA and fair lending laws and failure to comply with these laws could lead to a wide variety of sanctions.

The CRA, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The Department of Justice and other federal agencies, including the CFPB, are responsible for enforcing these laws and regulations. A successful regulatory challenge to an institution's performance under the CRA or fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion and restrictions on entering new product lines. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have an adverse effect on our business, financial condition and results of operations.

Federal, state and local consumer lending laws may restrict our ability to originate certain mortgage loans or increase our risk of liability with respect to such loans and could increase our cost of doing business.

Federal, state and local laws have been adopted that are intended to eliminate certain lending practices considered "predatory." These laws prohibit practices such as steering borrowers away from more affordable products, selling unnecessary insurance to borrowers, repeatedly refinancing loans and making loans without a reasonable expectation that the borrowers will be able to repay the loans irrespective of the value of the underlying property. It is our policy not to make predatory loans, but these laws create the potential for liability with respect to our lending and loan investment activities. They increase our cost of doing business and, ultimately, may prevent us from making certain loans and cause us to reduce the average percentage rate or the points and fees on loans that we do make.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The Bank Secrecy Act, the Patriot Act and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration and IRS. We are also subject to increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could have an adverse effect on our business, financial condition and results of operations.

There are substantial regulatory limitations on changes of control of a bank holding company.

With certain limited exceptions, federal regulations prohibit a person, a company or a group of persons deemed to be "acting in concert" from, directly or indirectly, acquiring more than 10% (5% if the acquirer is a bank holding company) of any class of our voting stock or obtaining the ability to control in any manner the election of a majority of our directors or otherwise direct the management or policies of our Company without prior notice or application to and the approval of the Federal Reserve. Companies investing in banks and bank holding companies receive additional review and may be required to become bank holding companies, subject to regulatory supervision. Accordingly, prospective investors must be aware of and comply with these requirements, if applicable, in connection with any purchase of shares of our common stock. These provisions effectively inhibit certain mergers or other business combinations, which, in turn, could adversely affect the market price of our common stock.

Risks Relating to the Company's Common Stock

The market price of our common stock may be subject to substantial fluctuations, which may make it difficult for you to sell your shares at the volume, prices and times desired.

The market price of our common stock may be highly volatile, which may make it difficult for you to resell your shares at the volume, prices and times desired. There are many factors that may impact the market price and trading volume of our common stock, including, without limitation:

- actual or anticipated fluctuations in our operating results, financial condition or asset quality;
- changes in economic or business conditions;
- the effects of and changes in, trade, monetary and fiscal policies, including the interest rate policies of the Federal Reserve;
- publication of research reports about us, our competitors or the bank and non-bank financial services industries generally, or changes in, or failure to meet, securities analysts' estimates of our financial and operating performance, or lack of research reports by industry analysts or ceasing of coverage;
- operating and stock price performance of companies that investors deem comparable to us;
- future issuances of our common stock or other securities;
- additions or departures of key personnel;
- proposed or adopted changes in laws, regulations or policies affecting us;
- perceptions in the marketplace regarding our competitors and/or us;
- changes in accounting principles, policies and guidelines;
- rapidly changing technology;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving our competitors or us;
- other economic, competitive, governmental, regulatory and technological factors affecting our operations, pricing, products and services; and
- other news, announcements or disclosures (whether by us or others) related to us, our competitors, our core market or the bank and non-bank financial services industries.

The stock market and, in particular, the market for financial institution stocks, have experienced substantial fluctuations in recent years, which in many cases have been unrelated to the operating performance and prospects of particular companies. In addition, significant fluctuations in the trading volume in our common stock may cause significant price variations to occur. Increased market volatility may materially and adversely affect the market price of our common stock, which could make it difficult to sell your shares at the volume, prices and times desired.

Securities analysts may not continue coverage on our common stock, which could adversely affect the market for our common stock.

The trading market for our common stock will depend in part on the research and reports that securities analysts publish about us and our business. We do not have any control over these securities analysts and they may not cover our common stock. If securities analysts do not cover our common stock, the lack of research coverage may adversely affect our market price. If we are covered by securities analysts and our common stock is the subject of an unfavorable report, the price of our common stock may decline. If one or more of these analysts cease to cover us or fail to publish regular reports on us, we could lose visibility in the financial markets, which could cause the price or trading volume of our common stock to decline.

The rights of our common stockholders are subordinate to the rights of any debt securities that we may issue and may be subordinate to the holders of any class of preferred stock that we may issue in the future.

Our board of directors has the authority to issue in the aggregate up to 1,000,000 shares of preferred stock and to determine the terms of each issue of preferred stock without stockholder approval. Accordingly, you should assume that any shares of preferred stock that we may issue in the future will also be senior to our common stock and could have a preference on liquidating distributions or a preference on dividends that could limit our ability to pay dividends to the holders of our common stock. Because our decision to issue debt or equity securities or incur other borrowings in the future will depend on market conditions and other factors beyond our control, the amount, timing, nature or success of our future capital-raising efforts is uncertain. Thus, common stockholders bear the risk that our future issuances of debt or equity securities or our incurrence of other borrowings will negatively affect the market price of our common stock.

We depend on the profitability of our bank subsidiary.

Our principal source of funds to pay dividends on our common and preferred stock and service any of our obligations are dividends received directly from our subsidiaries. A substantial percentage of our current operations are currently conducted through our bank subsidiary. As is the case with all financial institutions, the profitability of our bank subsidiary is subject to the fluctuating cost and availability of money, changes in interest rates and in economic conditions in general. In addition, various federal and state statutes limit the amount of dividends that our bank subsidiary may pay to us, with or without regulatory approval.

We do not intend to pay dividends in the foreseeable future and our future ability to pay dividends is subject to restrictions.

We have not historically declared or paid any cash dividends on our common stock since inception. Holders of our common stock are entitled to receive only such cash dividends as our board of directors may declare out of funds legally available for such payments. Any declaration and payment of dividends on common stock will depend upon our earnings and financial condition, liquidity and capital requirements, the general economic and regulatory climate, our ability to service any equity or debt obligations senior to the common stock and other factors deemed relevant by the board of directors. Furthermore, consistent with our business plans, growth initiatives, capital availability, projected liquidity needs and other factors, we have made and will continue to make, capital management decisions and policies that could adversely impact the amount of dividends, if any, paid to our common stockholders.

Our board of directors intends to retain all of our earnings to promote growth and build capital. Accordingly, we do not expect to pay dividends in the foreseeable future. In addition, we are subject to certain restrictions on the payment of cash dividends as a result of banking laws, regulations and policies. Further, the Federal Reserve issued Supervisory Letter SR 09-4 on February 24, 2009 and revised as of March 27, 2009, which provides guidance on the declaration and payment of dividends, capital redemptions and capital repurchases by bank holding companies. Supervisory Letter SR 09-4 provides that, as a general matter, a financial holding company should eliminate, defer or significantly reduce its dividends, if: (1) the financial holding company’s net income available to stockholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends; (2) the financial holding company’s prospective rate of earnings retention is not consistent with the financial holding company’s capital needs and overall current and prospective financial condition; or (3) the financial holding company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. Failure to do so could result in a supervisory finding that the financial holding company is operating in an unsafe and unsound manner.

Our corporate governance documents and certain corporate and banking laws applicable to us, could make a takeover more difficult.

Certain provisions of our articles of incorporation and bylaws and corporate and federal banking laws and regulations could delay, defer or prevent a third party from acquiring control of our organization or conducting a proxy contest, even if those events were perceived by many of our stockholders as beneficial to their interests. These provisions, laws and regulations applicable to us:

- enable our board of directors to issue additional shares of authorized but unissued capital stock;
- enable our board of directors to issue "blank check" preferred stock with such designations, rights and preferences as may be determined from time to time by our board of directors;
- enable our board of directors to increase the size of our board of directors and fill the vacancies created by the increase;
- do not provide for cumulative voting in the election of directors;
- enable our board of directors to amend our bylaws without stockholder approval;
- do not allow for the removal of directors without cause;
- limit the right of stockholders to call a special meeting;

- do not allow stockholder action by less than unanimous written consent;
- require the affirmative vote of two-thirds of the outstanding shares of common stock to approve all amendments to our charter and approve mergers and similar transactions;
- require advance notice for director nominations and other stockholder proposals; and
- require prior regulatory application and approval of any transaction involving control of our organization.

These provisions may discourage potential acquisition proposals and could delay or prevent a change in control, including under circumstances in which our stockholders might otherwise receive a premium over the market price of our shares.

## ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

## ITEM 2. PROPERTIES.

Our corporate office is located at 12700 Park Central Drive, Suite 1700, Dallas, Texas 75251.

As of December 31, 2018, TBK Bank operates ten branches in the Quad Cities Metropolitan Area of Iowa and Illinois and eight branches throughout northern and central Illinois in our Midwest division, seven branches in Colorado and three branches in New Mexico in our Mountain Division, thirty branches in Colorado and two branches in western Kansas in our Western division, and loan production offices in Littleton, Colorado Springs, and Durango, Colorado and Lee's Summit, Missouri. TBK Bank also operates from our corporate office facility in Dallas, Texas which includes an additional branch office limited to deposit gathering activities. We lease twelve of these offices and own the remaining fifty-three. Our owned offices are freestanding permanent facilities and the leased offices are part of larger retail facilities. Most of TBK Bank's branches are equipped with automated teller machines ("ATM") and drive-through facilities.

Triumph Business Capital operates from a leased facility within a larger business park located in Coppell, Texas as well as a leased facility in El Paso, Texas.

## ITEM 3. LEGAL PROCEEDINGS.

From time to time we are a party to various litigation matters incidental to the conduct of our business. We are not presently party to any legal proceedings the resolution of which we believe would have a material adverse effect on our business, prospects, financial condition, liquidity, results of operation, cash flows or capital levels.

## ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

### Market Information and Common Equity Holders

Our common stock is listed on the NASDAQ Global Select Market under the symbol "TBK." At February 8, 2019, there were 26,701,460 shares outstanding and 333 stockholders of record for the Company's common stock.

### Dividends

We have not historically declared or paid cash dividends on our common stock since inception and we do not intend to pay dividends on our common stock for the foreseeable future. Instead, we anticipate that all of our future earnings will be retained to support our operations and to finance the growth and development of our business. Any future determination relating to our dividend policy will be made by our board of directors and will depend on a number of factors, including:

- our historic and projected financial condition, liquidity and results of operations;
- our capital levels and needs;
- tax considerations;
- any acquisitions or potential acquisitions that we may examine;
- statutory and regulatory prohibitions and other limitations;
- the terms of any credit agreements or other borrowing arrangements that restrict our ability to pay cash dividends;
- general economic conditions; and
- other factors deemed relevant by our board of directors.

We are not obligated to pay dividends on our common stock.

As a Texas corporation, we are subject to certain restrictions on dividends under the Texas Business Organizations Code (the "TBOC"). Generally, a Texas corporation may pay dividends to its stockholders out of its surplus (the excess of its assets over its liabilities and stated capital) or out of its net profits for the then-current and preceding fiscal year unless the corporation is insolvent or the dividend would render the corporation insolvent. In addition, we are subject to certain restrictions on the payment of cash dividends as a result of banking laws, regulations and policies.

Because we are a financial holding company and do not engage directly in business activities of a material nature, our ability to pay dividends to our stockholders depends, in large part, upon our receipt of dividends from our bank subsidiary, which is also subject to numerous limitations on the payment of dividends under federal and state banking laws, regulations and policies. The present and future dividend policy of our bank subsidiary is subject to the discretion of its board of directors. Our subsidiary bank is not obligated to pay dividends.

### Securities authorized for issuance under equity compensation plans

See "Item 12 – Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters".

Performance Graph

The following Performance Graph and related discussion are being furnished solely to accompany this Annual Report on Form 10-K pursuant to Item 201(e) of Regulation S-K and shall not be deemed to be “soliciting materials” or to be “filed” with the SEC (other than as provided in Item 201) nor shall this information be incorporated by reference into any future filing under the Securities Act or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language contained therein, except to the extent that the Company specifically incorporates it by reference into a filing.

The following Performance Graph compares the cumulative total shareholder return on the Company’s common stock for the period beginning at the close of trading on November 7, 2014 (the end of the first day of trading of the Company’s common stock on the NASDAQ Global Select Market) through December 31, 2018, with the cumulative total return of the NASDAQ Global Select Market Index and the NASDAQ Bank Index for the same period. Cumulative total return is computed by dividing the difference between the Company’s share price at the end and the beginning of the measurement period by the share price at the beginning of the measurement period. The Performance Graph assumes an initial investment of $100 in the Company’s common stock, the NASDAQ Global Select Market Index and the NASDAQ Bank Index. Historical stock price performance is not necessarily indicative of future stock price performance.

| | November 7, 2014 | December 31, 2014 | December 31, 2015 | December 31, 2016 | December 31, 2017 | December 31, 2018 |
|---|---|---|---|---|---|---|
| Triumph Bancorp, Inc. | $ 100.00 | $ 106.27 | $ 129.41 | $ 205.10 | $ 247.06 | $ 232.94 |
| Nasdaq Global Select Market Index | 100.00 | 102.17 | 108.41 | 116.64 | 149.81 | 144.30 |
| Nasdaq Bank Index | 100.00 | 101.16 | 107.86 | 145.64 | 150.75 | 123.77 |

Recent sales of unregistered equity securities

None.

Purchases of equity securities by the issuer and affiliated purchasers

No purchases of the Company’s common shares were made by or on behalf of the Company or any “affiliated purchaser” as defined in Rule 10b-18(a)(3) under the Exchange Act during the year ended December 31, 2018. On October 29, 2018, the Company announced that its board of directors had authorized the repurchase of up to $25.0 million of its outstanding common stock in open market transactions or through privately negotiated transactions. No repurchases were made under this program during the year ended December 31, 2018. Subsequent to December 31, 2018, the Company has repurchased 247,312 shares into treasury stock at an average price of $30.51.

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ITEM 6. SELECTED FINANCIAL DATA.

Certain historical consolidated financial data as of and for each of the years in the five year period ended December 31, 2018 is derived from our audited historical consolidated financial statements. The following table shows our selected historical financial data for the periods indicated. You should read our selected historical financial data, together with the notes thereto, in conjunction with the more detailed information contained in our consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Annual Report on Form 10-K.

| | As of and for the years ended December 31, | | | | |
|---|---|---|---|---|---|
| (Dollars in thousands, except per share amounts) | 2018 | 2017 | 2016 | 2015 | 2014 |
| Income Statement Data: | | | | | |
| Interest income | $262,976 | $177,224 | $124,492 | $98,760 | $87,230 |
| Interest expense | 35,926 | 21,540 | 12,134 | 8,109 | 6,770 |
| Net interest income | 227,050 | 155,684 | 112,358 | 90,651 | 80,460 |
| Provision for loan losses | 16,167 | 11,628 | 6,693 | 4,529 | 5,858 |
| Net interest income after provision | 210,883 | 144,056 | 105,665 | 86,122 | 74,602 |
| Gain on sale of subsidiary or division | 1,071 | 20,860 | — | — | — |
| Gain on branch sale | — | — | — | — | 12,619 |
| Bargain purchase gain | — | — | — | 15,117 | — |
| Other noninterest income | 21,899 | 19,796 | 20,956 | 18,180 | 12,148 |
| Noninterest income | 22,970 | 40,656 | 20,956 | 33,297 | 24,767 |
| Noninterest expense | 167,353 | 123,614 | 93,112 | 81,865 | 69,202 |
| Net income before income taxes | 66,500 | 61,098 | 33,509 | 37,554 | 30,167 |
| Income tax expense | 14,792 | 24,878 | 12,809 | 8,421 | 10,378 |
| Net income | 51,708 | 36,220 | 20,700 | 29,133 | 19,789 |
| Income attributable to noncontrolling interests | — | — | — | — | (2,060) |
| Dividends on preferred stock | (578) | (774) | (887) | (780) | (780) |
| Net income available to common stockholders | $51,130 | $35,446 | $19,813 | $28,353 | $16,949 |
| | | | | | |
| Balance Sheet Data: | | | | | |
| Total assets | $4,559,779 | $3,499,033 | $2,641,067 | $1,691,313 | $1,447,898 |
| Cash and cash equivalents | 234,939 | 134,129 | 114,514 | 105,277 | 160,888 |
| Investment securities | 349,954 | 264,166 | 304,381 | 163,169 | 162,769 |
| Loans held for sale | 2,106 | — | — | 1,341 | 3,288 |
| Loans held for investment, net | 3,581,073 | 2,792,108 | 2,012,219 | 1,279,318 | 997,035 |
| Total liabilities | 3,923,172 | 3,107,335 | 2,351,722 | 1,423,275 | 1,210,389 |
| Noninterest bearing deposits | 724,527 | 564,225 | 363,351 | 168,264 | 179,848 |
| Interest bearing deposits | 2,725,822 | 2,057,123 | 1,652,434 | 1,080,686 | 985,381 |
| FHLB advances | 330,000 | 365,000 | 230,000 | 130,000 | 3,000 |
| Subordinated notes | 48,929 | 48,828 | 48,734 | — | — |
| Junior subordinated debentures | 39,083 | 38,623 | 32,740 | 24,687 | 24,423 |
| Total stockholders' equity | 636,607 | 391,698 | 289,345 | 268,038 | 237,509 |
| Preferred stockholders' equity | — | 9,658 | 9,746 | 9,746 | 9,746 |
| Common stockholders' equity [(1)] | 636,607 | 382,040 | 279,599 | 258,292 | 227,763 |

| | As of and for the years ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Per Share Data: | | | | | |
| Basic earnings per common share | $2.06 | $1.85 | $1.11 | $1.60 | $1.55 |
| Diluted earnings per common share | $2.03 | $1.81 | $1.10 | $1.57 | $1.52 |
| Book value per share | $23.62 | $18.35 | $15.47 | $14.34 | $12.68 |
| Tangible book value per share [1] | $16.22 | $15.29 | $12.89 | $12.79 | $11.06 |
| Shares outstanding end of period | 26,949,936 | 20,820,445 | 18,078,247 | 18,018,200 | 17,963,783 |
| Weighted average shares outstanding - basic | 24,791,448 | 19,133,745 | 17,856,828 | 17,720,479 | 10,940,083 |
| Weighted average shares outstanding - diluted | 25,480,513 | 20,000,288 | 18,053,531 | 18,524,889 | 11,672,780 |
| | | | | | |
| Adjusted Per Share Data[1]: | | | | | |
| Adjusted diluted earnings per common share | $2.21 | $1.37 | $1.17 | $0.80 | $0.82 |
| Adjusted weighted average shares outstanding - diluted | 25,480,513 | 20,000,288 | 18,729,882 | 17,848,538 | 10,996,429 |
| | | | | | |
| Performance ratios: | | | | | |
| Return on average assets | 1.33 % | 1.27 % | 1.00 % | 1.89 % | 1.46 % |
| Return on average total equity | 9.24 % | 10.66 % | 7.33 % | 11.31 % | 10.87 % |
| Return on average common equity | 9.27 % | 10.73 % | 7.29 % | 11.44 % | 11.61 % |
| Return on average tangible common equity [1] | 11.90 % | 12.50 % | 8.37 % | 12.98 % | 14.51 % |
| Yield on loans[2] | 8.07 % | 7.55 % | 7.71 % | 8.62 % | 8.90 % |
| Cost of interest bearing deposits | 1.02 % | 0.78 % | 0.70 % | 0.67 % | 0.54 % |
| Cost of total deposits | 0.80 % | 0.62 % | 0.59 % | 0.58 % | 0.46 % |
| Cost of total funds | 1.09 % | 0.86 % | 0.68 % | 0.64 % | 0.58 % |
| Net interest margin[2] | 6.35 % | 5.92 % | 5.91 % | 6.49 % | 6.67 % |
| Efficiency ratio | 66.94 % | 62.96 % | 69.84 % | 66.05 % | 65.77 % |
| Adjusted efficiency ratio [1] | 64.43 % | 66.55 % | 68.63 % | 73.59 % | 74.73 % |
| Net noninterest expense to average assets | 3.70 % | 2.92 % | 3.47 % | 3.16 % | 3.28 % |
| Adjusted net noninterest expense to average total assets [1] | 3.55 % | 3.41 % | 3.39 % | 4.03 % | 4.22 % |
| | | | | | |
| Asset Quality ratios[3]: | | | | | |
| Past due to total loans | 2.41 % | 2.33 % | 3.61 % | 2.41 % | 2.57 % |
| Nonperforming loans to total loans | 1.00 % | 1.38 % | 2.23 % | 1.03 % | 1.66 % |
| Nonperforming assets to total assets | 0.84 % | 1.39 % | 1.98 % | 1.10 % | 1.73 % |
| ALLL to nonperforming loans | 76.47 % | 48.41 % | 34.00 % | 94.10 % | 53.02 % |
| ALLL to total loans | 0.76 % | 0.67 % | 0.76 % | 0.97 % | 0.88 % |
| Net charge-offs to average loans | 0.23 % | 0.28 % | 0.25 % | 0.07 % | 0.07 % |
| | | | | | |
| Capital ratios: | | | | | |
| Tier 1 capital to average assets | 11.08 % | 11.80 % | 10.85 % | 16.56 % | 15.92 % |
| Tier 1 capital to risk-weighted assets | 11.49 % | 11.15 % | 11.85 % | 18.23 % | 19.56 % |
| | 10.55 % | 9.70 % | 10.18 % | 16.23 % | N/A |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Common equity Tier 1 capital to risk-weighted assets | | | | | | | | | | |
| Total capital to risk-weighted assets | 13.35 | % | 13.21 | % | 14.60 | % | 19.11 | % | 20.35 | % |
| Total equity to total assets | 13.96 | % | 11.19 | % | 10.96 | % | 15.85 | % | 16.40 | % |
| Total stockholders' equity to total assets | 13.96 | % | 11.19 | % | 10.96 | % | 15.85 | % | 16.40 | % |
| Tangible common stockholders' equity ratio [(1)] | 10.03 | % | 9.26 | % | 8.98 | % | 13.85 | % | 14.00 | % |

(1) The Company uses certain non-GAAP financial measures to provide meaningful supplemental information regarding the Company's operational performance and to enhance investors' overall understanding of such financial performance. The non-GAAP measures used by the Company include the following:

- "Common stockholders' equity" is defined as total stockholders' equity at end of period less the liquidation preference value of the preferred stock.
- "Adjusted diluted earnings per common share" is defined as adjusted net income available to common stockholders divided by adjusted weighted average diluted common shares outstanding. Excluded from net income available to common stockholders are material gains and expenses related to merger and acquisition-related activities, net of tax. In our judgment, the adjustments made to net income available to common stockholders allow management and investors to better assess our performance in relation to our core net income by removing the volatility associated with certain acquisition-related items and other discrete items that are unrelated to our core business. Weighted average diluted common shares outstanding are adjusted as a result of changes in their dilutive properties given the gain and expense adjustments described herein.
- "Tangible common stockholders' equity" is defined as common stockholders' equity less goodwill and other intangible assets.
- "Total tangible assets" is defined as total assets less goodwill and other intangible assets.
- "Tangible book value per share" is defined as tangible common stockholders' equity divided by total common shares outstanding. This measure is important to investors interested in changes from period-to-period in book value per share exclusive of changes in intangible assets.
- "Tangible common stockholders' equity ratio" is defined as the ratio of tangible common stockholders' equity divided by total tangible assets. We believe that this measure is important to many investors in the marketplace who are interested in relative changes from period-to period in common equity and total assets, each exclusive of changes in intangible assets.
- "Return on Average Tangible Common Equity" is defined as net income available to common stockholders divided by average tangible common stockholders' equity.
- "Adjusted efficiency ratio" is defined as noninterest expenses divided by our operating revenue, which is equal to net interest income plus noninterest income. Also excluded are material gains and expenses related to merger and acquisition-related activities, including divestitures. In our judgment, the adjustments made to operating revenue allow management and investors to better assess our performance in relation to our core operating revenue by removing the volatility associated with certain acquisition-related items and other discrete items that are unrelated to our core business.
- "Adjusted net noninterest expense to average total assets" is defined as noninterest expenses net of noninterest income divided by total average assets. Excluded are material gains and expenses related to merger and acquisition-related activities, including divestitures. This metric is used by our management to better assess our operating efficiency.

(2) Performance ratios include discount accretion on purchased loans for the periods presented as follows:

| | For the years ended December 31, | | | | |
|---|---|---|---|---|---|
| (Dollars in thousands) | 2018 | 2017 | 2016 | 2015 | 2014 |
| Loan discount accretion | $8,296 | $7,071 | $7,363 | $4,651 | $8,895 |

(3) Asset quality ratios exclude loans held for sale.

GAAP Reconciliation of Non-GAAP Financial Measures

We believe the non-GAAP financial measures included above provide useful information to management and investors that is supplementary to our financial condition, results of operations and cash flows computed in accordance with GAAP; however, we acknowledge that our non-GAAP financial measures have a number of limitations. The following reconciliation table provides a more detailed analysis of the non-GAAP financial measures:

| | As of and for the years ended December 31, | | | | |
|---|---|---|---|---|---|
| (Dollars in thousands, except per share amounts) | 2018 | 2017 | 2016 | 2015 | 2014 |
| Total stockholders' equity | $636,607 | $391,698 | $289,345 | $268,038 | $237,509 |
| Preferred stock liquidation preference | — | (9,658) | (9,746) | (9,746) | (9,746) |
| Total common stockholders' equity | 636,607 | 382,040 | 279,599 | 258,292 | 227,763 |
| Goodwill and other intangibles | (199,417) | (63,778) | (46,531) | (27,854) | (29,057) |
| Tangible common stockholders' equity | $437,190 | $318,262 | $233,068 | $230,438 | $198,706 |
| Common shares outstanding | 26,949,936 | 20,820,445 | 18,078,247 | 18,018,200 | 17,963,783 |
| Tangible book value per share | $16.22 | $15.29 | $12.89 | $12.79 | $11.06 |
| | | | | | |
| Total assets at end of period | $4,559,779 | $3,499,033 | $2,641,067 | $1,691,313 | $1,447,898 |
| Goodwill and other intangibles | (199,417) | (63,778) | (46,531) | (27,854) | (29,057) |
| Adjusted total assets at period end | 4,360,362 | 3,435,255 | 2,594,536 | 1,663,459 | 1,418,841 |
| Tangible common stockholders' equity ratio | 10.03 % | 9.26 % | 8.98 % | 13.85 % | 14.00 % |
| | | | | | |
| Net income available to common stockholders | $51,130 | $35,446 | $19,813 | $28,353 | $16,949 |
| Gain on sale of subsidiary or division | (1,071) | (20,860) | — | — | — |
| Gain on branch sale | — | — | — | — | (12,619) |
| Bargain purchase gain | — | — | — | (15,117) | — |
| Transaction related costs | 6,965 | 2,013 | 1,618 | 243 | — |
| Incremental bonus related to transaction | — | 4,814 | — | 1,750 | — |
| Escrow recovery from DHF | — | — | — | (300) | — |
| Tax effect of adjustments | (1,401) | 5,153 | (251) | (592) | 4,727 |
| Adjusted net income available to common stockholders | $55,623 | $26,566 | $21,180 | $14,337 | $9,057 |
| Dilutive effect of convertible preferred stock | 578 | 774 | 783 | — | — |
| Adjusted net income available to common stockholders - diluted | $56,201 | $27,340 | $21,963 | $14,337 | $9,057 |
| | | | | | |
| Weighted average shares outstanding - diluted | 25,480,513 | 20,000,288 | 18,053,531 | 18,524,889 | 11,672,780 |
| Adjusted effects of assumed Preferred Stock conversion | — | — | 676,351 | (676,351) | (676,351) |
| Adjusted weighted average shares outstanding - diluted | 25,480,513 | 20,000,288 | 18,729,882 | 17,848,538 | 10,996,429 |
| | $2.21 | $1.37 | $1.17 | $0.80 | $0.82 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Adjusted diluted earnings per common share | | | | | | | | | | |
| Net income available to common stockholders | $51,130 | | $35,446 | | $19,813 | | $28,353 | | $16,949 | |
| Average tangible common equity | 429,745 | | 283,561 | | 236,660 | | 218,392 | | 116,817 | |
| Return on average tangible common equity | 11.90 | % | 12.50 | % | 8.37 | % | 12.98 | % | 14.51 | % |

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| (Dollars in thousands, except per share amounts) | Years Ended December 31, 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Adjusted efficiency ratio: | | | | | |
| Net interest income | $227,050 | $155,684 | $112,358 | $90,651 | $80,460 |
| Noninterest income | 22,970 | 40,656 | 20,956 | 33,297 | 24,767 |
| Operating revenue | 250,020 | 196,340 | 133,314 | 123,948 | 105,227 |
| Gain on sale of subsidiary or division | (1,071) | (20,860) | — | — | — |
| Gain on branch sale | — | — | — | — | (12,619) |
| Bargain purchase gain | — | — | — | (15,117) | — |
| Escrow recovery from DHF | — | — | — | (300) | — |
| Adjusted operating revenue | $248,949 | $175,480 | $133,314 | $108,531 | $92,608 |
| | | | | | |
| Noninterest expenses | $167,353 | $123,614 | $93,112 | $81,865 | $69,202 |
| Transaction related costs | (6,965) | (2,013) | (1,618) | (243) | — |
| Incremental bonus related to transaction | — | (4,814) | — | (1,750) | — |
| Adjusted noninterest expenses | $160,388 | $116,787 | $91,494 | $79,872 | $69,202 |
| Adjusted efficiency ratio | 64.43 % | 66.55 % | 68.63 % | 73.59 % | 74.73 % |
| | | | | | |
| Adjusted net noninterest expense to average assets ratio: | | | | | |
| Noninterest expenses | $167,353 | $123,614 | $93,112 | $81,865 | $69,202 |
| Transaction related costs | (6,965) | (2,013) | (1,618) | (243) | — |
| Incremental bonus related to transaction | — | (4,814) | — | (1,750) | — |
| Adjusted noninterest expense | 160,388 | 116,787 | 91,494 | 79,872 | 69,202 |
| Noninterest income | 22,970 | 40,656 | 20,956 | 33,297 | 24,767 |
| Gain on sale of subsidiary or division | (1,071) | (20,860) | — | — | — |
| Gain on branch sale | — | — | — | — | (12,619) |
| Bargain purchase gain | — | — | — | (15,117) | — |
| Escrow recovery from DHF | — | — | — | (300) | — |
| Adjusted noninterest income | 21,899 | 19,796 | 20,956 | 17,880 | 12,148 |
| Adjusted net noninterest expenses | $138,489 | $96,991 | $70,538 | $61,992 | $57,054 |
| Average total assets | $3,900,728 | $2,844,916 | $2,079,756 | $1,537,856 | $1,353,421 |
| Adjusted net noninterest expense to average assets ratio | 3.55 % | 3.41 % | 3.39 % | 4.03 % | 4.22 % |

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

### Cautionary Note Regarding Forward-Looking Statements

This document contains forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as "may," "should," "could," "predict," "potential," "believe," "will likely result," "expect," " "will," "anticipate," "seek," "estimate," "intend," "plan," "projection," "would" and "outlook," or the negative version of those other comparable of a future or forward-looking nature. These forward-looking statements are not historical facts and are based on current expectations, estimates and projections about our industry, management's beliefs and certain

assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

There are or will be important factors that could cause our actual results to differ materially from those indicated in these forward-looking statements, including, but not limited to, the following:

- business and economic conditions generally and in the bank and non-bank financial services industries, nationally and within our local market areas;
- our ability to mitigate our risk exposures;
- our ability to maintain our historical earnings trends;
- risks related to the integration of acquired businesses (including our acquisitions of First Bancorp of Durango, Inc., Southern Colorado Corp., the operating assets of Interstate Capital Corporation and certain of its affiliates, Valley Bancorp, Inc., and nine branches from Independent Bank in Colorado) and any future acquisitions;
- our ability to successfully identify and address the risks associated with our recent, pending and possible future acquisitions, and the risks that our prior and planned future acquisitions make it more difficult for investors to evaluate our business, financial condition and results of operations, and impairs our ability to accurately forecast our future performance;
- changes in management personnel;
- interest rate risk;
- concentration of our factoring services in the transportation industry;
- credit risk associated with our loan portfolio;
- lack of seasoning in our loan portfolio;
- deteriorating asset quality and higher loan charge-offs;
- time and effort necessary to resolve nonperforming assets;
- inaccuracy of the assumptions and estimates we make in establishing reserves for probable loan losses and other estimates;
- lack of liquidity;
- fluctuations in the fair value and liquidity of the securities we hold for sale;
- impairment of investment securities, goodwill, other intangible assets or deferred tax assets;
- our risk management strategies;
- environmental liability associated with our lending activities;
- increased competition in the bank and non-bank financial services industries, nationally, regionally or locally, which may adversely affect pricing and terms;
- the accuracy of our financial statements and related disclosures;
- material weaknesses in our internal control over financial reporting;
- system failures or failures to prevent breaches of our network security;
- the institution and outcome of litigation and other legal proceedings against us or to which we become subject;
- changes in carry-forwards of net operating losses;
- changes in federal tax law or policy;
- the impact of recent and future legislative and regulatory changes, including changes in banking, securities and tax laws and regulations, such as the Dodd-Frank Act and their application by our regulators;
- governmental monetary and fiscal policies;
- changes in the scope and cost of FDIC, insurance and other coverages;
- failure to receive regulatory approval for future acquisitions; and
- increases in our capital requirements.

The foregoing factors should not be construed as exhaustive. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made and we do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. New factors emerge from time to time and it is not possible for us to predict which will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

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 consolidated financial statements and the accompanying notes included elsewhere in this Annual Report on Form 10-K. 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 "Forward-Looking Statements" section above.

Overview

We are a financial holding company headquartered in Dallas, Texas and registered under the Bank Holding Company Act. Through our wholly owned bank subsidiary, TBK Bank, we offer traditional banking services as well as commercial finance product lines focused on businesses that require specialized 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 premium finance products offered on a nationwide basis. As of December 31, 2018, we had consolidated total assets of $4.560 billion, gross loans held for investment of $3.609 billion, total deposits of $3.450 billion and total stockholders' equity of $636.6 million.

A key element of our strategy is to supplement the asset generation capacity in our community banking markets with commercial finance product lines which are offered on a nationwide basis and which serve to enhance the overall yield of our portfolio. These products include our factoring services, provided principally in the transportation sector, our asset-based lending, equipment finance, and premium finance products. Our aggregate outstanding balances for these products increased $358.7 million, or 40.0% to $$1.256 billion as of December 31, 2018, primarily due to organic growth as well as increased factored receivables resulting from the acquisition of Interstate Capital Corporation as discussed below.

The following table sets forth our commercial finance product lines:

| (Dollars in thousands) | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Commercial finance | | |
| Equipment | $ 352,037 | $ 254,119 |
| Asset-based lending (general) | 214,110 | 213,471 |
| Premium finance | 72,302 | 55,520 |
| Factored receivables | 617,791 | 374,410 |

| Total commercial finance loans | $1,256,240 | $897,520 |
|---|---|---|

In general, we view the long term market fundamentals for our commercial finance product offerings as sound, with continued opportunity to increase our market share within very large markets. In particular, we note continued positive performance in the transportation factored receivables industry, with consistent growth in the number of clients and number of invoices processed, coupled with freight invoice prices near historical highs, which has contributed to the strong year-over-year growth in our factored receivables. These positive trends have caused increased competition from existing as well as new lenders that have entered these markets, which resulted in increased pricing pressure. Despite competitive conditions, we remain disciplined in our structuring and underwriting parameters.

We incurred expense increases during 2018 associated with the growth in our commercial finance lending lines as we continued to invest in additional personnel and resources necessary to grow these products and manage the risk of larger portfolios. In general, we believe these expenses, consisting primarily of increased headcount and the occupancy and technology expenses necessary to support such additional headcount and operational growth, represent costs that may be leveraged or scaled to support increased loan production in these areas.

Most of our products and services share basic processes and have similar economic characteristics. However, our factoring subsidiary, Triumph Business Capital, 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. We have determined our reportable segments are Banking, Factoring, and Corporate. For the year ended December 31, 2018, our banking segment generated 66% of our total revenue (comprised of interest and noninterest income), our factoring segment generated 33% of our total revenue, and our corporate segment generated 1% of our total revenue. On March 31, 2017, we sold our 100% membership interest in Triumph Capital Advisors, LLC ("TCA") and discontinued fee based asset management services. TCA operations for the years ended December 31, 2017 and 2016 are reflected in our Corporate segment, along with the gain on sale of our membership interest in TCA.

2018 Overview

Net income available to common stockholders for the year ended December 31, 2018 was $51.1 million, or $2.03 per diluted share, compared to net income available to common stockholders for the year ended December 31, 2017 of $35.4 million, or $1.81 per diluted share. Excluding material gains and expenses related to merger and acquisition related activities, including divestitures, adjusted net income to common stockholders was $55.6 million, or $2.21 per diluted share, for the year ended December 31, 2018 compared to $26.6 million, or $1.37 per diluted share for the year ended December 31, 2017. For the year ended December 31, 2018, our return on average common equity was 9.27% and our return on average assets was 1.33%.

At December 31, 2018, we had total assets of $4.560 billion, including gross loans held for investment of $3.609 billion, compared to $3.499 billion of total assets and $2.811 billion of gross loans held for investment at December 31, 2017. Organic loan growth totaled $378.9 million during the year ended December 31, 2018. Our commercial finance loans increased from $897.5 million in aggregate as of December 31, 2017 to $1.256 billion as of December 31, 2018, an increase of 40.0%, and constitute 35% of our total loan portfolio at December 31, 2018.

At December 31, 2018, we had total liabilities of $3.923 billion, including total deposits of $3.450 billion, compared to $3.107 billion of total liabilities and $2.621 billion of total deposits at December 31, 2017. Deposits increased $829.0 million during the year ended December 31, 2018.

At December 31, 2018, we had total stockholders' equity of $636.6 million. During the year ended December 31, 2018, total stockholders' equity increased $244.9 million, primarily due to $192.1 million of net proceeds from the April 12, 2018 common stock offering discussed below and our net income for the period. Capital ratios remained strong with holding company Tier 1 capital and total capital to risk weighted assets ratios of 11.49% and 13.35%, respectively, at December 31, 2018.

2018 Items of Note

First Bancorp of Durango, Inc. and Southern Colorado Corp.

Effective September 8, 2018, we acquired First Bancorp of Durango, Inc. ("FBD") and its two community banking subsidiaries, The First National Bank of Durango and Bank of New Mexico, which were merged into TBK Bank upon closing, in an all-cash transaction for $134.7 million. On the same date, we acquired Southern Colorado Corp. ("SCC") and its community banking subsidiary, Citizens Bank of Pagosa Springs, which was merged into TBK Bank upon

closing, in an all-cash transaction for $13.3 million. As part of the FBD and SCC acquisitions, we acquired a combined $287.8 million of loans held for investment, assumed a combined $674.7 million of deposits, and recorded a combined $14.1 million of core deposit intangible assets and $72.1 million of goodwill.

Interstate Capital Corporation

On June 2, 2018 we acquired substantially all of the operating assets of, and assumed certain liabilities associated with, Interstate Capital Corporation's ("ICC") accounts receivable factoring business and other related financial services for total consideration of $180.3 million, which was comprised of $160.3 million in cash and contingent consideration with an initial fair value of $20.0 million. As part of the ICC acquisition, we acquired $131.0 million of factored receivables and recorded $13.9 million of intangible assets and $43.0 million of goodwill.

Common Stock Offering

On April 12, 2018, we completed an underwritten common stock offering issuing 5.4 million shares of our common stock, including 0.7 million shares sold pursuant to the underwriters' full exercise of their option to purchase additional shares, at $37.50 per share for total gross proceeds of $202.7 million. Net proceeds after underwriting discounts and offering expenses were $192.1 million. A significant portion of the net proceeds of this offering were used to fund the FBD, SCC and ICC acquisitions and for general corporate purposes.

Triumph Healthcare Finance

On January 19, 2018, we entered into an agreement to sell the assets (the “Disposal Group”) of Triumph Healthcare Finance (“THF”) and exit the healthcare asset-based lending line of business. The decision to sell THF was made prior to the end of the fourth quarter of 2017, and at December 31, 2017, the fair value of the Disposal Group exceeded its carrying amount. As a result of this decision, the $71.4 million carrying amount of the Disposal Group was transferred to assets held for sale as of December 31, 2017. The sale was finalized on March 16, 2018 and resulted in a net pre-tax contribution to earnings for the year ended December 31, 2018 of $1.1 million, or approximately $0.8 million net of tax.

For further information on the above acquisitions and divestitures, see Note 2 – Business Combinations and Divestitures in the accompanying notes to the consolidated financial statements included elsewhere in this report.

2017 Items of Note

Valley Bancorp, Inc.

Effective December 9, 2017, we acquired Valley Bancorp, Inc. (“Valley”) and its community banking subsidiary, Valley Bank & Trust, which was merged into TBK Bank upon closing, in an all-cash transaction for $40.1 million. As part of the Valley acquisition, we acquired $171.2 million of loans, assumed $293.4 million of deposits associated with Valley and recorded $6.1 million of core deposit intangible assets and $10.5 million of goodwill.

Independent Bank – Colorado Branches

On October 6, 2017, we, through our subsidiary TBK Bank, completed our acquisition of nine branch locations in Colorado from Independent Bank Group, Inc.’s banking subsidiary Independent Bank (the “Acquired Branches”) for an aggregate deposit premium of approximately $6.8 million or 4.2%. As part of the acquisition, we acquired $95.8 million of loans, assumed $160.7 million of deposits associated with the branches and recorded $3.3 million of core deposit intangible assets and $5.8 million of goodwill.

Common Stock Offering

On August 1, 2017, we completed an underwritten common stock offering issuing 2.53 million shares of our common stock, including 0.33 million shares sold pursuant to the underwriters' full exercise of their option to purchase additional shares, at $27.50 per share for total gross proceeds of $69.6 million. Net proceeds after underwriting discounts and offering expenses were $65.5 million. We used a significant portion of the net proceeds of the offering to fund the acquisition of Valley Bancorp, Inc. and for general corporate purposes.

Triumph Capital Advisors

On March 31, 2017, we sold our 100% membership interest in Triumph Capital Advisors, LLC (“TCA”). As part of the TCA sale on March 31, 2017, we recorded a pre-tax gain on sale of $20.9 million, net of $0.4 million of direct transaction costs. In addition, we incurred other indirect transaction related costs of $0.3 million and recorded $4.8

million in incremental bonus expense for the amount paid to team members to recognize their contribution to the transaction and building the value realized in the sale of the business. The TCA sale resulted in a net pre-tax contribution to earnings for the year ended December 31, 2017 of $15.7 million, or approximately $10.0 million net of tax. Consideration received included a seller financed loan receivable in the amount of $10.5 million.

For further information on the above acquisitions and divestitures, see Note 2 – Business Combinations and Divestitures in the accompanying notes to the consolidated financial statements included elsewhere in this report.

Results of Operations

Fiscal year ended December 31, 2018 compared with year ended December 31, 2017

Net Income

We earned net income of $51.7 million for the year ended December 31, 2018 compared to $36.2 million for the year ended December 31, 2017, an increase of $15.5 million.

The results for the year ended December 31, 2018 include the results of operations of the acquisitions of FBD, SCC, and ICC since their respective acquisition dates and are inclusive of a combined $7.0 million of transaction costs associated with the acquisitions included in noninterest expense. The results for the year ended December 31, 2018 were also impacted by the sale of THF, which resulted in a pre-tax gain on sale in the amount of $1.1 million included in noninterest income.

The results for the year ended December 31, 2017 include the results of operations of the Acquired Branches since the October 6, 2017 acquisition date and the results of operations of Valley since the December 9, 2017 acquisition date. We incurred $1.7 million of pre-tax transaction and restructuring costs related to these acquisitions which is reported as noninterest expense. The results for the year ended December 31, 2017 were also impacted by our sale of TCA, which resulted in a pre-tax gain on sale in the amount of $20.9 million included in noninterest income, offset by an additional $4.8 million bonus accrual and $0.3 million of other indirect transaction related costs recorded in connection with the TCA sale; both reported as noninterest expense.

Excluding the tax-effected impact of the FBD, SCC and ICC transaction costs and the THF and TCA sale transactions, we earned adjusted net income of $56.2 million for the year ended December 31, 2018 compared to $27.3 million for the year ended December 31, 2017, an increase of $28.9 million. The adjusted increase was primarily the result of a $71.4 million increase in net interest income, a $2.1 million increase in adjusted noninterest income and a $3.5 million decrease in adjusted income tax expense. The adjusted increase was partially offset by a $4.5 million increase in the provision for loan losses and a $43.6 million increase in adjusted noninterest expense. Adjusted income tax expense for the year ended December 31, 2017 includes a $3.0 million charge related to the remeasurement of our deferred tax assets and deferred tax liabilities at our new expected effective tax rate due to the enactment of the Tax Cuts and Jobs Act (the “Act”) enacted on December 22, 2017.

Details of the changes in the various components of net income are further discussed below.

Net Interest Income

Our operating results depend primarily on our net interest income, which is the difference between interest income on interest earning assets, including loans and securities, and interest expense incurred on interest bearing liabilities, including deposits and other borrowed funds. Interest rate fluctuations, as well as changes in the amount and type of interest earning assets and interest bearing liabilities, combine to affect net interest income. Our net interest income is affected by changes in the amount and mix of interest earning assets and interest bearing liabilities, referred to as a "volume change." It is also affected by changes in yields earned on interest earning assets and rates paid on interest bearing deposits and other borrowed funds, referred to as a "rate change."

The following table presents the distribution of average assets, liabilities and equity, as well as interest income and fees earned on average interest earning assets and interest expense paid on average interest bearing liabilities:

| | For the years ended December 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | | | 2017 | | | |
| (Dollars in thousands) | Average Balance | Interest | Average Rate | | Average Balance | Interest | Average Rate | |
| Interest earning assets: | | | | | | | | |
| Cash and cash equivalents | $164,639 | $3,289 | 2.00 | % | $124,802 | $1,450 | 1.16 | % |
| Taxable securities | 191,644 | 4,962 | 2.59 | % | 229,181 | 6,408 | 2.80 | % |
| Tax-exempt securities | 71,120 | 1,392 | 1.96 | % | 28,984 | 415 | 1.43 | % |
| FHLB stock | 18,013 | 507 | 2.81 | % | 12,674 | 207 | 1.63 | % |
| Loans (1) | 3,131,324 | 252,826 | 8.07 | % | 2,235,481 | 168,744 | 7.55 | % |
| Total interest earning assets | 3,576,740 | 262,976 | 7.35 | % | 2,631,122 | 177,224 | 6.74 | % |
| Noninterest earning assets: | | | | | | | | |
| Cash and cash equivalents | 66,325 | | | | 39,497 | | | |
| Other noninterest earning assets | 257,663 | | | | 174,297 | | | |
| Total assets | $3,900,728 | | | | $2,844,916 | | | |
| Interest bearing liabilities: | | | | | | | | |
| Deposits: | | | | | | | | |
| Interest bearing demand | 451,327 | 1,020 | 0.23 | % | 331,023 | 526 | 0.16 | % |
| Individual retirement accounts | 108,170 | 1,348 | 1.25 | % | 100,731 | 1,221 | 1.21 | % |
| Money market | 318,927 | 2,618 | 0.82 | % | 209,229 | 509 | 0.24 | % |
| Savings | 281,995 | 279 | 0.10 | % | 175,821 | 105 | 0.06 | % |
| Certificates of deposit | 809,321 | 11,994 | 1.48 | % | 782,384 | 9,328 | 1.19 | % |
| Brokered deposits | 291,776 | 5,799 | 1.99 | % | 87,395 | 1,393 | 1.59 | % |
| Total interest bearing deposits | 2,261,516 | 23,058 | 1.02 | % | 1,686,583 | 13,082 | 0.78 | % |
| Subordinated notes | 48,877 | 3,351 | 6.86 | % | 48,779 | 3,344 | 6.86 | % |
| Junior subordinated debentures | 38,845 | 2,741 | 7.06 | % | 33,293 | 1,955 | 5.87 | % |
| Other borrowings | 354,036 | 6,776 | 1.91 | % | 313,357 | 3,159 | 1.01 | % |
| Total interest bearing liabilities | 2,703,274 | 35,926 | 1.33 | % | 2,082,012 | 21,540 | 1.03 | % |
| Noninterest bearing liabilities and equity: | | | | | | | | |
| Noninterest bearing demand deposits | 605,863 | | | | 408,729 | | | |
| Other liabilities | 32,141 | | | | 14,264 | | | |
| Total equity | 559,450 | | | | 339,911 | | | |
| Total liabilities and equity | $3,900,728 | | | | $2,844,916 | | | |
| Net interest income | | $227,050 | | | | $155,684 | | |
| Interest spread (2) | | | 6.02 | % | | | 5.71 | % |
| Net interest margin (3) | | | 6.35 | % | | | 5.92 | % |

[1] Balance totals include respective nonaccrual assets.
[2] Net interest spread is the yield on average interest earning assets less the rate on interest bearing liabilities.
[3] Net interest margin is the ratio of net interest income to average interest earning assets.

The following table presents loan yields earned on our community banking and commercial finance loan portfolios:

| | For the years ended December 31, | |
|---|---|---|
| (Dollars in thousands) | 2018 | 2017 |
| Average community banking | $2,006,059 | $1,437,602 |
| Average commercial finance | 1,125,265 | 797,879 |
| Average total loans | $3,131,324 | $2,235,481 |
| Community banking yield | 5.78 % | 5.71 % |
| Commercial finance yield | 12.16 % | 10.86 % |
| Total loan yield | 8.07 % | 7.55 % |

We earned net interest income of $227.1 million for the year ended December 31, 2018 compared to $155.7 million for the year ended December 31, 2017, an increase of $71.4 million, or 45.9%, primarily driven by the following factors.

Interest income increased $85.8 million, or 48.4%, as a result of an increase in total average interest earning assets of $945.6 million, or 35.9%, which was attributable to the impact of the FBD and SCC acquisitions which contributed $287.8 million of loans and $270.7 million of securities. The increase is also attributable to growth in our factored receivable operations as a result of the ICC acquisition and organic factored receivables growth. Additionally, interest income increased as a result of the Valley and Acquired Branch acquisitions which contributed $267.0 million of loans and $97.7 million of securities during the fourth quarter of 2017 and organic loan growth. The average balance of our higher yielding commercial finance loans increased $327.4 million, or 41.0%, from $797.9 million for the year ended December 31, 2017 to $1.125 billion for the year ended December 31, 2018 as a result of the ICC acquisition and the continued execution of our growth strategy for such products. Additionally, our average mortgage warehouse lending balance was $242.9 million for the year ended December 31, 2018 compared to $152.9 million for the year ended December 31, 2017. We also experienced increased average balances in our other community banking lending products, including commercial real estate and general commercial and industrial loans, due to organic growth period over period.

A component of interest income consists of discount accretion on acquired loan portfolios. We recognized discount accretion on purchased loans of $8.3 million and $7.1 million for the years ended December 31, 2018 and 2017, respectively. Subject to future acquisitions, we anticipate that the contribution of this discount accretion to our interest income will continue to decline over time, but we expect that any resulting decreases in aggregate yield on our loan portfolio will be offset in part by continued growth in our higher yielding specialized commercial finance product lines.

Interest expense increased $14.4 million, or 66.8%, as a result of growth in customer deposits and other borrowings as well as higher average rates. Average total interest bearing deposits increased $574.9 million, or 34.1%, primarily due to $674.7 million of customer deposits assumed in the FBD and SCC acquisitions and $454.1 million of customer deposits assumed in the Valley and Acquired Branches acquisitions. Excluding the acquired customer deposits, we also experienced growth in our certificates of deposit and brokered deposits as these higher cost deposit products were used to fund our growth period over period. In addition, our use of other interest bearing borrowings, consisting primarily of FHLB advances, was also increased to fund our growth however, our outstanding balance of FHLB advances at period end decreased period over period.

Net interest margin increased to 6.35% for the year ended December 31, 2018 from 5.92% for the year ended December 31, 2017, an increase of 43 basis points or 7.3%.

The increase in our net interest margin primarily resulted from an increase in yields on our interest earning assets. Our average yield on interest earning assets increased 61 basis points to 7.35% for the year ended December 31, 2018 from 6.74% for the year ended December 31, 2017, primarily due to an overall change in the mix within our loan portfolio period over period as well as the current rising interest rate environment. Our higher yielding average commercial finance products as a percentage of the average total loan portfolio increased from 35.7% for the year ended December 31, 2017 to 35.9% for the year ended December 31, 2018 and, average factored receivables as a percentage of the total commercial finance portfolio increased from 36.3% for the year ended December 31, 2017 to 45.7% for the year ended December 31, 2018 contributing to the overall increase in yield on our interest earning assets. In addition, our transportation factoring balances, which generate a higher yield than our non-transportation factoring balances, increased as a percentage of the overall factoring portfolio to 79% at December 31, 2018 compared to 77% at December 31, 2017.

Also impacting our net interest margin was an increase in our average cost of interest bearing liabilities of 30 basis points. This increase was caused by an increased use of higher rate certificates of deposit and brokered deposits to fund our growth period over period, and higher rates on short term and floating rate FHLB advances as a result of higher interest rates in the macro economy. This increase was partially offset by a change in the mix of our interest bearing deposits resulting from lower cost customer deposits assumed in the FBD, SCC, Valley and Acquired Branches acquisitions.

Changes in net interest income due to changes in rates and volume. The following table shows the effects changes in average balances (volume) and average interest rates (rate) had on the interest earned in our interest earning assets and the interest incurred on our interest bearing liabilities for the periods indicated. For purposes of this table, changes attributable to both rate and volume which cannot be segregated have been allocated to volume.

| | Years ended December 31, 2018 Compared to 2017 Increase (Decrease) Due to: | | |
|---|---|---|---|
| (Dollars in thousands) | Rate | Volume | Net Change |
| Interest earning assets: | | | |
| Cash and cash equivalents | $1,043 | $796 | $1,839 |
| Taxable securities | (474) | (972) | (1,446) |
| Tax-exempt securities | 152 | 825 | 977 |
| FHLB stock | 150 | 150 | 300 |
| Loans | 11,751 | 72,331 | 84,082 |
| Total interest income | 12,622 | 73,130 | 85,752 |
| Interest bearing liabilities: | | | |
| Interest bearing demand | 222 | 272 | 494 |
| Individual retirement accounts | 34 | 93 | 127 |
| Money market | 1,209 | 900 | 2,109 |
| Savings | 69 | 105 | 174 |
| Certificates of deposit | 2,267 | 399 | 2,666 |
| Brokered deposits | 344 | 4,062 | 4,406 |
| Total interest bearing deposits | 4,145 | 5,831 | 9,976 |
| Subordinated notes | — | 7 | 7 |
| Junior subordinated debentures | 394 | 392 | 786 |
| Other borrowings | 2,838 | 779 | 3,617 |
| Total interest expense | 7,377 | 7,009 | 14,386 |
| Change in net interest income | $5,245 | $66,121 | $71,366 |

Provision for Loan Losses

The provision for loan losses is the amount of expense that, based on our judgment, is required to maintain the allowance for loan and lease losses (the “ALLL”) at an appropriate level to absorb estimated losses incurred in the loan portfolio at the balance sheet date and that, in management’s judgment, is appropriate under GAAP. The determination of the amount of the allowance is complex and involves a high degree of judgment and subjectivity.

Our ALLL was $27.6 million as of December 31, 2018 versus $18.7 million as of December 31, 2017, representing an ALLL to total loans ratio of 0.76% and 0.67% respectively.

Our provision for loan losses was $16.2 million for the year ended December 31, 2018 compared to $11.6 million for the year ended December 31, 2017, an increase of $4.6 million, or 39.7%.

The increased provision for loan losses was the result of increased net charge-offs, increased net new specific reserves and loan growth. Net charge-offs increased by $1.1 million to $7.3 million for the year ended December 31, 2018 from $6.2 million for the year ended December 31, 2017. Approximately $1.7 million and $2.7 million of the charge-offs for the year ended December 31, 2018 and 2017, respectively, had specific reserves previously recorded. We recorded net new specific reserves of $3.7 million during the year ended December 31, 2018 compared to net new specific reserves of $1.3 million recorded during the year ended December 31, 2017.

Excluding the aforementioned impact of the FBD and SCC acquisitions, during the year ended December 31, 2018 outstanding loans increased $510.0 million from December 31, 2017. Excluding the aforementioned impact of the Acquired Branches and Valley acquisitions, during the year ended December 31, 2017, outstanding loans increased $516.2 million from December 31, 2016. The relatively small change in loan growth year over year had little impact on the overall increase in the provision for loan losses year over year however, the change in the provision for loan losses was impacted by a change in the mix of our loan portfolio with a greater percentage being made up of commercial finance loan products which tend to carry higher ALLL compared to our traditional community banking loan products. Given the short term nature of factored receivables, the loan growth figures for the year ended December 31, 2018 were not adjusted for the acquisition of ICC.

Noninterest Income

The following table presents the major categories of noninterest income:

| | Year ended December 31, | | 2018 Compared to 2017 | |
|---|---|---|---|---|
| (Dollars in thousands) | 2018 | 2017 | $ Change | % Change |
| Service charges on deposits | $5,469 | $4,181 | $1,288 | 30.8 % |
| Card income | 6,514 | 3,822 | 2,692 | 70.4 % |
| Net OREO gains (losses) and valuation adjustments | (514 ) | (850 ) | 336 | 39.5 % |
| Net gains (losses) on sale of securities | (272 ) | 35 | (307 ) | (877.1 %) |
| Fee income | 5,150 | 2,503 | 2,647 | 105.8 % |
| Insurance commissions | 3,492 | 2,981 | 511 | 17.1 % |
| Gain on sale of subsidiary or division | 1,071 | 20,860 | (19,789) | (94.9 %) |
| Asset management fees | — | 1,717 | (1,717 ) | (100.0 %) |
| CLO warehouse investment income | — | 2,226 | (2,226 ) | (100.0 %) |
| Other | 2,060 | 3,181 | (1,121 ) | (35.2 %) |
| Total noninterest income | $22,970 | $40,656 | $(17,686) | (43.5 %) |

Noninterest income decreased $17.7 million, or 43.5%. Noninterest income for the year ended December 31, 2018 was impacted by the realization of the $1.1 million gain associated with the sale of THF in the first quarter of 2018 and noninterest income for the year ended December 31, 2017 was impacted by the realization of the $20.9 million gain associated with the sale of TCA in the first quarter of 2017. Excluding the gain on sale of THF and the gain on sale of TCA, we earned adjusted noninterest income of $21.9 million and $19.8 million for the year ended December 31, 2018 and 2017, respectively, resulting in an adjusted increase in noninterest income of $2.1 million, or 10.6%, period over period. The adjusted increase was primarily due to increased service charges on deposits, card income, and fee income partially offset by a decrease in asset management fees and CLO warehouse investment income resulting from the sale of TCA at the end of the first quarter of 2017. Changes in selected components of noninterest income in the above table are discussed below.

- Service Charges on Deposits. Service charges on deposit accounts, including overdraft and non-sufficient fund fees, increased $1.3 million, or 30.8%, primarily due to additional service charges associated with a full year of the increase in customer deposits due to the Valley and Acquired Branches acquisitions and to a lesser extent, the FBD and SCC acquisitions.
- Card Income. Debit and credit card income increased $2.7 million, or 70.4%, primarily due to additional customer debit card activity associated with a full year of the increase in issued cards resulting from the Valley and Acquired Branches acquisitions and to a lesser extent, the FBD and SCC acquisitions. In addition to increased activity, we received a $0.4 million incentive payment from our debit card provider for the achievement of certain growth goals. The incentive payment was received during the third quarter of

2018 and is not expected to continue in future periods.

- Fee income. Fee income increased $2.6 million, or 105.8%, primarily due to increased check and wire fees at TBC which is reflective of increased activity at the factoring subsidiary inclusive of the acquisition of ICC. Additionally, we experienced increased check and wire fees resulting from a full year impact of the Valley and Acquired Branches acquisitions and to a lesser extent, the FBD and SCC acquisitions.
- Asset Management Fees. As a result of the sale of TCA on March 31, 2017, there was no asset management fee income recorded for the year ended December 31, 2018.
- CLO Warehouse Investment Income. We did not hold any CLO warehouse equity investments during the year ended December 31, 2018. As a result, there was no CLO warehouse investment income recorded for the year ended December 31, 2018.

- Other. Other noninterest income, including, income associated with trust activities, bank-owned life insurance, and other miscellaneous activities decreased $1.1 million, or 35.2%. The decrease was driven by a $0.7 million increase on our liability for contingent consideration due to the sellers of ICC upon remeasurement of the liability at December 31, 2018. The contingent payment is due during the fourth quarter of 2020. The decrease was also driven by a write-down on signage and other assets of $0.3 million related to rebranding of Triumph Community Bank to our standardized TBK Bank brand during the year ended December 31, 2018. There were no other significant increases or decreases in the components of other noninterest income period over period.

Noninterest Expense

The following table presents the major categories of noninterest expense:

| | Year ended December 31, | | 2018 Compared to 2017 | |
|---|---|---|---|---|
| (Dollars in thousands) | 2018 | 2017 | $ Change | % Change |
| Salaries and employee benefits | $90,212 | $72,696 | $17,516 | 24.1 % |
| Occupancy, furniture and equipment | 14,023 | 9,833 | 4,190 | 42.6 % |
| FDIC insurance and other regulatory assessments | 1,129 | 1,201 | (72) | (6.0 %) |
| Professional fees | 8,939 | 7,192 | 1,747 | 24.3 % |
| Amortization of intangible assets | 6,980 | 5,201 | 1,779 | 34.2 % |
| Advertising and promotion | 4,974 | 3,226 | 1,748 | 54.2 % |
| Communications and technology | 18,270 | 8,843 | 9,427 | 106.6 % |
| Travel and entertainment | 4,234 | 2,661 | 1,573 | 59.1 % |
| Other | 18,592 | 12,761 | 5,831 | 45.7 % |
| Total noninterest expense | $167,353 | $123,614 | $43,739 | 35.4 % |

Noninterest expense increased $43.7 million, or 35.4%. Noninterest expense for the year ended December 31, 2018 was impacted by $1.1 million of transaction costs associated with the ICC acquisition and $5.9 million of transaction costs associated with the FBD and SCC transactions. Noninterest expense for the year ended December 31, 2017 was impacted by the recognition of an incremental $5.1 million of transaction related costs associated with the TCA sale, including $4.8 million of bonus expense for the amount paid to team members to recognize their contribution to the value realized from the TCA sale and approximately $0.3 million of other transaction related costs. Noninterest expense for the year ended December 31, 2017 was also impacted by $1.7 million of transaction costs associated with the Acquired Branches and Valley acquisitions. Excluding transaction costs and the TCA sale bonus, we incurred adjusted noninterest expense of $160.4 million for the year ended December 31, 2018 and $116.8 million for the year ended December 31, 2017, resulting in an adjusted net increase in noninterest expense of $43.6 million, or 37.3% period over period. Details of the more significant changes in the various components of noninterest expense are further discussed below.

- Salaries and Employee Benefits. Salaries and employee benefits expenses increased $17.5 million, or 24.1%. Salaries and employee benefits expenses for the year ended December 31, 2017 included $4.8 million of bonus expense associated with the TCA sale. Absent the TCA-related bonus expense, salaries and employee benefits expenses increased $22.3 million. We experienced a significant increase in the total size of our workforce between these periods as our average full-time equivalent employees were 959.5 and 726.0 for the years ended December 31, 2018 and 2017, respectively. Sources of this increased headcount were primarily employees added through the aforementioned acquisitions. In addition, employees were hired to support growth in our commercial finance product lines and other strategic initiatives. Other factors contributing to the increase in salaries and employee benefits include merit increases for existing employees, higher health insurance benefit costs, incentive compensation, and 401(k) expense.
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Occupancy, Furniture and Equipment. Occupancy, furniture and equipment expenses increased $4.2 million, or 42.6%, primarily due to expenses associated with the infrastructure and facilities added through the aforementioned acquisitions and growth in our overall operations.

- Professional Fees. Professional fees, which are primarily comprised of external audit, tax, consulting, and legal fees, increased $1.7 million, or 24.3% primarily due to $1.1 million of professional fees incurred in connection with the ICC acquisition and $1.4 million of professional fees incurred in connection with the FBD and SCC acquisitions during the year ended December 31, 2018. Comparable professional fees for the sale of TCA and the Acquired Branches and Valley acquisitions during the year ended December 31, 2017 totaled $1.2 million. There were no other significant increases or decreases in professional fees period over period.
- Amortization of intangible assets. Amortization of intangible assets increased $1.8 million, or 34.2%, primarily due to the addition of intangible assets resulting from the ICC, Valley and Acquired Branch acquisitions and to a lesser extent, intangible assets added through the FBD and SCC acquisitions.
- Advertising and promotion. Advertising and promotion expenses increased $1.7 million, or 54.2%, primarily due to advertising and brand-awareness activities in connection with the FBD and SCC acquisitions as well as growth in our overall operations.

- Communications and Technology. Communications and technology expenses increased $9.4 million, or 106.6%, primarily as a result of $3.1 million in information technology deconversion and termination fees resulting from our acquisition of FBD and SCC. The remaining increase is a result of increased usage and transaction volumes resulting from the ICC, Valley and Acquired Branch acquisitions and to a lesser extent, increased usage and transaction volumes resulting from the FBD and SCC acquisitions. The increase is also a result of growth and investment in our organic operations.
- Other. Other noninterest expense includes loan-related expenses, training and recruiting, postage, insurance, and subscription services. Other noninterest expense increased $5.8 million, or 45.7%, primarily due to a $1.4 million increase in software amortization, a $1.3 million increase in expense on ATMs, a $1.1 million increase in bank service charges and a $1.0 million increase in other loan expenses. All such increases were driven by our growth in our business operations.

Income Taxes

The amount of income tax expense is influenced by the amount of pre-tax income, the amount of tax-exempt income, changes in the statutory rate and the effect of changes in valuation allowances maintained against deferred tax benefits.

Income tax expense decreased $10.1 million, or 40.6%, from $24.9 million for the year ended December 31, 2017 to $14.8 million for the year ended December 31, 2018. The effective tax rate decreased from 41% for the year ended December 31, 2017 to 22% for the year ended December 31, 2018, primarily due to the enactment of the Tax Cuts and Jobs Act (the “Tax Act”) on December 22, 2017 which lowered our federal statutory tax rate, effective on January 1, 2018, and resulted in significant modifications to existing law. The higher effective tax rate for the year ended December 31, 2017 reflects an income tax charge of $3.0 million related to the remeasurement of our deferred tax assets and deferred tax liabilities at the new effective tax rate resulting from the enactment of the Tax Act. Absent enactment of the Tax Act, our effective tax rate for the year ended December 31, 2017 would have been 36%. We are currently estimating that our effective tax rate for 2019 will be approximately 23%. For further information, see Note 12 – Income Taxes in the accompanying notes to the consolidated financial statements included elsewhere in this report.

Operating Segment Results

Our reportable segments are Banking, Factoring, and Corporate, which have been determined based upon their business processes and economic characteristics. This determination also gave consideration to the structure and management of various product lines. The Banking segment includes the operations of TBK Bank. Our Banking segment derives its revenue principally from investments in interest earning assets as well as noninterest income typical for the banking industry. The Banking segment also includes certain factored receivables which are purchased by TBK Bank. The Factoring segment includes the operations of Triumph Business Capital with revenue derived from factoring services. Corporate includes holding company financing and investment activities, asset management fees associated with TCA prior to its sale on March 31, 2017, and management and administrative expenses to support the overall operations of the Company.

Reported segments and the financial information of the reported segments are not necessarily comparable with similar information reported by other financial institutions. Additionally, because of the interrelationships of the various segments, the information presented is not indicative of how the segments would perform if they operated as independent entities. Changes in management structure or allocation methodologies and procedures may result in future changes to previously reported segment financial data. The accounting policies of the segments are the same as those described in Note 1 – Summary of Significant Accounting Policies in the accompanying notes to the consolidated financial statements included elsewhere in this report. 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 ALLL determination. Noninterest income and expense directly attributable to a segment are assigned accordingly. Taxes are paid on a consolidated basis and are not

allocated for segment purposes.

The following tables present our primary operating results for our operating segments:

| (Dollars in thousands)<br>Year Ended December 31, 2018 | Banking | Factoring | Corporate | Consolidated |
|---|---|---|---|---|
| Total interest income | $170,871 | $90,092 | $ 2,013 | $ 262,976 |
| Intersegment interest allocations | 20,191 | (20,191 ) | — | — |
| Total interest expense | 29,834 | — | 6,092 | 35,926 |
| Net interest income (expense) | 161,228 | 69,901 | (4,079 ) | 227,050 |
| Provision for loan losses | 12,373 | 3,802 | (8 ) | 16,167 |
| Net interest income (expense) after provision | 148,855 | 66,099 | (4,071 ) | 210,883 |
| Gain on sale of subsidiary or division | 1,071 | — | — | 1,071 |
| Other noninterest income | 18,364 | 3,483 | 52 | 21,899 |
| Noninterest expense | 119,283 | 43,495 | 4,575 | 167,353 |
| Operating income (loss) | $49,007 | $26,087 | $ (8,594 ) | $ 66,500 |

| (Dollars in thousands)<br>Year Ended December 31, 2017 | Banking | Factoring | Corporate | Consolidated |
|---|---|---|---|---|
| Total interest income | $130,480 | $ 45,346 | 1,398 | $ 177,224 |
| Intersegment interest allocations | 8,023 | (8,023 ) | — | — |
| Total interest expense | 16,240 | — | 5,300 | 21,540 |
| Net interest income (expense) | 122,263 | 37,323 | (3,902 ) | 155,684 |
| Provision for loan losses | 9,310 | 2,227 | 91 | 11,628 |
| Net interest income (expense) after provision | 112,953 | 35,096 | (3,993 ) | 144,056 |
| Gain on sale of subsidiary or division | — | — | 20,860 | 20,860 |
| Other noninterest income | 14,336 | 2,737 | 2,723 | 19,796 |
| Noninterest expense | 90,632 | 22,641 | 10,341 | 123,614 |
| Operating income (loss) | $36,657 | $ 15,192 | $ 9,249 | $ 61,098 |

| (Dollars in thousands)<br>December 31, 2018 | Banking | Factoring | Corporate | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Total assets | $4,458,399 | $688,245 | $737,530 | $(1,324,395 ) | $4,559,779 |
| Gross loans held for investment | $3,523,850 | $588,750 | $10,795 | $(514,751 ) | $3,608,644 |

| (Dollars in thousands)<br>December 31, 2017 | Banking | Factoring | Corporate | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Total assets | $3,444,322 | $360,922 | $504,656 | $(810,867 ) | $3,499,033 |
| Gross loans held for investment | $2,784,147 | $346,293 | $11,936 | $(331,520 ) | $2,810,856 |

Banking

| (Dollars in thousands) | Years Ended December 31, | | 2018 Compared to 2017 | |
|---|---|---|---|---|
| Banking | 2018 | 2017 | $ Change | % Change |
| Total interest income | $170,871 | $130,480 | $40,391 | 31.0 % |
| Intersegment interest allocations | 20,191 | 8,023 | 12,168 | 151.7 % |
| Total interest expense | 29,834 | 16,240 | 13,594 | 83.7 % |
| Net interest income (expense) | 161,228 | 122,263 | 38,965 | 31.9 % |

| | | | | | |
|---|---|---|---|---|---|
| Provision for loan losses | 12,373 | 9,310 | 3,063 | 32.9 | % |
| Net interest income (expense) after provision | 148,855 | 112,953 | 35,902 | 31.8 | % |
| Gain on sale of subsidiary or division | 1,071 | — | 1,071 | 100.0 | % |
| Other noninterest income | 18,364 | 14,336 | 4,028 | 28.1 | % |
| Noninterest expense | 119,283 | 90,632 | 28,651 | 31.6 | % |
| Operating income (loss) | $49,007 | $36,657 | $12,350 | 33.7 | % |

Our Banking segment's operating income increased $12.4 million, or 33.7%.

Interest income increased primarily as a result of increases in the average balances of our interest earning assets, primarily loans, which was attributable to the impact of the FBD and SCC acquisitions which contributed $287.8 million of loans and $270.7 million of securities. Additionally, interest income increased as a result of a full-year impact of the Valley and Acquired Branch acquisitions which contributed $267.0 million of loans and $97.7 million of securities. Organic loan growth was also a driver of the increase in average loan balances and thus, the increase in interest income. Average loans in our Banking segment increased 40.9% from $2.154 billion for the year ended December 31, 2017 to $3.035 billion for the year ended December 31, 2018.

Interest expense increased primarily as a result of growth in average customer deposits and other borrowings due to $674.7 million of customer deposits assumed in the FBD and SCC acquisitions as well as a full-year impact of $454.1 million of customer deposits assumed in the Valley and Acquired Branches acquisitions. Excluding the acquired customer deposits, we also experienced growth in our certificates of deposit and brokered deposits as these higher cost deposit products were used to fund our growth period over period. In addition, our use of other interest bearing borrowings, consisting primarily of FHLB advances, was also increased to fund our growth however, our outstanding balance of FHLB advances at period end decreased period over period. We also experienced increased rates across several of our interest bearing borrowings.

The increase in the provision for loan losses was primarily the result of an increase in net loan charge-offs recorded during the year ended December 31, 2018. We experienced higher total net charge-offs at our Banking segment of $6.2 million in the year ended December 31, 2018 compared to $4.6 million for the same period in 2017. Approximately $1.3 million and $2.7 million of the charge-offs for the year ended December 31, 2018 and 2017, respectively, had specific reserves previously recorded at our Banking segment. Net charge-offs at our Banking segment for the year ended December 31, 2018 reflect a charge-off of $4.8 million on a single nonaccrual asset based lending relationship during the period. Net new specific reserves in our Banking segment were $2.2 million and $1.9 million for the year ended December 31, 2018 and 2017 respectively. Additionally, loans in our Banking segment grew at a slower pace for the year ended December 31, 2018 compared to the same period in 2017 which, when combined with changes in the mix of our portfolio and loss factors used to calculate the ALLL, partially offset the increased provision for loan losses.

Noninterest income increased primarily due to the realization of the $1.1 million gain associated with the sale of THF during the first quarter as well as additional service charges and card income associated with the increase in customer deposit and credit/debit card accounts acquired in the FBD, SCC, Valley and Acquired Branches acquisitions. Noninterest income for our Banking segment includes $0.4 million incentive payment from our card provider for the achievement of certain growth goals during the year ended December 31, 2018. The incentive payment is not expected to continue in future periods. It also includes a write-down on signage and other assets of $0.3 million related to rebranding of Triumph Community Bank to our standardized TBK Bank brand during the year ended December 31, 2018.

For the year ended December 31, 2018 noninterest expense at our Banking segment includes $4.6 million of transaction costs as well as increased intangible amortization as a result of the aforementioned acquisitions. Additionally, noninterest expense increased due to incremental costs associated with the growth in our Banking segment personnel and infrastructure in conjunction with our acquisitions, as well as personnel, facilities and infrastructure to support the continued organic growth in our lending operations. In addition, increases due to merit increases for existing employees, higher health insurance benefit costs, incentive compensation, and 401(k) expense contributed to the increase.

Factoring

| (Dollars in thousands) | Years Ended December 31, | | 2018 Compared to 2017 |
|---|---|---|---|
| Factoring | 2018 | 2017 | |

| | | | $ Change | % Change | |
|---|---|---|---|---|---|
| Total interest income | $90,092 | $45,346 | $44,746 | 98.7 | % |
| Intersegment interest allocations | (20,191) | (8,023) | (12,168) | 151.7 | % |
| Total interest expense | — | — | — | — | |
| Net interest income (expense) | 69,901 | 37,323 | 32,578 | 87.3 | % |
| Provision for loan losses | 3,802 | 2,227 | 1,575 | 70.7 | % |
| Net interest income (expense) after provision | 66,099 | 35,096 | 31,003 | 88.3 | % |
| Noninterest income | 3,483 | 2,737 | 746 | 27.3 | % |
| Noninterest expense | 43,495 | 22,641 | 20,854 | 92.1 | % |
| Operating income (loss) | $26,087 | $15,192 | $10,895 | 71.7 | % |

| | As of and for the Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| Factored receivable period end balance | $588,750,000 | | $346,293,000 | |
| Yield on average receivable balance | 18.43 | % | 17.05 | % |
| Rolling twelve quarter annual charge-off rate | 0.37 | % | 0.41 | % |
| Factored receivables - transportation concentration | 83 | % | 84 | % |
| | | | | |
| Interest income, including fees | $90,092,000 | | $45,346,000 | |
| Noninterest income | 3,483,000 | | 2,737,000 | |
| Factored receivable total revenue | 93,575,000 | | 48,083,000 | |
| Average net funds employed | 447,358,000 | | 243,583,000 | |
| Yield on average net funds employed | 20.92 | % | 19.74 | % |
| | | | | |
| Accounts receivable purchased | $5,119,527,000 | | $2,765,678,000 | |
| Number of invoices purchased | 2,897,148 | | 1,810,345 | |
| Average invoice size | $1,767 | | $1,516 | |
| Average invoice size - transportation | $1,662 | | $1,460 | |
| Average invoice size - non-transportation | $2,906 | | $1,991 | |
| | | | | |
| Net new clients | 3,033 | | 716 | |

Our Factoring segment's operating income increased $10.9 million, or 71.7%.

Our average invoice size increased 16.6% from $1,516 for the year ended December 31, 2017 to $1,767 for the year ended December 31, 2018, and the number of invoices purchased increased 60.0% period over period. At December 31, 2018, there were 113 clients utilizing the TriumphPay platform. For the year ended December 31, 2018, TriumphPay processed 228,865 invoices paying 34,067 distinct carriers a total of $328.4 million.

Net interest income increased $32.6 million, or 87.3%, due to an 85.1% increase in accounts receivable purchased during the year ended December 31, 2018 compared to the year ended December 31, 2017. Accounts receivable purchases are a function of the total number of invoices purchased and the average invoice price. For the year ended December 31, 2018, invoices purchased increased by 60.0% and average invoice price increased by 16.6%. The increase in AR purchased was the result of our acquisition of the operations of ICC as well as organic growth in the factored receivables portfolio. Our transportation factoring purchases, which typically generate a higher yield than our non-transportation factoring purchases, decreased as a percentage of the overall Factoring segment portfolio during 2018, and ending transportation factoring receivables represented 83% of the factored receivable period end balance at December 31, 2018 compared to 84% of the factored receivable period end balance at December 31, 2017.

The increase in the provision for loan losses was the result of higher growth in the ending balance of the factored receivables portfolio during the year ended December 31, 2018 compared to the same period in 2017. The ending balance of the factored receivables portfolio at our Factoring segment grew $242.5 million during the year ended December 31, 2018 compared to ending balance growth of $133.5 million during the prior year. We recorded net new allowances on specific at-risk balances at our Factoring segment of $1.5 million during the year ended December 31, 2018 compared to a net release on specific at-risk balances of $0.6 million during the prior year period. We experienced lower net charge-offs of $1.1 million in the year ended December 31, 2018 compared to $1.5 million for the same period in 2017.

The increase in noninterest expense was driven primarily by increased personnel, operating, and technology costs incurred in connection with the ICC acquisition and growth in our factoring portfolio, particularly the increase in the number of clients and number of invoices processed period over period. Reflected in our Factoring segment's noninterest expense for the year ended December 31, 2018 is $1.1 million in transaction costs related to the ICC

acquisition. The increase in noninterest income was also the result of continued growth in the client portfolio.



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Corporate

| (Dollars in thousands) | Years Ended December 31, | | 2018 Compared to 2017 | |
|---|---|---|---|---|
| Corporate | 2018 | 2017 | $ Change | % Change |
| Total interest income | $2,013 | $1,398 | $615 | 44.0 % |
| Intersegment interest allocations | — | — | — | — |
| Total interest expense | 6,092 | 5,300 | 792 | 14.9 % |
| Net interest income (expense) | (4,079) | (3,902) | (177) | 4.5 % |
| Provision for loan losses | (8) | 91 | (99) | (108.8 %) |
| Net interest income (expense) after provision | (4,071) | (3,993) | (78) | 2.0 % |
| Gain on sale of subsidiary or division | — | 20,860 | (20,860) | (100.0 %) |
| Other noninterest income | 52 | 2,723 | (2,671) | (98.1 %) |
| Noninterest expense | 4,575 | 10,341 | (5,766) | (55.8 %) |
| Operating income (loss) | $(8,594) | $9,249 | $(17,843) | (192.9 %) |

The Corporate segment's operating income decreased primarily due to the net impact of the TCA sale transaction recorded during the year ended December 31, 2017. As TCA was a wholly owned subsidiary of our parent company, the $20.9 million gain on sale of TCA was reported as noninterest income and the $5.1 million of bonus expense and transaction related costs associated with the TCA sale were reported as noninterest expense in the Corporate segment. Excluding the impact of the TCA sale, the Corporate segment reported an operating loss of $8.6 million for the year ended December 31, 2018 compared to a loss of $6.6 million for the year ended December 31, 2017. This increase in operating loss was primarily the result of a $2.0 million decrease in noninterest income associated with CLO warehouse investments. The CLO associated with our remaining CLO warehouse investment was issued and closed in June 2017, and as a result our invested funds were returned. During the year ended December 31, 2018 we no longer held investments in CLO warehouse entities and, absent future investments in new CLO warehouse entities, we do not expect to realize CLO warehouse investment income ongoing. As a result, there was no CLO warehouse investment income recorded during 2018. Additionally, $1.3 million of FBD and SCC-related transaction costs were recorded during the year ended December 31, 2018. There were no other significant fluctuations in accounts in our Corporate segment period over period.

Results of Operations

Fiscal year ended December 31, 2017 compared with year ended December 31, 2016

Net Income

We earned net income of $36.2 million for the year ended December 31, 2017 compared to $20.7 million for the year ended December 31, 2016, an increase of $15.5 million.

The results for the year ended December 31, 2017 reflect the sale of our 100% membership interest in TCA. As part of the TCA sale on March 31, 2017, the Company recorded a pre-tax gain on sale of $20.9 million, net of $0.4 million of direct transaction costs. In addition, the Company incurred other indirect transaction related costs of $0.3 million and recorded $4.8 million in incremental bonus expense for the amount paid to team members to recognize their contribution to the transaction and building the value realized in the sale of the business. The TCA sale resulted in a net pre-tax contribution to earnings for the year ended December 31, 2017 of $15.7 million, or approximately $10.0 million net of tax.

The results for the year ended December 31, 2017 also include the results of operations of the Acquired Branches since the October 6, 2017 acquisition date and the results of operations of Valley since the December 9, 2017 acquisition date. We incurred $1.7 million of pre-tax transaction and restructuring costs related to these acquisitions

which is reported as noninterest expense.

The results for the year ended December 31, 2016 include the results of operations of ColoEast Bankshares, Inc. ("ColoEast") since the August 1, 2016 acquisition date and were impacted by $1.6 million of pretax transaction and restructuring costs associated with our acquisition of ColoEast and reported as noninterest expense.

Excluding the tax-effected impact of the TCA gain on sale and the various transaction costs incurred during the years ended December 31, 2017 and 2016, we earned adjusted net income of $26.6 million for the year ended December 31, 2017 compared to $21.2 million for the year ended December 31, 2016, an increase of $5.4 million. The adjusted increase was primarily the result of a $43.3 million increase in net interest income, offset in part by a $4.9 million increase in the provision for loan losses, a $1.2 million decrease in adjusted noninterest income, a $25.3 million increase in adjusted noninterest expense and a $6.7 million increase in adjusted income tax expense. The increased tax expense includes a $3.0 million charge related to the remeasurement of our deferred tax assets and deferred tax liabilities at our new expected effective tax rate due to the enactment of the Tax Cuts and Jobs Act (the "Act") enacted on December 22, 2017.

Details of the changes in the various components of net income are further discussed below.

Net Interest Income

Our operating results depend primarily on our net interest income, which is the difference between interest income on interest earning assets, including loans and securities, and interest expense incurred on interest bearing liabilities, including deposits and other borrowed funds. Interest rate fluctuations, as well as changes in the amount and type of interest earning assets and interest bearing liabilities, combine to affect net interest income. Our net interest income is affected by changes in the amount and mix of interest earning assets and interest bearing liabilities, referred to as a "volume change." It is also affected by changes in yields earned on interest earning assets and rates paid on interest bearing deposits and other borrowed funds, referred to as a "rate change."

The following table presents the distribution of average assets, liabilities and equity, as well as interest income and fees earned on average interest earning assets and interest expense paid on average interest bearing liabilities:

| | For the years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| (Dollars in thousands) | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| Interest earning assets: | | | | | | |
| Cash and cash equivalents | $124,802 | $1,450 | 1.16 % | $107,969 | $653 | 0.60 % |
| Taxable securities | 229,181 | 6,408 | 2.80 % | 222,536 | 4,131 | 1.86 % |
| Tax-exempt securities | 28,984 | 415 | 1.43 % | 14,712 | 178 | 1.21 % |
| FHLB stock | 12,674 | 207 | 1.63 % | 6,790 | 73 | 1.08 % |
| Loans [(1)] | 2,235,481 | 168,744 | 7.55 % | 1,550,039 | 119,457 | 7.71 % |
| Total interest earning assets | 2,631,122 | 177,224 | 6.74 % | 1,902,046 | 124,492 | 6.55 % |
| Noninterest earning assets: | | | | | | |
| Cash and cash equivalents | 39,497 | | | 28,138 | | |
| Other noninterest earning assets | 174,297 | | | 149,572 | | |
| Total assets | $2,844,916 | | | $2,079,756 | | |
| Interest bearing liabilities: | | | | | | |
| Deposits: | | | | | | |
| Interest bearing demand | 331,023 | 526 | 0.16 % | 269,635 | 278 | 0.10 % |
| Individual retirement accounts | 100,731 | 1,221 | 1.21 % | 78,979 | 927 | 1.17 % |
| Money market | 209,229 | 509 | 0.24 % | 156,637 | 332 | 0.21 % |
| Savings | 175,821 | 105 | 0.06 % | 116,928 | 63 | 0.05 % |
| Certificates of deposit | 782,384 | 9,328 | 1.19 % | 640,490 | 7,005 | 1.09 % |
| Brokered deposits | 87,395 | 1,393 | 1.59 % | 52,816 | 551 | 1.04 % |
| Total interest bearing deposits | 1,686,583 | 13,082 | 0.78 % | 1,315,485 | 9,156 | 0.70 % |
| Subordinated notes | 48,779 | 3,344 | 6.86 % | 12,373 | 835 | 6.75 % |
| Junior subordinated debentures | 33,293 | 1,955 | 5.87 % | 28,059 | 1,427 | 5.09 % |
| Other borrowings | 313,357 | 3,159 | 1.01 % | 186,768 | 716 | 0.38 % |
| Total interest bearing liabilities | 2,082,012 | 21,540 | 1.03 % | 1,542,685 | 12,134 | 0.79 % |
| Noninterest bearing liabilities and equity: | | | | | | |
| Noninterest bearing demand deposits | 408,729 | | | 243,349 | | |
| Other liabilities | 14,264 | | | 11,306 | | |
| Total equity | 339,911 | | | 282,416 | | |
| Total liabilities and equity | $2,844,916 | | | $2,079,756 | | |
| Net interest income | | $155,684 | | | $112,358 | |

| | | | | |
|---|---|---|---|---|
| Interest spread [2] | 5.71 | % | 5.76 | % |
| Net interest margin [3] | 5.92 | % | 5.91 | % |

1. Balance totals include respective nonaccrual assets.
2. Net interest spread is the yield on average interest earning assets less the rate on interest bearing liabilities.
3. Net interest margin is the ratio of net interest income to average interest earning assets.

The following table presents loan yields earned on our community banking and commercial finance loan portfolios:

| | For the years ended December 31, | | | |
|---|---|---|---|---|
| (Dollars in thousands) | 2017 | | 2016 | |
| Average community banking | $1,437,602 | | $969,868 | |
| Average commercial finance | 797,879 | | 580,171 | |
| Average total loans | $2,235,481 | | $1,550,039 | |
| Community banking yield | 5.71 | % | 5.81 | % |
| Commercial finance yield | 10.86 | % | 10.88 | % |
| Total loan yield | 7.55 | % | 7.71 | % |

We earned net interest income of $155.7 million for the year ended December 31, 2017 compared to $112.4 million for the year ended December 31, 2016, an increase of $43.3 million or 38.5%, primarily driven by the following factors.

Interest income increased $52.7 million, or 42.4%, as a result of an increase in average interest earning assets of $729.1 million, or 38.3%. The increase in interest earning assets was impacted by the $95.8 million of loans acquired in the Acquired Branches acquisition on October 6, 2017, which were outstanding for almost three full months during the year ended December 31, 2017. To a lesser extent, the increase in interest earning assets was impacted by the $171.2 million of loans and the $97.7 million of investment securities acquired in the Valley acquisition on December 9, 2017, which were outstanding for approximately 3 weeks during the year ended December 31, 2017. The remaining increase primarily resulted from organic growth in our loan portfolio. The average balance of our higher yielding commercial finance loans increased $217.7 million, or 37.5%, from $580.2 million for the year ended December 31, 2016 to $797.9 million for the year ended December 31, 2017 as a result of the continued execution of our growth strategy for such products. Additionally, our average mortgage warehouse lending balance was $152.9 million for the year ended December 31, 2017 compared to $107.4 million for the year ended December 31, 2016. We also experienced increased average balances in our other community banking lending products, including commercial real estate and general commercial and industrial loans, due to organic growth period over period.

A component of interest income consists of discount accretion on acquired loan portfolios. We recognized discount accretion on purchased loans of $7.1 million and $7.4 million for the years ended December 31, 2017 and 2016, respectively. Subject to future acquisitions, we anticipate that the contribution of this discount accretion to our interest income will continue to decline over time, but we expect that any resulting decreases in aggregate yield on our loan portfolio will be offset in part by continued growth in our higher yielding specialized commercial finance product lines.

Interest expense increased $9.4 million, or 77.5%, as a result of growth in customer deposits and other borrowings as well as higher average rates. Average total interest bearing deposits increased $371.1 million, or 28.2%, primarily due to $454.1 million of customer deposits assumed in the Valley and Acquired Branches acquisitions. Excluding the acquired customer deposits, we also experienced growth in our certificates of deposit and brokered deposits as these higher cost deposit products were used to fund our growth period over period. In addition, our use of other interest bearing borrowings, consisting primarily of FHLB advances, was also increased to fund growth in our mortgage warehouse lending. Finally, we issued $50.0 million of subordinated notes on September 30, 2016 at an initial fixed rate of 6.5% and a full year impact of this issuance is reflected in the average balance for the year ended December 31, 2017.

Net interest margin increased to 5.92% for the year ended December 31, 2017 from 5.91% for the year ended December 31, 2016, an increase of 1 basis point, or 0.2%.

The increase in our net interest margin primarily resulted from an increase in yields on our interest earning assets. Our average yield on interest earning assets increased 19 basis points to 6.74% for the year ended December 31, 2017 from 6.55% for the year ended December 31, 2016. The increase is primarily attributable to increased average yields on cash and cash equivalents, tax-exempt securities, and FHLB & FRB stock due to increases in the underlying interest rates of these instruments throughout the year ended December 31, 2017. Additionally, we experienced an increase in average yield on our taxable securities due to increases in the underlying interest rates over the same period as well as accelerated interest recognition due to early calls of certain taxable securities acquired at a discount to par during the year ended December 31, 2017. These increases in average yields on our interest earning assets were offset by a decrease in average yield on our loan portfolio of 16 basis points, or 2.1%, due to a change in the mix within our loan portfolio period over period. Our higher yielding average commercial finance products as a percentage of the average total loan portfolio decreased from 37.4% for the year ended December 31, 2016 to 35.7% for the year ended December 31, 2017 and, average factored receivables as a percentage of the total commercial finance portfolio decreased from 36.5% for the year ended December 31, 2016 to 36.3% for the year ended December

31, 2017.

Also impacting our net interest margin was an increase in our average cost of interest bearing liabilities of 24 basis points. This increase was caused by the use of higher rate certificates of deposit to fund our loan growth, higher rates on short term and floating rate FHLB advances as a result of higher interest rates in the economy, and most significantly, a full year effect of our issuance of $50.0 million of subordinated notes on September 30, 2016 at an initial fixed rate of 6.5%.  The lower cost customer deposits assumed in the Acquired Branches and Valley acquisitions partially offset these increases.

Changes in net interest income due to changes in rates and volume. The following table shows the effects changes in average balances (volume) and average interest rates (rate) had on the interest earned in our interest earning assets and the interest incurred on our interest bearing liabilities for the periods indicated. For purposes of this table, changes attributable to both rate and volume which cannot be segregated have been allocated to volume.

| (Dollars in thousands) | Years ended December 31, 2017 Compared to 2016 Increase (Decrease) Due to: | | |
|---|---|---|---|
| | Rate | Volume | Net Increase |
| Interest earning assets: | | | |
| Cash and cash equivalents | $601 | $196 | $797 |
| Taxable securities | 2,091 | 186 | 2,277 |
| Tax-exempt securities | 33 | 204 | 237 |
| FHLB stock | 38 | 96 | 134 |
| Loans | (2,453) | 51,740 | 49,287 |
| Total interest income | 310 | 52,422 | 52,732 |
| Interest bearing liabilities: | | | |
| Interest bearing demand | 150 | 98 | 248 |
| Individual retirement accounts | 30 | 264 | 294 |
| Money market | 49 | 128 | 177 |
| Savings | 7 | 35 | 42 |
| Certificates of deposit | 631 | 1,692 | 2,323 |
| Brokered deposits | 291 | 551 | 842 |
| Total interest bearing deposits | 1,158 | 2,768 | 3,926 |
| Subordinated notes | 13 | 2,496 | 2,509 |
| Junior subordinated debentures | 221 | 307 | 528 |
| Other borrowings | 1,167 | 1,276 | 2,443 |
| Total interest expense | 2,559 | 6,847 | 9,406 |
| Change in net interest income | $(2,249) | $45,575 | $43,326 |

Provision for Loan Losses

The provision for loan losses is the amount of expense that, based on our judgment, is required to maintain the allowance for loan and lease losses at an appropriate level to absorb estimated losses incurred in the loan portfolio at the balance sheet date and that, in management's judgment, is appropriate under GAAP. The determination of the amount of the allowance is complex and involves a high degree of judgment and subjectivity.

Our ALLL was $18.7 million as of December 31, 2017 and $15.4 million as of December 31, 2016, representing an ALLL to total loans ratio of 0.67% and 0.76% respectively.

Our provision for loan losses was $11.6 million for the year ended December 31, 2017 compared to $6.7 million for the year ended December 31, 2016, an increase of $4.9 million, or 73.1%.

The increased provision for loan losses was the result of an increase in loan charge-offs during 2017. We experienced higher net charge-offs of $6.2 million in the year ended December 31, 2017 compared to net charge-offs of $3.9 million for 2016, an increase of $2.3 million.

The increased provision for loan losses was also the result of a higher loan portfolio growth rate period over period in our factored receivables, which generally require higher levels of ALLL. Our factored receivable balances increased by $136.2 million during the year ended December 31, 2017 compared to an increase of $23.1 million during the year ended December 31, 2016. In addition, during the year ended December 31, 2017, excluding the $267.0 million acquired Acquired Branches and Valley loan portfolios, outstanding loans held for investment increased $516.2 million from December 31, 2016. During the year ended December 31, 2016, excluding the $460.8 million acquired ColoEast portfolio, outstanding loans held for investment increased $275.0 million from December 31, 2015. The

larger increase in outstanding loan balances within the year ended December 31, 2017 results in a higher provision for loan losses compared to the year ended December 31, 2016.

Noninterest Income

The following table presents the major categories of noninterest income:

| (Dollars in thousands) | Year ended December 31, 2017 | 2016 | 2017 Compared to 2016 $ Change | % Change |
|---|---|---|---|---|
| Service charges on deposits | $4,181 | $3,447 | $734 | 21.3 % |
| Card income | 3,822 | 2,732 | 1,090 | 39.9 % |
| Net OREO gains (losses) and valuation adjustments | (850) | (1,427) | 577 | 40.4 % |
| Net gains (losses) on sale of securities | 35 | (56) | 91 | 162.5 % |
| Fee income | 2,503 | 2,240 | 263 | 11.7 % |
| Insurance commissions | 2,981 | 1,295 | 1,686 | 130.2 % |
| Gain on sale of subsidiary or division | 20,860 | — | 20,860 | 100.0 % |
| Asset management fees | 1,717 | 6,574 | (4,857) | (73.9 %) |
| CLO warehouse investment income | 2,226 | 3,184 | (958) | (30.1 %) |
| Other | 3,181 | 2,967 | 214 | 7.2 % |
| Total noninterest income | $40,656 | $20,956 | $19,700 | 94.0 % |

Noninterest income increased $19.7 million, or 94.0%. Our results for 2017 were impacted by a gain of $20.9 million associated with the sale of Triumph Capital Advisors. Excluding the gain on sale of subsidiary in 2017, we earned noninterest income of $19.8 million for the year ended December 31, 2017, resulting in an adjusted decrease in noninterest income of $1.2 million, or 5.5% period over period. Changes in selected components of noninterest income in the above table are discussed below.

- Service Charges on Deposits. Service charges on deposit accounts, including overdraft and non-sufficient fund fees, increased $0.7 million, or 21.3%, primarily due to additional service charges associated with higher customer deposits resulting from a full-year impact of the ColoEast acquisition, which occurred on August 1, 2016, as well as additional service charges associated with customer deposits from the Acquired Branches and Valley acquisitions, which occurred on October 6, 2017 and December 9, 2017, respectively.
- Card Income. Debit and credit card income increased $1.1 million, or 39.9%, primarily due to additional card fees associated with the increase in customer accounts due to a full-year impact of the ColoEast acquisition as well as additional card fees associated with the increase in customer accounts due to the Acquired Branches and Valley.
- Net OREO Gains (Losses) and Valuation Adjustments. Net OREO gains (losses) and valuation adjustments represents gains on loans transferred to OREO with a fair value in excess of the foreclosed loans' carrying value, gains and losses on the sale of OREO, and valuation allowances recorded due to subsequent write-downs of OREO. The net loss of $0.9 million for year ended December 31, 2017 was primarily due to a $1.1 million loss on one large property sold during the year.
- Insurance Commissions. Insurance commissions represent income earned by the Company for binding commercial insurance policies with various individuals and companies (usually in the transportation industry) on behalf of various insurance companies. Insurance commissions increased $1.7 million, or 130.2%, primarily due to an increase in customers resulting in an increase in sales volume during the year ended December 31, 2017.
- Asset Management Fees. Asset management fees earned by Triumph Capital Advisors ("TCA") decreased $4.9 million, or 73.9%, as a result of the sale of our 100% membership interest in TCA on March 31, 2017. For the year ended December 31, 2017, asset management fees were only earned for the first three months of the year.

- CLO Warehouse Investment Income. Income from our CLO warehouse investments decreased $1.0 million, or 30.1%, due to decreased investments in the CLO warehouse entities during the period.

Noninterest Expense

The following table presents the major categories of noninterest expense:

| | Year ended December 31, | | 2017 Compared to 2016 | |
|---|---|---|---|---|
| (Dollars in thousands) | 2017 | 2016 | $ Change | % Change |
| Salaries and employee benefits | $72,696 | $54,531 | $18,165 | 33.3 % |
| Occupancy, furniture and equipment | 9,833 | 7,301 | 2,532 | 34.7 % |
| FDIC insurance and other regulatory assessments | 1,201 | 913 | 288 | 31.5 % |
| Professional fees | 7,192 | 5,529 | 1,663 | 30.1 % |
| Amortization of intangible assets | 5,201 | 3,782 | 1,419 | 37.5 % |
| Advertising and promotion | 3,226 | 2,716 | 510 | 18.8 % |
| Communications and technology | 8,843 | 6,491 | 2,352 | 36.2 % |
| Travel and entertainment | 2,661 | 2,364 | 297 | 12.6 % |
| Other | 12,761 | 9,485 | 3,276 | 34.5 % |
| Total noninterest expense | $123,614 | $93,112 | $30,502 | 32.8 % |

Noninterest expense increased $30.5 million, or 32.8%. Noninterest expense for the year ended December 31, 2017 was impacted by total transaction costs incurred in the amount of $2.0 million associated with the acquisitions of ColoEast in August 2016, the Acquired Branches in October 2017 and Valley in December 2017. The results for the year ended December 31, 2017 were also impacted by an incremental $4.8 million of bonus expense paid to team members to recognize their contribution to the transaction and building the value realized in the sale of TCA. The results for the year ended December 31, 2016 were impacted by the transaction costs incurred in the amount of $1.6 million associated with the acquisition of ColoEast in August 2016.

Excluding transaction related costs associated with our acquisitions and divestitures, adjusted noninterest expense totaled $116.8 million for the year ended December 31, 2017 and $91.5 million for the year ended December 31, 2016, an adjusted increase of $25.3 million, or 27.7%. Details of the more significant changes in the various components of noninterest expense are further discussed below.

- Salaries and Employee Benefits. Salaries and employee benefits expenses increased $18.2 million, or 33.3%. We experienced an increase in the total size of our workforce between these periods as our average full-time equivalent employees were 726.0 and 583.3 for the years ended December 31, 2017 and 2016, respectively. Sources of this increased headcount were primarily employees added through our acquisitions. In addition, employees were hired to support growth in our commercial finance product lines and other strategic initiatives. Other factors contributing to the increase in salaries and employee benefits include merit increases for existing employees, higher health insurance benefit costs, incentive compensation, and 401(k) expense. Results for the year ended December 31, 2017 were further impacted by $0.3 million of severance costs incurred as part of Acquired Branches and Valley restructuring activities during the year ended December 31, 2017 and the accrual of an incremental $4.8 million bonus expense for the amount paid to team members to recognize their contribution to the sale of TCA. Results for the year ended December 31, 2016 were impacted by $0.4 million of severance costs incurred as part of ColoEast restructuring activities.
- Occupancy, Furniture and Equipment. Occupancy, furniture and equipment expenses increased $2.5 million, or 34.7%, primarily due to expenses associated with the assets and facilities added through acquisition activities.
- Professional Fees. Professional fees, which are primarily comprised of external audit, tax, consulting, and legal fees, increased $1.7 million, or 30.1%, primarily due to $1.2 million of professional fees incurred in the year ended December 31, 2017 associated with the acquisitions of the Acquired Branches and Valley and the sale of TCA compared to $1.0 million of professional fees incurred in the year ended December 31, 2016 associated with the

ColoEast acquisition. The remaining increase is comprised of insignificant increases in the remaining components of professional fees primarily resulting from the growth of the Company.

- Amortization of Intangibles. Amortization of intangible assets increased $1.4 million, or 37.5%, primarily due to a $1.3 million impairment charge on core deposit intangible assets associated with acquired public deposits that management decided to no longer hold. The results for the year ended December 31, 2017 also include amortization of acquired core deposit intangible assets associated with the acquisitions of the Acquired Branches and Valley during 2017.

- Communications and Technology. Communications and technology expenses increased $2.4 million, or 36.2%, primarily due to the communications and technology expense associated with the recent investments we have made in our communications and technology infrastructure to further our movement toward a single operating platform, which positions us for future acquisitions and greater operating efficiencies. Communications and technology expenses also include contract termination fees associated with systems acquired from ColoEast, the Acquired Branches and Valley that will no longer be utilized by our integrated organization.
- Other. Other noninterest expense increased $3.3 million, or 34.5%. Increases experienced in other noninterest expense items in the year ended December 31, 2017 versus the year ended December 31, 2016 are generally attributable to our recent acquisitions as well as the impact of continued growth of our business and workforce and include increases in loan-related expenses, training and recruiting, postage, insurance, business travel, and subscription expenses.

Income Taxes

The amount of income tax expense is influenced by the amount of pre-tax income, the amount of tax-exempt income, changes in the statutory rate and the effect of changes in valuation allowances maintained against deferred tax benefits.

Income tax expense increased $12.1 million, or 94.5%, from $12.8 million for the year ended December 31, 2016 to $24.9 million for the year ended December 31, 2017. During the year ended December 31, 2017, the effective tax rate was 40.7% compared to 38.2% for the year ended December 31, 2016. The higher effective tax rate for the year ended December 31, 2017 reflects an income tax charge of $3.0 million related to the remeasurement of our deferred tax assets and deferred tax liabilities at the new expected effective tax rate due to the enactment of the Tax Cuts and Jobs Act (the “Act”) enacted on December 22, 2017. Absent enactment of the Act, our effective tax rate for the year ended December 31, 2017 would have been 35.8%. For further information, see Note 12 – Income Taxes in the accompanying notes to the consolidated financial statements included elsewhere in this report.

Operating Segment Results

Our reportable segments are Banking, Factoring, and Corporate, which have been determined based upon their business processes and economic characteristics. This determination also gave consideration to the structure and management of various product lines. The Banking segment includes the operations of TBK Bank. Our Banking segment derives its revenue principally from investments in interest earning assets as well as noninterest income typical for the banking industry. The Banking segment also includes certain factored receivables which are purchased by TBK Bank. The Factoring segment includes the operations of Triumph Business Capital with revenue derived from factoring services. Corporate includes holding company financing and investment activities, asset management fees associated with TCA prior to its sale on March 31, 2017, and management and administrative expenses to support the overall operations of the Company.

Reported segments and the financial information of the reported segments are not necessarily comparable with similar information reported by other financial institutions. Additionally, because of the interrelationships of the various segments, the information presented is not indicative of how the segments would perform if they operated as independent entities. Changes in management structure or allocation methodologies and procedures may result in future changes to previously reported segment financial data. The accounting policies of the segments are the same as those described in Note 1 – Summary of Significant Accounting Policies in the accompanying notes to the consolidated financial statements included elsewhere in this report. 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 ALLL determination. Noninterest income and expense directly attributable to a segment are assigned accordingly. Taxes are paid on a consolidated basis and are not allocated for segment purposes.

The following tables present our primary operating results for our operating segments:

| (Dollars in thousands)<br>Year Ended December 31, 2017 | Banking | Factoring | Corporate | Consolidated |
|---|---|---|---|---|
| Total interest income | $ 130,480 | $ 45,346 | 1,398 | $ 177,224 |
| Intersegment interest allocations | 8,023 | (8,023 ) | — | — |
| Total interest expense | 16,240 | — | 5,300 | 21,540 |
| Net interest income (expense) | 122,263 | 37,323 | (3,902 ) | 155,684 |
| Provision for loan losses | 9,310 | 2,227 | 91 | 11,628 |
| Net interest income (expense) after provision | 112,953 | 35,096 | (3,993 ) | 144,056 |
| Gain on sale of subsidiary or division | — | — | 20,860 | 20,860 |
| Other noninterest income | 14,336 | 2,737 | 2,723 | 19,796 |
| Noninterest expense | 90,632 | 22,641 | 10,341 | 123,614 |
| Operating income (loss) | $ 36,657 | $ 15,192 | $ 9,249 | $ 61,098 |

| (Dollars in thousands) | | | | |
|---|---|---|---|---|
| Year Ended December 31, 2016 | Banking | Factoring | Corporate | Consolidated |
| Total interest income | $90,823 | $ 32,824 | $ 845 | $ 124,492 |
| Intersegment interest allocations | 4,583 | (4,583 ) | — | — |
| Total interest expense | 9,872 | — | 2,262 | 12,134 |
| Net interest income (expense) | 85,534 | 28,241 | (1,417 ) | 112,358 |
| Provision for loan losses | 6,239 | 454 | — | 6,693 |
| Net interest income (expense) after provision | 79,295 | 27,787 | (1,417 ) | 105,665 |
| Noninterest income | 9,077 | 2,256 | 9,623 | 20,956 |
| Noninterest expense | 65,795 | 19,551 | 7,766 | 93,112 |
| Operating income (loss) | $22,577 | $ 10,492 | $ 440 | $ 33,509 |

Banking

| (Dollars in thousands) | Years Ended December 31, | | 2017 Compared to 2016 | |
|---|---|---|---|---|
| Banking | 2017 | 2016 | $ Change | % Change |
| Total interest income | $130,480 | $90,823 | $39,657 | 43.7 % |
| Intersegment interest allocations | 8,023 | 4,583 | 3,440 | 75.1 % |
| Total interest expense | 16,240 | 9,872 | 6,368 | 64.5 % |
| Net interest income (expense) | 122,263 | 85,534 | 36,729 | 42.9 % |
| Provision for loan losses | 9,310 | 6,239 | 3,071 | 49.2 % |
| Net interest income (expense) after provision | 112,953 | 79,295 | 33,658 | 42.4 % |
| Noninterest income | 14,336 | 9,077 | 5,259 | 57.9 % |
| Noninterest expense | 90,632 | 65,795 | 24,837 | 37.7 % |
| Operating income (loss) | $36,657 | $22,577 | $14,080 | 62.4 % |

Our Banking segment's operating income increased $14.1 million, or 62.4%.

Interest income increased primarily as a result of increases in the average balances of our interest earning assets, primarily loans, which was attributable to the continued growth of our community banking and commercial finance products, including equipment loans, asset-based loans, and premium finance loans. During the year ended December 31, 2017, we acquired $267.0 million of loans and $97.7 million of investment securities in our Banking segment as part of the Acquired Branches and Valley acquisitions. Average loans in our Banking segment increased 45.2% from $1.483 billion for the year ended December 31, 2016 to $2.154 billion for the year ended December 31, 2017.

Interest expense increased primarily as a result of growth in average customer deposits and other borrowings due to $454.1 million of customer deposits assumed in the Valley and Acquired Branches acquisitions as well as a full-year impact of $653.0 million of customer deposits assumed in the ColoEast acquisition. Excluding the acquired customer deposits, we also experienced growth in our certificates of deposit and brokered deposits as these higher cost deposit products were used to fund our growth period over period. In addition, our use of other interest bearing borrowings, consisting primarily of FHLB advances, was also increased to fund our growth.

The increase in the provision for loan losses in the year ended December 31, 2017 was primarily due to an increase in recorded net specific reserves and net charge-offs during 2017. We recorded net specific reserves of $1.8 million and net charge-offs of $4.6 million at our Banking segment during the year ended December 31, 2017 both of which were period over period increases compared to net specific reserves of $1.7 million and net charge-offs of $3.1 million recorded during the year ended December 31, 2016. The increase in the provision for loan losses was also driven by increased organic loan growth in our banking segment during the year ended December 31, 2017 compared to the loan growth during the year ended December 31, 2016. During the year ended December 31, 2017 outstanding loans in

our Banking segment, excluding the acquired portfolios, increased $555.6 million from December 31, 2016. During the year ended December 31, 2016 outstanding loans in our Banking segment, excluding acquired portfolios, increased $277.7 million from December 31, 2015. The higher increase in outstanding balances within the year ended December 31, 2017 contributes to an increased provision for loan losses compared to the year ended December 31, 2016.

Noninterest income increased primarily due to increases in customer-related fees such as service charges on deposits and debit and credit card fees, which was primarily a result of a full-year impact of the ColoEast acquisition as well as the Acquired Branches and Valley acquisitions. Additionally, insurance commissions increased from $1.3 million for the year ended December 31, 2016 to $3.0 million for the year ended December 31, 2017 due to an increase in customers which resulted in increased sales.

Noninterest expense increased due to increased operating expenses in personnel, facilities and infrastructure to support the continued growth in our asset-based lending and equipment lending, including communications and technology expense associated with the recent investments we have made in our communications and technology infrastructure to further our movement toward a single operating platform, which positions us for future acquisitions and greater operating efficiencies. This includes incremental costs associated with the growth in our Banking segment personnel and infrastructure as a result of our acquisitions. In addition, increases due to merit increases for existing employees, higher health insurance benefit costs, incentive compensation, and 401(k) expense contributed to the increase.

Factoring

| (Dollars in thousands) | Years Ended December 31, | | 2017 Compared to 2016 | |
|---|---|---|---|---|
| Factoring | 2017 | 2016 | $ Change | % Change |
| Total interest income | $45,346 | $32,824 | $12,522 | 38.1 % |
| Intersegment interest allocations | (8,023 ) | (4,583 ) | (3,440 ) | 75.1 % |
| Total interest expense | — | — | — | — |
| Net interest income (expense) | 37,323 | 28,241 | 9,082 | 32.2 % |
| Provision for loan losses | 2,227 | 454 | 1,773 | 390.5 % |
| Net interest income (expense) after provision | 35,096 | 27,787 | 7,309 | 26.3 % |
| Noninterest income | 2,737 | 2,256 | 481 | 21.3 % |
| Noninterest expense | 22,641 | 19,551 | 3,090 | 15.8 % |
| Operating income (loss) | $15,192 | $10,492 | $4,700 | 44.8 % |

| | As of and for the Year Ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Factored receivable period end balance | $346,293,000 | $212,784,000 |
| Yield on average receivable balance | 17.05 % | 17.74 % |
| Rolling twelve quarter annual charge-off rate | 0.41 % | 0.32 % |
| Factored receivables - transportation concentration | 84 % | 85 % |
| | | |
| Interest income, including fees | $45,346,000 | $32,824,000 |
| Noninterest income | 2,737,000 | 2,256,000 |
| Factored receivable total revenue | 48,083,000 | 35,080,000 |
| Average net funds employed | 243,583,000 | 168,358,000 |
| Yield on average net funds employed | 19.74 % | 20.84 % |
| | | |
| Accounts receivable purchased | $2,765,678,000 | $1,827,791,000 |
| Number of invoices purchased | 1,810,345 | 1,401,123 |
| Average invoice size | $1,516 | $1,303 |
| | | |
| Net new clients | 716 | 330 |

Our Factoring segment's operating income increased $4.7 million, or 44.8%.

Our average invoice size increased 16.3% from $1,303 for the year ended December 31, 2016 to $1,516 for the year ended December 31, 2017, and the number of invoices purchased increased 29.2% period over period.

Net interest income increased $9.1 million, or 32.2%, due to a 51.3% increase in accounts receivable purchased during the year ended December 31, 2017 compared to the year ended December 31, 2016. Accounts receivable purchases

are a function of the total number of invoices purchased and the average invoice price. For the year ended December 31, 2017, invoices purchased increased by 29.2% and average invoice price increased by 16.3%. The increase in accounts receivable purchased was the result of organic growth in our factored receivables operations and the resulting factored receivables portfolio.

The increase in the provision for loan losses was the result of higher growth in the ending balance of the factored receivables portfolio during the year ended December 31, 2017 compared to the same period in 2016. The ending balance of the factored receivables portfolio at our Factoring segment grew $133.5 million during the year ended December 31, 2017 compared to ending balance growth of $26.3 million during the prior year. The higher increase in factored receivable balances within the year ended December 31, 2017 contributes to a higher provision for loan losses compared to the year ended December 31, 2016.

The increase in noninterest expense was driven primarily by increased personnel, operating, and technology costs incurred as a result of growth in our factoring operations and the resulting factoring portfolio, particularly the increase in the number of clients and number of invoices processed period over period. The increase in noninterest income was also the result of continued growth in the client portfolio.

Corporate

| (Dollars in thousands) | Years Ended December 31, | | 2017 Compared to 2016 | |
|---|---|---|---|---|
| Corporate | 2017 | 2016 | $ Change | % Change |
| Total interest income | $1,398 | $845 | $553 | 65.4 % |
| Intersegment interest allocations | — | — | — | — |
| Total interest expense | 5,300 | 2,262 | 3,038 | 134.3 % |
| Net interest income (expense) | (3,902 ) | (1,417) | (2,485 ) | 175.4 % |
| Provision for loan losses | 91 | — | 91 | 100.0 % |
| Net interest income (expense) after provision | (3,993 ) | (1,417) | (2,576 ) | 181.8 % |
| Gain on sale of subsidiary or division | 20,860 | — | 20,860 | 100.0 % |
| Other noninterest income | 2,723 | 9,623 | (6,900 ) | (71.7 %) |
| Noninterest expense | 10,341 | 7,766 | 2,575 | 33.2 % |
| Operating income (loss) | $9,249 | $440 | $8,809 | 2002.0 % |

The Corporate segment's operating income increased primarily due to the net impact of the TCA sale transaction recorded during the year ended December 31, 2017. As TCA was a wholly owned subsidiary of our parent company, the $20.9 million gain on sale of TCA was reported as noninterest income and the $5.1 million of bonus expense and transaction related costs associated with the TCA sale were reported as noninterest expense in the Corporate segment. Excluding the impact of the TCA sale, the Corporate segment reported an adjusted operating loss of $6.6 million for the year ended December 31, 2017 compared to operating income of $0.4 million for year ended December 31, 2016. This variance in adjusted operating results reflects an increase in interest expense due to a full year of interest expense in 2017 related to the subordinated notes issued on September 30, 2016. It also reflects a decrease in other noninterest income primarily due to decreased earnings associated with the Corporate segment's equity investments in CLO warehouse entities and asset management activities.

Financial Condition

Assets

Total assets were $4.560 billion at December 31, 2018, compared to $3.499 billion at December 31, 2017, an increase of $1.061 billion, the components of which are discussed below.

Loan Portfolio

Loans held for investment were $3.609 billion at December 31, 2018, compared with $2.811 billion at December 31, 2017.

As part of the ICC acquisition on June 2, 2018, we acquired factored receivables with a fair value of $131.0 million. As part of the FBD and SCC acquisitions effective September 8, 2018, we acquired loans with a fair value of $287.8 million. The following table provides the acquired loans by loan portfolio category as of the respective acquisition dates:

| | Acquisition Date Fair Value | | | |
|---|---|---|---|---|
| (Dollars in thousands) | ICC | FBD | SCC | Total |

| | | | | |
|---|---|---|---|---|
| Commercial real estate | $— | $141,787 | $12,094 | $153,881 |
| Construction, land development, land | — | 17,030 | 5,229 | 22,259 |
| 1-4 family residential properties | — | 59,303 | 10,180 | 69,483 |
| Farmland | — | 5,709 | 1,207 | 6,916 |
| Commercial | — | 27,145 | 2,121 | 29,266 |
| Factored receivables | 131,017 | — | — | 131,017 |
| Consumer | — | 5,410 | 623 | 6,033 |
| Mortgage warehouse | — | — | — | — |
| | $131,017 | $256,384 | $31,454 | $418,855 |

The following table shows the recorded investment of our loans by portfolio categories as of the dates indicated:

| (Dollars in thousands) | December 31, 2018 | % of Total | December 31, 2017 | % of Total | $ Change | % Change |
|---|---|---|---|---|---|---|
| Commercial real estate | $992,080 | 27 % | $745,893 | 27 % | $246,187 | 33.0 % |
| Construction, land development, land | 179,591 | 5 % | 134,812 | 5 % | 44,779 | 33.2 % |
| 1-4 family residential properties | 190,185 | 5 % | 125,827 | 4 % | 64,358 | 51.1 % |
| Farmland | 170,540 | 5 % | 180,141 | 6 % | (9,601 ) | (5.3 %) |
| Commercial | 1,114,971 | 31 % | 920,812 | 33 % | 194,159 | 21.1 % |
| Factored receivables | 617,791 | 17 % | 374,410 | 13 % | 243,381 | 65.0 % |
| Consumer | 29,822 | 1 % | 31,131 | 1 % | (1,309 ) | (4.2 %) |
| Mortgage warehouse | 313,664 | 9 % | 297,830 | 11 % | 15,834 | 5.3 % |
| Total loans | $3,608,644 | 100 % | $2,810,856 | 100 % | $797,788 | 28.4 % |

| (Dollars in thousands) | December 31, 2016 | % of Total | December 31, 2015 | % of Total | December 31, 2014 | % of Total |
|---|---|---|---|---|---|---|
| Commercial real estate | $442,237 | 22 % | $291,819 | 23 % | $249,164 | 25 % |
| Construction, land development, land | 109,812 | 5 % | 43,876 | 3 % | 42,914 | 4 % |
| 1-4 family residential properties | 104,974 | 5 % | 78,244 | 6 % | 78,738 | 8 % |
| Farmland | 141,615 | 7 % | 33,573 | 3 % | 22,496 | 2 % |
| Commercial | 778,643 | 39 % | 495,356 | 38 % | 364,567 | 37 % |
| Factored receivables | 238,198 | 12 % | 215,088 | 17 % | 180,910 | 18 % |
| Consumer | 29,764 | 1 % | 13,050 | 1 % | 11,941 | 1 % |
| Mortgage warehouse | 182,381 | 9 % | 120,879 | 9 % | 55,148 | 5 % |
| Total loans | $2,027,624 | 100 % | $1,291,885 | 100 % | $1,005,878 | 100 % |

Commercial Real Estate Loans. Our commercial real estate loans increased $246.2 million, or 33.0%, due primarily to $153.9 million of commercial real estate loans acquired from FBD and SCC. The remaining increase is a result of organic loan growth. We continue to allocate internal resources to focus on and source additional commercial real estate opportunities on a nationwide basis.

Construction and Development Loans. Our construction and development loans increased $44.8 million, or 33.2%, due primarily to new loan origination activity during 2018 and $22.3 million of construction and development loans acquired from FBD and SCC.

Residential Real Estate Loans. Our one-to-four family residential loans increased $64.4 million, or 51.1%, due primarily to $69.5 million of residential real estate loans acquired from FBD and SCC partially offset by paydowns during 2018.

Farmland Loans. Our farmland loans decreased $9.6 million, or 5.3%, due to paydowns that outpaced new loan origination activity for the period. The decrease was partially offset by $6.9 million of farmland loans acquired from FBD and SCC.

Commercial Loans. Our commercial loans held for investment increased $194.2 million, or 21.1%, primarily due to growth in equipment finance loans, premium finance loans and to a lesser extent, asset based loans as we continue to execute on our growth strategy for such products. In addition, our other commercial lending products, comprised primarily of general commercial loans originated in our community banking markets, increased $72.6 million, or 27.8%, as a result of organic growth and $29.3 million of commercial loans acquired from FBD and SCC.

The following table shows our commercial loans:

| (Dollars in thousands) | December 31, 2018 | December 31, 2017 | $ Change | % Change |
|---|---|---|---|---|
| Commercial | | | | |
| Equipment | $352,037 | $254,119 | $97,918 | 38.5 % |
| Asset-based lending (general) | 214,110 | 213,471 | 639 | 0.3 % |
| Premium finance | 72,302 | 55,520 | 16,782 | 30.2 % |
| Agriculture | 142,881 | 136,649 | 6,232 | 4.6 % |
| Other commercial lending | 333,641 | 261,053 | 72,588 | 27.8 % |
| Total commercial loans | $1,114,971 | $920,812 | $194,159 | 21.1 % |

Factored Receivables. Our factored receivables increased $243.4 million, or 65.0%, primarily due to the ICC acquisition which has allowed us to increase the size of our factored receivables operations. We continue to execute on our growth strategy for this product at Triumph Business Capital, our factoring subsidiary, as well as through growth in factored receivables purchased under our Triumph Commercial Finance brand.

Consumer Loans. Our consumer loans decreased $1.3 million, or 4.2%, due primarily to paydowns in excess of new loan origination activity during the period offset by $6.0 million of consumer loans acquired from FBD and SCC.

Mortgage Warehouse. Our mortgage warehouse facilities increased $15.8 million, or 5.3%, due to higher utilization of our clients' mortgage warehouse facilities during the period. Client utilization of mortgage warehouse facilities can experience significant fluctuation on a day-to-day basis given mortgage origination market conditions. Our average mortgage warehouse lending balance was $242.9 million for the year ended December 31, 2018 compared to $152.9 million for the year ended December 31, 2017.

The following table sets forth the contractual maturities, including scheduled principal repayments, of our loan portfolio and the distribution between fixed and floating interest rate loans:

| | December 31, 2018 | | | |
|---|---|---|---|---|
| (Dollars in thousands) | One Year or Less | After One but within Five Years | After Five Years | Total |
| Commercial real estate | $123,852 | $608,893 | $259,335 | $992,080 |
| Construction, land development, land | 68,870 | 62,657 | 48,064 | 179,591 |
| 1-4 family residential properties | 16,390 | 48,400 | 125,395 | 190,185 |
| Farmland | 15,064 | 63,257 | 92,219 | 170,540 |
| Commercial | 421,805 | 619,895 | 73,271 | 1,114,971 |
| Factored receivables | 617,791 | — | — | 617,791 |
| Consumer | 4,146 | 14,251 | 11,425 | 29,822 |
| Mortgage warehouse | 313,664 | — | — | 313,664 |
| | $1,581,582 | $1,417,353 | $609,709 | $3,608,644 |
| Sensitivity of loans to changes in interest rates: | | | | |
| Predetermined (fixed) interest rates | | $937,742 | $169,440 | |
| Floating interest rates | | 479,611 | 440,269 | |
| Total | | $1,417,353 | $609,709 | |

As of December 31, 2018, most of the Company's non-factoring business activity is with customers located within certain states. The states of Texas (24%), Colorado (27%), Illinois (15%), and Iowa (7%) make up 73% of the Company's gross loans, excluding factored receivables. Therefore, the Company's exposure to credit risk is affected by changes in the economies in these states. At December 31, 2017, the states of Texas (24%), Colorado (26%), Illinois (17%) and Iowa (7%) made up 74% of the Company's gross loans, excluding factored receivables.

Further, a majority (79%) of our factored receivables, representing approximately 14% of our total loan portfolio as of December 31, 2018, are receivables purchased from trucking fleets, owner-operators and freight brokers in the transportation industry. Although such concentration may cause our future income with respect to our factoring operations to be correlated with demand for the transportation industry in the United States generally, and

small-to-mid-sized operators in such industry specifically, we feel the credit risk with respect to our outstanding portfolio is appropriately mitigated as we limit the amount of receivables acquired from individual debtors and creditors thereby achieving diversification across a number of companies and industries. At December 31, 2017, 77% of our factored receivables, representing approximately 10% of our total loan portfolio, were receivables purchased from trucking fleets, owner-operators and freight brokers in the transportation industry.

Nonperforming Assets

We have established procedures to assist us in maintaining the overall quality of our loan portfolio. In addition, we have adopted underwriting guidelines to be followed by our lending officers and require senior management review of proposed extensions of credit exceeding certain thresholds. When delinquencies exist, we monitor them for any negative or adverse trends. Our loan review procedures include approval of lending policies and underwriting guidelines by the Board of Directors of our bank subsidiary, independent loan review, approval of large credit relationships by our bank subsidiary’s Management Loan Committee and loan quality documentation procedures. We, like other financial institutions, are subject to the risk that our loan portfolio will be subject to increasing pressures from deteriorating borrower credit due to general economic conditions.

The following table sets forth the allocation of our nonperforming assets among our different asset categories as of the dates indicated. We classify nonperforming assets as nonperforming loans, OREO, other repossessed assets and nonaccrual loans included in assets held for sale. Nonperforming loans consist of nonaccrual loans (including nonaccrual PCI loans), troubled debt restructurings ("TDRs"), and factored receivables greater than 90 days past due. The balances of nonperforming loans reflect the recorded investment in these assets, including deductions for purchase discounts.

| (Dollars in thousands) | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| Nonperforming loans: | | | | |
| Commercial real estate | $ 7,096 | | $ 1,012 | |
| Construction, land development, land | 91 | | 136 | |
| 1-4 family residential properties | 1,672 | | 2,638 | |
| Farmland | 4,059 | | 4,182 | |
| Commercial | 17,104 | | 26,592 | |
| Factored receivables | 2,152 | | 1,454 | |
| Consumer | 355 | | 384 | |
| Mortgage Warehouse | — | | — | |
| Purchased credit impaired | 3,525 | | 2,333 | |
| Total nonperforming loans | 36,054 | | 38,731 | |
| Other real estate owned, net | 2,060 | | 9,191 | |
| Other repossessed assets | 165 | | 320 | |
| Assets held for sale | — | | 245 | |
| Total nonperforming assets | $ 38,279 | | $ 48,487 | |
| | | | | |
| Nonperforming assets to total assets | 0.84 | % | 1.39 | % |
| Nonperforming loans to total loans held for investment | 1.00 | % | 1.38 | % |
| Total past due loans to total loans held for investment | 2.41 | % | 2.33 | % |

Nonperforming loans, including nonaccrual PCI loans, decreased $2.7 million, or 6.9%, primarily due to improvement of credit quality within our commercial lending portfolio that reflects a $5.8 million commercial loan that was paid off from the proceeds of the sale of the collateral to a third party buyer. The purchase was financed with a significant equity investment as well as financing from TBK Bank. The decrease in nonperforming commercial loans also reflects a charge-off of $4.8 million on a single nonaccrual asset based lending relationship during the period. The decrease in nonperforming commercial loans was partially offset by the addition of a $5.2 million nonperforming commercial real estate relationship carrying a 90% government guarantee and secured by an assisted living facility. The remaining activity in nonperforming loans was also impacted by additions and removals of smaller credits to and from nonperforming loans.

OREO decreased $7.1 million, or 77.6%, primarily due to the sale of OREO properties during 2018 resulting in total proceeds of $8.5 million and an insignificant total gain on sale. The decrease driven by the sale of OREO properties was partially offset by the addition of individually insignificant OREO properties as well as valuation adjustments made throughout the year.

As a result of the above activity, the ratio of nonperforming loans to total loans held for investment decreased to 1.00% at December 31, 2018 compared to 1.38% at December 31, 2017, and our ratio of nonperforming assets to total assets decreased to 0.84% at December 31, 2018 compared to 1.39% at December 31, 2017.

Past due loans to total loans held for investment increased to 2.41% at December 31, 2018 compared to 2.33% at December 31, 2017, primarily due to an increase in factored receivables 30 to 89 days past due.

The following table presents nonperforming and past due loans for the periods indicated:

| | December 31, | | | | |
|---|---|---|---|---|---|
| (Dollars in thousands) | 2018 | 2017 | 2016 | 2015 | 2014 |
| Nonaccrual loans | $30,785 | $32,149 | $38,030 | $10,094 | $16,027 |
| Factored receivables greater than 90 days past due | 2,152 | 1,454 | 2,153 | 1,931 | 651 |
| Troubled debt restructurings accruing interest | 3,117 | 5,128 | 5,123 | 1,330 | — |
| Total nonperforming loans | $36,054 | $38,731 | $45,306 | $13,355 | $16,678 |
| | | | | | |
| Total loans greater than 90 days past due accruing interest | $3,559 | $1,664 | $3,621 | $1,940 | $700 |

Potential problem loans consist of loans that are performing in accordance with contractual terms but for which management has concerns about the ability of an obligor to continue to comply with repayment terms because of the obligor's potential operating or financial difficulties. Management monitors these loans and reviews their performance on a regular basis. Potential problem loans contain potential weaknesses that could improve, persist or further deteriorate. At December 31, 2018, we had $7.5 million in loans of this type which are not included in any of the nonperforming loan categories. All of the loans identified as potential problem loans at December 31, 2018 were graded as "substandard".

Analysis of the Allowance for Loan and Lease Losses

The ALLL is a valuation allowance for probable incurred credit losses. Loan losses are charged against the ALLL when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the ALLL. Management estimates the ALLL balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. Allocations of the ALLL may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

In addition, the product types associated with fluctuations within the loan portfolio also contribute to the allowance allocation, as different loan products require different levels of ALLL based upon their credit risk characteristics. Loan loss valuation allowances are recorded on specific at-risk balances, typically consisting of impaired loans and factored invoices greater than 90 days past due with negative cash reserves.

Under accounting standards for business combinations, acquired loans are recorded at fair value on the date of acquisition. This fair value adjustment eliminates any of the seller's ALLL associated with such loans as of the purchase date as any credit exposure associated with such loans is incorporated into the fair value adjustment. A provision for loan losses is recorded for the emergence of new incurred and estimable losses on acquired loans after the acquisition date in excess of the recorded discount.

The following table sets forth the ALLL by category of loan:

| | December 31, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | Allocated Allowance | % of Loan Portfolio | ALLL to Loans | Allocated Allowance | % of Loan Portfolio | ALLL to Loans |
| Commercial real estate | $4,493 | 27 % | 0.45 % | $3,435 | 27 % | 0.46 % |
| Construction, land development, land | 1,134 | 5 % | 0.63 % | 883 | 5 % | 0.65 % |
| 1-4 family residential properties | 317 | 5 % | 0.17 % | 293 | 4 % | 0.23 % |
| Farmland | 535 | 5 % | 0.31 % | 310 | 6 % | 0.17 % |
| Commercial | 12,865 | 31 % | 1.15 % | 8,150 | 33 % | 0.89 % |
| Factored receivables | 7,299 | 17 % | 1.18 % | 4,597 | 13 % | 1.23 % |
| Consumer | 615 | 1 % | 2.06 % | 783 | 1 % | 2.52 % |
| Mortgage warehouse | 313 | 9 % | 0.10 % | 297 | 11 % | 0.10 % |
| Total loans | $27,571 | 100 % | 0.76 % | $18,748 | 100 % | 0.67 % |

| | December 31, 2016 | | | December 31, 2015 | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|---|---|---|
| (Dollars in thousands) | Allocated | % of Loan | ALLL to | Allocated | % of Loan | ALLL to | Allocated | % of Loan | ALLL to |

| | Allowance | Portfolio | | Loans | Allowance | Portfolio | | Loans | Allowance | Portfolio | | Loans |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Commercial real estate | $1,813 | 22 | % | 0.41 % | $1,489 | 23 | % | 0.51 % | $533 | 25 | % | 0.21 % |
| Construction, land development, land | 465 | 5 | % | 0.42 % | 367 | 3 | % | 0.84 % | 333 | 4 | % | 0.78 % |
| 1-4 family residential properties | 253 | 5 | % | 0.24 % | 274 | 6 | % | 0.35 % | 215 | 8 | % | 0.27 % |
| Farmland | 170 | 7 | % | 0.12 % | 134 | 3 | % | 0.40 % | 19 | 2 | % | 0.08 % |
| Commercial | 8,014 | 39 | % | 1.03 % | 5,276 | 38 | % | 1.07 % | 4,003 | 37 | % | 1.10 % |
| Factored receivables | 4,088 | 12 | % | 1.72 % | 4,509 | 17 | % | 2.10 % | 3,462 | 18 | % | 1.91 % |
| Consumer | 420 | 1 | % | 1.41 % | 216 | 1 | % | 1.66 % | 140 | 1 | % | 1.17 % |
| Mortgage warehouse | 182 | 9 | % | 0.10 % | 302 | 9 | % | 0.25 % | 138 | 5 | % | 0.25 % |
| Total loans | $15,405 | 100 | % | 0.76 % | $12,567 | 100 | % | 0.97 % | $8,843 | 100 | % | 0.88 % |

The ALLL increased $8.8 million, or 47.1%, which was driven by $7.3 million of net charge-offs (which carried a reserve of $1.7 million at the time of charge-off), $3.7 million of net new specific allowances recorded on impaired loans and growth in the underlying portfolio during the year ended December 31, 2018.

The following table presents the unpaid principal and recorded investment for loans at December 31, 2018. The difference between the unpaid principal balance and recorded investment is principally (1) premiums and discounts associated with acquisition date fair value adjustments on acquired loans (both PCI and non-PCI) totaling $19.5 million and (2) net deferred origination and factoring fees totaling $2.6 million. The net difference can provide protection from credit loss in addition to the ALLL as future potential charge-offs for an individual loan is limited to the recorded investment plus unpaid accrued interest.

| (Dollars in thousands)<br>December 31, 2018 | Recorded<br>Investment | Unpaid<br>Principal | Difference |
|---|---|---|---|
| Commercial real estate | $992,080 | $999,887 | $(7,807) |
| Construction, land development, land | 179,591 | 183,664 | (4,073) |
| 1-4 family residential properties | 190,185 | 191,852 | (1,667) |
| Farmland | 170,540 | 173,583 | (3,043) |
| Commercial | 1,114,971 | 1,118,028 | (3,057) |
| Factored receivables | 617,791 | 620,103 | (2,312) |
| Consumer | 29,822 | 29,956 | (134) |
| Mortgage warehouse | 313,664 | 313,664 | — |
| | $3,608,644 | $3,630,737 | $(22,093) |

At December 31, 2018 and 2017, we had $58.6 million and $32.5 million, respectively, of customer reserves associated with factored receivables. These amounts represent customer reserves held to settle any payment disputes or collection shortfalls, may be used to pay customers' obligations to various third parties as directed by the customer, are periodically released to or withdrawn by customers, and are reported as deposits on our consolidated balance sheets.

The following table provides an analysis of the provisions for loan losses, net charge-offs and recoveries, and the effects of those items on our ALLL:

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| (Dollars in thousands) | 2018 | 2017 | 2016 | 2015 | 2014 |
| Balance at beginning of period | $18,748 | $15,405 | $12,567 | $8,843 | $3,645 |
| Loans charged-off: | | | | | |
| Commercial real estate | (90) | (259) | (5) | (152) | (18) |
| Construction, land development, land | (59) | (582) | — | — | (100) |
| 1-4 family residential properties | (17) | (31) | (84) | (205) | (409) |
| Farmland | (200) | — | — | — | — |
| Commercial | (5,855) | (4,875) | (3,643) | (145) | (13) |
| Factored receivables | (1,224) | (1,667) | (856) | (540) | (419) |
| Consumer | (989) | (1,004) | (564) | (347) | (393) |
| Mortgage warehouse | — | — | — | — | — |
| Total loans charged-off | $(8,434) | $(8,418) | $(5,152) | $(1,389) | $(1,352) |
| Recoveries of loans charged-off: | | | | | |
| Commercial real estate | $104 | $59 | $16 | $53 | $4 |
| Construction, land development, land | 17 | 175 | 6 | — | 13 |
| 1-4 family residential properties | 18 | 47 | 85 | 204 | 108 |
| Farmland | — | — | — | — | — |
| Commercial | 518 | 1,329 | 991 | 43 | 219 |
| Factored receivables | 69 | 118 | 120 | 79 | 68 |
| Consumer | 364 | 508 | 79 | 205 | 280 |
| Mortgage warehouse | — | — | — | — | — |
| Total loans recoveries | $1,090 | $2,236 | $1,297 | $584 | $692 |
| Net loans charged-off | $(7,344) | $(6,182) | $(3,855) | $(805) | $(660) |
| Provision for (reversal of) loan losses: | | | | | |
| Commercial real estate | $1,044 | $1,822 | $313 | $1,055 | $199 |
| Construction, land development, land | 293 | 825 | 92 | 34 | 310 |
| 1-4 family residential properties | 23 | 24 | (22) | 60 | 416 |
| Farmland | 425 | 140 | 36 | 115 | 12 |
| Commercial | 10,052 | 5,785 | 5,390 | 1,375 | 2,652 |
| Factored receivables | 3,857 | 2,058 | 315 | 1,508 | 1,971 |
| Consumer | 457 | 859 | 689 | 218 | 204 |
| Mortgage warehouse | 16 | 115 | (120) | 164 | 94 |
| Total provision for (reversal of) loan losses | $16,167 | $11,628 | $6,693 | $4,529 | $5,858 |
| Allowance transferred to assets held for sale | — | (2,103) | — | — | — |
| Balance at end of period | $27,571 | $18,748 | $15,405 | $12,567 | $8,843 |
| | | | | | |
| Average total loans held for investment | $3,130,731 | $2,235,481 | $1,549,788 | $1,106,489 | $942,144 |
| Net charge-offs to average total loans held for investment | 0.23% | 0.28% | 0.25% | 0.07% | 0.07% |
| Allowance to total loans held for investment | 0.76% | 0.67% | 0.76% | 0.97% | 0.88% |

Net loans charged off increased $1.2 million, or 18.8%, primarily due to the aforementioned $4.8 million charge-off on a single asset based lending relationship during the year ended December 31, 2018. This was partially offset by a $2.7 million charge-off of an individual healthcare finance relationship during the year ended December 31, 2017.

Remaining charge-off and recovery activity during the periods was insignificant individually and in the aggregate.

Assets Held for Sale; Including Loans Held for Sale

On January 19, 2018, we entered into an agreement to sell the assets (the "Disposal Group") of Triumph Healthcare Finance ("THF") and exit the healthcare asset-based lending line of business. The decision to sell THF was made prior to the end of the fourth quarter, and at December 31, 2017, the fair value of the Disposal Group exceeded its carrying amount. As a result of this decision, the carrying amount of the Disposal Group, including loans with a recorded balance of $68.7 million, net of an allowance for loan and lease losses of $2.1 million, was transferred to assets held for sale. Refer to Note 2 – Business Combinations and Divestitures in the accompanying notes to the consolidated financial statements included elsewhere in this report for more information.

At December 31, 2018 we held $2.1 million of loans held for sale consisting entirely of originated residential mortgages. Mortgage loan sales and the resulting gains on such sales were negligible during the year ended December 31, 2018. We did not retain the servicing rights on such sales. At December 31, 2017 we held no originated residential mortgage loans held for sale and there were no sales of originated residential mortgages for the year then ended.

Securities

The following table sets forth the composition of our securities portfolio by type:

| | December 31, 2018 | | December 31, 2017 | | December 31, 2016 | |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Available for sale securities: | | | | | | |
| U.S. Government agency obligations | 93,500 | 92,648 | 110,531 | 109,890 | 180,945 | 180,942 |
| U.S. Treasury notes | 1,956 | 1,932 | 1,940 | 1,934 | — | — |
| Mortgage-backed securities, residential | 39,971 | 39,736 | 33,537 | 33,663 | 24,710 | 24,990 |
| Asset backed securities | 10,165 | 10,145 | 11,883 | 11,845 | 13,031 | 12,902 |
| State and municipal | 118,826 | 118,451 | 74,684 | 74,391 | 27,339 | 26,637 |
| Corporate bonds | 68,804 | 68,787 | 15,271 | 15,320 | 27,287 | 27,390 |
| SBA pooled securities | 4,766 | 4,724 | 3,535 | 3,560 | 156 | 157 |
| Total available for sale securities | $337,988 | $336,423 | $251,381 | $250,603 | $273,468 | $273,018 |
| | | | | | | |
| Held to maturity securities: | | | | | | |
| CLO securities | $8,487 | $7,326 | $8,557 | $7,527 | $29,352 | $30,821 |
| | | | | | | |
| Equity securities: | | | | | | |
| Mutual fund | | $5,044 | | $5,006 | | $2,011 |

As of December 31, 2018, we held securities classified as available for sale with a fair value of $336.4 million, an increase of $85.8 million from $250.6 million at December 31, 2017. The increase is attributable to the acquisition of $270.7 million of securities available for sale from FBD and SCC. This increase was offset by the sale of $122.7 million of securities during the year ended December 31, 2018 which were primarily made up of municipal securities acquired as part of the FBD, SCC and Valley acquisitions. Our available for sale securities can be used for pledging to secure FHLB borrowings and public deposits, or can be sold to meet liquidity needs.

As of December 31, 2018, we held securities classified as held to maturity with an amortized cost of $8.5 million, a decrease of $0.1 million from $8.6 million at December 31, 2017. These held to maturity securities represent a minority investment in the unrated subordinated notes of CLOs managed by Trinitas Capital Management.

As of December 31, 2018 and 2017, we held equity securities with a fair value of $5.0 million. These securities represent investments in a publicly traded Community Reinvestment Act mutual fund and are subject to market pricing volatility. As a result of our adoption of ASU 2016-01, Financial Instruments, on January 1, 2018, equity

securities were reclassified from securities available for sale for all periods presented.

The following tables set forth the amortized cost and average yield of our securities, by type and contractual maturity:

| | Maturity as of December 31, 2018 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1 Year or Less | | 1 to 5 Years | | 5 to 10 Years | | Over 10 Years | | Total | |
| | Amortized | Average | Amortized | Average | Amortized | Average | Amortized | Average | Amortized | Average |
| (Dollars in thousands) | Cost | Yield | Cost | Yield | Cost | Yield | Cost | Yield | Cost | Yield |
| U.S. Government agency obligations | $50,781 | 1.51 % | $42,719 | 1.85 % | $— | — | $— | — | $93,500 | 1.66 % |
| U.S. Treasury notes | — | — | 1,956 | 2.01 % | — | — | — | — | 1,956 | 2.01 % |
| Mortgage-backed securities, residential | 46 | 11.60 % | 3,027 | 2.05 % | 5,569 | 2.29 % | 31,329 | 3.16 % | 39,971 | 2.97 % |
| Asset backed securities | — | — | 2,156 | 3.07 % | 5,494 | 2.76 % | 2,515 | 3.82 % | 10,165 | 3.09 % |
| State and municipal | 39,708 | | | | | | | | | |