TRIUMPH

HELPING — people — TRIUMPH

ANNUAL REPORT 2020

Annual Report 2020

HELPING *businesses* TRIUMPH

HELPING *customers* TRIUMPH

HELPING *communities* TRIUMPH

HELPING *team members* TRIUMPH

HELPING *people* TRIUMPH

TRIUMPH

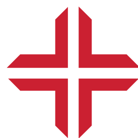
TRIUMPH BANCORP, INC.

Triumph Bancorp, Inc. (Nasdaq: TBK) is a diversified financial service company providing community banking, national lending, and commercial finance solutions. We are a leading provider of factoring services and innovator of payment solutions for the transportation industry. Our focus on creating value helps our team members thrive, our customers succeed, and our communities prosper.

Our bank subsidiary, TBK Bank, SSB, is a Texas state savings bank offering consumer, business, and commercial banking products from our branches located in Texas, Colorado, Kansas, New Mexico, Iowa, and Illinois. We also serve a national client base with equipment lending and asset based lending through Triumph Commercial Finance, discount factoring through Advance Business Capital LLC, d/b/a Triumph Business Capital, insurance through Triumph Insurance Group, Inc., and carrier and vendor payment solutions through TriumphPay.

helping people triumph

We're a diversified financial service company providing community banking, national lending, and commercial finance solutions. We are a leading provider of factoring services and innovator of payment solutions for the transportation industry. Every day, we focus on creating value by helping our team members thrive, our customers succeed, and our communities prosper. When we do this — we're **Helping People Triumph**.



FELLOW *stakeholders*

Our theme this year is Helping People Triumph. It is not just our theme for this letter — it is our permanent brand promise. If there were ever a year when we needed to help each other, 2020 was the year.

REVIEW OF 2020

We entered 2020 feeling like the wind was at our back. We had more clarity around our strategy than ever before, our numbers looked solid, and our growth trajectory was exciting. Then, along with the rest of the world, we took a hook to the jaw from COVID-19. Things were happening fast, our stock was in free fall, and the nation was shutting down.

In late February, we decided to play some offense while the world was on defense. From the beginning of March to early May, we invested over $300 million into liquid loans and high-quality securities at distressed prices as others were forced to sell. We took some chips off the table later in the year as market prices improved dramatically, and our earnings continue to benefit from the remaining portfolio. On March 17, our stock touched its low of $19.03. All of our earnings in the first quarter were wiped out due to setting aside loss reserves. The second quarter started very slowly — our transportation businesses experienced revenue volatility. When trucks aren't running, we aren't generating revenue. At some point along the journey, things started to shake loose. Supply chains began to run again. The market was pulling forward a lot of demand, and we did our best to hold on for the ride.

As of February 26, 2021, our stock was up 303%, from its 52 week low on March 17, 2020. Our transportation businesses had a record year — an unbelievable outcome from where we were in April. As a company, we ended up beating our full-year forecast. If you had given me odds in March that this is where we would end up, I would have lost the bet.

As we close the year, I am grateful, sad, concerned, and hopeful all at once. I know better than to put all of my hope in people or institutions. I base the center of my hope and optimism on an eternal perspective – and that perspective gives me hope and optimism in the present that we can continue to create value and Help People Triumph.

COMMUNITY BANKING

Community banking continues to make up the largest portion of our balance sheet, and it generates consistent profitability. We have repeated the following refrain since the beginning — excellence in community banking requires a commitment to excellent customer experience along with the core tenets of (1) credit discipline, (2) relationship banking, and (3) operating efficiency. These are time-tested banking principles that shape how we think about our community bank.

COMMUNITY BANK VALUE DRIVER 1: CREDIT DISCIPLINE

The community bank credit profile continued to benefit from the reduction of risk implemented in 2019, resulting in net charge-offs of only 10 basis points. The loan portfolio held up well under the strain of COVID-19. While our borrowers were undoubtedly aided by the Paycheck Protection Program (PPP), deferrals, and other government stimulus, we were pleased to see that longer-term accommodations were limited to a handful of customers most significantly impacted by the pandemic.

COMMUNITY BANK VALUE DRIVER 2: RELATIONSHIP BANKING

Full, long-term relationships are critical to the success of any community bank. We've made real progress in broadening credit-only relationships and attracting clients who need and want a banking partnership that leverages all of our capabilities. This is reflected in the growth of our noninterest deposits, which was undoubtedly aided by recent federal pandemic relief payments, but actually began well before the pandemic. Our progress was also reflected in significant loan yield and margin improvement as we let lower-priced transactional loans be refinanced elsewhere. We see abundant opportunities to further cross-serve our clients, so you can expect relationship banking to be a continuing TBK priority and value driver for the long term.

helping customers triumph

Helping our customers triumph is at the heart of what we do as an organization. As COVID-19 unfolded, we faced daily challenges to our routines and saw the well-being of many of our customers at risk. Our team remained focused through hard work and determination, responding quickly and safely to the rapidly changing environment. At TBK Bank, we closed many of our lobbies but were able to leverage our bank drive-thrus, expand our customer service hours, and maximize our web, mobile, and social media channels to meet the needs of our customers. We listened to the challenges facing our customers and communities. We responded with meaningful solutions, ranging from the cashing of government stimulus checks to providing more robust COVID-19 financial relief efforts. Our customers and the communities we serve are our friends and neighbors, and we remain committed to helping them triumph.

helping businesses triumph

Small businesses are the backbone of America. COVID-19 created a myriad of challenges for our small-business customers. We were proud to play a role in helping over 2,000 small businesses in the communities we serve receive a total of $225 million in funding through participation in the Main Street Lending Program and Paycheck Protection Program. The transportation industry, in particular, is the lifeblood of the American economy. We played a vital role in providing the liquidity and other financial services urgently needed during an unprecedented time of moving goods and supplies across the country through our transportation lines of business. We continue supporting our small-business customers with additional relief and loan forgiveness programs to aid their recovery efforts further.

COMMUNITY BANK VALUE DRIVER 3: OPERATING EFFICIENCY

I will repeat what I said last year for this value driver – I haven't found a better way to say it. The banking industry talks a lot about the need for scale. It seems everyone believes getting bigger will improve efficiency. I am personally not so sure that is the case. There are $150 million banks that operate at high levels of efficiency, and there are much larger banks that do not. At Triumph, we are not focused on getting bigger — we are focused on getting better. From a headline number, operating efficiency remains an area of improvement for us. Our 2020 ratios reflect investments in people, systems, and products such as treasury services. On the back end of these investments, as well as the ongoing artificial intelligence and machine learning projects at Triumph Business Capital and TriumphPay, we expect operating efficiency for our entire franchise to improve over the next few years.

COMMERCIAL FINANCE

Commercial finance, which includes our equipment finance and asset based lending (ABL) lines of business, has been a core part of our strategy since 2012. Our commercial finance business serves multiple industries but has a concentration in transportation that aligns strategically with our transportation fintech thesis. We intend that the concentration and strategic alignment of our commercial finance businesses become even more pronounced in 2021.

Our equipment finance business withstood the pandemic disruptions to the transportation industry remarkably well and rebounded very quickly in the third and fourth quarters of 2020. We responded quickly in providing many deferrals to our equipment finance clients early in the pandemic. Very few required extensions as activity rebounded in the second half of the year. In parallel, we responded to a dramatic increase in new loan demand. This resulted in a record quarter for loan originations and the first in which we originated more than $100 million.

Our asset based lending business also weathered the pandemic very well with improving credit quality and no losses throughout 2020. We expanded and deepened our ABL underwriting team and continued building our origination team with greater emphasis on the transportation industry ABL.

TRANSPORTATION FINTECH

Our transportation fintech platform includes Triumph Business Capital, our highly successful factoring subsidiary, and TriumphPay, our emerging transportation payment platform. Anyone who follows us knows that these compose our most significant growth opportunity. Both of these businesses benefitted from a near-record year for freight. Beyond that tailwind, however, we created material organic growth and greatly improved our product suite.

In the fourth quarter of 2020, our total payments processed was $4.034 billion. That equates to an annualized run rate of approximately $16.1 billion — or a 371% annual growth.

I want to call your attention to two goals I specified in last year's letter:

- Triumph Business Capital to double net income in three years. In 2019, our net income before federal income taxes at Triumph Business Capital was $37.0. In 2020, out net income before federal income taxes was $47.0 million, an increase of 27%. We need to drive 25% growth per year to achieve our 2022 goal.
- TriumphPay to achieve $25 billion in run-rate payment volume. Isolating TriumphPay from Triumph Business Capital, and using the month of December 2020 numbers, our annualized run rate payment volume is $8.7 billion. That is up 297% from December 2019. **I want to take this opportunity to amend this goal to reflect the changing nature of our business – our goal is to achieve a total payment volume (Triumph Business Capital and TriumphPay) of $40 billion. Our stretch goal is to achieve that exit rate by the fourth quarter of 2022.**

Achieving these two goals will create more value than anything else we can do over that period. They are the catalyst for our creating above-market returns for our investors. We also have goals for community bank deposit growth, credit quality, and operating efficiency. Those are very important for the health and well-being of the bank.

As I have said before, trucking is a very large and very fragmented industry — tens of thousands of shippers utilize thousands of freight brokers to pay hundreds of thousands of carriers (truckers). These transactions happen hundreds of thousands of times per day. They are largely paper-based, non-standardized, high-touch, and small (the average invoice size is less than $1,700). This inefficient model is ripe for disruption by someone with industrial expertise, innovative technology, and access to capital. Based on the significant traction we have achieved in a short period of time, we believe we are that disruptor, and we will revolutionize billing and payments in trucking. Achieving this goal will be a win for everyone.

Welding class at The Workshop by TBK Bank

HELPING PEOPLE TRIUMPH

As I said at the beginning, our theme for this letter and our brand promise is Helping People Triumph. That promise doesn't apply just to team members, customers, and shareholders — it also applies to the communities we serve. Just a few months ago, we opened The Workshop by TBK Bank. It is a "makerspace" located in Dallas, Texas, where we will train all people — students, adults, recent prison parolees, and others — to join the skilled trades of carpentry, welding, and fabrication, to name a few. We believe this is an excellent opportunity to serve individuals in need and the community as a whole by preparing workers to pursue successful careers. This past year has been a year of significance unlike any in my lifetime. Beyond the novel coronavirus, we also confronted the not-so-novel problem of inequality. Triumph will not shirk its responsibility to be valuable in this effort. We are not a political organization – we are a for-profit, publicly-traded financial service company. Our job is to create value for all of our stakeholders. It is not our job to establish political positions. I do not view the struggle for equality as political – it is a moral obligation. I will leave it to the voters and the policymakers they elect to move us forward politically on this topic. What we can do as an organization in the meantime is make sure that we are continuing to invest in a culture that celebrates the richness of our differences. We diligently pursue an authentically welcoming atmosphere that is open and valuable to all team members and stakeholders. From our very first day of operating as a company, Triumph has had the guiding principle to "treat others the way we would like to be treated." We continue in this mindset today. To that end, we have created the CEO's Council on Diversity & Inclusion, which works in partnership with the Diversity & Inclusion team. We have added talented leaders to this initiative to better engage with our team members and community. This is noble work, and I am proud we are doing it!

Our commitment to Helping People Triumph was perhaps most evident to our clients through our pandemic relief efforts. We waived fees, deferred loan payments and actively participated in the Paycheck Protection Program and Main Street Lending Program. In so doing, we provided aid to 4,000 business clients with over 35,000 employees. Many of our team members

BY THE *numbers*

ANNUAL PAYMENT AMOUNTS PROCESSED BY TRIUMPHPAY

Year	Amount
2018	$328.4 Million
2019	$975.1 Million
2020	$4.175 Billion

Total number of truckers paid
93,648
by TriumphPay in 2020

Total number of invoices processed
3.9 MM
by Triumph Business Capital in 2020

Total annual combined payment volume
$11.31B
by TriumphPay and Triumph Business Capital in 2020

Total number of brokers and shippers
245
integrated with TriumphPay

helping communities triumph

The "Mission is More Than Money" is one of Triumph's core values. We are dedicated to serving the underserved and committed to positively impacting all of those we touch.

In 2020, we opened The Workshop by TBK Bank, a member-supported, community-based makerspace in Dallas, Texas. The Workshop will help people find better career paths through workforce development focused on introductory industrial trades skills. Through education development, The Workshop will work with local school districts to help their students discover new trades through camps and afterschool programs that could one day lead to careers. The Workshop also serves as a welcoming place for entrepreneurs and small businesses — from anyone who has a "side hustle" to those interested in launching creative small businesses. We feel privileged to play a role in creating a positive impact in our community.

Total Deposits Growth in 2020

24.45%

% Change
46.87%
24.45%

DEMAND DEPOSITS
in thousands
2019 | $1,390,019
2020 | $2,041,465

TOTAL DEPOSITS
in thousands
2019 | $3,789,906
2020 | $4,716,600

NET INCOME AVAILABLE TO COMMON STOCKHOLDERS
in millions

Year	Amount
2018	$51.1
2019	$58.5
2020	$62.3

TOTAL REVENUE
in millions

Year	Amount
2018	$250.0
2019	$287.5
2020	$345.1

helping team members triumph

We are proud of our #ONETEAM culture that works in a highly collaborative fashion across all of our brands to be nimble, responsive, and steadfastly committed to our customers, communities, and each other. With over 1,200 team members, Triumph is a diverse organization located across a six-state footprint. In 2020, we undertook a number of new initiatives to fortify our #ONETEAM culture and provide professional and personal growth opportunities for our team members. We established the CEO's Council on Diversity & Inclusion, where members across Triumph discuss, identify, and build action plans for fostering a more diverse and inclusive culture. Our inaugural Emerging Leaders Program provides select team members an accelerated career development program designed to prepare them for future leadership roles within the company.

> **“Our #1 job is to *help people triumph.* If we help our customers succeed, we’ll succeed.”**
>
> —Aaron Graft

worked long hours under tight deadlines and assumed new responsibilities to assist our clients. I could not be prouder of or more grateful for their efforts.

The heart behind these collective efforts comes from one of our original core values — the mission is more than money. Environmental, Social, and Governance, or “ESG,” has become a buzzword in corporate America in the last few years. We’ll all be better for its implementation if ideologues and special-interest groups do not hijack it. Whatever you call it, the biblical principle of “doing unto others as you would have them do unto you” continues to guide our thinking.

OUTLOOK FOR THE FUTURE

We have set and achieved many of our company goals since Triumph became a bank in 2010. Our shareholders and team members have benefitted from that work, and we know that our customers have triumphed in their own right. Our go-forward strategy from here includes the following:

1. **Community Banking Excellence.** There is no replacement for excellent customer service and the core community banking disciplines of credit discipline, relationship banking, and improving efficiency. Pursuing these disciplines is a primary responsibility.
2. **Triumph Business Capital > 2X.** Double the earnings contribution from Triumph Business Capital by 2022.
3. **Total Transportation Payments > $40 billion.** Achieving this goal will give us a dominant market position and improve our operating efficiencies. It will also enable us to create efficiencies for the users of our TriumphPay network and customers of our Triumph Business Capital factoring operation, resulting in a better cost of capital and a more user-friendly experience.
4. **Resilience: Restrain Growth & Return Capital.** We began repurchasing our shares in January 2019, and we acquired 8% of our shares outstanding during the year at a blended price of $30.90 per share. We continued that activity in early 2020. Given the global pandemic, the subsequent run in our stock, and some investment opportunities we are considering, we did not repurchase shares in the second half of 2020. We continue to expect modest balance sheet growth over the next three years compared to our historical growth rate. We remain opportunistic acquirers of our stock.

These continue to be exciting days for Triumph — for our team members, our customers, our communities, and our shareholders. To our customers, thank you for trusting us with your business. To our team members, thank you for making Triumph work and for rallying around an ambitious plan, and serving others along the way. To our long-term investors, thank you for your belief in what we are doing. We owe you our best, and you will get it.

Wishing you all the best in 2021 —

Aaron

Aaron P. Graft
Vice Chairman and
Chief Executive Officer

March 10, 2021

BOARD OF DIRECTORS

Charles A. Anderson (2*, 3)

Director

Debra A. Bradford (1)

Director

Richard Davis (2, 3)

Director

Laura Easley (3, 4*)

Director

Aaron P. Graft (4)

Vice Chairman and Chief Executive Officer

Maribess L. Miller (1, 3*, $)

Director

Fred Perpall (2)

Director

Michael P. Rafferty (1*, 4, $)

Director

Carlos M. Sepulveda, Jr.

Chairman

C. Todd Sparks (1)

Director

1 Audit Committee
2 Compensation Committee
3 Nominating and Corporate Governance Committee
4 Risk Management Committee
* Committee Chair
$ Financial Expert

MANAGEMENT TEAM

Aaron P. Graft

Founder, Vice Chairman, Chief Executive Officer and President – Triumph Bancorp, Inc.
Vice Chairman, Chief Executive Officer and Public Information Officer – TBK Bank, SSB

R. Bryce Fowler

Executive Vice President, Chief Financial Officer and Treasurer – Triumph Bancorp, Inc.
President, Chief Financial Officer and Managing Officer – TBK Bank, SSB

Gail Lehmann

Executive Vice President and Secretary – Triumph Bancorp, Inc.
Executive Vice President, Chief Operating Officer and President, Retail Banking, and Secretary – TBK Bank, SSB

Adam D. Nelson

Executive Vice President, General Counsel and Assistant Secretary – Triumph Bancorp, Inc.
Executive Vice President, General Counsel and Assistant Secretary – TBK Bank, SSB

Todd Ritterbusch

Executive Vice President and Chief Lending Officer – TBK Bank, SSB

Grant Smith

Executive Vice President and Chief Credit Officer – TBK Bank, SSB

Steve Grossi

Executive Vice President and Chief Human Resource Officer –TBK Bank, SSB

Alan Nykiel

Executive Vice President and Chief Marketing Officer – TBK Bank, SSB

Geoff Brenner

Chief Executive Officer – Triumph Business Capital

Jordan Graft

Chief Executive Officer – TriumphPay

Form 10-K 2020

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HELPING *customers* TRIUMPH

HELPING *communities* TRIUMPH

HELPING *team members* TRIUMPH

HELPING *people* TRIUMPH

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, 2020

OR

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

FOR THE TRANSITION PERIOD FROM TO

Commission File Number 001-36722

TRIUMPH BANCORP, INC.
(Exact name of Registrant as specified in its Charter)

Texas	**20-0477066**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
12700 Park Central Drive, Suite 1700 Dallas, TX	**75251**
(Address of principal executive offices)	(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:	Trading Symbol(s)	Name of Exchange on Which Registered:
Common Stock, Par Value $0.01 Per Share	TBK	NASDAQ
Depositary Shares Each Representing a 1/40th Interest in a Share of 7.125% Series C Fixed-Rate Non-Cumulative Perpetual Preferred Stock, par value $0.01 per share	TBKCP	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 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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, 2020 was approximately $536,944,000.

The number of shares of Registrant's Common Stock outstanding as of February 9, 2021 was 24,878,009.

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, 2020, 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, commercial finance product lines focused on businesses that require specialized financial solutions and national lending product lines that further diversify our lending operations. Our traditional banking offerings 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 generate attractive returns and include factoring, asset-based lending, and equipment lending products offered nationally and across a variety of industries, with a focus on the transportation industry. Our national lending product lines provide further asset base diversification and include mortgage warehouse, liquid credit, and premium finance offered on a nationwide basis. 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, 2020, we had consolidated total assets of $5.936 billion, total loans held for investment of $4.997 billion, total deposits of $4.717 billion and total stockholders’ equity of $726.8 million.

Our business is conducted through three reportable segments (Banking, Factoring, and Corporate). For the year ended December 31, 2020, our banking segment generated 65% of our total revenue (comprised of interest and noninterest income), our factoring segment generated 34% of our total revenue, and our corporate segment generated 1% of our total revenue. On April 20, 2020, we entered into an agreement to sell the assets (the “Disposal Group”) of Triumph Premium Finance (“TPF”) and exit our premium finance line of business. The transaction closed on June 30, 2020, and the assets of the Disposal Group, consisting primarily of $84.5 million of premium finance loans, was sold for a gain on sale of $9.8 million. Prior to the sale, the financial condition and results of operations of TPF were included in our Banking reportable segment.

Principal Products and Services

Community Banking

Our community banking products and services include a variety of traditional banking services offered through our bank subsidiary, TBK Bank. These products and services focus on serving the local communities in which we operate and creating full banking relationships with both personal and commercial clients.

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-one 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. We also operate one location in Dallas, Texas, in which we maintain our corporate office and operate a branch that is dedicated to deposit gathering activities. During the first half of 2020, we opened a new full-service branch in Dallas, Texas. Our Dallas corporate office also serves as the center for our treasury management operations, which offers full-service commercial banking functionality. Our treasury management operations generate fee income for us, while also enhancing our core deposit portfolio, as we are able to offer our commercial lending clients a full-service banking relationship meeting all of their business needs.

We originate a full suite of commercial and retail loans including commercial real estate loans, construction and development loans, residential real estate loans, commercial agriculture, general commercial loans, and consumer loans primarily focused on customers in and around our community banking markets. These loan types include the following:

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.

Commercial Construction, Land and Land Development Loans. We offer loans to small-to-mid-sized businesses to construct owner-occupied 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.

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 to customers in our retail banking markets.

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 Loan*s. 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. Also included in commercial loans are our Paycheck Protection Program (“PPP”) Loans originated during 2020 as part of the governmental response to the COVID-19 pandemic promulgated under the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”).

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

Commercial Finance

Our commercial finance products and services focus on serving clients requiring more specialized financial products and services on a national basis and across a variety of industries, with a particular focus on clients in the transportation industry. Our commercial finance products and services also include our TriumphPay platform and our insurance brokerage activities, which seek to further expand the product suite we are able to offer to clients in the transportation industry.

The combination of the commercial finance products we are able to offer our clients in the transportation industry, specifically over the road trucking, when coupled together with our other products and services, such as personal and small business checking, treasury management, insurance brokerage, and fuel cards, position us to provide a complete suite of products and services to this market, ranging from owner-operators to sizable fleets, that we believe is unique in the market in which we operate.

Factored Receivables. We offer factoring services to our customers across a variety of industries, with a focus in transportation factoring. 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 90% of our total factoring portfolio at December 31, 2020, 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 transportation factoring business tends to be stronger in the second half of the year; consistent with trends in over the road trucking.

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.

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. Excluding fully guaranteed PPP loans, equipment lending to transportation clients constituted approximately 79% of our total equipment lending portfolio as of December 31, 2020. Equipment loans are reported within commercial loans in the notes to our consolidated financial statements.

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 asset borrowing base. 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. Asset-based loans are reported within commercial loans in the notes to our consolidated financial statements.

Triumph Pay. Our TriumphPay platform is a billing and payments solution offered to freight broker and shipper clients. Through our proprietary TriumphPay software, freight brokers and shippers can streamline and automate payments to their carrier networks. Carriers can register on the platform to manage their invoicing and payment options, including the election of "QuickPay" options whereby we offer to purchase their invoice at discount in exchange for payment in advance of the normal payment terms for such invoice. This platform provides both fee income to us and generates additional factored receivables in our loan portfolio. TriumphPay experienced significant growth in the volume of transactions processed through the platform in 2020. For the year ended December 31, 2020, TriumphPay processed 4,394,901 invoices paying 93,648 distinct carriers a total of $4.175 billion. The financial condition and operating results of TriumphPay are currently not material to the consolidated entity; however, that could change should demand for this product continue to accelerate.

Triumph Insurance Group. We provide insurance brokerage services through Triumph Insurance Group, an agency primarily focused on meeting the insurance needs of our commercial finance clients, particularly our factoring clients in the transportation industry and our equipment lending clients.

National Lending

Our national lending products include mortgage warehouse and liquid credit. These national lending products and services are offered on a nationwide basis and provide further asset diversification within our loan portfolio.

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 their 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, 2020, maximum aggregate outstanding purchases ranged in size from $30 million to $200 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, 2020, the Company had 15 mortgage banking company customers with a maximum aggregate exposure of $1.455 billion and an actual aggregate outstanding balance of $1.038 billion. 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 81%, an average credit score of 742 and an average loan size of $256 thousand. 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. Through our commercial banking and treasury management functionality, we are able to offer our mortgage warehouse clients depository relationships focused on the servicing deposits generated in such businesses, further enhancing our core deposit portfolio.

Liquid Credit Loans. During 2019, we began purchasing broadly syndicated leveraged loans secured by a variety of collateral types. Given the highly liquid nature of these products, we are able to opportunistically scale this loan portfolio over time depending on opportunities in the syndicated loan market and other areas of our business. Liquid credit loans are reported within commercial loans in the notes to our consolidated financial statements.

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 transportation payments products (i.e., factoring and TriumphPay) require specialized underwriting processes. 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). For each broker or shipper client, for whom we will be originating QuickPay transactions, we conduct an in-depth credit evaluation and underwriting process. We facilitate this process by collecting detailed company and financial information, which we analyze to determine credit risk.

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 transportation payments 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. For our TriumphPay broker and shipper clients, for whom we are originating QuickPay transactions, we conduct quarterly reviews of the company's financial statements to monitor the financial condition and performance relative to established guidelines and covenants.

COVID-19 and Credit Risk

Refer to the Recent Developments: COVID-19 and the CARES Act section of Management's Discussion and Analysis in Item 7 for disclosure of the impact of COVID-19 on Lending and Credit Risk Management.

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 62 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. With respect to our transportation payments businesses, we also compete with other software providers and financial technology businesses. 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 Department of Savings and Mortgage Lending ("DSML" formerly the Texas Department of Savings and Mortgage Lending), 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 their 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.

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 certain 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 during 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.

As permitted by the interim final rule issued on March 27, 2020, by the federal banking regulatory agencies, we have elected the option to delay the estimated impact on regulatory capital of ASU 2016-13, "Financial Instruments — Credit Loses (Topic 326): Measurement of Credit Losses on Financial Instruments", which was effective January 1, 2020. The initial impact of adoption of ASU 2016-13 as well as 25% of the quarterly increases in the allowance for credit losses subsequent to adoption of ASU 2016-13 (collectively, the "transition adjustments") will be delayed for two years. After two years, the cumulative amount of the transition adjustments will become fixed and will be phased out of the regulatory capital calculations evenly or on a three year period, with 75% recognized in year three, 50% recognized in year four, and 25% recognized in year five. After five years, the temporary regulatory capital benefits will be fully reversed.

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, 2020, 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 January 31, 2020, the Federal Reserve Board approved the issuance of a final rule (which became effective October 1, 2020) that clarified and codified the Federal Reserve's standards for determining whether one company has control over another. The final rule established four categories of tiered presumptions of noncontrol that are based on the percentage of voting shares held by the investor (less than 5%, 5-9.9%, 10-14.9% and 15-24.9%) and the presence of other indicia of control. As the percentage of ownership increases, fewer indicia of control are permitted without falling outside of the presumption of noncontrol. These indicia of control include nonvoting equity ownership, director representation, management interlocks, business relationship and restrictive contractual covenants. Under the final rule, investors can hold up to 24.9% of the voting securities and up to 33% of the total equity of a company without necessarily having a controlling influence.

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 DSML.

TBK Bank is required to file reports with the FDIC and the DSML 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 DSML, a cash dividend may not be declared by the board of a Texas state savings bank that the DSML 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 it 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.

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 future business and our earnings.

Human Capital

Corporate Values

As of December 31, 2020, we had 1,125.5 full-time equivalent employees. We are focused on "Helping People Triumph". It's our brand purpose and our core values align with that purpose. We believe that our customers, team members, communities and shareholders benefit from it. As a result, how we do business is as important to us as what is achieved through our efforts. That belief forms the basis of the core values our team members honor. They carry those values into the communities where they live and work.

We are committed to maintaining a work environment where every team member is treated with dignity and respect, free from the threat of discrimination and harassment. As stated in our Board approved Code of Business Conduct & Ethics, we expect these same standards apply to all stakeholders, to our interactions with customers, vendors and independent contractors. TBK expects these values to be applied globally and by those we do business with.

T-R-I-U-M-P-H

- Transparency – Communicate the truth consistently, directly and professionally. Open communication is the foundation of strong relationships.
- Respect – Treat others as you want to be treated. Put the needs of others and the needs of the team before promoting your own agenda.
- Invest For The Future – Do not allow the immediate to crowd out the important. Success that endures is built upon a long-term perspective.
- Unique Is Good – Be aware of following the crowd. Being unique can be difficult, but if it were easy, everyone would do it.
- Mission Is More Than Money – Make everything you're involved in better. This includes doing good in the areas of greatest need – in your community and around the world.
- People Make The Difference – In any situation the most important criteria for success are the quality of people and quality of their thinking.
- Humility – Model humility in all that you do. Humility is not passivity, as it requires the courage to prefer the needs of others over your own.

We intend our support for these measures to apply broadly to all persons. It is embodied in our company culture, core values and our Code of Business Conduct & Ethics. We have a responsibility to our customers, communities and each other as team members. Our employees, vendors, business partners and our Board of Directors are held to the highest standards of ethics and are responsible for demonstrating behaviors consistent with those high

standards and our core values. Compliance with laws, rules and regulations is only the beginning. We encourage our team members to obey the law, both in letter and in spirit, and this forms the foundation on which our ethical standards are built. All of our team members, officers and directors, must respect and obey the laws and regulations of the United States, as well as the cities and states in which we serve our customers. Although not all team members are expected to know the details of all of these laws, it is important to know enough to determine when to seek advice from supervisors, managers or other appropriate resources.

We require team members to annually complete training on our code of business conduct and ethics certifying that they have read and understand our policies and principles.

Labor Practices

We are proud to be an Equal Opportunity Employer and enforce those values throughout all of our operations. We prohibit discrimination in hiring or advancement against any individual on the basis of race, color, religion, gender, sex, national origin, age, marital status, pregnancy, physical or mental disability, genetics, veteran status, sexual orientation, or any other characteristic protected by applicable law.

We strive to ensure our team members have access to working conditions that provide a safe and healthy environment, free from work-related injuries and illnesses. Our locations employ badges and keypads to enter or to enter restricted areas of locations that have a public presence. Triumph also employs a security team, to track and remediate vulnerabilities in our physical, transactional, and team member security. We encourage team members to raise concerns about actual or suspected misconduct. Triumph provides comprehensive medical, dental, and vision plans, health savings accounts, paid time off and sick time, long-term disability, term life, dependent life, AD&D insurance, childcare and dependent care programs, flexible spending accounts, FMLA, and employee assistance and wellness programs. We are committed to providing our team members with certain rights and freedoms, such as good working conditions, open communication, reasonable job security, personal growth opportunities, training and education, and communication of job expectations

Diversity and Inclusion

The diversity of the Company's team members is a tremendous asset. Based on current census data and team member demographics, females represent 65% of the company's population compared to a 50% female representation in the related communities in which our businesses reside. As for minority representation across the company, we are a mirror image with the relevant surrounding communities at approximately 34%. We are firmly committed to providing equal employment and advancement opportunities to all qualified individuals and will not tolerate any illegal discrimination or harassment of any kind. Team members are encouraged to immediately report any improper discrimination or harassment to the appropriate supervisor and human resources.

In August of 2020 the CEO directed the formation of the CEO's Council on Diversity & Inclusion ("The Council") at TBK. The Council consists of a diverse group of team members (51% females and 49% males and a variety of experiences, races, and ethnicities), from all levels of the organization, focused on our workforce, workplace, community and suppliers, and is responsible for connecting our diversity and inclusion activities with our broader business strategies. The company created a Leader of Diversity & Inclusion position to provide direction and leadership as we build processes, initiatives and special programs aimed at diversity and inclusion.

We are proud of our Board diversity. Our Board of Directors consists of 10 members. 50% are women or minorities and 30% are women. 90% of board members are independent. We also strive for diversity in our management structure. The percentage of women and minorities on our senior management team are as follows: VP and above – 37.7% are female / 13.7% are minorities, SVP and above – 23.3% are female / 7.9% are minorities.

Employee Recruitment, Development and Retention

We strive to recruit top talent from both educational institutions and the broader industry. We support team members should they wish to continue their education in subjects and fields that are directly related to our operations, activities and objectives. We encourage our team members to pursue educational opportunities that will help improve job performance and professional development. To further this goal, we reimburse tuition and certain fees for satisfactory completion of approved educational courses and certain certifications. Included are college credit courses at accredited colleges and universities, continuing education courses and certification exams. To be eligible for reimbursement, the Company must approve all courses and certification(s) prior to enrollment.

We employ Gallup Engagement Surveys to gauge employee satisfaction and solicit feedback from team members on ways management can improve the working environment and development of team members. Management has specific goals developed through these surveys and is incentivized to constantly improve the work environment and team member satisfaction and retention.

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. We believe that the work environment described above contributes to employee satisfaction and retention; however, we have succession plans in place for key personnel.

For the year ended December 31, 2020, salaries and employee benefits expense was $127.0 million compared to $112.9 million during the same period a year ago. Expenses related to education, training, recruiting and placement are recorded in other noninterest expense. Expense related to education and training was $0.4 million for the years ended December 31, 2020 and 2019. Recruiting and placement expense for the year ended December 31, 2020 was $0.4 million compared to $1.0 million during the same period a year ago. The reduction in this expense was primarily driven by the impact of COVID-19 on our recruiting and placement efforts.

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.

Summary

Our risk factors can be broadly summarized by the following categories:

- Economic Risks
- Credit and Interest Rate Risks
- Strategic Risks
- Transportation Concentration Risks
- Operational Risks
- Risks Relating to the Regulation of Our Industry
- Risks Relating to the Company's Common Stock
- General Risks

While not an exhaustive list, our risk factors are generally designed to address the following factors:

- business and economic conditions generally and in the bank and non-bank financial services industries, nationally and within our local market areas;
- the impact of COVID-19 on our business, including the impact of the actions taken by governmental authorities to try and contain the virus or address the impact of the virus on the United States economy (including, without limitation, the CARES Act), and the resulting effect of all of such items on our operations, liquidity and capital position, and on the financial condition of our borrowers and other customers;
- our ability to mitigate our risk exposures;
- our ability to maintain our historical earnings trends;
- changes in management personnel;
- interest rate risk;
- concentration of our products and services in the transportation industry;
- risks related to TriumphPay and the associated growth in such product line;
- 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;
- risks related to the integration of acquired businesses and any future acquisitions;
- our ability to successfully identify and address the risks associated with our possible future acquisitions, and the risks that our prior and possible 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;
- 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. This summary of risk factors should be read in conjunction with the more detailed risk factors below.

Economic Risks

The ongoing COVID-19 pandemic and measures intended to prevent its spread could have a material adverse effect on our business, results of operations and financial condition, and such effects will depend on future developments, which are highly uncertain and are difficult to predict.

Global health concerns relating to the COVID-19 outbreak and related government actions taken to reduce the spread of the virus have been weighing on the macroeconomic environment, and the outbreak has significantly increased economic uncertainty and reduced economic activity. The outbreak has resulted in authorities implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter in place or total lock-down orders and business limitations and shutdowns. Such measures have

significantly contributed to rising unemployment and negatively impacted consumer and business spending. The United States government has taken steps to attempt to mitigate some of the more severe anticipated economic effects of the virus. The passage of the CARES Act and the recent rollout of vaccinations for the virus may help reduce the spread of the outbreak and related economic impact; however, there can be no assurance that such steps will be effective or achieve their desired results in a timely fashion.

The outbreak has adversely impacted, and is likely to further adversely impact, our workforce and operations and the operations of our borrowers, customers and business partners. In particular, we may experience financial losses due to a number of operational factors impacting us or our borrowers, customers or business partners, including but not limited to:

- credit losses resulting from financial stress being experienced by our borrowers as a result of the outbreak and related governmental actions, particularly in the hospitality, healthcare and senior care, energy, retail and restaurant industries, but across other industries as well;
- increased bankruptcies being experienced by the carrier, freight broker and shipper clients serviced by our factoring and TriumphPay operations;
- declines in collateral values;
- third-party disruptions, including outages at network providers and other suppliers;
- increased cyber and payment fraud risk, as cybercriminals attempt to profit from the disruption, given increased online and remote activity; and
- operational failures due to changes in our normal business practices necessitated by the outbreak and related governmental actions.

These factors may remain prevalent for a significant period of time and may continue to adversely affect our business, results of operations and financial condition even after the COVID-19 outbreak has subsided.

The spread of COVID-19 has caused us to modify our business practices (including restricting employee travel, and developing work from home and social distancing plans for our employees), and we may take further actions as may be required by government authorities or as we determine are in the best interests of our employees, customers and business partners. There is no certainty that such measures will be sufficient to mitigate the risks posed by the virus or will otherwise be satisfactory to government authorities.

The extent to which the coronavirus outbreak impacts our business, results of operations and financial condition will depend on future developments, which are highly uncertain and are difficult to predict, including, but not limited to, the duration and spread of the outbreak, its severity, the actions to contain the virus or treat its impact, the rollout and effectiveness of vaccination programs for the virus, and how quickly and to what extent normal economic and operating conditions can resume. Even after the COVID-19 outbreak has subsided, we may continue to experience materially adverse impacts to our business as a result of the virus's global economic impact, including the availability of credit, adverse impacts on our liquidity and any recession that has occurred or may occur in the future.

There are no comparable recent events that provide guidance as to the effect the spread of COVID-19 as a global pandemic may have, and, as a result, the ultimate impact of the outbreak is highly uncertain and subject to change. We do not yet know the full extent of the impacts on our business, our operations or the global economy as a whole. However, the effects could have a material impact on our results of operations and heighten many of our known risks described herein.

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 and deposit 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 COVID-19 pandemic, could affect the stability of global financial markets, which could hinder U.S. economic growth. Weak national economic conditions are characterized by deflation, changes in unemployment, 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.

Credit and Interest Rate Risks

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.

We may be adversely impacted by the transition from LIBOR as a reference rate

In 2017, the United Kingdom's Financial Conduct Authority (the "FCA") announced that after 2021 it would no longer compel banks to submit the rates required to calculate the London Interbank Offered Rate ("LIBOR"). Subsequently in November 2020 the FCA proposed end dates immediately following the December 31, 2021 publication for the one week and two month LIBOR settings, and the June 30, 2023 publication for other LIBOR tenors.

These announcements indicate that the continuation of LIBOR on the current basis cannot and will not be guaranteed after December 31, 2021 or June 30, 2023, as applicable. Consequently, at this time, it is not possible to predict whether and to what extent banks will continue to provide submissions for the calculation of LIBOR. Similarly, it is not possible to predict whether LIBOR will continue to be viewed as an acceptable market benchmark, what rate or rates may become accepted alternatives to LIBOR, or what the effect of any such changes in views or alternatives may be on the markets for LIBOR-indexed financial instruments.

In particular, regulators, industry groups and certain committees (e.g., the Alternative Reference Rates Committee) have, among other things, published recommended fall-back language for LIBOR-linked financial instruments, identified recommended alternatives for certain LIBOR rates (e.g., the Secured Overnight Financing Rate as the recommended alternative to U.S. Dollar LIBOR), and proposed implementations of the recommended alternatives in floating rate instruments. At this time, it is not possible to predict whether these specific recommendations and proposals will be broadly accepted, whether they will continue to evolve, and what the effect of their implementation may be on the markets for floating-rate financial instruments.

We have loans, borrowings and other financial instruments with attributes that are either directly or indirectly dependent on LIBOR. The transition from LIBOR could create considerable costs and additional risk. Since proposed alternative rates are calculated differently, payments under contracts referencing new rates will differ from those referencing LIBOR. The transition will change our market risk profiles, requiring changes to risk and pricing models, valuation tools, and product design. Furthermore, failure to adequately manage this transition process with our customers could adversely impact our reputation. Although we are currently unable to assess what the ultimate impact of the transition from LIBOR will be, failure to adequately manage the transition could have a material 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 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, 2020, we had a total of approximately $68.5 million of nonperforming assets or approximately 1.15% 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.

Our Allowance for Credit Loss ("ACL") may prove to be insufficient to absorb life-time losses in our loan portfolio, which may adversely affect our business, financial condition and results of operations.

Under the current expected credit loss model, the allowance for credit losses on loans is a valuation allowance estimated at each balance sheet date in accordance with US GAAP that is deducted from the loans' amortized

cost basis to present the net amount expected to be collected on the loans. We estimate the ACL on loans based on the underlying assets' amortized cost basis, which is the amount at which the financing receivable is originated or acquired, adjusted for applicable accretion or amortization of premium, discount, and net deferred fees or costs, collection of cash, and charge-offs. Expected credit losses are reflected in the allowance for credit losses through a charge to credit loss expense. When we deem all or a portion of a financial asset to be uncollectible the appropriate amount is written off and the ACL is reduced by the same amount. We apply judgment to determine when a financial asset is deemed uncollectible; however, generally speaking, an asset will be considered uncollectible no later than when all efforts at collection have been exhausted. Subsequent recoveries, if any, are credited to the ACL when received.

We measure expected credit losses of financial assets on a collective (pool) basis, when the financial assets share similar risk characteristics. Depending on the nature of the pool of financial assets with similar risk characteristics, we use a discounted cash flow ("DCF") method or a loss-rate method to estimate expected credit losses. Our methodologies for estimating the ACL consider available relevant information about the collectability of cash flows, including information about past events, current conditions, and reasonable and supportable forecasts. The methodologies apply historical loss information, adjusted for asset-specific characteristics, economic conditions at the measurement date, and forecasts about future economic conditions expected to exist through the contractual lives of the financial assets that are reasonable and supportable, to the identified pools of financial assets with similar risk characteristics for which the historical loss experience was observed. Our methodologies revert back to historical loss information on a straight-line basis over eight quarters when it can no longer develop reasonable and supportable forecasts.

Loans that do not share risk characteristics are evaluated on an individual basis. For collateral dependent financial assets where we have determined that foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and we expect repayment of the financial asset to be provided substantially through the operation or sale of the collateral, the ACL is measured based on the difference between the fair value of the collateral and the amortized cost basis of the asset as of the measurement date. When repayment is expected to be from the operation of the collateral, expected credit losses are calculated as the amount by which the amortized cost basis of the financial asset exceeds the present value of expected cash flows from the operation of the collateral. When repayment is expected to be from the sale of the collateral, expected credit losses are calculated as the amount by which the amortized costs basis of the financial asset exceeds the fair value of the underlying collateral less estimated cost to sell. The ACL may be zero if the fair value of the collateral at the measurement date exceeds the amortized cost basis of the financial asset.

As of December 31, 2020, our ACL as a percentage of total loans was 1.92% and as a percentage of total nonperforming loans was 164.98%. 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 ACL, either due to management's decision to do so or requirements by our banking regulators. In addition, bank regulatory agencies will periodically review our ACL 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.

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

We 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. Through these activities, we are 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.

Strategic Risks

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.

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.

The growth in our TriumphPay operations may expose us to additional risks that could adversely affect our business and operations.

Our TriumphPay business, a software payments solution that links freight broker and shipper clients with carriers in the transportation industry, has experienced significant year over year growth. Annual payments processed through the platform were $328.4 million for the fiscal year ended December 31, 2018, $975.1 million for the fiscal year ended December 31, 2019, and $4.175 billion for the fiscal year ended December 31, 2020. Growth of our TriumphPay platform is a key strategic focus for the Company and we anticipate that growth in this product will continue during this and future fiscal years. Such growth in the volume of transactions being processed through this platform may expose us to operational and other risks, as this software platform consists of newly developed technology that is subject to continuous and ongoing innovation and improvement. Should such software fail to operate as designed, the transactions scheduled to be processed through the system may not be consummated as intended and we may be exposed to financial and reputational risks. We are also subject to risks that competitors may develop, or continue to develop existing, technologies that compete with us. Such competitive products may be deemed by our current or potential future clients to be superior to our TriumphPay product, and such competitive products may improve and innovate faster than we are able to improve and innovate TriumphPay, in which event we may be subject to reduced adoption of TriumphPay going forward, as well as the loss of existing clients on the platform.

In addition, our TriumphPay operations consist of us making a significant volume of invoice payments on behalf of individual broker and shipper clients, and we may have exposure related to the financial solvency of such entities, particularly to the extent we directly acquire the invoices of such entities through engaging in QuickPay transactions with the carrier payees in such transactions. Although we have historically had this type of credit exposure to account debtors for transportation invoices due to our transportation factoring operations, our exposures of this type, related to TriumphPay clients, may be more concentrated given the volume of payments we will handle for such individual TriumphPay clients, as well as the overlap with additional invoices of such entities purchased in our traditional transportation factoring operations. Although we actively monitor our concentration exposures to such entities on an aggregate basis, a failure of such TriumphPay freight broker or shipper clients may expose us to a greater risk of loss than we have historically been subject to given our concentrations with such entities.

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.

We have historically engaged in acquisitions and we may engage in acquisitions in the future. Such transactions have historically, and may in the future, 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 from 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 previously 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.

Our acquisition history and any future acquisitions 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. 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. On July 8, 2020, we acquired the transportation factoring assets of Transport Financial Solutions ("TFS"), a wholly owned subsidiary of Covenant Logistics Group, Inc. ("CVLG"). In addition, we may engage in acquisitions in the future. 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. Consequently, predictions and forecasts about our future revenue and expense may be impacted by future 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 grow purely on an organic basis.

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.

Transportation Concentration Risks

A substantial portion of our business is concentrated in the transportation industry and economic conditions or other factors negatively impacting the transportation industry could adversely affect our business and operations.

A substantial portion of our revenues are derived from the transportation industry, including our transportation factoring business, our TriumphPay operations, and our equipment finance lending focusing on the transportation sector. Given the concentration of such businesses in the transportation industry, economic conditions or other factors that negatively impact the transportation industry could impact our revenues, expose us to an increased risk of fraud or credit loss, or otherwise negatively impact our business. For example, reductions in economic activity reducing the volume of goods in commerce, changes in the spot rate market for transportation, and other factors impacting carriers in the over the road transportation business, such as the cost of insurance, may influence both the size of invoices we are able to purchase in our transportation business (both in traditional factoring as well as Quick Pay transactions being originated through TriumphPay) as well as the number of carriers engaged in this business and their utilization of available capacity. Negative trends in such items will directly correlate with a reduction in our net funds employed from transportation factored receivables and with reduced revenues from our factoring and TriumphPay operations. In addition, as negative factors in the transportation industry induce more financial stress on our clients in such businesses, we may experience an increased number of defaults in our equipment finance and other loans focused on this industry, as well as an increased risk of fraud, particularly in our factoring operations. For the year ended December 31, 2020, we estimate that approximately 40% percent of our revenues were derived from the transportation industry, and as of December 31, 2020, 90% of our period end factored receivables portfolio consisted of invoices purchased from transportation clients. Growth of our businesses focused on the transportation industry, in particular our transportation factoring and TriumphPay operations, are a key strategic focus for the Company. The occurrence of any of such events as described above resulting from factors negatively impacting the transportation industry may have an adverse effect on our strategic plans, 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 or reduce the ability to generate revenue 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.

Operational Risks

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.

Our computer systems and network infrastructure and those of third parties, on which we are highly dependent, are subject to security risks and could be susceptible to cyberattacks, such as denial of service attacks, hacking, terrorist activities or identity theft. Our business relies on the secure processing, transmission, storage and retrieval of confidential, proprietary and other information in its computer and data management systems and networks, and in the computer and data management systems and networks of third parties. In addition, to access our network, products and services, our customers and other third parties may use personal mobile devices or computing devices that are outside of our network environment and are subject to their own cybersecurity risks.

Cyberattacks could include computer viruses, malicious or destructive code, phishing attacks, denial of service or information, ransomware, improper access by employees or vendors, attacks on personal email of employees, ransom demands to not expose security vulnerabilities in our systems or the systems of third parties, or other security breaches, and could result in the destruction or exfiltration of data and systems. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance its protective measures or to investigate and remediate any information security vulnerabilities or incidents. Despite efforts to ensure the integrity of our systems and implement controls, processes, policies and other protective measures, we may not be able to anticipate all security breaches, nor may we be able to implement guaranteed preventive measures against such security breaches. Cyber threats are rapidly evolving and we may not be able to anticipate or prevent all such attacks and could be held liable for any security breach or loss.

Although we have programs in place related to business continuity, disaster recovery and information security to maintain the confidentiality, integrity, and availability of our systems, business applications and customer information, such disruptions may still give rise to interruptions in service to customers and loss or liability to us, including loss of customer data. Like other financial services firms, we and our third-party providers continue to be the subject of cyberattacks. Although we have not experienced any material losses or other material consequences related to cyberattacks to date, future cyberattacks could be more disruptive and damaging, and we may not be able to anticipate or prevent all such attacks. Further, cyberattacks may not be detected in a timely manner.

Cyberattacks or other information or security breaches, whether directed at us or third parties, may result in a material loss or have material consequences. In the event of cyberattacks impacting our transportation payments business (i.e., factoring and TriumphPay), such attacks may result in payment diversions or other events that could cause us financial loss, which could be material given the payment volumes of such businesses. Furthermore, the public perception that a cyberattack on our systems has been successful, whether or not this perception is correct, may damage our reputation with customers and third parties with whom it does business. Hacking of personal information and identity theft risks, in particular, could cause serious reputational harm. A successful penetration or circumvention of system security could cause us serious negative consequences, including loss of customers and business opportunities, costs associated with maintaining business relationships

after an attack or breach; significant business disruption to our operations and business, misappropriation, exposure, or destruction of its confidential information, intellectual property, funds, and/or those of its customers; or damage to our, our customers' and/or third parties' computers or systems, and could result in a violation of applicable privacy laws and other laws, litigation exposure, regulatory fines, penalties or intervention, loss of confidence in our security measures, reputational damage, reimbursement or other compensatory costs, additional compliance costs, and could adversely impact our results of operations, liquidity and financial condition. In addition, we may not have adequate insurance coverage to compensate for losses from a cybersecurity event.

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, 2020, the amount of OREO we held totaled $1.4 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 a material 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, 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.

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, 2020, approximately $1.082 billion, or 22.9%, of our deposits consisted of interest-bearing demand deposits and money market accounts. Based on past experience, we believe that our deposit accounts are a 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.

Prior to 2020, our loan portfolio grew at a faster rate than our ability to organically grow transactional deposits in our community banking markets, and we offset that trend in part through acquiring additional banks with excess liquidity. We have recently been more selective with regard to loan growth and expanded our efforts to grow transactional deposits organically. If rapid loan growth were to resume and we are unable to successfully grow transactional deposits organically or through mergers and acquisitions 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 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.

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.

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 the 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.

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

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, 2020, we had investments with a net carrying amount of $5.9 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, 2020.

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 the 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 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 the 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. If the CFPB’s actions related to current and proposed regulations limit our ability to provide 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 DSML 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. 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 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.

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
- 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 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 a 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 considered or may consider legislation that could 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, 2020, 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.

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 any future 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 the 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 holders of our indebtedness and preferred stock have rights that are senior to those of our common stockholders.

As of December 31, 2020, we had $87.5 million outstanding in subordinated notes issued by our holding company and $40.1 million outstanding in junior subordinated debentures that are held by statutory trusts which issued trust preferred securities to investors. Our subordinated notes and junior subordinated debentures are senior to our shares of preferred stock and common stock in right of payment of dividends and other distributions. We must be current on interest and principal payments on our indebtedness before any dividends can be paid on our preferred stock or our common stock. In the event of our bankruptcy, dissolution or liquidation, the holders of our indebtedness must be satisfied before any distributions can be made to our preferred or common stockholders. If certain conditions are met, we have the right to defer interest payments on the junior subordinated debentures (and the related trust preferred securities) at any time or from time to time for a period not to exceed 20 consecutive quarters in a deferral period, during which time no dividends may be paid to holders of our preferred stock or common stock.

At December 31, 2020 we had issued and outstanding 45,000 shares of 7.125% Series C Fixed-Rate Non-Cumulative Perpetual Preferred Stock, with an aggregate liquidation preference of $5 million (the "Series C Preferred Stock"), which is held by investors in through 1,800,000 depositary shares, each representing a 1/40th ownership interest in a share of the Series C Preferred Stock. Our preferred stock is senior to our shares of common stock in right of payment of dividends and other distributions. We must be current on dividends payable to holders of preferred stock before any dividends can be paid on our common stock. In the event of our bankruptcy, dissolution or liquidation, the holders of our preferred stock must be satisfied before any distributions can be made to our common stockholders.

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 and 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. We are also restricted from paying dividends on our common stock if we do not pay dividends on our Series C Preferred Stock for the same dividend period or if we are in deferral with respect to interest payments on our junior subordinated debentures (and the related trust preferred securities).

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.

General Risks

The fair value of our investment securities can fluctuate due to factors outside of our control and impairment of investment securities could require charges to earnings, which could result in a negative impact on our results of operations.

As of December 31, 2020, the fair value of our investment securities portfolio was approximately $236.0 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 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.

An available for sale ("AFS") investment security is considered impaired when it experiences a decline in fair value below its amortized cost basis. At each measurement date, we determine how much of the decline in fair value below amortized cost basis is due to credit-related factors and how much of the decline is due to noncredit-related factors. Credit-related impairment is recognized as an allowance on our balance sheet with a corresponding adjustment to earnings. Any impairment that is not credit related is recognized in other comprehensive income, net of applicable taxes.

Whether we establish an allowance for credit losses on an AFS investment security depends on whether we expect to realize the total value of the security by collecting the contractual cash flows. The process for determining whether or not an AFS investment security's decline in fair value below its amortized cost basis is credit-related considers the extent to which the fair value is less than the amortized cost basis, any adverse conditions specifically related to the investment security (including changes to its industry and geographic area), the payment structure of the investment security, failure of the issuer of the investment security to make scheduled payments of principal and interest, and any changes to the rating of the investment security by a rating agency.

Impairment of 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.

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, 2020, we had goodwill of $163.2 million, representing approximately 22% 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, 2020, we had intangible assets of $26.7 million, representing approximately 4% 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, 2020 all but $0.3 million which is recorded as a valuation allowance of the deferred tax asset will be realized. At December 31, 2020, net deferred tax assets were approximately $6.4 million. The impact of each of these impairment matters could have a material adverse effect on our business, results of operations and financial condition.

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 a future acquisition, 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.

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 past 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.

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 are party to a declaratory judgment action in the United States Federal District Court for the Southern District of Florida seeking a ruling that the United States Postal Service ("USPS") is obligated make payment to us with

respect to invoices totaling approximately $19.6 million that it separately paid to our customer, a vendor to the USPS who hauls mail pursuant to contracts it has with such entity, in violation of notices provided to the USPS that such payments were to be made directly to us (the “Misdirected Payments”). Although we believe we have valid claims that the USPS is obligated to make payment on such receivable and that the USPS will have the capacity to make such payment, the issues in this litigation are novel issues of law that have little to no precedent and there can be no assurances that a court will agree with our interpretation of the law on these matters. If a court were to rule against us in this litigation, our only recourse would be against our customer, who failed to remit the Misdirected Payments to us as required when received, and who may not have capacity to make such payment to us. Consequently, we could incur losses up to the full amount of the Misdirected Payments in such event, which could be material to our business, financial condition and results of operations.

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, 2020, 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-one branches in Colorado and two branches in western Kansas in our Western division, and two locations in Dallas, Texas, one in which we maintain our corporate office facility and a branch office dedicated to deposit gathering activities and one full-service branch. We lease ten 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 leased facilities in El Paso, Texas, Chicago, Illinois, and San Diego, California.

ITEM 3. LEGAL PROCEEDINGS.

From time to time we are a party to various litigation matters incidental to the conduct of our business. Except as set forth below, 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.

We are party to a declaratory judgment action in the United States Federal District Court for the Southern District of Florida seeking a ruling that the United States Postal Service (“USPS”) is obligated make payment to us with respect to invoices totaling approximately $19.6 million that it separately paid to our customer, a vendor to the USPS who hauls mail pursuant to contracts it has with such entity, in violation of notices provided to the USPS that such payments were to be made directly to us (the “Misdirected Payments”). Although we believe we have valid claims that the USPS is obligated to make payment on such receivable and that the USPS will have the capacity to make such payment, the issues in this litigation are novel issues of law that have little to no precedent and there can be no assurances that a court will agree with our interpretation of the law on these matters. If a court were to rule against us in this litigation, our only recourse would be against our customer, who failed to remit the Misdirected Payments to us as required when received, and who may not have capacity to make such payment to us. Consequently, we could incur losses up to the full amount of the Misdirected Payments in such event, which could be material to our business, financial condition and results of operations.

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 9, 2021, there were 24,878,009 shares outstanding and 351 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.

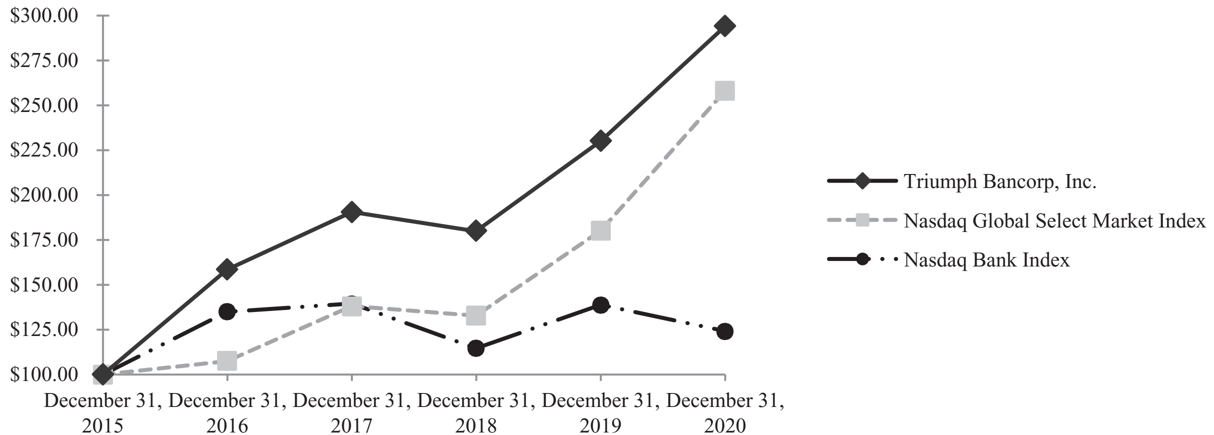
Securities authorized for issuance under equity compensation plans

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 December 31, 2015 through December 31, 2020, 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.



	December 31, 2015	December 31, 2016	December 31, 2017	December 31, 2018	December 31, 2019	December 31, 2020
Triumph Bancorp, Inc.	$100.00	$158.48	$190.91	$180.00	$230.42	$294.24
Nasdaq Global Select Market Index	100.00	107.59	138.18	133.10	180.49	258.17
Nasdaq Bank Index	100.00	135.02	139.77	114.74	139.10	124.31

Recent sales of unregistered equity securities

None.

Purchases of equity securities by the issuer and affiliated purchasers

None.

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, 2020 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.

(Dollars in thousands, except per share amounts)	As of and for the years ended December 31, 2020	2019	2018	2017	2016
Income Statement Data:					
Interest income	$ 322,115	$ 311,153	$ 262,976	$ 177,224	$ 124,492
Interest expense	37,387	55,250	35,926	21,540	12,134
Net interest income	284,728	255,903	227,050	155,684	112,358
Credit loss expense [5]	38,329	7,942	16,167	11,628	6,693
Net interest income after provision	246,399	247,961	210,883	144,056	105,665
Gain on sale of subsidiary or division	9,758	—	1,071	20,860	—
Other noninterest income	50,627	31,569	21,899	19,796	20,956
Noninterest income	60,385	31,569	22,970	40,656	20,956
Noninterest expense	222,074	204,084	167,353	123,614	93,112
Net income before income taxes	84,710	75,446	66,500	61,098	33,509
Income tax expense	20,686	16,902	14,792	24,878	12,809
Net income	64,024	58,544	51,708	36,220	20,700
Dividends on preferred stock	(1,701)	—	(578)	(774)	(887)
Net income available to common stockholders	$ 62,323	$ 58,544	$ 51,130	$ 35,446	$ 19,813
Balance Sheet Data:					
Total assets	$5,935,791	$5,060,297	$4,559,779	$3,499,033	$2,641,067
Cash and cash equivalents	314,393	197,880	234,939	134,129	114,514
Investment securities	236,055	262,674	349,954	264,166	304,381
Loans held for sale	24,546	2,735	2,106	—	—
Loans held for investment, net	4,901,037	4,165,420	3,581,073	2,792,108	2,012,219
Total liabilities	5,209,010	4,423,707	3,923,172	3,107,335	2,351,722
Noninterest-bearing deposits	1,352,785	809,696	724,527	564,225	363,351
Interest-bearing deposits	3,363,815	2,980,210	2,725,822	2,057,123	1,652,434
FHLB advances	105,000	430,000	330,000	365,000	230,000
Paycheck Protection Program Liquidity Facility	191,860	—	—	—	—
Subordinated notes	87,509	87,327	48,929	48,828	48,734
Junior subordinated debentures	40,072	39,566	39,083	38,623	32,740
Total stockholders' equity	726,781	636,590	636,607	391,698	289,345
Preferred stockholders' equity	45,000	—	—	9,658	9,746
Common stockholders' equity [1]	681,781	636,590	636,607	382,040	279,599

	As of and for the years ended December 31,				
	2020	2019	2018	2017	2016
Per Share Data:					
Basic earnings per common share	$ 2.56	$ 2.26	$ 2.06	$ 1.85	$ 1.11
Diluted earnings per common share	$ 2.53	$ 2.25	$ 2.03	$ 1.81	$ 1.10
Book value per share	$ 27.42	$ 25.50	$ 23.62	$ 18.35	$ 15.47
Tangible book value per share [1]	$ 19.78	$ 17.88	$ 16.22	$ 15.29	$ 12.89
Shares outstanding end of period	24,868,218	24,964,961	26,949,936	20,820,445	18,078,247
Weighted average shares outstanding — basic	24,387,932	25,941,395	24,791,448	19,133,745	17,856,828
Weighted average shares outstanding — diluted	24,615,816	26,060,005	25,480,513	20,000,288	18,053,531
Adjusted Per Share Data [1]:					
Adjusted diluted earnings per common share	$ 2.26	$ 2.25	$ 2.21	$ 1.37	$ 1.17
Adjusted weighted average shares outstanding — diluted	24,615,816	26,060,005	25,480,513	20,000,288	18,729,882
Performance ratios:					
Return on average assets	1.18%	1.23%	1.33%	1.27%	1.00%
Return on average total equity	9.67%	9.04%	9.24%	10.66%	7.33%
Return on average common equity	9.77%	9.04%	9.27%	10.73%	7.29%
Return on average tangible common equity [1]	13.92%	12.93%	11.90%	12.50%	8.37%
Yield on loans [2]	7.00%	7.75%	8.07%	7.55%	7.71%
Cost of interest -bearing deposits	0.93%	1.40%	1.02%	0.78%	0.70%
Cost of total deposits	0.67%	1.12%	0.80%	0.62%	0.59%
Cost of total funds	0.80%	1.36%	1.09%	0.86%	0.68%
Net interest margin [2]	5.71%	5.92%	6.35%	5.92%	5.91%
Efficiency ratio	64.35%	70.99%	66.94%	62.96%	69.84%
Adjusted efficiency ratio [1]	65.97%	70.99%	64.43%	66.55%	68.63%
Net noninterest expense to average assets	2.98%	3.61%	3.70%	2.92%	3.47%
Adjusted net noninterest expense to average total assets [1]	3.14%	3.61%	3.55%	3.41%	3.39%
Asset Quality ratios [3]:					
Past due to total loans [4]	3.22%	1.74%	2.41%	2.33%	3.61%
Nonperforming loans to total loans	1.16%	0.97%	1.00%	1.38%	2.23%
Nonperforming assets to total assets	1.15%	0.87%	0.84%	1.39%	1.98%
ACL to nonperforming loans [5]	164.98%	71.63%	76.47%	48.41%	34.00%
ACL to total loans [5]	1.92%	0.69%	0.76%	0.67%	0.76%
Net charge-offs to average loans	0.10%	0.17%	0.23%	0.28%	0.25%
Capital ratios:					
Tier 1 capital to average assets	10.80%	10.03%	11.08%	11.80%	10.85%
Tier 1 capital to risk-weighted assets	10.60%	10.29%	11.49%	11.15%	11.85%
Common equity Tier 1 capital to risk-weighted assets	9.05%	9.46%	10.55%	9.70%	10.18%
Total capital to risk-weighted assets	13.03%	12.76%	13.35%	13.21%	14.60%
Total stockholders' equity to total assets	12.24%	12.58%	13.96%	11.19%	10.96%
Tangible common stockholders' equity ratio [1]	8.56%	9.16%	10.03%	9.26%	8.98%

[(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)	2020	2019	2018	2017	2016
Loan discount accretion	$10,711	$5,568	$8,296	$7,071	$7,363

[(3)] Asset quality ratios exclude loans held for sale

[(4)] Beginning December 31, 2019, the past due ratio has been revised to exclude nonaccrual loans with contractual payments less than 30 days past due.

[(5)] Beginning January 1, 2020, the allowance for credit losses was calculated in accordance with Accounting Standards Codification Topic 326, "Financial Instruments – Credit Losses" ("ASC 326").

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:

(Dollars in thousands, except per share amounts)	As of and for the years ended December 31,				
	2020	2019	2018	2017	2016
Total stockholders' equity	$ 726,781	$ 636,590	$ 636,607	$ 391,698	$ 289,345
Preferred stock liquidation preference	(45,000)	—	—	(9,658)	(9,746)
Total common stockholders' equity	681,781	636,590	636,607	382,040	279,599
Goodwill and other intangibles	(189,922)	(190,286)	(199,417)	(63,778)	(46,531)
Tangible common stockholders' equity	$ 491,859	$ 446,304	$ 437,190	$ 318,262	$ 233,068
Common shares outstanding	24,868,218	24,964,961	26,949,936	20,820,445	18,078,247
Tangible book value per share	$ 19.78	$ 17.88	$ 16.22	$ 15.29	$ 12.89
Total assets at end of period	$ 5,935,791	$ 5,060,297	$ 4,559,779	$ 3,499,033	$ 2,641,067
Goodwill and other intangibles	(189,922)	(190,286)	(199,417)	(63,778)	(46,531)
Adjusted total assets at period end	5,745,869	4,870,011	4,360,362	3,435,255	2,594,536
Tangible common stockholders' equity ratio	8.56%	9.16%	10.03%	9.26%	8.98%
Net income available to common stockholders	$ 62,323	$ 58,544	$ 51,130	$ 35,446	$ 19,813
Gain on sale of subsidiary or division	(9,758)	—	(1,071)	(20,860)	—
Transaction related costs	827	—	6,965	2,013	1,618
Incremental bonus related to transaction	—	—	—	4,814	—
Tax effect of adjustments	2,254	—	(1,401)	5,153	(251)
Adjusted net income available to common stockholders	$ 55,646	$ 58,544	$ 55,623	$ 26,566	$ 21,180
Dilutive effect of convertible preferred stock	—	—	578	774	783
Adjusted net income available to common stockholders — diluted	$ 55,646	$ 58,544	$ 56,201	$ 27,340	$ 21,963
Weighted average shares outstanding — diluted	24,615,816	26,060,005	25,480,513	20,000,288	18,053,531
Adjusted effects of assumed Preferred Stock conversion	—	—	—	—	676,351
Adjusted weighted average shares outstanding — diluted	24,615,816	26,060,005	25,480,513	20,000,288	18,729,882
Adjusted diluted earnings per common share	$ 2.26	$ 2.25	$ 2.21	$ 1.37	$ 1.17

(Dollars in thousands, except per share amounts)	2020	2019	2018	2017	2016
	As of and for the years ended December 31,				
Average total stockholders' equity	$ 661,942	$ 647,726	$ 559,450	$ 339,911	$ 282,416
Average preferred stock liquidation preference	(24,099)	—	(7,885)	(9,687)	(10,580)
Average total common stockholders' equity	637,843	647,726	551,565	330,224	271,836
Average goodwill and other intangibles	(190,088)	(194,905)	(121,820)	(46,663)	(35,176)
Average tangible common equity	$ 447,755	$ 452,821	$ 429,745	$ 283,561	$ 236,660
Net income available to common stockholders	$ 62,323	$ 58,544	$ 51,130	$ 35,446	$ 19,813
Average tangible common equity	447,755	452,821	429,745	283,561	236,660
Return on average tangible common equity	13.92%	12.93%	11.90%	12.50%	8.37%

(Dollars in thousands, except per share amounts)	2020	2019	2018	2017	2016
	Years Ended December 31,				
Adjusted efficiency ratio:					
Net interest income	$ 284,728	$ 255,903	$ 227,050	$ 155,684	$ 112,358
Noninterest income	60,385	31,569	22,970	40,656	20,956
Operating revenue	345,113	287,472	250,020	196,340	133,314
Gain on sale of subsidiary or division	(9,758)	—	(1,071)	(20,860)	—
Adjusted operating revenue	$ 335,355	$ 287,472	$ 248,949	$ 175,480	$ 133,314
Noninterest expenses	$ 222,074	$ 204,084	$ 167,353	$ 123,614	$ 93,112
Transaction related costs	(827)	—	(6,965)	(2,013)	(1,618)
Incremental bonus related to transaction	—	—	—	(4,814)	—
Adjusted noninterest expenses	$ 221,247	$ 204,084	$ 160,388	$ 116,787	$ 91,494
Adjusted efficiency ratio	65.97%	70.99%	64.43%	66.55%	68.63%
Adjusted net noninterest expense to average assets ratio:					
Noninterest expenses	$ 222,074	$ 204,084	$ 167,353	$ 123,614	$ 93,112
Transaction related costs	(827)	—	(6,965)	(2,013)	(1,618)
Incremental bonus related to transaction	—	—	—	(4,814)	—
Adjusted noninterest expense	221,247	204,084	160,388	116,787	91,494
Noninterest income	60,385	31,569	22,970	40,656	20,956
Gain on sale of subsidiary or division	(9,758)	—	(1,071)	(20,860)	—
Adjusted noninterest income	50,627	31,569	21,899	19,796	20,956
Adjusted net noninterest expenses	$ 170,620	$ 172,515	$ 138,489	$ 96,991	$ 70,538
Average total assets	$5,426,469	$4,773,652	$3,900,728	$2,844,916	$2,079,756
Adjusted net noninterest expense to average assets ratio	3.14%	3.61%	3.55%	3.41%	3.39%

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," "continue," "will," "anticipate," "seek," "estimate," "intend," "plan," "projection," "would" and "outlook," or the negative version of those words or 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;
- the impact of COVID-19 on our business, including the impact of the actions taken by governmental authorities to try and contain the virus or address the impact of the virus on the United States economy (including, without limitation, the CARES Act), and the resulting effect of all of such items on our operations, liquidity and capital position, and on the financial condition of our borrowers and other customers;
- our ability to mitigate our risk exposures;
- our ability to maintain our historical earnings trends;
- changes in management personnel;
- interest rate risk;
- concentration of our products and services in the transportation industry;
- risks related to TriumphPay and the associated growth in such product line;
- 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;
- risks related to the integration of acquired businesses and any future acquisitions;
- our ability to successfully identify and address the risks associated with our possible future acquisitions, and the risks that our prior and possible 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;

- 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 "Cautionary Note Regarding 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, commercial finance product lines focused on businesses that require specialized financial solutions and national lending product lines that further diversify our lending operations. Our traditional banking offerings 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 generate attractive returns and include factoring, asset-based lending, and equipment lending products offered on a nationwide basis. Our national lending product lines provide further asset base diversification and include mortgage warehouse and liquid credit offered on a nationwide basis. As of December 31, 2020, we had consolidated total assets of $5.936 billion, gross loans held for investment of $4.997 billion, total deposits of $4.717 billion and total stockholders' equity of $726.8 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 and equipment finance products, provided principally in the transportation sector, and our asset-based lending products. Year to date, our aggregate outstanding balances for these products has increased $623.9 million, or 49.9%, to $1.874 billion as of December 31, 2020, due to increases in our equipment lending and factored receivables products. The increase in factored receivables reflects the acquired transportation factoring assets of Transport Financial Solutions detailed in a later discussion. Excluding the acquired transportation factoring assets our aggregate outstanding balances for these products has increased $516.4 million or 41.3%. The following table sets forth our commercial finance product lines:

(Dollars in thousands)	December 31, 2020	December 31, 2019
Commercial finance		
Commercial — Equipment	$ 573,163	$ 461,555
Commercial — Asset-based lending	180,488	168,955
Factored receivables	1,120,770	619,986
Total commercial finance loans	$1,874,421	$1,250,496

Our national lending product lines include mortgage warehouse and liquid credit. Mortgage warehouse lending provides portfolio diversification by allowing unaffiliated mortgage originators to close one-to-four family real estate loans in their own name and manage cash flow needs until the loans are sold to investors. Our liquid credit portfolio, which consists of broadly syndicated shared national credits, provides an accordion feature allowing us to opportunistically scale our loan portfolio. The following table sets forth our national lending lines:

(Dollars in thousands)	December 31, 2020	December 31, 2019
National lending		
Mortgage warehouse	$1,037,574	$667,988
Commercial — Liquid credit	184,027	81,353
Commercial — Premium finance	—	101,015
Total national lending loans	$1,221,601	$850,356

On April 20, 2020, we entered into an agreement to sell the assets (the "Disposal Group") of Triumph Premium Finance ("TPF") and exit our premium finance line of business. The transaction closed on June 30, 2020, and the assets of the Disposal Group, consisting primarily of $84.5 million of premium finance loans, was sold for a gain on sale of $9.8 million. For further information regarding this transaction, see Note 2 — Business Combinations

and Divestitures in the accompanying notes to the consolidated financial statements included elsewhere in this report.

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, 2020, our Banking segment generated 65% of our total revenue (comprised of interest and noninterest income), our Factoring segment generated 34% of our total revenue, and our Corporate segment generated 1% of our total revenue.

2020 Overview

Net income available to common stockholders for the year ended December 31, 2020 was $62.3 million, or $2.53 per diluted share, compared to net income available to common stockholders for the year ended December 31, 2019 of $58.5 million, or $2.25 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 $2.26 per diluted share, for the year ended December 31, 2020. There were no merger and acquisition related activities during the year ended December 31, 2019. For the year ended December 31, 2020, our return on average common equity was 9.77% and our return on average assets was 1.18%.

At December 31, 2020, we had total assets of $5.936 billion, including gross loans held for investment of $4.997 billion, compared to $5.060 billion of total assets and $4.195 billion of gross loans held for investment at December 31, 2019. Gross loan growth totaled $802.3 million during the year ended December 31, 2020. Excluding the sale of premium finance loans and acquired transportation factoring assets, organic loan growth totaled $795.8 million, or 19.4%, $189.9 million of which consisted of PPP loans. Our commercial finance loans increased from $1.250 billion in aggregate as of December 31, 2019 to $1.874 billion as of December 31, 2020, an increase of 49.9%, and constitute 38% of our total loan portfolio at December 31, 2020. Excluding the acquired transportation factoring assets, our commercial finance product lines increased $516.4 million, or 41.3%. Our national lending lines increased from $850.4 million in aggregate as of December 31, 2019 to $1.222 billion as of December 31, 2020, an increase of 43.7%, and constitute 24% of our total loan portfolio at December 31, 2020. Excluding premium finance loans, our national lending lines increased $472.3 million, or 63.0%. Our community bank lending lines decreased from $2.094 billion in aggregate as of December 31, 2019 to $1.901 billion as of December 31, 2020, a decrease of 9.2%, and constitute 38% of our total loan portfolio at December 31, 2020.

At December 31, 2020, we had total liabilities of $5.209 billion, including total deposits of $4.717 billion, compared to $4.424 billion of total liabilities and $3.790 billion of total deposits at December 31, 2019. Deposits increased $926.7 million during the year ended December 31, 2020.

At December 31, 2020, we had total stockholders' equity of $726.8 million, compared to total stockholders' equity of $636.6 million at December 31, 2019. The increase in total equity was primarily due to preferred stock issued during the year and our net income, offset in part by common stock repurchased during the year. Holding company Tier 1 capital and total capital to risk weighted assets ratios were 10.60% and 13.03%, respectively, at December 31, 2020.

For the year ended December 31, 2020, Triumph Business Capital and TriumphPay processed a combined $10.436 billion in transportation invoice payments.

For the year ended December 31, 2020, the total dollar value of invoices purchased by Triumph Business Capital was $7.135 billion with an average invoice size of $1,825. The transportation average invoice size for the quarter was $1,682.

For the year ended December 31, 2020, TriumphPay processed 4,394,901 invoices paying 93,648 distinct carriers a total of $4.175 billion.

2020 Items of Note

Transport Financial Solutions

On July 8, 2020, Triumph Bancorp, Inc., through our wholly-owned subsidiary Advance Business Capital LLC ("ABC"), acquired the transportation factoring assets (the "TFS Acquisition") of Transport Financial Solutions ("TFS"), a wholly owned subsidiary of Covenant Logistics Group, Inc. ("CVLG"), in exchange for cash consideration of $108.4 million, 630,268 shares of the Company's common stock valued at approximately $13.9 million, and contingent consideration of up to approximately $9.9 million to be paid in cash following the twelve-month period ending July 31, 2021.

Subsequent to the closing of the TFS Acquisition, the Company identified that approximately $62.2 million of the assets acquired at closing were advances against future payments to be made to three large clients (and their affiliated entities) of TFS pursuant to long-term contractual arrangements between the obligor on such contracts and such clients (and their affiliated entities) for services that had not yet been performed.

On September 23, 2020, the Company and ABC entered into an Account Management Agreement, Amendment to Purchase Agreement and Mutual Release (the "Agreement") with CVLG and Covenant Transport Solutions, LLC a wholly owned subsidiary of CVLG ("CTS" and, together with CVLG, "Covenant"). Pursuant to the Agreement, the parties agreed to certain amendments to that certain Accounts Receivable Purchase Agreement (the "ARPA"), dated as of July 8, 2020, by and among ABC, as buyer, CTS, as seller, and the Company, as buyer indirect parent. Such amendments include:

- Return of the portion of the purchase price paid under the ARPA consisting of 630,268 shares of Company common stock, which was accomplished through the sale of such shares by CVLG pursuant to the terms of the Agreement and the surrender of the cash proceeds of such sale (net of brokerage or underwriting fees and commissions) to the Company;
- Elimination of the earn-out consideration potentially payable to CTS under the ARPA; and
- Modification of the indemnity provisions under the ARPA that eliminated the existing indemnifications for breaches of representations and warranties and replaced such with a newly established indemnification by Covenant in the event ABC incurs losses related to the $62.2 million in over-formula advances made to specified clients identified in the Agreement (the "Over-Formula Advance Portfolio"). Under the terms of the new indemnification arrangement, Covenant is responsible for and will indemnify ABC for 100% of the first $30 million of any losses incurred by ABC related to the Over-Formula Advance Portfolio, and for 50% of the next $30 million of any losses incurred by ABC, for total indemnification by Covenant of $45 million.

Covenant's indemnification obligations under the Agreement are secured by a pledge of equipment collateral by Covenant with an estimated net orderly liquidation value of $60 million (the "Equipment Collateral"). The Company's wholly-owned bank subsidiary, TBK Bank, SSB, has provided Covenant with a $45 million line of credit, also secured by the Equipment Collateral, the proceeds of which may be drawn to satisfy Covenant's indemnification obligations under the Agreement.

Pursuant to the Agreement, Triumph and Covenant agreed to certain terms related to the management of the Over-Formula Advance Portfolio, and the terms by which Covenant may provide assistance to maximize recovery on the Over-Formula Advance Portfolio.

Pursuant to the Agreement, the Company and Covenant provided mutual releases to each other related to any and all claims related to the transactions contemplated by the ARPA or the Over-Formula Advance Portfolio.

Misdirected Payments

As of December 31, 2020 we carry a separate $19.6 million receivable (the “Misdirected Payments”) payable by the United States Postal Service (“USPS”) arising from accounts factored to the largest over-formula advance carrier. This amount is separate from the aforementioned over-formula advances. The amounts represented by this receivable were paid by the USPS directly to such customer in contravention of notices of assignment delivered to, and previously honored by, the USPS, which amount was then not remitted back to us by such customer as required. The USPS disputes their obligation to make such payment, citing purported deficiencies in the notices delivered to them. In addition to commencing litigation against such customer, we have also filed a declaratory judgment action in United States Federal District Court for the Southern District of Florida seeking a ruling that the USPS was obligated to make the payments represented by this receivable directly to us. Based on our legal analysis and discussions with our counsel advising us on this matter, we believe it is probable that we will prevail in such action and that the USPS will have the capacity to make payment on such receivable. Consequently, we have not reserved for such balance as of December 31, 2020. The full amount of such receivable is reflected as past due factored receivables as of December 31, 2020, and $6.0 million of such receivable, reflecting the portion of such receivable that was greater than 90 days past due, is included in our non-performing asset calculation as of December 31, 2020 in accordance with our policy. As of the issuance date of this report, the entire $19.6 million Misdirected Payments amount was greater than 90 days past due.

Triumph Premium Finance

On April 20, 2020, we entered into an agreement to sell the assets (the “Disposal Group”) of Triumph Premium Finance (“TPF”) and exit our premium finance line of business. The transaction closed on June 30, 2020, and the assets of the Disposal Group, consisting primarily of $84.5 million of premium finance loans, were sold for a gain on sale of $9.8 million.

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

Preferred Stock Offering

On June 19, 2020, we issued 45,000 shares of 7.125% Series C Fixed-Rate Non-Cumulative Perpetual Preferred Stock, par value $0.01 per share, with a liquidation preference of $1,000 per share through an underwritten public offering of 1,800,000 depository shares, each representing a 1/40th ownership interest in a share of the Series C Preferred Stock. Total gross proceeds from the preferred stock offering were $45.0 million. Net proceeds after underwriting discounts and offering expenses were $42.4 million. The net proceeds will be used for general corporate purposes.

Stock Repurchase Program

During the year ended December 31, 2020, we repurchased 871,319 shares into treasury stock under our stock repurchase program at an average price of $40.81, for a total of $35.6 million, effectively completing the $50.0 million stock repurchase program authorized by our board of directors on October 16, 2019.

2019 Items of Note

Warehouse Solutions Inc. Investment

On October 17, 2019, we made a minority equity investment of $8 million in Warehouse Solutions Inc. (“WSI”), purchasing 8% of the common stock of WSI and receiving warrants to purchase an additional 10% of the common stock of WSI upon exercise of the warrants at a later date. WSI provides technology solutions to help reduce supply chain costs for a global client base across multiple industries.

Stock Repurchase Program

On October 29, 2018, we announced that our board of directors had authorized us to repurchase up to $25.0 million of our outstanding common stock. On July 17, 2019, our board of directors authorized the repurchase of up to an additional $25.0 million of our outstanding common stock. On October 16, 2019 our board of directors authorized us to repurchase up to an additional $50.0 million of our outstanding common stock. We may repurchase these shares from time to time in open market transactions or through privately negotiated transactions at our discretion. The amount, timing and nature of any share repurchases will be based on a variety of factors, including the trading price of our common stock, applicable securities laws restrictions, regulatory limitations and market and economic factors. This repurchase program is authorized for a period of up to one year and does not require us to repurchase any specific number of shares. The repurchase program may be modified, suspended or discontinued at any time, at our discretion.

During the year ended December 31, 2019, we repurchased into treasury stock 2,080,791 shares at an average price of $30.90 for a total of $64.4 million.

Recent Developments: COVID-19 and the CARES Act

The outbreak of COVID-19 has adversely impacted a broad range of industries in which the Company's customers operate and could impair their ability to fulfill their financial obligations to the Company. The World Health Organization has declared COVID-19 to be a global pandemic and almost all public commerce and related business activities have been curtailed, to varying degrees, with the goal of decreasing the rate of new infections. The spread of the outbreak has caused significant disruptions in the U.S. economy and has disrupted banking and other financial activity in the areas in which the Company operates. While there has been no material impact to the Company's employees to date, COVID-19 has the potential to create widespread business continuity issues for the Company.

Congress, the Executive Branch, and the Federal Reserve have taken several actions designed to cushion the economic fallout. Most notably, the Coronavirus Aid, Relief and Economic Security ("CARES") Act was signed into law at the end of March 2020 as a $2 trillion legislative package. The goal of the CARES Act is to curb the economic downturn through various measures, including direct financial aid to American families and economic stimulus to significantly impacted industry sectors through programs like the Paycheck Protection Program ("PPP") and Main Street Lending Program ("MSLP"). The package also included extensive emergency funding for hospitals and providers. In addition to the general impact of COVID-19, certain provisions of the CARES Act as well as other recent legislative and regulatory relief efforts have had a material impact on the Company's operations and could continue to impact operations going forward.

The Company's business is dependent upon the willingness and ability of its employees and customers to conduct banking and other financial transactions. While progress has been made on the vaccine front, if the global response to contain COVID-19 is prolonged or is unsuccessful, the Company could experience further adverse effects on its business, financial condition, results of operations and cash flows. While it is not possible to know the full universe or extent that the impact of COVID-19, and resulting measures to curtail its spread, will have on the Company's operations, the Company is disclosing potentially material items of which it is aware.

Financial position and results of operations

Pertaining to our December 31, 2020 financial condition and results of operations, COVID-19 had a material impact on our allowance for credit losses ("ACL"). While we have not yet experienced any significant charge-offs related to COVID-19, our ACL calculation and resulting provision for credit losses are significantly impacted by changes in forecasted economic conditions. Given that forecasted economic scenarios have darkened since the pandemic was declared in early March, our need for additional reserve for credit loss increased significantly during the year ended December 31, 2020. Refer to our discussion of the ACL in Note 1

and Note 4 of our financial statements as well as further discussion later on in MD&A. Should economic conditions worsen, we could experience further increases in our required ACL and record additional credit loss expense. The execution of the payment deferral program discussed in the following commentary assisted our ratio of past due loans to total loans as well other asset quality ratios at December 31, 2020. It is possible that our asset quality measures could worsen at future measurement periods if the effects of COVID-19 are prolonged.

The Company's fee income has been reduced due to COVID-19. In keeping with guidance from regulators, the Company actively worked with COVID-19 affected customers during the second quarter of 2020 to waive fees from a variety of sources, such as, but not limited to, insufficient funds and overdraft fees, ATM fees, account maintenance fees, etc. These reductions in fees were temporary and expired on June 1, 2020 and were the primary contributor to the $1.9 million reduction in service charges on deposits fee income for the twelve months ended December 31, 2020 compared to the same period during 2019. Should the pandemic and the global response escalate further, it is possible that the Company could reduce such fees in future periods; however, at this time, the Company is unable to project the materiality of such an impact on the results of operations in future periods.

The Company's interest income could be reduced due to COVID-19. In keeping with guidance from regulators, the Company continues to work with COVID-19 affected borrowers to defer their payments, interest, and fees. While interest and fees continue to accrue to income, through normal GAAP accounting, should eventual credit losses on these deferred payments emerge, the related loans would be placed on nonaccrual status and interest income and fees accrued would be reversed. In such a scenario, interest income in future periods could be negatively impacted. As of December 31, 2020, the Company carried $0.7 million of accrued interest income and fees on outstanding deferrals made to COVID-19 affected borrowers. At this time, the Company is unable to project the materiality of such an impact on future deferrals to COVID-19 affected borrowers, but recognizes the breadth of the economic impact may affect its borrowers' ability to repay in future periods.

Capital and liquidity

As of December 31, 2020, all of our capital ratios, and our subsidiary bank's capital ratios, were in excess of all regulatory requirements. While we believe that we have sufficient capital to withstand a second economic recession brought about by COVID-19, our reported and regulatory capital ratios could be adversely impacted by further credit loss expense. We rely on cash on hand as well as dividends from our subsidiary bank to service our debt. If our capital deteriorates such that our subsidiary bank is unable to pay dividends to us for an extended period of time, we may not be able to service our debt.

We maintain access to multiple sources of liquidity. During the twelve months ended December 31, 2020, we were able to issue preferred equity as previously discussed. Wholesale funding markets have remained open to us, but rates for short-term funding have been volatile throughout 2020. If funding costs are elevated for an extended period of time, it could have an adverse effect on our net interest margin. If an extended recession caused large numbers of our deposit customers to withdraw their funds, we might become more reliant on volatile or more expensive sources of funding.

Asset valuation

Currently, we do not expect COVID-19 to affect our ability to account timely for the assets on our balance sheet; however, this could change in future periods. While certain valuation assumptions and judgments will change to account for pandemic-related circumstances such as widening credit spreads, we do not anticipate significant changes in methodology used to determine the fair value of assets measured in accordance with GAAP.

As of December 31, 2020, our goodwill was not impaired. Management performed a quantitative goodwill impairment test on our reporting units as of October 1, 2020. The goodwill impairment test did not identify any goodwill impairment and neither of our reporting units, Banking or Factoring, were at risk of failing the

quantitative test. COVID-19 could cause a decline in our stock price or the occurrence of what management would deem to be a triggering event that could, under certain circumstances, cause us to perform a goodwill impairment test and result in an impairment charge being recorded for that period. In the event that we conclude that all or a portion of our goodwill is 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 or regulatory capital. At December 31, 2020 we had goodwill of $163.2 million, representing approximately 22% of equity.

As of December 31, 2020 we did not have any impairment with respect to our intangible assets or other long-lived assets. It is possible that the lingering effects of COVID-19 could cause the occurrence of what management would deem to be a triggering event that could, under certain circumstances, cause us to perform an intangible asset impairment test and result in an impairment charge being recorded for that period. In the event that we conclude that all or a portion of our intangible assets are 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 or regulatory capital. At December 31, 2020 we had intangible assets of $26.7 million, representing approximately 4% of equity.

During the year ended December 31, 2020 we recorded $1.4 million of impairment on a right of use asset and related leasehold improvements. This impairment was the result of our decision to consolidate part of our El Paso, TX factoring operations to our Triumph Business Capital headquarters in Coppell, TX. The impairment was not a result of the COVID-19 pandemic.

Our processes, controls and business continuity plan

The Company maintains an Enterprise Risk Management team to respond to, prepare, and execute responses to unforeseen circumstances, such as, natural disasters and pandemics. Upon the WHO's pandemic declaration, the Company's Enterprise Risk Management team invoked its Board approved Pandemic Preparedness Plan. Shortly after invoking the Plan, the Company deployed a successful remote working strategy, provided timely communication to team members and customers, implemented protocols for team member safety, and initiated strategies for monitoring and responding to local COVID-19 impacts – including customer relief efforts. The Company's preparedness efforts, coupled with quick and decisive plan implementation, resulted in minimal impacts to operations as a result of COVID-19. At December 31, 2020, the majority of our employees continue to work remotely with no disruption to our operations. We have not incurred additional material cost related to our remote working strategy to date, nor do we anticipate incurring material cost in future periods.

As of December 31, 2020, we don't anticipate significant challenges to our ability to maintain our systems and controls in light of the measures we have taken to prevent the spread of COVID-19. The Company does not currently face any material resource constraint through the implementation of our business continuity plans.

Lending operations and accommodations to borrowers

In keeping with regulatory guidance to work with borrowers during this unprecedented situation and as outlined in the CARES Act, the Company is executing a payment deferral program for its clients that are adversely affected by the pandemic. Depending on the demonstrated need of the client, the Company is deferring either the full loan payment or the principal component of the loan payment for stated period of time. As of December 31, 2020, the Company's balance sheet reflected 59 of these deferrals on outstanding loan balances of $104,600,000. In accordance with the CARES Act and March 2020 interagency guidance, these deferrals are not considered troubled debt restructurings. It is possible that these deferrals could be extended further under the CARES Act; however, the volume of these future potential extensions is unknown. It is also possible that in spite of our best efforts to assist our borrowers and achieve full collection of our investment, these deferred loans could result in future charge-offs with additional credit loss expense charged to earnings; however, the amount of any future charge-offs on deferred loans is unknown.

With the passage of the PPP, administered by the Small Business Administration ("SBA"), the Company has actively participated in assisting its customers with applications for resources through the program. PPP loans generally have a two-year or five-year term and earn interest at 1%. The Company believes that the majority of these loans will ultimately be forgiven by the SBA in accordance with the terms of the program. As of December 31, 2020, the Company carried 1,913 PPP loans representing a book value of $189,900,000. The Company has received approximately $7,700,000 in total fees from the SBA, $4,600,000 of which were recognized in interest income and fees during the year ended December 31, 2020. The remaining fees will be amortized and recognized over the life of the associated loans. It is the Company's understanding that loans funded through the PPP program are fully guaranteed by the U.S. government. Should those circumstances change, the Company could be required to establish an allowance for credit loss through additional credit loss expense charged to earnings.

Credit

While all industries have and will continue to experience adverse impacts as a result of COVID-19 virus, we had exposures (on balance sheet loans and commitments to lend) in the following loan categories considered to be "at-risk" of significant impact as of December 31, 2020. The exposures reported below exclude fully guaranteed PPP loans.

Retail Lending:

The Company's exposure to retail at December 31, 2020 equated to approximately $213.1 million, or 4.3% of total loans, summarized as follows:

- 30% new and used vehicle lending; mostly dealer floorplan
- 24% retail real estate
- 14% grocery stores, pet stores, pharmacies, gas stations and convenience stores
- 14% factoring
- 18% other types of retail lending

At December 31, 2020, there were no retail loans in deferral through our CARES Act deferral program.

Energy Lending:

The Company's exposure to energy at December 31, 2020 equated to approximately $86.8 million, or 1.7% of total loans, summarized as follows:

- 55% equipment finance; this portfolio consisted primarily of fully amortizing fixed rate loans on multi-use assets like trucks, trailers and cranes.
- 27% factoring consisting of purchased invoices from energy-related loads in our factoring operations. The Company typically collects out of these exposures in 30 — 90 days and continuously evaluates the credit worthiness of the ultimate account debtor, TBK's source of repayment.
- 6% asset-based lending
- 12% other types of energy lending

At December 31, 2020, the Company did not have exposure to Exploration and Production ("E&P") or Reserve-Based lending and only had minimal exposure to specialized equipment lending.

At December 31, 2020, there were $13.3 million of energy lending loans in deferral through our CARES Act deferral program.

Hospitality Lending:

The Company's exposure to hospitality at December 31, 2020 equated to approximately $125.8 million, or 2.5% of total loans. These were mostly smaller loans purchased through our bank acquisitions and secured by hotels. At December 31, 2020, there were $41.8 million of hospitality lending loans in deferral through our CARES Act deferral program.

Restaurants:

The Company's exposure to restaurants at December 31, 2020 equated to approximately $36.8 million, or less than 1% of total loans. At December 31, 2020, there were $6.6 million of restaurant lending loans in deferral through our CARES Act deferral program.

Health Care and Senior Care Lending:

The Company's exposure to health care and senior care at December 31, 2020, equated to $44.8 million, or less than 1% of total loans. At December 31, 2020, there were no healthcare and senior care lending loans in deferral through our CARES Act deferral program.

We continue to work with customers directly affected by COVID-19. We are prepared to offer short-term assistance in accordance with regulator guidelines. As a result of the current economic environment caused by the COVID-19 virus, we have been engaged in frequent communication with borrowers to better understand their situation and the challenges faced, allowing us to respond proactively as needs and issues arise.

Held to Maturity Securities

At December 31, 2020, we held $7.9 million in subordinated notes of three CLO securities managed by our former subsidiary. These securities are the junior-most in securitization capital structures, and are subject to suspension of distributions if the credit of the underlying loan portfolios deteriorates materially. During the year ended December 31, 2020, pandemic-related downgrades and default activity caused overcollateralization triggers to be tripped on two of the three CLO investments which had a material impact on expected cash flows used to calculate the ACL. At year end, the overcollateralization triggers were not tripped; however, the required ACL on these balances was $2.0 million resulting in $1.9 million of credit loss expense recognized during the year. Our held to maturity securities were nonaccrual assets at December 31, 2020. Ultimately, the realized cash flows on CLO securities such as these will be driven by a variety of factors, including credit performance of the underlying loan portfolio, adjustments to the portfolio by the asset manager, and the timing of a potential call. Thus, we may not receive the full amount of cash distributions we expect to receive, which would cause us to record additional allowance for credit losses with a corresponding charge to credit loss expense through earnings.

Retail operations

The Company is committed to assisting our customers and communities in this time of need. Most branch locations have converted to drive-thru only in order to ensure the health and safety of our customers and team members. The branches with lobbies open have been retrofitted with sneeze guard protective screens and our branches have been supplied with gloves and disinfectant materials for lobby, drive through and ATM equipment. We have introduced temporary changes to help with the financial hardship caused by COVID-19 for both our customers and non-customers. This included waiving select deposit account fees including overdraft fees, ATM fees and excessive withdrawal fees for savings and money market accounts. These fee waivers expired on June 1, 2020. Daily deposit limits for ATMs and Mobile were increased. We have also provided check-cashing services for government issued stimulus checks for both customers and non-customers. We continue to support the communities we serve as demonstrated by local teams making donations to those in need and buying meals for first responders.

We continue to serve our customers that need emergency branch access for account issues, safe deposit access and similar items by appointment. The Company has been able to open and close accounts effectively, through its

drive through facility, and our Customer Care 800 access is successfully managing the volume of incoming calls. Additionally, the Company temporarily waived account service charges during the three months ended June 30, 2020 in an effort to assist all of our customers that may be in need including our small business and commercial customers.

The Company continues to monitor the safety of our staff. With reduced access to the lobby, our staffing is adequate to address the requests for time off by any of our employees who are impacted by health or child care issues. For our retail staff being asked to work during this event, a temporary pay increase was implemented in appreciation for their service.

Transportation

During the first half of 2020, the Company's transportation business was affected by COVID-19 and low oil prices. During this time, the most significant transportation-related impact of COVID-19 on operating results was a decrease year-over-year in exports from China to the U.S. The impact of this dynamic was offset during the first quarter by strength in other sectors of Triumph Business Capital's ("TBC") business in the first quarter of 2020, as freight volumes remained on par with seasonal expectations. However, the aforementioned global supply disruption from China, in combination with the U.S. supply chain challenges due to business closures, shelter in place orders and an overall decrease in consumer demand was felt heavily in April and May of 2020 with a significant reduction in freight movement. During these months, the over-capacity market drove spot rates to decade-low numbers. In June, freight volumes resumed to 2019 levels or higher, and spot rates moved up accordingly. Many carriers who were inactive during April and May resumed to nearly full utilization. Small owner operators also returned to the market.

During the second half of 2020, the Company's transportation businesses benefited from high freight volume in a reduced capacity market. Spot rates returned to mid-2018 highs in all trailer categories. This resulted in a significant rise in the average invoice price. This was unusual as diesel prices held steady or dropped slightly, indicating a majority of the increase related to capacity shortage in many markets. A portion of the increased freight was catch-up, as U.S ports reached capacity on incoming imports. Loads from Mexico rose to record high levels. The third quarter of 2020 saw many idle carriers respond to the higher spot rates and return to market, despite continued increases in insurance costs that threaten breakeven at lower freight rates. Purchases at TBC rose during the third quarter and rose again the following quarter. This reflected the capacity shortage and the beneficial pricing for those firms active in the market. It also reflected an increase in TBC clients. Driver pay has been increasing, insurance rates are up and diesel has been edging higher. Although there have been record Class 8 and tractor orders, delivery dates are being pushed further into 2021. This leaves capacity strained and costs high, so most project that rates will stay at current levels or slightly lower. If the economy is impacted by further stimulus and mass-scale vaccinations, 2021 could be a strong year for transportation. However, if the measures to curtail the economic impact of COVID-19 prove to be unsuccessful, we could experience an impact on our transportation business similar to that experienced during the first half of 2020.

For the year ended December 31, 2020, gross transportation revenue, consisting of factoring revenue from transportation clients, interest and fees from commercial loans to borrowers in transportation industries, transportation related insurance commissions, and revenue from TriumphPay, made up 40% of total gross revenue consisting of total interest income and noninterest income. This compares to average transportation assets, consisting of transportation related factored receivables and commercial loans to borrowers in transportation industries, making up 24% of total assets for the year.

Results of Operations

For discussion of the results of operations for the year ended December 31, 2019 compared with the year ended December 31, 2018, see Triumph's 2019 Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 11, 2020.

Fiscal year ended December 31, 2020 compared with year ended December 31, 2019

Net Income

We earned net income of $64.0 million for the year ended December 31, 2020 compared to $58.5 million for the year ended December 31, 2019, an increase of $5.5 million.

The results for the year ended December 31, 2020 were impacted by the gain on sale of TPF of $9.8 million reported as noninterest income and transaction costs of $0.8 million associated with the TFS Acquisition reported as noninterest expense. There were no merger and acquisition related activities during the year ended December 31, 2019. Excluding the gain on sale, net of taxes, we earned adjusted net income to common stockholders of $55.6 million for the year ended December 30, 2020 compared to $58.5 million for the year ended December 31, 2019, a decrease of $2.9 million. The adjusted decrease was primarily the result of a $30.4 million increase in credit loss expense, a $17.2 million increase in adjusted noninterest expense, a $1.5 million increase in adjusted income tax expense, and a $1.7 million increase in dividends on preferred stock offset in part by an $28.8 million increase in net interest income and a $19.1 million increase in adjusted noninterest income.

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,								
	2020			2019			2018		
(Dollars in thousands)	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Interest-earning assets:									
Cash and cash equivalents	$ 214,994	$ 708	0.33%	$ 137,615	$ 3,062	2.23%	$ 164,639	$ 3,289	2.00%
Taxable securities	248,617	7,312	2.94%	273,966	9,137	3.34%	191,644	4,962	2.59%
Tax-exempt securities	36,669	917	2.50%	59,018	1,337	2.27%	71,120	1,392	1.96%
FHLB and other restricted stock	23,786	530	2.23%	21,269	712	3.35%	18,013	507	2.81%
Loans [(1)]	4,465,891	312,648	7.00%	3,832,239	296,905	7.75%	3,131,324	252,826	8.07%
Total interest-earning assets	4,989,957	322,115	6.46%	4,324,107	311,153	7.20%	3,576,740	262,976	7.35%
Noninterest-earning assets:									
Cash and cash equivalents	56,729			80,206			66,325		
Other noninterest-earning assets	379,783			369,339			257,663		
Total assets	$5,426,469			$4,773,652			$3,900,728		

(Dollars in thousands)	2020 Average Balance	2020 Interest	2020 Average Rate	2019 Average Balance	2019 Interest	2019 Average Rate	2018 Average Balance	2018 Interest	2018 Average Rate
Interest-bearing liabilities:									
Deposits:									
Interest-bearing demand	628,721	1,073	0.17%	593,178	1,492	0.25%	451,327	1,020	0.23%
Individual retirement accounts	98,445	1,311	1.33%	110,553	1,731	1.57%	108,170	1,348	1.25%
Money market	405,323	1,914	0.47%	433,922	5,752	1.33%	318,927	2,618	0.82%
Savings	390,023	576	0.15%	363,760	478	0.13%	281,995	279	0.10%
Certificates of deposit	948,687	17,477	1.84%	1,016,797	22,614	2.22%	809,321	11,994	1.48%
Brokered time deposits	278,604	4,613	1.66%	348,523	8,158	2.34%	291,776	5,799	1.99%
Other brokered deposits	205,398	439	0.21%	—	—	— %	—	—	— %
Total interest-bearing deposits	2,955,201	27,403	0.93%	2,866,733	40,225	1.40%	2,261,516	23,058	1.02%
Federal Home Loan Bank advances	342,264	2,001	0.58%	369,548	8,557	2.32%	345,388	6,774	1.96%
Subordinated notes	87,398	5,363	6.14%	52,682	3,553	6.74%	48,877	3,351	6.86%
Junior subordinated debentures	39,807	2,114	5.31%	39,306	2,910	7.40%	38,845	2,741	7.06%
Other borrowings	150,325	506	0.34%	7,827	5	0.06%	8,648	2	0.02%
Total interest-bearing liabilities	3,574,995	37,387	1.05%	3,336,096	55,250	1.66%	2,703,274	35,926	1.33%
Noninterest-bearing liabilities and equity:									
Noninterest-bearing demand deposits	1,114,912			723,682			605,863		
Other liabilities	74,620			66,148			32,141		
Total equity	661,942			647,726			559,450		
Total liabilities and equity	$5,426,469			$4,773,652			$3,900,728		
Net interest income		$284,728			$255,903			$227,050	
Interest spread [2]			5.41%			5.54%			6.02%
Net interest margin [3]			5.71%			5.92%			6.35%

For the years ended December 31.

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:

(Dollars in thousands)	For the years ended December 31,		
	2020	2019	2018
Average community banking	$2,040,647	$2,158,683	$1,762,184
Average commercial finance	1,458,862	1,190,651	1,065,657
Average national lending	966,382	482,905	303,483
Average total loans	$4,465,891	$3,832,239	$3,131,324
Community banking yield	5.35%	5.87%	5.86%
Commercial finance yield	10.81%	12.23%	12.49%
National lending yield	4.75%	5.11%	5.41%
Total loan yield	7.00%	7.75%	8.07%

We earned net interest income of $284.7 million for the year ended December 31, 2020 compared to $255.9 million for the year ended December 31, 2019, an increase of $28.8 million, or 11.3%, primarily driven by the following factors.

Interest income increased $11.0 million, or 3.5%, as a result of an increase in total average interest-earning assets of $665.9 million, or 15.4%. The average balance of our higher yielding commercial finance loans increased $268.2 million, or 22.5%, from $1.191 billion for the year ended December 31, 2019 to $1.459 billion for the year ended December 31, 2020. The impact of increased average commercial finance balances was offset by decreased yields on factored receivables and increased average balances in our lower yielding mortgage warehouse lending product. The average mortgage warehouse lending balance was $729.8 million for the year ended December 31, 2020 compared to $370.4 million for the year ended December 31, 2019. Further, we began originating PPP loans during the second quarter and carried $189.9 million of PPP loans at December 31, 2020. PPP loans carry a coupon rate of 1% which has a meaningful downward impact on our loan yield. A component of interest income consists of discount accretion on acquired loan portfolios. We recognized discount accretion on purchased loans of $10.7 million and $5.6 million for the years ended December 31, 2020 and 2019, respectively.

Interest expense decreased $17.9 million, or 32.3%, in spite of growth in average interest-bearing liabilities. More specifically, average total interest-bearing deposits increased $88.5 million, or 3.1%. The decrease in interest expense was the result of lower average rates discussed below.

Net interest margin decreased to 5.71% for the year ended December 31, 2020 from 5.92% for the year ended December 31, 2019, a decrease of 21 basis points or 3.5%.

Our net interest margin was impacted by a decrease in yield on our interest-earning assets of 74 basis points to 6.46% for the year ended December 31, 2020. This decrease was driven by lower yields and a change in the overall mix within our loan portfolio period over period which drove a 75 basis point reduction in our loan yield to 7.00% for the same period. As previously discussed, we carried $189.9 million of PPP loans with a coupon rate of 1% at December 31, 2020. Our higher yielding average commercial finance products as a percentage of the total loan portfolio increased from 31.1% for the year ended December 31, 2019 to 32.7% for the year ended December 31, 2020 somewhat offsetting the overall decrease in yield on our loan portfolio. Average factored receivables as a percentage of the total commercial finance portfolio increased from 49.0% for the year ended December 31, 2019 to 53.1% for the year ended December 31, 2020. However, we experienced pricing pressure that decreased yields on our factored receivables during the year ended December 31, 2020 leading to decreased yields from our commercial finance portfolio. 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 90.0% at December 31, 2020 compared to 77.0% at December 31, 2019. Yields on our non-loan interest-earning assets were generally flat or down period over period as well; however, these products do not impact the yield on interest-earning assets to the same extent as our loan portfolio.

The decrease in our net interest margin was partially offset by a decrease in our average cost of interest-bearing liabilities of 61 basis points. This decrease was caused by lower interest rates paid on our interest-bearing liabilities driven by changes in interest rates in the macro economy.

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,					
	2020 Compared to 2019			2019 Compared to 2018		
	Increase (Decrease) Due to:			Increase (Decrease) Due to:		
(Dollars in thousands)	Rate	Volume	Net Change	Rate	Volume	Net Change
Interest-earning assets:						
Cash and cash equivalents	$ (2,609)	$ 255	$ (2,354)	$ 374	$ (601)	$ (227)
Taxable securities	(1,079)	(746)	(1,825)	1,429	2,746	4,175
Tax-exempt securities	139	(559)	(420)	219	(274)	(55)
FHLB stock	(238)	56	(182)	96	109	205
Loans	(28,618)	44,361	15,743	(10,225)	54,304	44,079
Total interest income	(32,405)	43,367	10,962	(8,107)	56,284	48,177
Interest-bearing liabilities:						
Interest-bearing demand	(480)	61	(419)	115	357	472
Individual retirement accounts	(259)	(161)	(420)	346	37	383
Money market	(3,703)	(135)	(3,838)	1,610	1,524	3,134
Savings	59	39	98	92	107	199
Certificates of deposit	(3,882)	(1,255)	(5,137)	6,006	4,614	10,620
Brokered time deposits	(2,387)	(1,158)		—	—	
Other brokered deposits	—	439	439	1,031	1,328	2,359
Total interest-bearing deposits	(10,652)	(2,170)	(12,822)	9,200	7,967	17,167
Federal Home Loan Bank advances	(6,396)	(160)	(6,556)	1,224	559	1,783
Subordinated notes	(320)	2,130	1,810	(55)	257	202
Junior subordinated debentures	(823)	27	(796)	135	34	169
Other borrowings	21	480	501	4	(1)	3
Total interest expense	(18,170)	307	(17,863)	10,508	8,816	19,324
Change in net interest income	$(14,235)	$43,060	$ 28,825	$(18,615)	$47,468	$28,853

Credit Loss Expense

Credit loss expense is the amount of expense that, based on our judgment, is required to maintain the allowances for credit losses ("ACL") at an appropriate level under the current expected credit loss model. The determination of the amount of the allowance is complex and involves a high degree of judgment and subjectivity. Refer to Note 1 of the notes to the financial statements for detailed discussion regarding ACL methodologies for available for sale debt securities, held to maturity securities and loans held for investment.

The following table presents the major categories of credit loss expense:

(Dollars in thousands)	December 31, 2020	December 31, 2019	December 31, 2018	2020 Compared to 2019 $ Change	2020 Compared to 2019 % Change	2019 Compared to 2018 $ Change	2019 Compared to 2018 % Change
Credit loss expense on loans	$33,981	$7,942	$16,167	$26,039	327.9%	$(8,225)	(50.9)%
Credit loss expense on off balance sheet credit exposures	2,448	—	—	2,448	100.0%	—	— %
Credit loss expense on held to maturity securities	1,900	—	—	1,900	100.0%	—	— %
Credit loss expense on available for sale securities	—	—	—	—	— %	—	— %
Total credit loss expense	$38,329	$7,942	$16,167	$30,387	382.6%	$(8,225)	(50.9)%

Upon and subsequent to adoption of ASC 326, for available for sale debt securities in an unrealized loss position, the Company evaluates the securities at each measurement date to determine whether the decline in the fair value below the amortized cost basis (impairment) is due to credit-related factors or noncredit-related factors. Any impairment that is not credit related is recognized in other comprehensive income, net of applicable taxes. Credit-related impairment is recognized as an ACL on the balance sheet, limited to the amount by which the amortized cost basis exceeds the fair value, with a corresponding adjustment to earnings via credit loss expense. At January 1, 2020 and December 31, 2020, the Company determined that all impaired available for sale securities experienced a decline in fair value below the amortized cost basis due to noncredit-related factors. Therefore, the Company carried no ACL at those respective dates and there was no credit loss expense recognized by the Company during the year ended December 31, 2020.

Upon and subsequent to adoption of ASC 326, the ACL on held to maturity securities is estimated at each measurement date on a collective basis by major security type. At December 31, 2020 and December 31, 2019, the Company's held to maturity securities consisted of three investments in the subordinated notes of collateralized loan obligation ("CLO") funds. Expected credit losses for these securities are estimated using a discounted cash flow methodology which considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. At January 1, 2020 and December 31, 2020, the Company carried $8.4 million and $7.9 million of these HTM securities at amortized cost, respectively. The ACL on these balances was $0.1 million at January 1, 2020. During the year ended December 31, 2020, pandemic-related downgrades and default activity caused overcollateralization triggers to be tripped on two of the three CLO investments which had a material impact on expected cash flows used to calculate the ACL. These overcollateralization triggers were not tripped at the end of the year. At December 31, 2020, our held to maturity securities were nonaccrual assets. The ACL on these balances was $2.0 million at December 31, 2020 resulting in $1.9 million of credit loss expense recognized during the year ended December 31, 2020. Ultimately, the realized cash flows on CLO securities such as these will be driven by a variety of factors, including credit performance of the underlying loan portfolio, adjustments to the portfolio by the asset manager, and the timing of a potential call.

Our ACL on loans was $95.7 million as of December 31, 2020, compared to $29.1 million as of December 31, 2019, representing an ACL to total loans ratio of 1.92% and 0.69% respectively. Upon adoption of ASC 326, management booked an increase of $0.3 million to the ACL and a decrease to retained earnings net of the deferred tax impact. The Day 1 adjustment upon adoption raised the ACL balance to $29.4 million on January 1, 2020.

Our credit loss expense on loans increased $26.0 million, or 327.9%, for the year ended December 31, 2020 compared to the year ended December 31, 2019.

One driver of the increased credit loss expense was significant year-to-date projected deterioration of the loss drivers that the Company forecasts to calculate expected losses. This deterioration was brought on by the

projected economic impact of COVID-19 on the Company's loss drivers over the reasonable and supportable forecast period. See further discussion in the allowance for credit loss section below. The deterioration of forecasted loss assumptions and minimal changes to qualitative loss factors resulted in approximately $16.7 million of credit loss expense for the year ended December 31, 2020. For the year ended December 31, 2019, changes to loss factors under the incurred loss allowance methodology resulted in a benefit to credit loss expense of $0.5 million.

Another driver of the increased credit loss expense was an increase in required ACL on the Over-Formula Advances deemed to be purchased credit deteriorated ("PCD"). Management determined that the $62.2 million in Over-Formula Advances and some smaller immaterial factored receivables obtained through the TFS Acquisition had experienced more than insignificant credit deterioration since origination and thus deemed those Over-Formula Advances to be purchased credit deteriorated ("PCD"). This resulted in recording a $37.4 million ACL on the PCD assets through purchase accounting during the year ended December 31, 2020. There was no initial impact to credit loss expense resulting from the PCD determination. At December 31, 2020, the ACL on the Over-Formula Advance PCD assets increased by $11.5 million and the total ACL on all acquired PCD assets was $49.0 million. The change in ACL on PCD assets subsequent to acquisition was charged to credit loss expense. This increase in required PCD ACL caused us to increase the value of our Covenant indemnification asset by $5.3 million which was recorded through non-interest income.

The increase in credit loss expense was further driven by net new specific reserves on non-PCD assets. We recorded net new specific reserves on non-PCD assets of $5.1 million during the year ended December 31, 2020 compared to $2.2 million during the year ended December 31, 2019.

The increased credit loss expense was partially offset by net charge-off activity during the year. We experienced lower net charge-offs of $4.6 million in year ended December 31, 2020 compared to $6.4 million for the same period in 2019. Additionally, approximately $1.0 million and $1.7 million of the charge-offs for the years ended December 31, 2020 and 2019, respectively, had specific reserves previously recorded.

Change in loan growth and change in mix partially offset the increase in credit loss expense period over period. During the year ended December 31, 2020, outstanding loans increased $802.3 million. When this increase is adjusted for PPP loan growth of $189.9 million, loans increased $612.4 million during the year and much of this growth was in factored receivables and mortgage warehouse lending which require lower reserve rates due to their nature. Refer to discussion of the allowance for credit losses below for ACL considerations regarding our PPP loans. During the year ended December 31, 2019, outstanding loans increased $585.9 million; however, this growth was in lending products that required higher levels of reserves. For the year ended December 31, 2020, changes in loan growth and changes in mix decreased credit loss expense by $3.0 million. Changes in loan growth and mix resulted in $1.6 million of credit loss expense for the same period one year ago.

Credit loss expense for off balance sheet credit exposures increased $2.4 million, primarily due to increased assumed loss rates on estimated funding as a result of the COVID-19 virus. The Company also experienced an increase in commitments to fund during the period. Prior to January 1, 2020, credit loss expense for off balance sheet credit exposures was recorded in other noninterest expense. Credit loss expense for off balance sheet credit exposures for the year ended December 31, 2019 was insignificant.

Noninterest Income

The following table presents the major categories of noninterest income:

(Dollars in thousands)	Year ended December 31, 2020	2019	2018	2020 Compared to 2019 $ Change	% Change	2019 Compared to 2018 $ Change	% Change
Service charges on deposits	$ 5,274	$ 7,132	$ 5,469	$ (1,858)	(26.1)%	$ 1,663	30.4%
Card income	7,781	7,873	6,514	(92)	(1.2)%	1,359	20.9%
Net OREO gains (losses) and valuation adjustments	(616)	351	(514)	(967)	(275.5)%	865	(168.3)%
Net gains (losses) on sale of securities	3,226	61	(272)	3,165	5,188.5%	333	(122.4%)
Fee income	6,007	6,441	5,150	(434)	(6.7)%	1,291	25.1%
Insurance commissions	4,232	4,219	3,492	13	0.3%	727	20.8%
Gain on sale of subsidiary or division	9,758	—	1,071	9,758	100.0%	(1,071)	(100.0%)
Other	24,723	5,492	2,060	19,231	350.2%	3,432	166.6%
Total noninterest income	$60,385	$31,569	$22,970	$28,816	91.3%	$ 8,599	37.4%

Noninterest income increased $28.8 million, or 91.3%. Noninterest income for the year ended December 31, 2020 was impacted by the realization of the $9.8 million gain associated with the sale of TPF. Excluding the gain on sale of TPF, we earned adjusted noninterest income of $50.6 million for the year ended December 31, 2020, resulting in an adjusted increase in noninterest income of $19.0 million, or 60.1%, 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, decreased $1.9 million, or 26.1%. In keeping with guidance from regulators, we actively worked with COVID-19 affected customers during the second quarter of 2020 to waive fees from a variety of sources, such as, but not limited to, insufficient funds and overdraft fees, ATM fees, account maintenance fees, etc. These reductions in fees were temporary and expired on June 1, 2020.

- *Net OREO gains (losses) and valuation adjustments.* Net OREO gains (losses) and valuation adjustments, which represents gains and losses on loans transferred to OREO, gains and losses on the sale of OREO, and valuation adjustments recorded due to the subsequent change in fair value less costs to sell of OREO, reflect increased losses of $1.0 million. OREO activity on individual repossessed assets during the years ended December 31, 2020 and 2019 was not significant.

- *Net gains (losses) on sale or call of securities.* Net gains (losses) on sale or call of securities increased $3.2 million due to increased sales of available for sale CLOs during the year ended December 31, 2020.

- *Other.* Other noninterest income, increased $19.2 million, or 350.2%. We recognized $10.9 million of non-interest income during the year ended December 31, 2020 related to CVLG's delivery of proceeds to us resulting from CVLG's liquidation of its acquired TBK stock in connection with the September 23, 2020 Account Management Agreement, Amendment to Purchase Agreement and Mutual Release. This was measured as the difference between the initial purchase accounting measurement and the amount of net proceeds delivered to the Company upon liquidation. Additionally, the value of our indemnification asset related to the Over-Formula Advances acquired from Covenant increased $5.3 million during the year resulting in $5.3 million of other noninterest income. Further, we recognized $1.9 million of loan syndication fees related to the syndication and placement of one large relationship that closed during the current year. This revenue was recognized at the time of closing as all required services had been completed. Gain on sale of loans was $2.8 million and $2.3 million for the years ended December 31, 2020 and 2019, respectively. The increase in other

noninterest income was partially offset by a $0.7 million loss recognized on the donation of a branch to a local municipality during the year ended December 31, 2020. The remaining increase was driven by organic growth in our operations. There were no other significant items within in the components of other noninterest income during the year ended December 31, 2019.

Noninterest Expense

The following table presents the major categories of noninterest expense:

	Year ended December 31,			2020 Compared to 2019		2019 Compared to 2018	
(Dollars in thousands)	2020	2019	2018	$ Change	% Change	$ Change	% Change
Salaries and employee benefits	$126,975	$112,862	$ 90,212	$14,113	12.5%	$22,650	25.1%
Occupancy, furniture and equipment	22,766	18,196	14,023	4,570	25.1%	4,173	29.8%
FDIC insurance and other regulatory assessments	1,520	298	1,129	1,222	410.1%	(831)	(73.6%)
Professional fees	9,349	7,288	8,939	2,061	28.3%	(1,651)	(18.5)%
Amortization of intangible assets	8,330	9,131	6,980	(801)	(8.8)%	2,151	30.8%
Advertising and promotion	4,718	6,126	4,974	(1,408)	(23.0)%	1,152	23.2%
Communications and technology	22,153	20,976	18,270	1,177	5.6%	2,706	14.8%
Travel and entertainment	2,394	5,434	4,234	(3,040)	(55.9)%	1,200	28.3%
Other	23,869	23,773	18,592	96	0.4%	5,181	27.9%
Total noninterest expense	$222,074	$204,084	$167,353	$17,990	8.8%	$36,731	21.9%

Noninterest expense increased $18.0 million, or 8.8%. Noninterest expense for the year ended December 31, 2020 was impacted by $0.8 million of transaction costs associated with the TFS Acquisition. Excluding the TFS Acquisition transaction costs, we incurred adjusted noninterest expense of $221.3 million for the year ended December 31, 2020, resulting in an adjusted net increase in noninterest expense of $17.2 million, or 8.4%. 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 $14.1 million, or 12.5%,which is primarily due to temporary increased second quarter pay to branch employees during the COVID-19 pandemic, merit increases for existing employees, higher health insurance benefit costs, incentive compensation, and 401(k) expense. The size of our workforce was relatively flat. Our average full-time equivalent employees were 1,124.0 and 1,118.8 for the years ended December 31, 2020 and 2019, respectively.

- *Occupancy, Furniture and Equipment.* Occupancy, furniture and equipment expenses increased $4.6 million, or 25.1%, primarily due to growth in our operations. We recorded right of use asset and leasehold improvement impairment expense of $1.4 million during the year ended December 31, 2020 related to our decision to consolidate part of our El Paso, TX factoring operations to our Triumph Business Capital headquarters in Coppell, TX.

- *FDIC Insurance and Other Regulatory Assessments.* FDIC insurance and other regulatory assessments increased $1.2 million, or 410.1%, primarily due to the application of a small bank credit by the FDIC during the year ended December 31, 2019 that did not repeat during the year ended December 31, 2020.

- *Professional Fees.* Professional fees, which are primarily comprised of external audit, tax, consulting, and legal fees, increased $2.1 million, or 28.3%, primarily due to professional fees incurred in connection with the TFS Acquisition.

- *Amortization of intangible assets.* Amortization of intangible assets decreased $0.8 million, or 8.8%, due to lower amortizable intangible asset balances during the year ended December 31, 2020 compared to the same period during 2019.
- *Advertising and promotion.* Advertising and promotion expenses decreased $1.4 million, or 23.0%, primarily due to pull back in this type of spending as a result of the COVID-19 pandemic.
- *Communications and Technology.* Communications and technology expenses increased $1.2 million, or 5.6%, primarily as a result as a result of increased information technology license and software maintenance expense as well as continued spend on technology designed to improve efficiency in our operations.
- *Travel and entertainment.* Travel and entertainment expenses decreased $3.0 million, or 55.9%, primarily due to the impact of the COVID-19 pandemic on such activities.
- *Other.* Other noninterest expense includes loan-related expenses, software amortization, training and recruiting, postage, insurance, and subscription services. There were no significant increases or decreases in the components of other noninterest expense period over period.

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 $3.8 million, or 22.4%, from $16.9 million for the year ended December 31, 2019 to $20.7 million for the year ended December 31, 2020. The increase in income tax expense period over period is consistent with the increase in pre-tax income for the same periods. The effective tax rate was 24% and 22% for the years ended December 31, 2020 and 2019, respectively. The increase in the effective tax rate period over period is principally due to additional state tax filings from significant revenue growth in new states.

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, 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. Beginning in 2019, intersegment interest expense is allocated to the Factoring segment based on Federal Home Loan Bank advance rates. Prior to 2019, intersegment interest was calculated based on the Company’s prime rate. Credit loss expense is allocated based on the segment’s ACL 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) Year Ended December 31, 2020	Banking	Factoring	Corporate	Consolidated
Total interest income	$212,452	$109,391	$ 272	$322,115
Intersegment interest allocations	12,371	(12,371)	—	—
Total interest expense	29,911	—	7,476	37,387
Net interest income (expense)	194,912	97,020	(7,204)	284,728
Credit loss expense	20,389	16,042	1,898	38,329
Net interest income (expense) after credit loss expense	174,523	80,978	(9,102)	246,399
Gain on sale of subsidiary or division	9,758	—	—	9,758
Other noninterest income	29,503	21,010	114	50,627
Noninterest expense	163,995	54,011	4,068	222,074
Operating income (loss)	$ 49,789	$ 47,977	$(13,056)	$ 84,710

(Dollars in thousands) Year Ended December 31, 2019	Banking	Factoring	Corporate	Consolidated
Total interest income	$211,742	$ 98,247	$ 1,164	$311,153
Intersegment interest allocations	11,294	(11,294)	—	—
Total interest expense	48,786	—	6,464	55,250
Net interest income (expense)	174,250	86,953	(5,300)	255,903
Credit loss expense	5,533	2,486	(77)	7,942
Net interest income (expense) after credit loss expense	168,717	84,467	(5,223)	247,961
Noninterest income	26,875	4,727	(33)	31,569
Noninterest expense	148,620	51,780	3,684	204,084
Operating income (loss)	$ 46,972	$ 37,414	$(8,940)	$ 75,446

(Dollars in thousands) 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
Credit loss expense	12,373	3,802	(8)	16,167
Net interest income (expense) after credit loss expense	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) December 31, 2020	Banking	Factoring	Corporate	Eliminations	Consolidated
Total assets	$5,907,373	$1,121,704	$861,967	$(1,955,253)	$5,935,791
Gross loans held for investment	$4,872,494	$1,036,369	$ 800	$ (912,887)	$4,996,776

(Dollars in thousands) December 31, 2019	Banking	Factoring	Corporate	Eliminations	Consolidated
Total assets	$4,976,009	$ 662,002	$771,048	$(1,348,762)	$5,060,297
Gross loans held for investment	$4,108,735	$ 573,372	$ 1,519	$ (489,114)	$4,194,512

Banking

(Dollars in thousands)	Years Ended December 31,			2020 Compared to 2019		2019 Compared to 2018	
Banking	2020	2019	2018	$ Change	% Change	$ Change	% Change
Total interest income	$212,452	$211,742	$170,871	$ 710	0.3%	$40,871	23.9%
Intersegment interest allocations	12,371	11,294	20,191	1,077	9.5%	(8,897)	(44.1)%
Total interest expense	29,911	48,786	29,834	(18,875)	(38.7)%	18,952	63.5%
Net interest income (expense)	194,912	174,250	161,228	20,662	11.9%	13,022	8.1%
Credit loss expense	20,389	5,533	12,373	14,856	268.5%	(6,840)	(55.3)%
Net interest income (expense) after credit loss expense	174,523	168,717	148,855	5,806	3.4%	19,862	13.3%
Gain on sale of subsidiary or division	9,758	—	1,071	9,758	100.0%	(1,071)	(100.0)%
Other noninterest income	29,503	26,875	18,364	2,628	9.8%	8,511	46.3%
Noninterest expense	163,995	148,620	119,283	15,375	10.3%	29,337	24.6%
Operating income (loss)	$ 49,789	$ 46,972	$ 49,007	$ 2,817	6.0%	$ (2,035)	(4.2)%

Our Banking segment's operating income increased $2.8 million, or 6.0%. Our Banking segment's operating income for the year ended December 31, 2020 was impacted by the realization of the $9.8 million gain associated with the sale of TPF in the second quarter of 2020. Excluding the gain on sale of TPF, our Banking segment's adjusted operating income was $40.0 million for the year, resulting in an adjusted decrease in operating income of $6.9 million, or 14.9%, period over period.

Interest income increased primarily as a result of increases in the balances of our interest-earning assets, primarily loans, due to the continued growth of our commercial finance products, including equipment loans, and growth in our general C&I lending resulting from our origination of PPP loans. Average loans in our Banking segment increased 15.8% from $3.753 billion for the year ended December 31, 2019 to $4.347 billion for the year ended December 31, 2020. The increase in interest income due to increased average balances of our interest-earning assets was partially offset by lower yields across almost all of our interest-earning asset groups.

Interest expense decreased in spite of growth in average interest-bearing liabilities at our Banking segment. More specifically, average total interest-bearing deposits increased $88.5 million, or 3.1%. The decrease in interest expense was the result of a decrease in our average cost of interest-bearing liabilities driven by changes in interest rates in the macro economy.

Credit loss expense at our banking segment is made up of credit loss expense related to loans and credit loss expense related to off balance sheet commitments to lend. Credit loss expense related to loans was $17.9 million for the year ended December 31, 2020 compared to $5.5 million for the year ended December 31, 2019. The increased credit loss expense related to loans for our Banking segment was primarily the result of significant year-to-date deterioration in the loss drivers that the Company forecasts to calculate expected losses and minimal changes in qualitative loss factors. The deterioration in forecasted loss assumptions resulted in approximately $16.7 million of credit loss expense for the year ended December 31, 2020. For the year ended December 31,

2019, changes to loss factors under the incurred loss allowance methodology resulted in approximately $0.2 million of credit loss expense at our Banking segment. The increase in the credit loss expense at our Banking segment was further driven by net new specific reserves. We recorded net new specific reserves at our Banking segment of $5.2 million during the year ended December 31, 2020 compared to $1.0 million during the prior year. We experienced lower total net charge-offs at our Banking segment of $1.6 million during the year ended December 31, 2020 compared to $4.5 million for the same period in 2019. Charge-offs during the year ended December 31, 2020 had $0.3 million of reserves established in a prior period while charge-offs during the year ended December 31, 2019 had previously established reserves of $1.7 million. Excluding PPP loans that require no ACL, loan growth at our banking segment was flat year-over-year; however, there was a shift of loan mix during the current year away from loan segments that require higher ACL factors to loan segments that require lower ACL factors such as mortgage warehouse lending. This change in mix at our Banking segment offset the increase in credit loss expense period over period. For the year ended December 31, 2020, changes in loan volume and mix reduced credit loss expense by $5.3 million during the period. Changes in loan volume and mix resulted in an increase in credit loss expense of $1.7 million for the year ended December 31, 2019.

Credit loss expense for off balance sheet credit exposures at our Banking segment increased $2.4 million, primarily due to increased assumed loss rates on estimated funding as a result of the COVID-19 virus. The Company also experienced an increase in commitments to fund during the period. Prior to January 1, 2020, credit loss expense for off balance sheet credit exposures at our Banking segment was recorded in other noninterest expense. Credit loss expense for off balance sheet credit exposures at our Banking segment for the nine months ended September 30, 2019 was insignificant.

Noninterest income at our Banking segment increased primarily due to a $3.2 million gain on sale of securities related to the liquidation of available for sale CLOs during the year ended December 31, 2020. Additionally, we recognized $1.9 million of loan syndication fees related to the syndication and placement of one large relationship that closed during the nine months ended September 30, 2020. The increase in other noninterest income at our Banking segment was also driven by gain on sale of loans of $2.8 million for the year ended December 31, 2020 compared to $2.3 million for the same period a year ago. The increase in noninterest income at our Banking segment was partially offset by a $1.9 million decrease in service charges on deposits primarily driven by by our willingness to actively work with COVID-19 affected customers during the second quarter of 2020 to waive fees from a variety of sources, such as, but not limited to, insufficient funds and overdraft fees, ATM fees, account maintenance fees, etc. The increase was also partially offset by a $0.7 million loss recognized on the donation of a branch to a local municipality during the year ended December 31, 2020.

Noninterest expense increased due to incremental costs associated with the growth in our Banking segment infrastructure. In addition, increases due to temporary increased pay to branch employees during the COVID-19 pandemic, merit increases for existing employees, higher health insurance benefit costs, incentive compensation, and 401(k) expense contributed to the increase. Further, FDIC insurance and other regulatory assessments increased $1.2 million due to the application of a small bank credit by the FDIC during the year ended December 31, 2019 that did not repeat during the year ended December 31, 2020.

Factoring

(Dollars in thousands) Factoring	Years Ended December 31, 2020	2019	2018	2020 Compared to 2019 $ Change	% Change	2019 Compared to 2018 $ Change	% Change
Total interest income	$109,391	$ 98,247	$ 90,092	$11,144	11.3%	$ 8,155	9.1%
Intersegment interest allocations	(12,371)	(11,294)	(20,191)	(1,077)	(9.5)%	8,897	44.1%
Total interest expense	—	—	—	—	—	—	—
Net interest income (expense)	97,020	86,953	69,901	10,067	11.6%	17,052	24.4%
Credit loss expense	16,042	2,486	3,802	13,556	545.3%	(1,316)	(34.6)%
Net interest income (expense) after credit loss expense	80,978	84,467	66,099	(3,489)	(4.1)%	18,368	27.8%
Noninterest income	21,010	4,727	3,483	16,283	344.5%	1,244	35.7%
Noninterest expense	54,011	51,780	43,495	2,231	4.3%	8,285	19.0%
Operating income (loss)	$ 47,977	$ 37,414	$ 26,087	$10,563	28.2%	$11,327	43.4%

	As of and for the Year Ended December 31, 2020	2019	2018
Factored receivable period end balance	$1,036,369,000	$ 573,372,000	$ 588,750,000
Yield on average receivable balance	15.07%	18.02%	18.43%
Rolling twelve quarter annual charge-off rate	0.37%	0.39%	0.37%
Factored receivables - transportation concentration	89%	81%	83%
Interest income, including fees	$ 109,391,000	$ 98,247,000	$ 90,092,000
Noninterest income [(1)]	4,883,000	4,727,000	3,483,000
Factored receivable total revenue	114,274,000	102,974,000	93,575,000
Average net funds employed	659,156,000	497,867,000	447,358,000
Yield on average net funds employed	17.34%	20.68%	20.92%
Accounts receivable purchased	$7,134,823,000	$5,674,565,000	$5,119,527,000
Number of invoices purchased	3,908,779	3,451,559	2,897,148
Average invoice size	$ 1,825	$ 1,644	$ 1,767
Average invoice size - transportation	$ 1,682	$ 1,508	$ 1,662
Average invoice size - non-transportation	$ 4,671	$ 3,404	$ 2,906

(1) December 31, 2020 noninterest income excludes the $10.9 million gain related to CVLG's delivery of proceeds resulting from the liquidation of its acquired TBK stock and a $5.3 million increase in the value of the indemnification asset resulting from the amended TFS acquisition agreement

Our Factoring segment's operating income increased $10.6 million, or 28.2%. Our Factoring segment's operating income was impacted by $0.8 million of transaction costs associated with the TFS Acquisition. Excluding the TFS Acquisition transaction costs, our Factoring segment's adjusted operating income was $48.8 million for the year ended December 31, 2020, resulting in an adjusted net increase in operating income of $11.4 million, or 30.5%.

Our average invoice size increased 11.0% from $1,644 for the year ended December 31, 2019 to $1,825 for the year ended December 31, 2020 and the number of invoices purchased increased 13.2% period over period.

Net interest income at our Factoring segment increased $10.1 million, or 11.6%, period over period. Overall average net funds employed ("NFE") was up 32.4% during the year ended December 31, 2020 compared to the same period in 2019. The increase in average NFE was the result of increased invoice purchase volume as well as increased average invoice size due to the impact of the COVID-19 pandemic on over-the-road transportation. See

further discussion under the Recent Developments: COVID-19 and the CARES Act section. After record transportation invoice prices in 2018, 2019 trended toward the longer term levels. The increase in net interest income was partially offset by decreased purchase discount rates driven by greater focus on larger lower priced fleets, competitive pricing pressure, and the aforementioned impact of COVID-19; however, this downward impact was offset by increased concentration in transportation factoring balances, which typically generate a higher yield than our non-transportation factoring balances. This concentration increased 8% period over period from 81% at December 31, 2019 to 89% at December 31, 2020.

The increase in credit loss expense was primarily due to an $11.5 million increase in required reserves on acquired over-formula advances as previously explained in the Credit Loss Expense discussion. Outside the additional specific reserves attributable to the acquired over-formula advances, net new specific reserves at our Factoring segment were flat. Additional net new specific reserves during the same period a year ago resulted in credit loss expense of $1.2 million. Additionally, the period end balance of factored receivables at our Factoring segment increased at a higher rate for the year ended December 31, 2020 as compared to the same period one year ago when balances contracted year-over-year. Growth in the factored receivables balance contributed $2.3 million of credit loss expense for the year ended December 31, 2020 whereas contraction of the portfolio during the prior year created a reduction to credit loss expense of $0.1 million during that time. We experienced higher total net charge-offs at our Factoring segment of $3.0 million during the year ended December 31, 2020 compared to $2.0 million for the same period in 2019. Charge-offs during the year ended December 31, 2020 had $0.7 million of reserves established in a prior period while charge-offs during the year ended December 31, 2019 had no previously established reserves. Change in reserve rates had an insignificant impact on credit loss expense during the year ended December 31, 2020 while changes in such rates decreased credit loss expense at our Factoring segment by $0.7 million during the year ended December 31, 2019.

The increase in noninterest income at our Factoring segment was primarily driven by the recognition of $10.9 million gain resulting from Covenant's delivery of proceeds to us resulting from the liquidation of its acquired TBK stock previously discussed. The $10.9 million gain was measured as the difference between the initial purchase accounting measurement and the amount of net proceeds delivered to the Company upon liquidation. Additionally, the value of our indemnification asset increased $5.3 million during the year resulting in $5.3 million of other noninterest income. There were no other material fluctuations in noninterest income at our Factoring segment. The increase in noninterest expense at our Factoring segment was primarily due to $0.8 million in transaction costs incurred in connection with the TFS Acquisition. There were no other material fluctuations in noninterest expense at our Factoring segment.

Corporate

(Dollars in thousands)	Years Ended December 31,			2020 Compared to 2019		2019 Compared to 2018	
Corporate	2020	2019	2018	$ Change	% Change	$ Change	% Change
Total interest income	$ 272	$ 1,164	$ 2,013	$ (892)	(76.6%)	$ (849)	(42.2)%
Intersegment interest allocations	—	—	—	—	—	—	—
Total interest expense	7,476	6,464	6,092	1,012	15.7%	372	6.1%
Net interest income (expense)	(7,204)	(5,300)	(4,079)	(1,904)	(35.9%)	(1,221)	(29.9%)
Credit loss expense	1,898	(77)	(8)	1,975	2,564.9%	(69)	(862.5%)
Net interest income (expense) after credit loss expense	(9,102)	(5,223)	(4,071)	(3,879)	(74.3%)	(1,152)	(28.3%)
Noninterest income	114	(33)	52	147	445.5%	(85)	(163.5%)
Noninterest expense	4,068	3,684	4,575	384	10.4%	(891)	(19.5%)
Operating income (loss)	$(13,056)	$(8,940)	$(8,594)	$(4,116)	(46.0%)	$ (346)	(4.0%)

The Corporate segment reported an operating loss of $13.1 million for the year ended December 31, 2020 compared to an operating loss of $8.9 million for the year ended December 31, 2019. The increase in operating loss was primarily driven by activity related to our three investments in the subordinated notes of collateralized loan obligation ("CLO") funds designated as held to maturity. These securities are required to carry an ACL in accordance with ASC 326. The ACL on these balances was $2.0 million at December 31, 2020 resulting in $1.9 million of credit loss expense recognized during the year. Given increased uncertainty related to projected future cash flows, these securities were designated as nonaccrual during the year ended December 31, 2020 resulting in a reversal of interest income during the period. There were no other significant fluctuations in accounts in our Corporate segment period over period.

Financial Condition

Assets

Total assets were $5.936 billion at December 31, 2020, compared to $5.060 billion at December 31, 2019, an increase of $875.5 million, the components of which are discussed below.

Loan Portfolio

Loans held for investment were $4.997 billion at December 31, 2020, compared with $4.195 billion at December 31, 2019.

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

(Dollars in thousands)	December 31, 2020		December 31, 2019			
		% of Total		% of Total	$ Change	% Change
Commercial real estate	$ 779,158	16%	$1,046,961	25%	$(267,803)	(25.6)%
Construction, land development, land	219,647	4%	160,569	4%	59,078	36.8%
1-4 family residential properties	157,147	3%	179,425	4%	(22,278)	(12.4%)
Farmland	103,685	2%	154,975	4%	(51,290)	(33.1%)
Commercial	1,562,957	32%	1,342,683	31%	220,274	16.4%
Factored receivables	1,120,770	22%	619,986	15%	500,784	80.8%
Consumer	15,838	—%	21,925	1%	(6,087)	(27.8%)
Mortgage warehouse	1,037,574	21%	667,988	16%	369,586	55.3%
Total loans	$4,996,776	100%	$4,194,512	100%	$ 802,264	19.1%

(Dollars in thousands)	December 31, 2018		December 31, 2017		December 31, 2016	
		% of Total		% of Total		% of Total
Commercial real estate	$ 992,080	27%	$ 745,893	27%	$ 442,237	22%
Construction, land development, land	179,591	5%	134,812	5%	109,812	5%
1-4 family residential properties	190,185	5%	125,827	4%	104,974	5%
Farmland	170,540	5%	180,141	6%	141,615	7%
Commercial	1,114,971	31%	920,812	33%	778,643	39%
Factored receivables	617,791	17%	374,410	13%	238,198	12%
Consumer	29,822	1%	31,131	1%	29,764	1%
Mortgage warehouse	313,664	9%	297,830	11%	182,381	9%
Total loans	$3,608,644	100%	$2,810,856	100%	$2,027,624	100%

Commercial Real Estate Loans. Our commercial real estate loans decreased $267.8 million, or 25.6%, due to paydowns slightly offset by new loan origination activity for the period.

Construction and Development Loans. Our construction and development loans increased $59.1 million, or 36.8%, primarily due to new loan originations and increased draws on existing construction lines slightly offset by paydown activity for the period.

Residential Real Estate Loans. Our one-to-four family residential loans decreased $22.3 million, or 12.4%, due to paydowns that were offset by modest origination and draw activity.

Farmland Loans. Our farmland loans decreased $51.3 million, or 33.1%, due to paydowns for the year that outpaced new loan origination activity.

Commercial Loans. Our commercial loans held for investment increased $220.3 million, or 16.4%, primarily due to growth in PPP loans, liquid credit, and equipment finance. Growth in commercial loans was offset by a reduction of premium finance loans due to the sale of the assets of TPF. Our other commercial lending products, comprised primarily of general commercial loans originated in our community banking markets, decreased by $63.0 million, or 15.6%.

The following table shows our commercial loans:

(Dollars in thousands)	December 31, 2020	December 31, 2019	$ Change	% Change
Commercial				
Equipment	$ 573,163	$ 461,555	$ 111,608	24.2%
Asset-based lending	180,488	168,955	11,533	6.8%
Liquid credit	184,027	81,353	102,674	126.2%
Premium finance	—	101,015	(101,015)	(100.0)%
Agriculture	94,572	125,912	(31,340)	(24.9%)
Paycheck Protection Program	189,857	—	189,857	100.0%
Other commercial lending	340,850	403,893	(63,043)	(15.6)%
Total commercial loans	$1,562,957	$1,342,683	$ 220,274	16.4%

Factored Receivables. Our factored receivables increased $500.8 million, or 80.8%. A portion of this increase is driven by $107.5 million of factored receivables obtained through the TFS Acquisition. At December 31, 2020, the balance of the Over-Formula Advance Portfolio included in factored receivables was $62.1 million. At December 31, 2020 the balance of Misdirected Payments included in factored receivables was $19.6 million. Also, see discussion of our factoring subsidiary in the Operating Segment Results for analysis of the key drivers impacting the change in the ending factored receivables balance during the year.

Consumer Loans. Our consumer loans decreased $6.1 million, or 27.8%, due to paydowns in excess of new loan origination activity during the year.

Mortgage Warehouse. Our mortgage warehouse facilities increased $369.6 million, or 55.3%, due to higher utilization by our clients driven by higher rates of mortgage refinance activity due to the low interest rate environment. 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 $729.8 million for the year ended December 31, 2020 compared to $370.4 million for the year ended December 31, 2019.

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, 2020			
(Dollars in thousands)	One Year or Less	After One but within Five Years	After Five Years	Total
Commercial real estate	$ 166,364	$ 449,412	$163,382	$ 779,158
Construction, land development, land	102,000	103,452	14,195	219,647
1-4 family residential properties	25,706	35,974	95,467	157,147
Farmland	6,697	38,977	58,011	103,685
Commercial	351,171	1,088,159	123,627	1,562,957
Factored receivables	1,120,770	—	—	1,120,770
Consumer	2,694	8,451	4,693	15,838
Mortgage warehouse	1,037,574	—	—	1,037,574
	$2,812,976	$1,724,425	$459,375	$4,996,776
Sensitivity of loans to changes in interest rates:				
Predetermined (fixed) interest rates		$1,253,080	$157,181	
Floating interest rates		471,345	302,194	
Total		$1,724,425	$459,375	

As of December 31, 2020, most of the Company's non-factoring lending activity is with customers located within certain states. The states of Texas (22%), Colorado (17%), Illinois (12%), and Iowa (6%) make up 57% 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, 2019, the states of Texas (27%), Colorado (23%), Illinois (13%) and Iowa (7%) made up 70% of the Company's gross loans, excluding factored receivables.

Further, a majority (90%) of our factored receivables, representing approximately 20% of our total loan portfolio as of December 31, 2020, are transportation receivables. 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, 2019, 77% of our factored receivables, representing approximately 11% of our total loan portfolio, were transportation receivables.

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 nonaccrual loans and securities, loans modified under restructurings as a result of the borrower experiencing financial difficulties ("TDR"), factored receivables greater

than 90 days past due, OREO, and other repossessed assets. Additionally, we consider the portion of the Over-Formula Advance Portfolio that is not covered by Covenant's indemnification to be nonperforming (reflected in nonperforming loans—factored receivables). The balances of nonperforming loans reflect the recorded investment in these assets, including deductions for purchase discounts.

(Dollars in thousands)	December 31 2020	December 31 2019
Nonperforming loans:		
Commercial real estate	$ 9,945	$ 7,501
Construction, land development, land	2,294	3,922
1-4 family residential properties	1,851	1,804
Farmland	2,531	6,715
Commercial	17,202	16,118
Factored receivables	23,956	4,226
Consumer	253	327
Mortgage Warehouse	—	—
Total nonperforming loans	58,032	40,613
Held to maturity securities	7,945	—
Other real estate owned, net	1,432	3,009
Other repossessed assets	1,069	476
Total nonperforming assets	$68,478	$44,098
Nonperforming assets to total assets	1.15%	0.87%
Nonperforming loans to total loans held for investment	1.16%	0.97%
Total past due loans to total loans held for investment	3.22%	1.74%

Nonperforming loans increased $17.4 million, or 42.9%, primarily due to the addition of $10.0 million of over-formula advances not covered by Covenant's indemnification, a $5.7 million commercial real estate loan secured by a hotel property, a $5.0 million general commercial loan primarily secured by accounts receivable, and a $2.3 million general commercial loan secured by real estate and equipment. Additionally, $6.0 million of $19.6 million Misdirected Payments amount was greater than 90 days past due and this portion of the Misdirected Payments is included in non performing loans (specifically, factored receivables) in accordance with our policy. As of the issuance date of this report, the entire $19.6 million Misdirected Payments amount was greater than 90 days past due. These increase were offset by a $3.9 million payoff of an agriculture and farmland relationship and the payoff of a $3.0 million construction, land development, land relationship during the year. We also sold a $1.2 million commercial real estate loan that was considered nonperforming at December 31, 2019. The remaining activity in nonperforming loans was also impacted by additions and removals of smaller credits to and from nonperforming loans.

OREO decreased $1.6 million, or 52.4%, due to the removal of individually insignificant OREO properties as well as insignificant valuation adjustments made throughout the period.

As a result of the above activity and growth in our total assets and total loans held for investment, the ratio of nonperforming loans to total loans held for investment increased to 1.16% at December 31, 2020 compared to 0.97% at December 31, 2019.

Our ratio of nonperforming assets to total assets increased to 1.15% at December 31, 2020 compared to 0.87% at December 31, 2019. This is due to the aforementioned loan activity. Additionally, during the year ended December 31, 2020, pandemic-related downgrades and default activity caused us to place $7.9 million of held to maturity investments in the subordinated notes of CLO funds on nonaccrual. Additionally, combined other real estate owned and other repossessed assets decreased $1.0 million during the year.

Past due loans to total loans held for investment increased to 3.2% at December 31, 2020 compared to 1.7% at December 31, 2019 primarily due to $62.1 million of acquired over-formula advances; substantially all of which was past due over 90 days at year end. Aging of the Over-Formula Advances is based upon the service month on which the advances were made by TFS prior to acquisition. Additionally, the entire $19.6 million of Misdirected Payments was past due at December 31, 2020. Of this balance, $13.6 million was past due 60-89 Days and $6.0 million was past due over 90 days.

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

	December 31,				
(Dollars in thousands)	2020	2019	2018	2017	2016
Nonaccrual loans	$34,073	$36,054	$30,785	$32,149	$38,030
Factored receivables greater than 90 days past due	13,927	4,226	2,152	1,454	2,153
Other nonperforming factored receivables [1]	10,029	—	—	—	—
Troubled debt restructurings accruing interest	3	333	3,117	5,128	5,123
Total nonperforming loans	$58,032	$40,613	$36,054	$38,731	$45,306
Total loans greater than 90 days past due accruing interest	$72,774	$ 4,226	$ 3,559	$ 1,664	$ 3,621

(1) Other nonperforming factored receivables represent the portion of the Over-Formula Advance Portfolio that is not covered by Covenant's indemnification.

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, 2020, we had $33.8 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, 2020 were graded as "classified".

Allowance for Credit Losses on Loans

The ACL is a valuation allowance estimated at each balance sheet date in accordance with US GAAP that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. When the Company deems all or a portion of a loan to be uncollectible the appropriate amount is written off and the ACL is reduced by the same amount. Subsequent recoveries, if any, are credited to the ACL when received. See Note 1 – Summary of Significant Accounting Policies in the accompanying notes to the consolidated financial statements included elsewhere in this report for discussion of our ACL methodology on loans. Allocations of the ACL may be made for specific loans, but the entire allowance is available for any loan that, in the Company's judgment, should be charged-off.

Loan loss valuation allowances are recorded on specific at-risk balances, typically consisting of collateral dependent loans and factored invoices greater than 90 days past due with negative cash reserves.

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

(Dollars in thousands)	December 31, 2020			December 31, 2019		
	Allocated Allowance	% of Loan Portfolio	ALLL to Loans	Allocated Allowance	% of Loan Portfolio	ALLL to Loans
Commercial real estate	$10,182	16%	1.31%	$ 5,353	25%	0.51%
Construction, land development, land	3,418	4%	1.56%	1,382	4%	0.86%
1-4 family residential properties	1,225	3%	0.78%	308	4%	0.17%
Farmland	832	2%	0.80%	670	4%	0.43%
Commercial	22,040	32%	1.41%	12,566	31%	0.94%
Factored receivables	56,463	22%	5.04%	7,657	15%	1.24%
Consumer	542	— %	3.42%	488	1%	2.23%
Mortgage warehouse	1,037	21%	0.10%	668	16%	0.10%
Total loans	$95,739	100%	1.92%	$29,092	100%	0.69%

(Dollars in thousands)	December 31, 2018			December 31, 2017			December 31, 2016		
	Allocated Allowance	% of Loan Portfolio	ALLL to Loans	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%	$ 1,813	22%	0.41%
Construction, land development, land	1,134	5%	0.63%	883	5%	0.65%	465	5%	0.42%
1-4 family residential properties	317	5%	0.17%	293	4%	0.23%	253	5%	0.24%
Farmland	535	5%	0.31%	310	6%	0.17%	170	7%	0.12%
Commercial	12,865	31%	1.15%	8,150	33%	0.89%	8,014	39%	1.03%
Factored receivables	7,299	17%	1.18%	4,597	13%	1.23%	4,088	12%	1.72%
Consumer	615	1%	2.06%	783	1%	2.52%	420	1%	1.41%
Mortgage warehouse	313	9%	0.10%	297	11%	0.10%	182	9%	0.10%
Total loans	$27,571	100%	0.76%	$18,748	100%	0.67%	$15,405	100%	0.76%

The ACL increased $66.6 million, or 229%. Upon adoption of ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," on January 1, 2020, the Company recorded an increase of $0.3 million to the ACL. Management determined that the $62.2 million in over-formula advances and some smaller immaterial factored receivables obtained through the TFS Acquisition had experienced more than insignificant credit deterioration since origination and thus, deemed those assets to be purchased credit deteriorated ("PCD"). At December 31, 2020 the ACL on these PCD assets was $49.0 million accounting for a large share of the increase in total required ACL at year end.

The primary reason for the non-PCD related increase in required ACL is significant projected deterioration of the loss drivers that the Company forecasts to calculate expected losses and, to a much lesser extent, changes in qualitative loss factors over the year ended December 31, 2020. This deterioration was brought on by the projected economic impact of COVID-19 on the Company's loss drivers and assumptions over the reasonable and supportable forecast period and created the need for $16.7 million of additional ACL.

The Company uses the discounted cash flow (DCF) method to estimate ACL for the commercial real estate, construction, land development, land, 1-4 family residential, commercial (excluding liquid credit), and consumer loan pools. For all loan pools utilizing the DCF method, the Company utilizes and forecasts national unemployment as a loss driver. The Company also utilizes and forecasts either one-year percentage change in national retail sales (commercial real estate – non multifamily, commercial general, commercial agriculture, commercial asset-based lending, commercial equipment finance, consumer), one-year percentage change in the national home price index (1-4 family residential and construction, land development, land), or one-year

percentage change in national gross domestic product (commercial real estate – multifamily) as a second loss driver depending on the nature of the underlying loan pool and how well that loss driver correlates to expected future losses. Consistent forecasts of the loss drivers are used across the loan segments.

For all DCF models at December 31, 2020, the Company has determined that four quarters represents a reasonable and supportable forecast period and reverts back to a historical loss rate over eight quarters on a straight-line basis. The Company leverages economic projections from a reputable and independent third-party to inform its loss driver forecasts over the four-quarter forecast period. Other internal and external indicators of economic forecasts are also considered by the Company when developing the forecast metrics. At December 31, 2020 as compared to January 1, 2020, the Company forecasted a significantly higher national unemployment rate, a lower one-year percentage change in national retail sales, a lower one-year percentage change in the national home price index, and a somewhat higher one-year percentage change in national gross domestic product over the reasonable and supportable forecast period. Specifically regarding the forecasts used to calculate the December 31, 2020 ACL, management expects unemployment to remain persistently above pre-pandemic levels over the forecast period. Percentage change in retail sales is assumed to return to pre-pandemic levels given additional federal stimulus and the expected broad distribution of a COVID-19 vaccine. A gradual decline in the percentage change in national home price index is expected over the forecasted period as the effects of the pandemic on home prices are expected to lag behind other loss drivers. Percentage change in GDP growth is forecasted to increase over the projected period as the national economy comes back on line over the next four quarters.

The Company uses a loss-rate method to estimate expected credit losses for the farmland, liquid credit, factored receivable, and mortgage warehouse loan pools. For each of these loan segments, the Company applies an expected loss ratio based on internal and peer historical losses adjusted as appropriate for qualitative factors. Qualitative loss factors are based on the Company's judgment of company, market, industry or business specific data, changes in underlying loan composition of specific portfolios, trends relating to credit quality, delinquency, non-performing and adversely rated loans, and reasonable and supportable forecasts of economic conditions. Loss factors used to calculate the required ACL on pools that use the loss-rate method reflect the forecasted economic conditions described above.

The increase in required ACL was also driven by net charge-offs of $4.6 million (which carried reserves of $1.0 million established during the prior period) and net new specific allowances recorded on individual non-PCD loans of $5.1 million. The increase was partially offset by the changes in mix in the underlying portfolio eligible to receive an ACL.

With the passage of the PPP, administered by the Small Business Administration ("SBA"), the Company has actively participated in assisting its customers with applications for resources through the program. At December 31, 2020, the Company carried $189.9 of PPP loans classified as Commercial loans for reporting purposes. Loans funded through the PPP program are fully guaranteed by the U.S. government. This guarantee exists at the inception of the loans and throughout the lives of the loans and was not entered into separately and apart from the loans. ASC 326 requires credit enhancements that mitigate credit losses, such as the U.S. government guarantee on PPP loans, to be considered in estimating credit losses. The guarantee is considered "embedded" and, therefore, is considered when estimating credit loss on the PPP loans. Given that the loans are fully guaranteed by the U.S. government and absent any specific loss information on any of our PPP loans, the Company does not carry an ACL on its PPP loans at December 31, 2020.

The following table presents the unpaid principal and recorded investment for loans at December 31, 2020. 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 totaling $18.5 million and (2) net deferred origination and factoring fees totaling $4.9 million. The net difference can provide protection

from credit loss in addition to the ACL as future potential charge-offs for an individual loan are limited to the recorded investment plus unpaid accrued interest.

(Dollars in thousands)

December 31, 2020	Recorded Investment	Unpaid Principal	Difference
Commercial real estate	$ 779,158	$ 782,614	$ (3,456)
Construction, land development, land	219,647	220,021	(374)
1-4 family residential properties	157,147	157,731	(584)
Farmland	103,685	104,522	(837)
Commercial	1,562,957	1,579,841	(16,884)
Factored receivables	1,120,770	1,122,008	(1,238)
Consumer	15,838	15,863	(25)
Mortgage warehouse	1,037,574	1,037,574	—
	$4,996,776	$5,020,174	$(23,398)

At December 31, 2020 and 2019, we had $145.9 million and $66.8 million, respectively, of customer reserves associated with factored receivables which 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 credit loss expense, net charge-offs and recoveries, and the effects of those items on our ACL:

(Dollars in thousands)	Years Ended December 31, 2020	2019	2018	2017	2016
Balance at beginning of period	$ 29,092	$ 27,571	$ 18,748	$ 15,405	$ 12,567
Loans charged-off:					
Commercial real estate	(320)	(304)	(90)	(259)	(5)
Construction, land development, land	(23)	(78)	(59)	(582)	—
1-4 family residential properties	(27)	(141)	(17)	(31)	(84)
Farmland	—	(265)	(200)	—	—
Commercial	(2,344)	(3,326)	(5,855)	(4,875)	(3,643)
Factored receivables	(3,201)	(2,494)	(1,224)	(1,667)	(856)
Consumer	(573)	(876)	(989)	(1,004)	(564)
Mortgage warehouse	—	—	—	—	—
Total loans charged-off	$ (6,488)	$ (7,484)	$ (8,434)	$ (8,418)	$ (5,152)
Recoveries of loans charged-off:					
Commercial real estate	$ 170	$ 1	$ 104	$ 59	$ 16
Construction, land development, land	241	92	17	175	6
1-4 family residential properties	53	61	18	47	85
Farmland	80	—	—	—	—
Commercial	1,115	447	518	1,329	991
Factored receivables	143	296	69	118	120
Consumer	117	166	364	508	79
Mortgage warehouse	—	—	—	—	—
Total loans recoveries	$ 1,919	$ 1,063	$ 1,090	$ 2,236	$ 1,297
Net loans charged-off	$ (4,569)	$ (6,421)	$ (7,344)	$ (6,182)	$ (3,855)
Credit loss expense:					
Commercial real estate	$ 3,607	$ 1,163	$ 1,044	$ 1,822	$ 313
Construction, land development, land	2,005	234	293	825	92
1-4 family residential properties	378	71	23	24	(22)
Farmland	(355)	400	425	140	36
Commercial	11,336	2,580	10,052	5,785	5,390
Factored receivables	16,079	2,556	3,857	2,058	315
Consumer	562	583	457	859	689
Mortgage warehouse	369	355	16	115	(120)
Total credit loss expense	$ 33,981	$ 7,942	$ 16,167	$ 11,628	$ 6,693
Impact of adopting ASU 2016-13	269	—	—	—	—
Initial allowance on loans purchased with credit deterioration	37,415	—	—	—	—
Allowance transferred to assets held for sale	(449)	—	—	(2,103)	—
Balance at end of period	$ 95,739	$ 29,092	$ 27,571	$ 18,748	$ 15,405
Average total loans held for investment	$4,445,747	$3,827,754	$3,130,731	$2,235,481	$1,549,788
Net charge-offs to average total loans held for investment	0.10%	0.17%	0.23%	0.28%	0.25%
Allowance to total loans held for investment	1.92%	0.69%	0.76%	0.67%	0.76%

Net loans charged off decreased 1.9 million, or 28.8%. There were no individually significant loan charge-offs or recoveries during the years ended December 31, 2020 or 2019.

Securities

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

	December 31, 2020		December 31, 2019		December 31, 2018	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale securities:						
U.S. Government agency obligations	$ 14,942	$ 15,088	$ 39,679	$ 39,760	$ 93,500	$ 92,648
U.S. Treasury notes	—	—	—	—	1,956	1,932
Mortgage-backed securities, residential	26,547	27,684	37,324	38,016	39,971	39,736
Asset-backed securities	7,091	7,039	8,039	7,959	10,165	10,145
State and municipal	36,238	37,395	31,746	32,065	118,826	118,451
CLO Securities	118,128	122,204	75,592	75,273	—	—
Corporate bonds	11,373	11,573	50,889	51,583	68,804	68,787
SBA pooled securities	3,200	3,327	4,112	4,164	4,766	4,724
Total available for sale securities	$217,519	$224,310	$247,381	$248,820	$337,988	$336,423
Held to maturity securities:						
CLO securities	$ 7,945	$ 5,850	$ 8,417	$ 6,907	$ 8,487	$ 7,326
Allowance for credit losses	(2,026)		—		—	
Held to maturity securities, net of ACL	$ 5,919		$ 8,417		$ 8,487	
Equity securities:						
Mutual fund		$ 5,826		$ 5,437		$ 5,044

As of December 31, 2020, we held equity securities with a fair value of $5.8 million, an increase of $0.4 million from $5.4 million at December 31, 2019. These securities represent investments in a publicly traded Community Reinvestment Act mutual fund and are subject to market pricing volatility, with changes in fair value recorded in earnings.

As of December 31, 2020, we held securities classified as available for sale with a fair value of $224.3 million, a decrease of $24.5 million from $248.8 million at December 31, 2019. The decrease is primarily attributable to decreases of $40.0 million, $24.7 million, and $10.3 million of corporate bonds, U.S. Government Agency obligations, and mortgage-backed securities, respectively. These decreases were partially offset by $46.9 million and $5.3 million increases in CLO securities and state and municipal securities, respectively. Our available for sale CLO portfolio consists of investment grade positions in high ranking tranches within their respective securitization structures. As of December 31, 2020, the Company determined that all impaired available for sale securities experienced a decline in fair value below their amortized cost basis due to noncredit-related factors. Therefore, the Company carried no ACL at December 31, 2020. 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, 2020, we held securities classified as held to maturity with an amortized cost, net of ACL, of $5.9 million, a decrease of $2.5 million from $8.4 million at December 31, 2019. The decrease in amortized cost, net of ACL, was primarily driven by a $2.0 million increase in the required ACL during the year ended December 31, 2020. See previous discussion of Credit Loss Expense related to our held to maturity securities for further details regarding the nature of these securities and the required ACL at December 31, 2020.

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

	Maturity as of December 31, 2019									
	1 Year or Less		1 to 5 Years		5 to 10 Years		Over 10 Years		Total	
(Dollars in thousands)	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield
U.S. Government agency obligations	$14,942	2.04%	$ —	— %	$ —	—	$ —	—	$ 14,942	2.04%
Mortgage-backed securities, residential	—	5.09%	2,560	2.01%	8,691	1.97%	15,296	2.76%	26,547	2.43%
Asset-backed securities	—	— %	129	0.49%	4,999	0.37%	1,963	1.43%	7,091	0.66%
State and municipal	2,273	2.89%	10,406	2.65%	3,134	2.34%	20,425	2.44%	36,238	2.52%
CLO Securities	—	—	—	—	20,300	3.18%	97,828	2.34%	118,128	2.49%
Corporate bonds	9,388	3.21%	1,713	1.15%	—	—	272	5.13%	11,373	2.94%
SBA pooled securities	1	—	29	2.93%	—	— %	3,170	3.74%	3,200	3.73%
Total securities available for sale	$26,604	2.52%	$14,837	2.34%	$37,124	2.48%	$138,954	2.43%	$217,519	2.44%
Securities held-to-maturity	$ —	—	$ —	—	$ 7,945	— %	$ —	—	$ 7,945	— %

Liabilities

Total liabilities were $5.209 billion as of December 31, 2020, compared to $4.424 billion at December 31, 2019, an increase of $785.3 million, the components of which are discussed below.

Deposits

Our total deposits were $4.717 billion as of December 31, 2020, compared to $3.790 billion as of December 31, 2019, an increase of $926.7 million, primarily due to growth in noninterest-bearing demand deposits, brokered time deposits, and other brokered deposits. Other brokered deposits, first utilized as part of our overall funding strategy in the second quarter of 2020, are non-maturity deposits obtained from wholesale sources. The growth in these products was partially offset by a decrease in certificates of deposit and money market deposit products during the year. As of December 31, 2020, interest-bearing demand deposits, noninterest-bearing deposits, money market deposits, other brokered deposits, and savings deposits accounted for 70% of our total deposits, while individual retirement accounts, certificates of deposit, and brokered time deposits made up 30% of total deposits. See Note 11 – Deposits in the accompanying notes to consolidated financial statements included elsewhere in this report for details of our deposit balances as of December 31, 2020 and 2019.

The following table summarizes our average deposit balances and weighted average rates:

(Dollars in thousands)	Year Ended December 31, 2020			Year Ended December 31, 2019			Year Ended December 31, 2018		
	Average Balance	Average Rates	% of Total	Average Balance	Average Rates	% of Total	Average Balance	Average Rates	% of Total
Interest-bearing demand	$ 628,721	0.17%	15%	$ 593,178	0.25%	17%	$ 451,327	0.23%	16%
Individual retirement accounts	98,445	1.33%	2%	110,553	1.57%	3%	108,170	1.25%	4%
Money market	405,323	0.47%	10%	433,922	1.33%	12%	318,927	0.82%	11%
Savings	390,023	0.15%	10%	363,760	0.13%	10%	281,995	0.10%	10%
Certificates of deposit	948,687	1.84%	24%	1,016,797	2.22%	28%	809,321	1.48%	28%
Brokered time deposits	278,604	1.66%	7%	348,523	2.34%	10%	291,776	1.99%	10%
Other brokered deposits	205,398	0.21%	5%	—	— %	— %	—	— %	— %
Total interest-bearing deposits	2,955,201	0.93%	73%	2,866,733	1.40%	80%	2,261,516	1.02%	79%
Noninterest-bearing demand	1,114,912	— %	27%	723,682	— %	20%	605,863	— %	21%
Total deposits	$4,070,113	0.67%	100%	$3,590,415	1.12%	100%	$2,867,379	0.80%	100%

The following table provides information on the maturity distribution of time deposits with individual balances of $100,000 to $250,000 and of time deposits with individual balances of $250,000 or more as of December 31, 2020:

(Dollars in thousands)	$100,000 to $250000	Over $250000	Total
Maturity			
3 months or less	$273,639	$ 31,707	$305,346
Over 3 through 6 months	259,413	73,430	332,843
Over 6 through 12 months	142,142	40,551	182,693
Over 12 months	69,895	18,753	88,648
	$745,089	$164,441	$909,530

Other Borrowings

Customer Repurchase Agreements

The following table provides a summary of our customer repurchase agreements as of and for the years ended December 31, 2020, 2019, and 2018:

(Dollars in thousands)	December 31, 2020	December 31, 2019	December 31, 2018
Amount outstanding at end of the year	$ 3,099	$ 2,033	$ 4,485
Weighted average interest rate at end of the year	0.03%	0.03%	0.01%
Average daily balance during the year	$ 6,716	$ 7,823	$ 8,648
Weighted average interest rate during the year	0.03%	0.02%	0.02%
Maximum month-end balance during the year	$14,192	$14,463	$13,844

Our customer repurchase agreements generally have overnight maturities. Variances in these balances are attributable to normal customer behavior and seasonal factors affecting their liquidity positions

FHLB Advances

As part of our overall funding and liquidity management program, from time to time we borrow from the Federal Home Loan Bank. The following table provides a summary of our FHLB borrowings as of and for the years ended December 31, 2020, 2019, and 2018:

(Dollars in thousands)	December 31, 2020	December 31, 2019	December 31, 2018
Amount outstanding at end of the year	$105,000	$430,000	$330,000
Weighted average interest rate at end of the year	0.17%	1.58%	2.52%
Average daily balance during the year	$342,264	$369,548	$345,388
Weighted average interest rate during the year	0.58%	2.32%	1.96%
Maximum month-end balance during the year	$850,000	$530,000	$455,000

Our FHLB advances are collateralized by assets, including a blanket pledge of certain loans. Of the FHLB borrowings outstanding as of December 31, 2020, $75.0 million were short-term borrowings maturing within one year and $30.0 million were long term borrowings maturing after five years. As of December 31, 2020 and 2019, we had $1.247 billion and $871.0 million, respectively, in unused and available advances from the FHLB. The increase in our total borrowing capacity from December 31, 2019 to December 31, 2020 was primarily the result of our growth in assets and loans held for investment.

Paycheck Protection Program Liquidity Facility ("PPPLF")

The PPPLF is a lending facility offered by the Federal Reserve Banks to facilitate lending to small businesses under the Paycheck Protection Program. Borrowings under the PPPLF are secured by Paycheck Protection Program Loans ("PPP loans") guaranteed by the Small Business Administration ("SBA") and mature at the same time as the PPP Loan pledged to secure the extension of credit. The maturity dates of the borrowings will be accelerated if the underlying PPP Loan goes into default and Company sells the PPP Loan to the SBA to realize on the SBA guarantee or if the Company receives any loan forgiveness reimbursement from the SBA for the underlying PPP Loan.

Information concerning borrowings under the PPPLF is summarized as follows for the year ended December 31, 2020:

(Dollars in thousands)	December 31, 2020
Amount outstanding at end of period	$191,860
Weighted average interest rate at end of period	0.35%
Average amount outstanding during the period	143,608
Weighted average interest rate during the period	0.35%
Highest month end balance during the period	223,809

At December 31, 2020, scheduled maturities of PPPLF borrowings are as follows:

(Dollars in thousands)	December 31, 2020
Within one year	$ —
After one but within two years	191,860
Total	$191,860

At December 31, 2020, the PPPLF borrowings are secured by PPP Loans totaling $191.9 million and bear interest at a fixed rate of 0.35% annually. There were no borrowings under the PPPLF during the year ended December 31, 2019.

Subordinated Notes

On September 30, 2016, we issued $50.0 million of Fixed-to-Floating Rate Subordinated Notes due 2026 (the "2016 Notes"). The 2016 Notes initially bear interest at 6.50% per annum, are payable semi-annually in arrears, to, but excluding, September 30, 2021, and, thereafter and to, but excluding, the maturity date or earlier redemption, interest shall be payable quarterly in arrears, at an annual floating rate equal to three-month LIBOR as determined for the applicable quarterly period, plus 5.345%. We may, at our option, beginning on September 30, 2021 and on any scheduled interest payment date thereafter, redeem the 2016 Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the 2016 Notes to be redeemed plus accrued and unpaid interest to, but excluding, the date of redemption.

On November 27, 2019, we issued $39.5 million of Fixed-to-Floating Rate Subordinated Notes due 2029 (the "2019 Notes"). The 2019 Notes initially bear interest at 4.875% per annum, payable semi-annually in arrears, to, but excluding, November 27, 2024, and, thereafter and to, but excluding, the maturity date or earlier redemption, interest shall be payable quarterly in arrears, at an annual floating rate equal to a benchmark rate, initially three-month LIBOR, as determined for the applicable quarterly period, plus 3.330%. We may, at our option, beginning on November 27, 2024 and on any scheduled interest payment date thereafter, redeem the 2019 Notes, in whole or in part, at a redemption price equal to the outstanding principal amount of the 2019 Notes to be redeemed plus accrued and unpaid interest to, but excluding, the date of redemption.

The Notes are included on our consolidated balance sheet as liabilities; however, for regulatory purposes, the carrying value of these obligations is eligible for inclusion in Tier 2 regulatory capital.

Issuance costs related to the 2016 Notes and the 2019 Notes totaled $1.3 million and $1.2 million, respectively, and have been netted against the subordinated notes liability on the consolidated balance sheets. The debt issuance costs are being amortized using the effective interest method over the life of the 2016 Notes and the 2019 Notes as a component of interest expense. The carrying value of the 2016 Notes and the 2019 Notes totaled $87.5 million at December 31, 2020.

Junior Subordinated Debentures

The following provides a summary of our junior subordinated debentures as of December 31, 2020:

(Dollars in thousands)	Face Value	Carrying Value	Maturity Date	Variable Interest Rate	Interest Rate At December 31, 2020
National Bancshares Capital Trust II	$15,464	$13,220	September 2033	LIBOR + 3.00%	3.22%
National Bancshares Capital Trust III	17,526	12,975	July 2036	LIBOR + 1.64%	1.88%
ColoEast Capital Trust I	5,155	3,611	September 2035	LIBOR + 1.60%	1.84%
ColoEast Capital Trust II	6,700	4,703	March 2037	LIBOR + 1.79%	2.03%
Valley Bancorp Statutory Trust I	3,093	2,879	September 2032	LIBOR + 3.40%	3.65%
Valley Bancorp Statutory Trust II	3,093	2,684	July 2034	LIBOR + 2.75%	2.98%
	$51,031	$40,072			

These debentures are unsecured obligations and were issued to trusts that are unconsolidated subsidiaries. The trusts in turn issued trust preferred securities with identical payment terms to unrelated investors. The debentures may be called by the Company at par plus any accrued but unpaid interest; however, we have no current plans to redeem them prior to maturity. Interest on the debentures is calculated quarterly, based on a rate equal to three

month LIBOR plus a weighted average spread of 2.24%. As part of the purchase accounting adjustments made with the National Bancshares, Inc. acquisition on October 15, 2013, the ColoEast acquisition on August 1, 2016, and the Valley acquisition on December 9, 2017, we adjusted the carrying value of the junior subordinated debentures to fair value as of the respective acquisition dates. The discount on the debentures will continue to be amortized through maturity and recognized as a component of interest expense.

The debentures are included on our consolidated balance sheet as liabilities; however, for regulatory purposes, these obligations are eligible for inclusion in regulatory capital, subject to certain limitations. All of the carrying value of $40.1 million was allowed in the calculation of Tier I capital as of December 31, 2020.

Capital Resources and Liquidity Management

Capital Resources

Our stockholders' equity totaled $726.8 million and $636.6 million as of December 31, 2020 and 2019, respectively. The increase in total equity was primarily due to $42.4 million of preferred stock issued during the year and our $64.0 million of net income, offset in part by $35.8 million of common stock repurchased during the year.

Liquidity Management

We define liquidity as our ability to generate sufficient cash to fund current loan demand, deposit withdrawals, or other cash demands and disbursement needs, and otherwise to operate on an ongoing basis.

We manage liquidity at the holding company level as well as that of our bank subsidiary. The management of liquidity at both levels is critical, because the holding company and our bank subsidiary have different funding needs and sources, and each is subject to regulatory guidelines and requirements which require minimum levels of liquidity. We believe that our liquidity ratios meet or exceed those guidelines and our present position is adequate to meet our current and future liquidity needs.

Our liquidity requirements are met primarily through cash flow from operations, receipt of pre-paid and maturing balances in our loan and investment portfolios, debt financing and increases in customer deposits. Our liquidity position is supported by management of liquid assets and liabilities and access to other sources of funds. Liquid assets include cash, interest-earning deposits in banks, federal funds sold, securities available for sale and maturing or prepaying balances in our investment and loan portfolios. Liquid liabilities include core deposits, federal funds purchased, securities sold under repurchase agreements and other borrowings. Other sources of funds include the sale of loans, brokered deposits, the issuance of additional collateralized borrowings such as FHLB advances or borrowings from the Federal Reserve, the issuance of debt securities and the issuance of common securities. For additional information regarding our operating, investing and financing cash flows, see the Consolidated Statements of Cash Flows provided in our consolidated financial statements.

In addition to the liquidity provided by the sources described above, our subsidiary bank maintains correspondent relationships with other banks in order to sell loans or purchase overnight funds should additional liquidity be needed. As of December 31, 2020, TBK Bank had $523.9 million of unused borrowing capacity from the Federal Reserve Bank discount window and unsecured federal funds lines of credit with seven unaffiliated banks totaling $227.5 million, with no amounts advanced against those lines.

Regulatory Capital Requirements

Our capital management consists of providing equity to support our current and future operations. We are subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by

regulators that, if undertaken, could have a direct material effect on the Company's or TBK Bank's financial statements. For further information regarding our regulatory capital requirements, see Note 19 – Regulatory Matters in the accompanying notes to the consolidated financial statements included elsewhere in this report.

Contractual Obligations

The following table summarizes our contractual obligations and other commitments to make future payments as of December 31, 2020. The amount of the obligations presented in the table reflect principal amounts only and exclude the amount of interest we are obligated to pay. Also excluded from the table are a number of obligations to be settled in cash. These excluded items are reflected in our consolidated balance sheet and include deposits with no stated maturity, trade payables, and accrued interest payable.

	Payments Due by Period - December 31, 2019				
(Dollars in thousands)	Total	Less Than 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years
Customer repurchase agreements	$ 3,099	$ 3,099	$ —	$ —	$ —
FHLB advances	105,000	75,000	—	—	30,000
Paycheck Protection Program Liquidity Facility	191,860	—	191,860	—	—
Subordinated notes	50,000	—	—	—	50,000
Junior subordinated debentures	51,031	—	—	—	51,031
Operating lease agreements	21,181	3,885	7,084	5,971	4,241
Time deposits with stated maturity dates	1,400,214	1,258,609	132,997	8,608	—
Total contractual obligations	$1,822,385	$1,340,593	$331,941	$14,579	$135,272

Off-Balance Sheet Arrangements

In the normal course of business, we enter into various transactions, which, in accordance with GAAP, are not included in our consolidated balance sheets. We enter into these transactions to meet the financing needs of our customers. These transactions include commitments to extend credit and standby and commercial letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in the consolidated balance sheets. For further information, see Note 16 – Off-Balance Sheet Loan Commitments in the accompanying notes to the consolidated financial statements included elsewhere in this report.

Critical Accounting Policies and Estimates

Certain of our accounting estimates are important to the portrayal of our financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates are susceptible to material changes as a result of changes in facts and circumstances. Facts and circumstances which could affect these judgments include, but are not limited to, changes in interest rates, changes in the performance of the economy and changes in the financial condition of borrowers. Management believes that determining the allowance for loan and lease losses is its most critical accounting estimate. Our accounting policies are discussed in detail in Note 1 – Summary of Significant Accounting Policies in the accompanying notes to the consolidated financial statements included elsewhere in this report.

Allowance for Credit Losses on Loans. Management considers the policies related to the allowance for credit losses on loans as the most critical to the financial statement presentation. The total allowance for credit losses on loans includes activity related to allowances calculated in accordance with Accounting Standards Codification ("ASC") 326, Financial Instruments – Credit Losses. The allowance for credit losses is established through credit loss expense charged to current earnings. The amount maintained in the allowance reflects management's

estimate of the net amount not expected to be collected on the loans held for investment portfolio at the balance sheet date. The allowance for credit losses is comprised of specific reserves assigned to certain loans that don't share general risk characteristics and general reserves on pools of loans that do share general risk characteristics. Factors contributing to the determination of specific reserves include the creditworthiness of the borrower, and more specifically, changes in the expected future receipt of principal and interest payments and/or in the value of pledged collateral. A reserve is recorded when the carrying amount of the loan exceeds the discounted estimated cash flows using the loan's initial effective interest rate, when the carrying amount of the loan exceeds the determined loss rate, or the fair value of the collateral for certain collateral dependent loans. For purposes of establishing the general reserve, we stratify the loan portfolio into homogeneous groups of loans that possess similar loss potential characteristics and calculate the net amount expected to be collected over the life of the loans to estimate the credit losses in the loan portfolio. The Company's methodologies for estimating the allowance for credit losses consider available relevant information about the collectability of cash flows, including information about past events, current conditions, and reasonable and supportable forecasts. Refer to "Allowance for Credit Losses" above and Note 1 – Summary of Significant Accounting Policies in the accompanying notes to the consolidated financial statements elsewhere in this report for further discussion of the risk factors considered by management in establishing the allowance for credit losses.

Adoption of New Accounting Standards

See Note 1 – Summary of Significant Accounting Policies in the accompanying notes to the consolidated financial statements included elsewhere in this report for details of recently issued accounting pronouncements and their expected impact on our consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Asset/Liability Management and Interest Rate Risk

The principal objective of our asset and liability management function is to evaluate the interest rate risk within the balance sheet and pursue a controlled assumption of interest rate risk while maximizing net income and preserving adequate levels of liquidity and capital. The Board of Directors of our subsidiary bank has oversight of our asset and liability management function, which is managed by our Chief Financial Officer. Our Chief Financial Officer meets with our senior executive management team regularly to review, among other things, the sensitivity of our assets and liabilities to market interest rate changes, local and national market conditions and market interest rates. That group also reviews our liquidity, capital, deposit mix, loan mix and investment positions.

As a financial institution, our primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on most of our assets and liabilities, and the fair value of all interest-earning assets and interest-bearing liabilities, other than those which have a short-term to maturity. Interest rate risk is the potential of economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a loss of current fair values.

We manage our exposure to interest rates primarily by structuring our balance sheet in the ordinary course of business. We do not typically enter into derivative contracts for the purpose of managing interest rate risk, but we may elect to do so in the future. Based upon the nature of our operations, we are not subject to material foreign exchange risk. We do not own any trading assets.

We use an interest rate risk simulation model to test the interest rate sensitivity of net interest income and the balance sheet. Instantaneous parallel rate shift scenarios are modeled and utilized to evaluate risk and establish exposure limits for acceptable changes in projected net interest margin. These scenarios, known as rate shocks, simulate an instantaneous change in interest rates and use various assumptions, including, but not limited to, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, reinvestment

and replacement of asset and liability cash flows. We also analyze the economic value of equity as a secondary measure of interest rate risk. This is a complementary measure to net interest income where the calculated value is the result of the fair value of assets less the fair value of liabilities. The economic value of equity is a longer term view of interest rate risk because it measures the present value of all future cash flows. The impact of changes in interest rates on this calculation is analyzed for the risk to our future earnings and is used in conjunction with the analyses on net interest income.

The following table summarizes simulated change in net interest income versus unchanged rates:

	December 31, 2020		December 31, 2019	
	Following 12 Months	Months 13-24	Following 12 Months	Months 13-24
+400 basis points	18.4%	19.8%	12.5%	9.3%
+300 basis points	13.6%	15.3%	9.4%	7.1%
+200 basis points	8.7%	10.7%	6.3%	4.9%
+100 basis points	3.9%	6.0%	3.1%	2.6%
Flat rates	0.0%	0.0%	0.0%	0.0%
-100 basis points	(3.6%)	(2.6%)	(3.3%)	(2.9%)

The following table presents the change in our economic value of equity, assuming immediate parallel shifts in interest rates:

	Economic Value of Equity at Risk (%)	
	December 31, 2020	December 31, 2019
+400 basis points	36.5%	22.4%
+300 basis points	28.9%	18.1%
+200 basis points	20.3%	13.4%
+100 basis points	10.7%	7.5%
Flat rates	0.0%	0.0%
-100 basis points	(11.4)%	(9.9)%

Many assumptions are used to calculate the impact of interest rate fluctuations. Actual results may be significantly different than our projections due to several factors, including the timing and frequency of rate changes, market conditions and the shape of the yield curve. The computations of interest rate risk shown above do not include actions that our management may undertake to manage the risks in response to anticipated changes in interest rates, and actual results may also differ due to any actions taken in response to the changing rates.

As part of our asset/liability management strategy, our management has emphasized the origination of shorter duration loans as well as variable rate loans to limit the negative exposure to a rate increase. We also desire to acquire deposit transaction accounts, particularly noninterest or low interest-bearing non-maturity deposit accounts, whose cost is less sensitive to changes in interest rates.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors of Triumph Bancorp, Inc.
Dallas, Texas

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Triumph Bancorp, Inc. (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2020 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control – Integrated Framework: (2013) issued by COSO.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for credit losses effective January 1, 2020 due to the adoption of Accounting Standards Codification Topic 326: Financial Instruments – Credit Losses ("Topic 326"). The Company adopted the new credit loss standard using the modified retrospective approach such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles. The adoption of the new credit loss standard and its subsequent application is also communicated as a critical audit matter below.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report on Management's Assessment of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and

disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's 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 generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Credit Losses – CECL Adoption and Reasonable and Supportable Forecasts

As described in Note 1 and presented in Note 4 to the financial statements, the Company adopted Topic 326 as of January 1, 2020. The current expected credit loss ("CECL") impairment model requires an estimate of expected credit losses, measured over the contractual life of an instrument, which considers reasonable and supportable forecasts of future economic conditions in addition to information about past events and current conditions (see change in accounting principle explanatory paragraph above). As of December 31, 2020, the allowance for credit losses ("ACL") of $95.7 million attributable to loans held for investment consisted of 1) an allocation for collateral dependent loans totaling $58.2 million of loss allocations on loans individually evaluated for impairment and 2) an allocation totaling $37.5 million of loss allocations on loans collectively evaluated ("pool basis") for impairment.

The Company measures expected credit losses of loans on a pool basis when the loans share similar risk characteristics. Depending on the nature of the pool of loans with similar risk characteristics, the Company uses the discounted cash flow ("DCF") method or a loss-rate method to estimate expected credit losses. Management has applied the loss-rate method to pools such as mortgage warehouse and factored receivables due to their short-

term nature. The loans that are analyzed in the DCF method are greater in dollar amount, require more judgment, and have longer durations than those used in the loss-rate pools.

For loan pools utilizing the DCF approach, the Company performed a loss driver analysis to determine the economic factors, individually or in combination, which correlated to the historical loss experience used as a basis for the estimate. For all loan pools utilizing the DCF method, the Company utilizes national unemployment as the loss driver in addition to either the one-year percentage change in national retail sales, one-year percentage change in the national home price index, or the one-year percentage change in national gross domestic product depending on the nature of the underlying loan pool and the correlation of the index to the applicable pool. The development of the loss driver analysis and the application of the economic forecast is significant to the calculation as changes in the forecasts used in the DCF method could have a material effect on the Company's financial statements.

Estimating reasonable and supportable forecasts requires significant judgment. Management leverages economic projections from a third party to inform its forecasts over the forecast period. Other internal and external indicators of economic forecasts are also considered by management when developing the forecasts. We identified auditing the reasonableness of forecasts in the ACL for loans using the DCF method as a critical audit matter as it involves especially subjective auditor judgment.

The primary audit procedures we performed in response to this critical audit matter included:

- Tested the operating effectiveness of controls over the Company's ACL, including controls over the relevance and reliability of data used in assessing the forecasts in the DCF method and the reasonableness of the forecasts applied in the DCF method.
- Utilized the assistance of specialists in evaluating the appropriateness and mathematical accuracy of the loss driver analyses in the DCF method, and the relevance and reliability of data used in the development of the loss rate forecasts in the DCF method.
- Evaluated the reasonableness and appropriateness of the forecasting methodologies employed for suitability under the standard including, but not limited to, evaluating their conceptual soundness and inspecting and testing key assumptions and judgments.

Accounting for Transport Financial Solutions Business Combination

As described in Note 2 to the financial statements, Advance Business Capital LLC ("ABC"), a subsidiary of the Company, through a business combination acquired the factored receivables portfolio of Transport Financial Solutions ("TFS"), with a contractual balance of $108.7 million as of the acquisition date, July 7th, 2020. The purchase consideration included cash consideration of $108.4 million, 630,268 shares of the Company's common stock valued at $13.9 million as of the acquisition date, and contingent consideration up to $9.9 million to be paid in cash following the twelve months period ending July 31, 2021. Subsequent to the closing of the acquisition, the Company determined that $62.2 million of the assets acquired at closing were advances to three large factoring clients (and their affiliated entities) of TFS pursuant to long-term contractual arrangements for services that had not yet been performed by the factoring clients. The Company subsequently entered into an amended purchase agreement where the shares previously distributed were liquidated and cash proceeds were returned to ABC, the contingent consideration was eliminated, and an indemnification agreement was entered into where the seller would cover up to $45.0 million of losses incurred related to the portfolio.

Business combinations are accounted for under Topic 805 – Business Combinations. Significant judgment must be applied when accounting for amended purchase agreements to determine if the amendment should be accounted for as part of the business combination or separately from the business combination. Due to the unusual nature of the transaction, it's significance to the financial statements, and the challenging judgments associated with the accounting treatment, we classified the transaction as a critical audit matter.

The primary audit procedures we performed in response to this critical audit matter included:

- Tested the operating effectiveness of controls over management's review of the accounting treatment of the transaction.
- Evaluated the significant terms of the original purchase agreement and the facts and circumstances around the reasons for the amended purchase agreement and the significant terms of the amended purchase agreement including management's judgments as to whether the amended agreement should be accounted for as part of the business combination or separately from the business combination.
- Utilized the assistance of specialists to evaluate the accounting for the amended purchase agreement.

/s/ Crowe LLP

We have served as the Company's auditor since 2012.

Dallas, Texas
February 12, 2021

TRIUMPH BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2020 and 2019
(Dollar amounts in thousands)

	December 31, 2020	December 31, 2019
ASSETS		
Cash and due from banks	$ 85,525	$ 67,747
Interest-bearing deposits with other banks	228,868	130,133
Total cash and cash equivalents	314,393	197,880
Securities - equity investments	5,826	5,437
Securities - available for sale	224,310	248,820
Securities - held to maturity, net of allowance for credit losses of $2,026 and $—, respectively, fair value $5,850 and $6,907, respectively	5,919	8,417
Loans held for sale	24,546	2,735
Loans, net of allowance for credit losses of $95,739 and $29,092, respectively	4,901,037	4,165,420
Federal Home Loan Bank and other restricted stock, at cost	6,751	19,860
Premises and equipment, net	103,404	96,595
Other real estate owned, net	1,432	3,009
Goodwill	163,209	158,743
Intangible assets, net	26,713	31,543
Bank-owned life insurance	41,608	40,954
Deferred tax asset, net	6,427	3,812
Indemnification asset	36,225	—
Other assets	73,991	77,072
Total assets	$5,935,791	$5,060,297
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	$1,352,785	$ 809,696
Interest-bearing	3,363,815	2,980,210
Total deposits	4,716,600	3,789,906
Customer repurchase agreements	3,099	2,033
Federal Home Loan Bank advances	105,000	430,000
Paycheck Protection Program Liquidity Facility	191,860	—
Subordinated notes	87,509	87,327
Junior subordinated debentures	40,072	39,566
Other liabilities	64,870	74,875
Total liabilities	5,209,010	4,423,707
Commitments and contingencies - See Notes 14 and 15		
Stockholders' equity - See Note 19		
Preferred stock	45,000	—
Common stock, 24,868,218 and 24,964,961 shares outstanding, respectively	280	272
Additional paid-in-capital	489,151	473,251
Treasury stock, at cost	(103,052)	(67,069)
Retained earnings	289,583	229,030
Accumulated other comprehensive income	5,819	1,106
Total stockholders' equity	726,781	636,590
Total liabilities and stockholders' equity	$5,935,791	$5,060,297

See accompanying notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2020, 2019 and 2018
(Dollar amounts in thousands, except per share amounts)

	2020	2019	2018
Interest and dividend income:			
Loans, including fees	$198,214	$195,648	$160,723
Factored receivables, including fees	114,434	101,257	92,103
Securities	8,229	10,474	6,354
FHLB and other restricted stock	530	712	507
Cash deposits	708	3,062	3,289
Total interest and dividend income	322,115	311,153	262,976
Interest expense:			
Deposits	27,403	40,225	23,058
Subordinated notes	5,363	3,553	3,351
Junior subordinated debentures	2,114	2,910	2,741
Other borrowings	2,507	8,562	6,776
Total interest expense	37,387	55,250	35,926
Net interest income	284,728	255,903	227,050
Credit loss expense	38,329	7,942	16,167
Net interest income after credit loss expense	246,399	247,961	210,883
Noninterest income:			
Service charges on deposits	5,274	7,132	5,469
Card income	7,781	7,873	6,514
Net OREO gains (losses) and valuation adjustments	(616)	351	(514)
Net gains (losses) on sale of securities	3,226	61	(272)
Fee income	6,007	6,441	5,150
Insurance commissions	4,232	4,219	3,492
Gain on sale of subsidiary or division	9,758	—	1,071
Other	24,723	5,492	2,060
Total noninterest income	60,385	31,569	22,970
Noninterest expense:			
Salaries and employee benefits	126,975	112,862	90,212
Occupancy, furniture and equipment	22,766	18,196	14,023
FDIC insurance and other regulatory assessments	1,520	298	1,129
Professional fees	9,349	7,288	8,939
Amortization of intangible assets	8,330	9,131	6,980
Advertising and promotion	4,718	6,126	4,974
Communications and technology	22,153	20,976	18,270
Other	26,263	29,207	22,826
Total noninterest expense	222,074	204,084	167,353
Net income before income tax expense	84,710	75,446	66,500
Income tax expense	20,686	16,902	14,792
Net income	64,024	58,544	51,708
Dividends on preferred stock	(1,701)	—	(578)
Net income available to common stockholders	$ 62,323	$ 58,544	$ 51,130
Earnings per common share			
Basic	$ 2.56	$ 2.26	$ 2.06
Diluted	$ 2.53	$ 2.25	$ 2.03

See accompanying notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2020, 2019 and 2018
(Dollar amounts in thousands, except per share amounts)

	2020	2019	2018
Net income	$64,024	$58,544	$51,708
Other comprehensive income:			
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	8,578	3,065	(1,059)
Tax effect	(2,062)	(709)	240
Unrealized holding gains (losses) arising during the period, net of taxes	6,516	2,356	(819)
Reclassification of amount realized through sale or call of securities	(3,226)	(61)	272
Tax effect	800	14	(60)
Reclassification of amount realized through sale or call of securities, net of taxes	(2,426)	(47)	212
Change in unrealized gains (losses) on securities, net of tax	4,090	2,309	(607)
Unrealized gains (losses) on derivative financial instruments:			
Unrealized holding gains (losses) arising during the period	782	—	—
Tax effect	(185)	—	—
Unrealized holding gains (losses) arising during the period, net of taxes	597	—	—
Reclassification of amount of (gains) losses recognized into income	34	—	—
Tax effect	(8)	—	—
Reclassification of amount of (gains) losses recognized into income, net of taxes	26	—	—
Change in unrealized gains (losses) on derivative financial instruments	623	—	—
Total other comprehensive income (loss)	4,713	2,309	(607)
Comprehensive income	$68,737	$60,853	$51,101

See accompanying notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2020, 2019 and 2018
(Dollar amounts in thousands, except per share amounts)

	Preferred Stock	Common Stock			Treasury Stock				
	Liquidation Preference Amount	Shares Outstanding	Par Amount	Additional Paid-in-Capital	Shares Outstanding	Cost	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, January 1, 2018	$ 9,658	20,820,445	$209	$264,855	91,951	$ (1,784)	$119,356	$ (596)	$391,698
Issuance of common stock, net of issuance costs	—	5,405,000	54	191,999	—	—	—	—	192,053
Issuance of restricted stock awards	—	65,001	1	(1)	—	—	—	—	—
Stock based compensation	—	—	—	2,735	—	—	—	—	2,735
Forfeiture of restricted stock awards	—	(2,448)	—	106	2,448	(106)	—	—	—
Stock option exercises, net	—	1,366	—	(4)	—	—	—	—	(4)
Purchase of treasury stock	—	(9,664)	—	—	9,664	(398)	—	—	(398)
Preferred stock converted to common stock	(9,658)	670,236	7	9,651	—	—	—	—	—
Series A Preferred dividends	—	—	—	—	—	—	(273)	—	(273)
Series B Preferred dividends	—	—	—	—	—	—	(305)	—	(305)
Net income	—	—	—	—	—	—	51,708	—	51,708
Other comprehensive income (loss)	—	—	—	—	—	—	—	(607)	(607)
December 31, 2018	$ —	26,949,936	$271	$469,341	104,063	$ (2,288)	$170,486	$(1,203)	$636,607
Issuance of restricted stock awards	—	104,413	1	(1)	—	—	—	—	—
Stock based compensation	—	—	—	3,654	—	—	—	—	3,654
Forfeiture of restricted stock awards	—	(8,602)	—	257	8,602	(257)	—	—	—
Stock option exercises, net	—	5,230	—	—	—	—	—	—	—
Purchase of treasury stock	—	(2,086,016)	—	—	2,086,016	(64,524)	—	—	(64,524)
Net income	—	—	—	—	—	—	58,544	—	58,544
Other comprehensive income (loss)	—	—	—	—	—	—	—	2,309	2,309
December 31, 2019	$ —	24,964,961	$272	$473,251	2,198,681	$ (67,069)	$229,030	$ 1,106	$636,590
Impact of adoption of ASU 2016-13	—	—	—	—	—	—	(1,770)	—	(1,770)
Issuance of preferred stock, net of issuance costs	45,000	—	—	(2,636)	—	—	—	—	42,364
Issuance of common stock, net of issuance costs	—	630,268	7	13,935	—	—	—	—	13,942
Issuance of restricted stock awards	—	138,417	1	(1)	—	—	—	—	—
Stock based compensation	—	—	—	4,618	—	—	—	—	4,618
Forfeiture of restricted stock awards	—	(6,067)	—	211	6,067	(211)	—	—	—
Stock option exercises, net	—	19,394	—	(227)	—	—	—	—	(227)
Purchase of treasury stock	—	(878,755)	—	—	878,755	(35,772)	—	—	(35,772)
Preferred stock dividends	—	—	—	—	—	—	(1,701)	—	(1,701)
Net income	—	—	—	—	—	—	64,024	—	64,024
Other comprehensive income (loss)	—	—	—	—	—	—	—	4,713	4,713
December 31, 2020	$45,000	24,868,218	$280	$489,151	3,083,503	$(103,052)	$289,583	$ 5,819	$726,781

See accompanying notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2020, 2019 and 2018
(Dollar amounts in thousands, except per share amounts)

	2020	2019	2018
Cash flows from operating activities:			
Net income	$ 64,024	$ 58,544	$ 51,708
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	10,720	8,135	5,720
Net accretion on loans	(10,711)	(5,568)	(8,296)
Amortization of subordinated notes issuance costs	182	116	101
Amortization of junior subordinated debentures	506	483	460
Net amortization on securities	(129)	205	947
Amortization of intangible assets	8,330	9,131	6,980
Deferred taxes	(2,080)	3,931	708
Credit loss expense	38,329	7,942	16,167
Stock based compensation	4,618	3,654	2,735
Net (gains) losses on sale of securities	(3,226)	(61)	272
Net (gains) losses on equity securities	(389)	(393)	—
Origination of loans held for sale	(60,867)	(32,570)	(4,317)
Purchases of loans held for sale	(50,765)	(30,486)	—
Proceeds from sale of loans originated for sale	109,471	63,080	3,495
Net gains on sale of loans	(3,585)	(653)	(46)
Net (gains) losses on loans transferred to loans held for sale	770	(1,669)	—
Net OREO (gains) losses and valuation adjustments	616	(351)	514
Net change in operating leases	1,054	181	—
Gain on sale of subsidiary or division	(9,758)	—	(1,071)
Contingent consideration paid	(22,000)	—	—
(Increase) decrease in other assets	12,215	(14,991)	(8,385)
Increase (decrease) in other liabilities	10,002	3,790	6,138
Net cash provided by (used in) operating activities	97,327	72,450	73,830
Cash flows from investing activities:			
Purchases of securities available for sale	(133,970)	(80,459)	(19,875)
Proceeds from sales of securities available for sale	70,198	40,617	123,016
Proceeds from maturities, calls, and pay downs of securities available for sale	96,768	129,382	78,709
Proceeds from maturities, calls, and pay downs of securities held to maturity	693	993	1,053
Purchases of loans held for investment	(324,892)	(129,428)	—
Proceeds from sale of loans	165,877	47,832	9,781
Net change in loans	(632,517)	(506,816)	(388,276)
Purchases of premises and equipment, net	(17,574)	(21,338)	(18,776)
Net proceeds from sale of OREO	2,111	2,762	8,483
Proceeds from surrender of BOLI	—	—	4,623
(Purchases) redemptions of FHLB and other restricted stock, net	13,109	(3,917)	978
Cash paid for acquisitions, net of cash acquired	(108,375)	—	(141,872)
Proceeds from sale of subsidiary or division, net	93,835	—	73,849
Net cash provided by (used in) investing activities	(774,737)	(520,372)	(268,307)

TRIUMPH BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2020, 2019 and 2018
(Dollar amounts in thousands, except per share amounts)

	2020	2019	2018
Cash flows from financing activities:			
Net increase (decrease) in deposits	921,333	339,557	146,954
Increase (decrease) in customer repurchase agreements	1,066	(2,452)	(7,003)
Increase (decrease) in Federal Home Loan Bank advances	(325,000)	100,000	(35,737)
Proceeds from Paycheck Protection Program Liquidity Facility borrowings	231,370	—	—
Repayment of Paycheck Protection Program Liquidity Facility borrowings	(39,510)	—	—
Proceeds from issuance of subordinated notes, net	—	38,282	—
Issuance of common stock, net of issuance costs	—	—	192,053
Issuance of preferred stock, net of issuance costs	42,364	—	—
Stock option exercises	(227)	—	(4)
Purchase of treasury stock	(35,772)	(64,524)	(398)
Dividends on preferred stock	(1,701)	—	(578)
Net cash provided by (used in) financing activities	793,923	410,863	295,287
Net increase (decrease) in cash and cash equivalents	116,513	(37,059)	100,810
Cash and cash equivalents at beginning of period	197,880	234,939	134,129
Cash and cash equivalents at end of period	$ 314,393	$ 197,880	$ 234,939
Supplemental cash flow information:			
Interest paid	$ 41,743	$ 52,006	$ 31,965
Income taxes paid, net	$ 12,080	$ 17,748	$ 12,839
Cash paid for operating lease liabilities	$ 4,236	$ 4,196	$ —
Supplemental noncash disclosures:			
Loans transferred to OREO	$ 1,150	$ 3,360	$ 514
Premises transferred to OREO	$ —	$ —	$ 1,139
Loans transferred to loans held for sale	$ 185,823	$ 46,163	$ 9,781
Assets transferred to assets held for sale	$ 84,077	$ —	$ —
Lease liabilities arising from obtaining right-of-use assets	$ 1,777	$ 2,557	$ —

See accompanying notes to consolidated financial statements.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

On June 30, 2020, the Company sold the assets of Triumph Premium Finance ("TPF") and exited its premium finance line of business. TPF operated within the Company's TBK Bank subsidiary.

On March 16, 2018, the Company sold the assets of Triumph Healthcare Finance ("THF") and exited its healthcare asset based lending line of business. THF operated within the Company's TBK Bank subsidiary.

See Note 2 – Business Combinations and Divestitures for additional information pertaining to the TPF and THF sales and the impact of the transactions on the Company's consolidated financial statements.

Principles of Consolidation and Basis of Presentation

The Company consolidates subsidiaries in which it holds, directly or indirectly, a controlling financial interest. The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity under U.S. generally accepted accounting principles ("GAAP"). Voting interest entities are entities in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity's activities. The Company consolidates voting interest entities in which it has at least a majority of the voting interest. Variable interest entities ("VIEs") are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in a VIE is present when an enterprise has both the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE.

In consolidation, all significant intercompany accounts and transactions are eliminated. Investments in unconsolidated entities are accounted for using the equity method of accounting when the Company has the ability to exercise significant influence over operating and financing decisions. Investments that do not meet the criteria for equity method accounting are accounted for using the cost method of accounting.

The accounting and reporting policies of the Company and its subsidiaries conform to GAAP and general practice within the banking industry. Certain reclassifications have been made to prior year amounts to conform to the current year presentation. The Company uses the accrual basis of accounting for financial reporting purposes.

Use of Estimates

To prepare financial statements in conformity with GAAP management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Risks and Uncertainties

The outbreak of COVID-19 has adversely impacted a broad range of industries in which the Company's customers operate and could impair their ability to fulfill their financial obligations to the Company. The Company's business is dependent upon the willingness and ability of its employees and customers to conduct banking and other financial transactions. If the global response to contain COVID-19 escalates further or is unsuccessful, the Company could experience further material adverse effects on its business, financial condition, results of operations and cash flows. While it is not possible to know the full universe or extent that the impact of COVID-19, and resulting measures to curtail its spread, will have on the Company's operations, the Company is disclosing potentially material items of which it is aware.

Financial position and results of operations

In keeping with guidance from regulators, the Company continues to work with COVID-19 affected customers. During the second quarter of 2020 we waived fees from a variety of sources, such as, but not limited to, insufficient funds and overdraft fees, ATM fees, account maintenance fees, etc. These reductions in fees were temporary and expired on June 1, 2020 resulting in a decrease in service charges on deposits fee income for the year ended December 31, 2020 compared to the same period during 2019. Should the pandemic and the global response escalate further, it is possible that the Company could reduce such fees in future periods; however, at this time, the Company is unable to project the materiality of such an impact on the results of operations in future periods.

The Company's interest income could be reduced due to COVID-19. In keeping with guidance from regulators, the Company continues to work with COVID-19 affected borrowers to defer their payments, interest, and fees. While interest and fees continue to accrue to income, through normal GAAP accounting, should eventual credit losses on these deferred payments emerge, the related loans would be placed on nonaccrual status and interest income and fees accrued would be reversed. In such a scenario, interest income in future periods could be negatively impacted. As of December 31, 2020 the Company carries $726,000 of accrued interest income and fees on outstanding deferrals made to COVID-19 affected borrowers. At this time, the Company is unable to project the materiality of such an impact on future deferrals to COVID-19 affected borrowers, but recognizes the breadth of the economic impact may affect its borrowers' ability to repay in future periods.

Capital and liquidity

Our reported and regulatory capital ratios could be adversely impacted by further credit loss expense. We rely on cash on hand as well as dividends from our subsidiary bank to service our debt. If our capital deteriorates such that our subsidiary bank is unable to pay dividends to us for an extended period of time, we may not be able to service our debt. We maintain access to multiple sources of liquidity. Wholesale funding markets have remained open to us, but rates for short-term funding have recently been volatile. If funding costs are elevated for an extended period of time, it could have an adverse effect on our net interest margin. If an extended recession caused large numbers of our deposit customers to withdraw their funds, we might become more reliant on volatile or more expensive sources of funding.

Intangible asset valuation

COVID-19 could cause a decline in the Company's stock price or the occurrence of what management would deem to be a triggering event that could, under certain circumstances, cause us to perform a goodwill impairment test and result in an impairment charge being recorded for that period. In the event that the Company concludes that all or a portion of its goodwill is 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 or regulatory capital.

It is possible that the lingering effects of COVID-19 could cause the occurrence of what management would deem to be a triggering event that could, under certain circumstances, cause us to perform an intangible asset impairment test and result in an impairment charge being recorded for that period. In the event that the Company concludes that all or a portion of its intangible assets are 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 or regulatory capital.

Lending operations and accommodations to borrowers

In keeping with regulatory guidance to work with borrowers during this unprecedented situation and as outlined in the Section 4013 of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), the Company is executing a payment deferral program for its commercial lending clients that are adversely affected by the pandemic. Depending on the demonstrated need of the client, the Company is deferring either the full loan payment or the principal component of the loan payment for 60 or 90 days. As of December 31, 2020, the Company's balance sheet reflected 59 of these deferrals on outstanding loan balances of $104,597,000. In accordance with the CARES Act and March 2020 interagency guidance, these deferrals are not considered troubled debt restructurings. It is possible that these deferrals could be extended further under the CARES Act; however, the volume of these future potential extensions is unknown. It is also possible that in spite of our best efforts to assist our borrowers and achieve full collection of our investment, these deferred loans could result in future charge-offs with additional credit loss expense charged to earnings; however, the amount of any future charge-offs on deferred loans is unknown.

With the passage of the Paycheck Protection Program ("PPP"), administered by the Small Business Administration ("SBA"), the Company has participated in assisting its customers with applications for resources through the program. PPP loans have two-year and five-year terms and earn interest at a 1% coupon. The Company believes that the majority of these loans will ultimately be forgiven by the SBA in accordance with the terms of the program. As of December 31, 2020, the Company carried 1,913 PPP loans representing a book value of $189,857,000. The Company has received approximately $7,660,000 in total fees from the SBA, $4,570,000 of which were recognized in interest income and fees during the year ended December 31, 2020. The remaining fees will be amortized and recognized over the remaining lives of the loans. It is the Company's understanding that loans funded through the PPP program are fully guaranteed by the U.S. government. Should those circumstances change, the Company could be required to establish an allowance for credit loss through additional credit loss expense charged to earnings.

Credit

The Company is working with customers directly affected by COVID-19. The Company is prepared to offer assistance in accordance with regulator guidelines. As a result of the current economic environment caused by the COVID-19 virus, the Company is engaging in communication with borrowers to understand their situation and the challenges faced, allowing the Company to respond proactively as needs and issues arise. Should the economy experience a prolonged period of poor economic conditions or should economic conditions worsen, the Company could experience further increases in its required allowance for credit losses ("ACL") and record additional credit loss expense. It is possible that the Company's asset quality measures could worsen at future measurement periods if the effects of COVID-19 are prolonged.

Held to Maturity Securities

At December 31, 2020, we held $7,945,000 in subordinated notes of three CLO securities managed by our former subsidiary. These securities are the junior-most in securitization capital structures, and are subject to

suspension of distributions if the credit of the underlying loan portfolios deteriorates materially. During the year ended December 31, 2020, pandemic-related downgrades and default activity caused overcollateralization triggers to be tripped on two of the three CLO investments which had a material impact on expected cash flows used to calculate the ACL. At December 31, 2020, the CLO investments had recovered and none of the overcollateralization triggers were tripped. The required ACL on these balances was $2,026,000 December 31, 2020 resulting in $1,900,000 of credit loss expense recognized during the year ended December 31, 2020. Ultimately, the realized cash flows on CLO securities such as these will be driven by a variety of factors, including credit performance of the underlying loan portfolio, adjustments to the portfolio by the asset manager, and the timing of a potential call. Thus, we may not receive the full amount of cash distributions we expect to receive, which would cause us to record additional allowance for credit losses with a corresponding charge to credit loss expense through earnings. At December 31, 2020, the Company's held to maturity securities were classified as nonaccrual.

Transportation

The Company's transportation businesses may be affected by COVID-19 and the volatility in oil prices. The global supply disruption from China and Mexico, in combination with the U.S. supply chain challenges due to business disruptions and an overall decrease in consumer demand could have a material impact on freight volumes in the U.S., which could impact our factoring and transportation lending operations in future periods; however, the ultimate impact is unknown.

Cash and Cash Equivalents

For the purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, other short-term investments and federal funds sold. All highly liquid investments with an initial maturity of less than 90 days are considered to be cash equivalents. Certain items, including loan and deposit transactions, customer repurchase agreements, and FHLB advances and repayments, are presented net in the statement of cash flows.

Debt Securities

The Company determines the classification of debt securities at the time of purchase. Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost. Trading securities are recorded at fair value with changes in fair value included in earnings. Debt securities not classified as held to maturity or trading are classified as available for sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss), net of tax.

Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific-identification method. Amortization of premiums and discounts are recognized in interest income over the period to maturity using the interest method, except for premiums on callable debt securities, which are amortized to their earliest call date.

The Company has made a policy election to exclude accrued interest from the amortized cost basis of debt securities and report accrued interest separately in other assets in the consolidated balance sheets. A debt security is placed on nonaccrual status at the time any principal or interest payments become more than 90 days delinquent or if full collection of interest or principal becomes uncertain. Accrued interest for a security placed on nonaccrual is reversed against interest income. There was no accrued interest related to debt securities reversed against interest income for the year ended December 31, 2020 and 2019.

Allowance for Credit Losses — Available for Sale Securities

For available for sale debt securities in an unrealized loss position, the Company evaluates the securities to determine whether the decline in the fair value below the amortized cost basis (impairment) is due to credit-related factors or noncredit-related factors. Any impairment that is not credit related is recognized in other comprehensive income, net of applicable taxes. Credit-related impairment is recognized as an allowance for credit losses ("ACL") on the balance sheet, limited to the amount by which the amortized cost basis exceeds the fair value, with a corresponding adjustment to earnings. Both the ACL and the adjustment to net income may be reversed if conditions change. However, if the Company intends to sell an impaired available for sale debt security or more likely than not will be required to sell such a security before recovering its amortized cost basis, the entire impairment amount must be recognized in earnings with a corresponding adjustment to the security's amortized cost basis. Because the security's amortized cost basis is adjusted to fair value, there is no ACL in such a situation.

In evaluating available for sale debt securities in unrealized loss positions for impairment and the criteria regarding its intent or requirement to sell such securities, the Company considers the extent to which fair value is less than amortized cost, whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuers' financial condition, among other factors.

Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the ACL when management believes the uncollectability of an available for sale debt security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable is excluded from the estimate of credit losses.

Allowance for Credit Losses — Held to Maturity Securities

The allowance for credit losses on held to maturity securities is estimated on a collective basis by major security type. At December 31, 2020 and 2019, the Company's held to maturity securities consisted of investments in the subordinated notes of collateralized loan obligation ("CLO") funds. Expected credit losses for these securities are estimated using a discounted cash flow methodology which considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts.

Accrued interest receivable is excluded from the estimate of credit losses.

Equity Securities

Equity securities are recorded at fair value, with unrealized gains and losses included in earnings. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific-identification method.

Loans Held for Sale

The Company elects the fair value option for recording 1-4 family residential mortgage loans and commercial loans held for sale in accordance with Accounting Standards Codification ("ASC") 825, "Financial Instruments". The fair value of loans held for sale is determined based on outstanding commitments from investors to purchase such loans or prevailing market rates. Increases or decreases in the fair value of loans held for sale, if any, are charged to earnings and are recorded in noninterest income in the consolidated statements of income. Gains and losses on sales of loans are based on the difference between the final selling price and the carrying value of the related loan sold.

Mortgage loans held for sale are generally sold with servicing rights released.

Management occasionally transfers loans held for investment to loans held for sale. Gains or losses on the transfer of loans to loans held for sale are recorded in noninterest income in the consolidated statements of income.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their amortized cost basis, which is the unpaid principal balance outstanding, net of unearned income, deferred loan fees and costs, premiums and discounts associated with acquisition date fair value adjustments on acquired loans, and any direct principal charge-offs. The Company has made a policy election to exclude accrued interest from the amortized cost basis of loans and report accrued interest separately from the related loan balance in other assets on consolidated balance sheets.

Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income over the remaining life of the loan without anticipating prepayments.

Loans are considered past due or delinquent when the contractual principal or interest due in accordance with the terms of the loan agreement or any portion thereof remains unpaid after the due date of the scheduled payment. Loans are classified as nonaccrual when, in the opinion of management, collection of principal or interest is doubtful. The accrual of interest income on loans is typically discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection, or if full collection of interest or principal becomes uncertain. Consumer loans are typically charged off no later than 120 days past due. All interest accrued but not received for a loan placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Under the cash basis method, interest income is recorded when the payment is received in cash. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Factored Receivables

The Company purchases invoices from its factoring clients in schedules or batches. To a much lesser extent, the Company will also make short-term advances to its clients on transportation contracts for upcoming loads. Cash is advanced to the client to the extent of the applicable advance rate, less fees, as set forth in the individual factoring agreements. The face value of the invoices purchased or amount advanced is recorded by the Company as factored receivables, and the unadvanced portions of the invoices purchased, less fees, are considered client reserves. The client reserves are held to settle any payment disputes or collection shortfalls, may be used to pay clients' obligations to various third parties as directed by the client, are periodically released to or withdrawn by clients, and are reported as deposits in the consolidated balance sheets.

Unearned factoring fees and unearned net origination fees are deferred and recognized over the weighted average collection period for each client. Subsequent factoring fees are recognized in interest income as incurred by the client and deducted from the clients' reserve balances.

Other factoring-related fees, which include wire transfer fees, carrier payment fees, fuel advance fees, and other similar fees, are reported by the Company as non-interest income.

Acquired Loans

Acquired loans are recorded at fair value at the date of acquisition based on a discounted cash flow methodology that considers various factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan and whether or not the loan was amortizing, and a discount rate reflecting the Company's assessment of risk inherent in the cash flow estimates. Certain larger purchased loans are individually evaluated while certain purchased loans are grouped together according to similar risk characteristics and are treated in the aggregate when applying various valuation techniques. These cash flow evaluations are inherently subjective as they require material estimates, all of which may be susceptible to significant change.

Prior to January 1, 2020, loans acquired in a business combination that had evidence of deterioration of credit quality since origination and for which it was probable, at acquisition, that the Company would be unable to collect all contractually required payments receivable were considered purchased credit impaired ("PCI"). PCI loans were individually evaluated and recorded at fair value at the date of acquisition with no initial valuation allowance based on a discounted cash flow methodology that considered various factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan and whether or not the loan was amortizing, and a discount rate reflecting the Company's assessment of risk inherent in the cash flow estimates. The difference between the undiscounted cash flows expected at acquisition and the investment in the loan, or the "accretable yield," was recognized as interest income on a level-yield method over the life of the loan. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the "nonaccretable difference," were not recognized on the balance sheet and did not result in any yield adjustments, loss accruals or valuation allowances. Increases in expected cash flows, including prepayments, subsequent to the initial investment were recognized prospectively through adjustment of the yield on the loan over its remaining life. Decreases in expected cash flows were recognized as impairment. Valuation allowances on PCI loans reflected only losses incurred after the acquisition (meaning the present value of all cash flows expected at acquisition that ultimately were not to be received).

Subsequent to January 1, 2020, loans acquired in a business combination that have experienced more-than-insignificant deterioration in credit quality since origination are considered purchased credit deteriorated ("PCD") loans. At the acquisition date, an estimate of expected credit losses is made for groups of PCD loans with similar risk characteristics and individual PCD loans without similar risk characteristics. This initial allowance for credit losses is allocated to individual PCD loans and added to the purchase price or acquisition date fair values to establish the initial amortized cost basis of the PCD loans. As the initial allowance for credit losses is added to the purchase price, there is no credit loss expense recognized upon acquisition of a PCD loan. Any difference between the unpaid principal balance of PCD loans and the amortized cost basis is considered to relate to noncredit factors and results in a discount or premium. Discounts and premiums are recognized through interest income on a level-yield method over the life of the loans. All loans considered to be PCI prior to January 1, 2020 were converted to PCD on that date.

For acquired loans not deemed purchased credit deteriorated at acquisition, the differences between the initial fair value and the unpaid principal balance are recognized as interest income on a level-yield basis over the lives of the related loans. At the acquisition date, an initial allowance for expected credit losses is estimated and recorded as credit loss expense.

The subsequent measurement of expected credit losses for all acquired loans is the same as the subsequent measurement of expected credit losses for originated loans.

Allowance for Credit Losses — Loans

Refer to the Adoption of New Accounting Standards within this footnote for discussion of the change in methodology used to calculate the ACL effective January 1, 2020.

Under the current expected credit loss model adopted by the Company on January 1, 2020, the allowance for credit losses on loans is a valuation allowance estimated at each balance sheet date in accordance with US GAAP that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans.

The Company estimates the ACL on loans based on the underlying assets' amortized cost basis, which is the amount at which the financing receivable is originated or acquired, adjusted for applicable accretion or amortization of premium, discount, and net deferred fees or costs, collection of cash, and charge-offs. In the event that collection of principal becomes uncertain, the Company has policies in place to reverse accrued interest in a timely manner. Therefore, the Company has made a policy election to exclude accrued interest from the measurement of ACL.

Expected credit losses are reflected in the allowance for credit losses through a charge to credit loss expense. When the Company deems all or a portion of a financial asset to be uncollectible the appropriate amount is written off and the ACL is reduced by the same amount. The Company applies judgment to determine when a financial asset is deemed uncollectible; however, generally speaking, an asset will be considered uncollectible no later than when all efforts at collection have been exhausted. Subsequent recoveries, if any, are credited to the ACL when received.

The Company measures expected credit losses of financial assets on a collective (pool) basis, when the financial assets share similar risk characteristics. Depending on the nature of the pool of financial assets with similar risk characteristics, the Company uses a discounted cash flow ("DCF") method or a loss-rate method to estimate expected credit losses.

The Company's methodologies for estimating the ACL consider available relevant information about the collectability of cash flows, including information about past events, current conditions, and reasonable and supportable forecasts. The methodologies apply historical loss information, adjusted for asset-specific characteristics, economic conditions at the measurement date, and forecasts about future economic conditions expected to exist through the contractual lives of the financial assets that are reasonable and supportable, to the identified pools of financial assets with similar risk characteristics for which the historical loss experience was observed. The Company's methodologies revert back to historical loss information on a straight-line basis over eight quarters when it can no longer develop reasonable and supportable forecasts.

The Company has identified the following pools of financial assets with similar risk characteristics for measuring expected credit losses:

Commercial Real Estate — This category of loans consists of the following loan types:

Non-farm Non-residential — This category includes real estate loans for a variety of commercial property types and purposes, including owner occupied commercial real estate loans primarily secured by commercial office or industrial buildings, warehouses or retail buildings where the owner of the building occupies the property. Repayment terms vary considerably, interest rates are fixed or variable, and are structured for full, partial, or no amortization of principal. This category also includes investment real estate loans that are primarily secured by office and industrial buildings, warehouses, small retail shopping centers and various special purpose properties. Generally, these types of loans are thought to involve a greater degree of credit risk than owner occupied commercial real estate as they are more sensitive to adverse economic conditions.

Multi-family residential — Investment real estate loans are primarily secured by non-owner occupied apartment or multifamily residential buildings. Generally, these types of loans are thought to involve a

greater degree of credit risk than owner occupied commercial real estate as they are more sensitive to adverse economic conditions.

Construction, land development, land —This category of loans consists of loans to finance the ground up construction, improvement and/or carrying for sale after the completion of construction of owner occupied and non-owner occupied residential and commercial properties, and loans secured by raw or improved land. The repayment of construction loans is generally dependent upon the successful completion of the improvements by the builder for the end user, or sale of the property to a third-party. Repayment of land secured loans are dependent upon the successful development and sale of the property, the sale of the land as is, or the outside cash flow of the owners to support the retirement of the debt.

1-4 family residential — This category of loans includes both first and junior liens on residential real estate. Home equity revolving lines of credit and home equity term loans are included in this group of loans.

Farmland — These loans are principally loans to purchase farmland.

Commercial — Commercial loans are loans for commercial, corporate and business purposes. The Company's commercial business loan portfolio is comprised of loans for a variety of purposes and across a variety of industries. These loans include general commercial and industrial loans, loans to purchase capital equipment, agriculture operating loans and other business loans for working capital and operational purposes. Commercial loans are generally secured by accounts receivable, inventory and other business assets. Also included in commercial loans are our Paycheck Protection ("PPP") loans originated during 2020.

A portion of the commercial loan portfolio consists of specialty commercial finance products as follows:

Equipment — Equipment finance loans are commercial 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. Loan terms do not exceed the economic life of the equipment and typically are 60 months or less.

Asset-based Lending — These loans are originated to borrowers to support general working capital needs. The 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.

A portion of the commercial loan portfolio also consists of the following national lending product:

Liquid Credit — Broadly syndicated leveraged loans secured by a variety of collateral types.

Factored Receivables — The Company operates as a factor by purchasing accounts receivable from its clients, then collecting the receivable from the account debtor. The Company's smaller factoring relationships are typically structured as "non-recourse" relationships (*i.e.*, the Company retains the credit risk associated with the ability of the account debtor on a purchased invoice to ultimately make payment) and the Company's larger factoring relationships are typically structured as "recourse" relationships (*i.e.*, the Company's client agrees to repurchase any invoices for which payment is not ultimately received from the account debtor). Advances initially made to the client to acquire the receivables are typically at a discount to the invoice value. The discount balance is held in client reserves, net of the Company's compensation. The client reserves are held to settle any payment disputes or collection shortfalls, may be used to pay clients' obligations to various third parties as directed by the client, are periodically released to or withdrawn by clients, and are reported as deposits.

Consumer — Loans used for personal use, typically on an unsecured basis, and client overdrafts.

Mortgage Warehouse — Mortgage Warehouse facilities are provided to unaffiliated mortgage origination companies and are collateralized by 1-4 family residential loans. The originator closes new mortgage loans with the intent to sell these loans to third-party investors for a profit. The Company provides funding to the mortgage companies for the period between the origination and their sale of the loan. The Company has a policy that requires that it separately validate that each residential mortgage loan was underwritten consistent with the underwriting requirements of the final investor or market standards prior to advancing funds. The Company is repaid with the proceeds received from sale of the mortgage loan to the final investor.

Discounted Cash Flow Method

The Company uses the discounted cash flow method to estimate expected credit losses for the commercial real estate, construction, land development, land, 1-4 family residential, commercial (excluding liquid credit), and consumer loan pools. For each of these loan segments, the Company generates cash flow projections at the instrument level wherein payment expectations are adjusted for estimated prepayment speed, curtailments, time to recovery, probability of default, and loss given default. The modeling of expected prepayment speeds, curtailment rates, and time to recovery are based on historical internal data.

The Company uses regression analysis of historical internal and peer data to determine suitable loss drivers to utilize when modeling lifetime probability of default and loss given default. This analysis also determines how expected probability of default and loss given default will react to forecasted levels of the loss drivers. For all loan pools utilizing the DCF method, management utilizes and forecasts national unemployment as a loss driver. Management also utilizes and forecasts either one-year percentage change in national retail sales, one-year percentage change in the national home price index, or one-year percentage change in national gross domestic product as a second loss driver depending on the nature of the underlying loan pool and how well that loss driver correlates to expected future losses.

For all DCF models, management has determined that four quarters represents a reasonable and supportable forecast period and reverts back to a historical loss rate over eight quarters on a straight-line basis. Management leverages economic projections from a reputable and independent third-party to inform its loss driver forecasts over the four-quarter forecast period. Other internal and external indicators of economic forecasts are also considered by management when developing the forecast metrics.

The combination of adjustments for credit expectations (default and loss) and timing expectations (prepayment, curtailment, and time to recovery) produces an expected cash flow stream at the instrument level. Instrument effective yield is calculated, net of the impacts of prepayment assumptions, and the instrument expected cash flows are then discounted at that effective yield to produce an instrument-level net present value of expected cash flows (“NPV”). An ACL is established for the difference between the instrument’s NPV and amortized cost basis.

Loss-Rate Method

The Company uses a loss-rate method to estimate expected credit losses for the farmland, liquid credit, premium finance, factored receivable, and mortgage warehouse loan pools. For each of these loan segments, the Company applies an expected loss ratio based on internal and peer historical losses adjusted as appropriate for qualitative factors. Qualitative loss factors are based on management’s judgment of company, market, industry or business specific data, changes in underlying loan composition of specific portfolios, trends relating to credit quality, delinquency, non-performing and adversely rated loans, and reasonable and supportable forecasts of economic conditions.

Collateral Dependent Financial Assets

Loans that do not share risk characteristics are evaluated on an individual basis. For collateral dependent financial assets where the Company has determined that foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and the Company expects repayment of the financial asset to be provided substantially through the operation or sale of the collateral, the ACL is measured based on the difference between the fair value of the collateral and the amortized cost basis of the asset as of the measurement date. When repayment is expected to be from the operation of the collateral, expected credit losses are calculated as the amount by which the amortized cost basis of the financial asset exceeds the present value of expected cash flows from the operation of the collateral. When repayment is expected to be from the sale of the collateral, expected credit losses are calculated as the amount by which the amortized costs basis of the financial asset exceeds the fair value of the underlying collateral less estimated cost to sell. The ACL may be zero if the fair value of the collateral at the measurement date exceeds the amortized cost basis of the financial asset.

The Company's estimate of the ACL reflects losses expected over the remaining contractual life of the assets. The contractual term does not consider extensions, renewals or modifications unless the Company has identified an expected troubled debt restructuring.

A loan that has been modified or renewed is considered a troubled debt restructuring ("TDR") when two conditions are met: 1) the borrower is experiencing financial difficulty and 2) concessions are made for the borrower's benefit that would not otherwise be considered for a borrower or transaction with similar credit risk characteristics. The Company's ACL reflects all effects of a TDR when an individual asset is specifically identified as a reasonably expected TDR. The Company has determined that a TDR is reasonably expected no later than the point when the lender concludes that modification is the best course of action and it is at least reasonably possible that the troubled borrower will accept some form of concession from the lender to avoid a default. Reasonably expected TDRs and executed non-performing TDRs are evaluated individually to determine the required ACL. TDRs performing in accordance with their modified contractual terms for a reasonable period of time may be included in the Company's existing pools based on the underlying risk characteristics of the loan to measure the ACL.

Paycheck Protection Program

With the passage of the PPP, the Company has actively participated in assisting its customers with applications for loans through the program. Loans funded through the PPP program are fully guaranteed by the U.S. government subject to certain representations and warranties. This guarantee exists at the inception of the loans and throughout the lives of the loans and was not entered into separately and apart from the loans. ASC 326 requires credit enhancements that mitigate credit losses, such as the U.S. government guarantee on PPP loans, to be considered in estimating credit losses. The guarantee is considered "embedded" and, therefore, is considered when estimating credit loss on the PPP loans. Given that the loans are fully guaranteed by the U.S. government and absent any specific loss information on any of our PPP loans, the Company does not carry an ACL on its PPP loans at December 31, 2020.

Loan Commitments and Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans, commitments to purchase broadly syndicated loans, and commercial letters of credit, issued to meet customer financing needs. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for off-balance sheet loan commitments is represented by the contractual amount of those instruments. Such financial instruments are recorded when they are funded.

The Company records an allowance for credit losses on off-balance sheet credit exposures, unless the commitments to extend credit are unconditionally cancelable, through a charge to credit loss expense in the Company's consolidated statements of income. The ACL on off-balance sheet credit exposures is estimated by loan segment at each balance sheet date under the current expected credit loss model using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur, and is included in other liabilities on the Company's consolidated balance sheets.

Federal Home Loan Bank ("FHLB") Stock

The Company is a member of the FHLB system. Members of the FHLB are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, is restricted as to redemption, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Premises and Equipment

Land is carried at cost. Depreciable assets are stated at cost less accumulated depreciation. Leasehold improvements are capitalized and depreciated using the straight-line method over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Buildings and related components are generally depreciated using the straight-line method with useful lives ranging from thirty to forty years. Automobiles are depreciated using the straight-line method with five year useful lives, and the aircraft is depreciated using an accelerated method with a twenty year useful life. Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from three to ten years.

The Company leases certain properties and equipment under operating leases. For leases in effect upon adoption of Accounting Standards Update 2016-2, "Leases (Topic 842)" at January 1, 2019 and for any leases commencing thereafter, the Company recognizes a liability to make lease payments, the "lease liability", and an asset representing the right to use the underlying asset during the lease term, the "right-of-use asset". The lease liability is measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate. The right-of-use asset is measured at the amount of the lease liability adjusted for the remaining balance of any lease incentives received, any cumulative prepaid or accrued rent if the lease payments are uneven throughout the lease term, any unamortized initial direct costs, and any impairment of the right-of-use-asset. Operating lease expense consists of a single lease cost calculated so that the remaining cost of the lease is allocated over the remaining lease term on a straight-line basis, variable lease payments not included in the lease liability, and any impairment of the right-of-use asset.

Certain of the Company's leases contain options to renew the lease; however, these renewal options are not included in the calculation of the lease liabilities as they are not reasonably certain to be exercised. The Company's leases do not contain residual value guarantees or material variable lease payments. The Company does not have any material restrictions or covenants imposed by leases that would impact the Company's ability to pay dividends or cause the Company to incur additional financial obligations.

The Company has made an accounting policy election to not apply the recognition requirements in Topic 842 to short-term leases. The Company has also elected to use the practical expedient to make an accounting policy election for property leases to include both lease and nonlease components as a single component and account for it as a lease.

The Company's leases are not complex; therefore there were no significant assumptions or judgements made in applying the requirements of Topic 842, including the determination of whether the contracts contained a lease,

the allocation of consideration in the contracts between lease and nonlease components, and the determination of the discount rates for the leases.

Foreclosed Assets

Assets acquired through loan foreclosure are initially recorded at fair value less costs to sell, establishing a new cost basis. Any write-down in the carrying value of a property at the time of acquisition is charged-off to the allowance for loan and lease losses. After foreclosure, foreclosed assets are carried at the lower of the recorded investment in the asset or the fair value less costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Goodwill

Goodwill represents the excess of the cost of businesses acquired over the fair value of the net assets acquired. In accordance with ASC 350-20, “Intangibles- Goodwill and Other”, the Company evaluates goodwill for impairment on an annual basis or on an interim basis if an event occurs or circumstances change that would more likely than not reduce the fair value below its carrying amount, in accordance with ASC 350-20. The Company’s annual goodwill impairment testing date is October 1.

The Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining the need to perform the test for goodwill impairment (the qualitative method). If the qualitative method cannot be used or if it determines, based on the qualitative method, that the fair value is more likely than not less than the carrying amount, the Company compares the estimated fair value of a reporting unit with its carrying amount, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. If the carrying amount of a reporting unit exceeds its estimated fair value, the Company will record an impairment charge based on that difference. Our annual goodwill impairment test did not identify any goodwill impairment for the years ended December 31, 2020, 2019, and 2018.

Identifiable Intangible Assets

Intangible assets are acquired assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset, or liability. 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. If impaired, the assets are recorded at fair value with a charge to amortization of intangible assets.

Bank Owned Life Insurance

The Company has purchased life insurance policies on certain key employees. The purchase of these life insurance policies allows the Company to use tax-advantaged rates of return. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Derivative Financial Instruments

The Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate

a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. At December 31, 2020, the Company had one cash flow hedge position and no fair value or foreign currency hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. Unrealized gains or losses are reported as other comprehensive income or loss.

To qualify for the use of hedge accounting, a derivative must be effective at inception and expected to be continuously effective in offsetting the risk being hedged. A statistical regression analysis is performed at inception and at each reporting period thereafter to evaluate hedge effectiveness.

In accordance with the FASB's fair value measurement guidance, the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

Income Taxes

The Company files a consolidated tax return with its subsidiaries and is taxed as a C corporation. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Company recognizes interest and penalties related to income tax matters in income tax expense.

Fair Values of Financial Instruments

In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that may use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and/or the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. Changes in assumptions or in market conditions could significantly affect these estimates.

In the ordinary course of business, the Company generally does not sell or transfer non-impaired loans and deposits. As such, the disclosures that present the December 31, 2020 and 2019 estimated fair value for non-impaired loans and deposits are judgmental and may not represent amounts to be received if the Company were to sell or transfer such items.

Revenue from Contracts with Customers

The Company records revenue from contracts with customers in accordance with Accounting Standards Codification Topic 606, "Revenue from Contracts with Customers" ("Topic 606"). Under Topic 606, the Company must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the Company satisfies a performance obligation. Significant revenue has not been recognized in the current reporting period that results from performance obligations satisfied in previous periods.

The Company's primary sources of revenue are derived from interest and dividends earned on loans, investment securities, and other financial instruments that are not within the scope of Topic 606. The Company has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the Consolidated Statements of Income was not necessary. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, the Company has made no significant judgments in applying the revenue guidance prescribed in ASC 606 that affect the determination of the amount and timing of revenue from contracts with customers.

Operating Segments

The Company's reportable segments are comprised of strategic business units primarily based upon industry categories and to a lesser extent, the core competencies relating to product origination, distribution methods, operations and servicing. Segment determination also considered organizational structure and our segment reporting is consistent with the presentation of financial information to the chief operating decision maker to evaluate segment performance, develop strategy, and allocate resources. Our chief operating decision maker is the Chief Executive Officer of Triumph Bancorp, Inc. We have determined our reportable segments are Banking, Factoring, and Corporate.

The banking segment includes the operations of TBK Bank and TriumphPay. The 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 commercial factoring services which are originated through the commercial finance division of TBK Bank.

The factoring segment includes the operations of TBC with revenue derived from factoring services.

The corporate segment includes holding company financing and investment activities and management and administrative expenses to support the overall operations of the Company.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income includes unrealized gains and losses on debt securities available for sale and cash flow hedges, net of taxes, which are also recognized as a separate component of equity.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe such matters exist that will have a material effect on the financial statements.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be relinquished when (i) the assets have been isolated from the Company, (ii) the transferee has the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (iii) the Company does not maintain effective control over the transferred assets through either (a) an agreement that entitles and obligates the Company to repurchase or redeem them before their maturity or (b) the ability to unilaterally cause the transferee to return specific assets.

Stock Based Compensation

Compensation cost is recognized for stock based payment awards issued to employees and directors, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, a Monte Carlo simulation is utilized to estimate the fair value of market based performance stock units, and the market price of the Company's common stock at the date of grant is used for restricted stock awards, restricted stock units, and performance based performance stock units. Compensation cost is recognized over the required service period, generally defined as the vesting period. The Company recognizes forfeitures of nonvested awards as they occur.

Earnings Per Common Share

Basic earnings per common share is net income less dividends on preferred stock divided by the weighted average number of common shares outstanding during the period excluding nonvested restricted stock awards. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock warrants, restricted stock, stock options, and preferred shares that are convertible to common shares.

Advertising Costs

Advertising costs are expensed as incurred.

Adoption of New Accounting Standards

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). ASU 2016-13 makes significant changes to the accounting for credit losses on financial instruments presented on an amortized cost basis and disclosures about them. The new current expected credit loss ("CECL") impairment model requires an estimate of expected credit losses, measured over the contractual life of an instrument, which considers reasonable and supportable forecasts of future economic conditions in addition to information about past events and current conditions. The standard provides significant flexibility and requires a high degree of judgment with regards to pooling financial assets with similar risk characteristics and adjusting the relevant historical loss information in order to develop an estimate of expected lifetime losses. ASU 2016-13 permits the use of estimation techniques that are practical and relevant to the Company's circumstances, as long as they are applied consistently over time and faithfully estimate expected credit losses in accordance with the standard. The ASU lists several common credit loss methods that are acceptable such as a discounted cash flow ("DCF") method, loss-rate method and roll-rate method. In addition, ASU 2016-13 amends the accounting for credit losses on debt securities and purchased financial assets with credit deterioration.

The Company adopted ASU 2016-13 on January 1, 2020 using the modified retrospective approach. Results for the periods beginning after January 1, 2020 are presented under Accounting Standards Codification ("ASC") 326 while prior period amounts continue to be reported in accordance with previously applicable US GAAP. The

Company recorded a net reduction of retained earnings of $1,770,000 upon adoption. The transition adjustment includes an increase in the allowance for credit losses on loans of $269,000, an increase in the allowance for credit losses on held to maturity debt securities of $126,000, and an increase in the allowance for credit losses on off-balance sheet credit exposures of $1,918,000, net of the corresponding increases in deferred tax assets of $543,000.

The Company adopted ASU 2016-13 using the prospective transition approach for financial assets purchased with credit deterioration ("PCD") that were previously classified as purchased credit impaired ("PCI") and accounted for under ASC 310-30. In accordance with the standard, the Company did not reassess whether PCI assets met the criteria of PCD assets as of the date of adoption. The remaining discount on the PCD assets was determined to be related to noncredit factors and will be accreted into interest income on a level-yield method over the life of the loans.

In January 2017, the FASB issued ASU 2017-04, "Intangibles — Goodwill and Other (Topic 350) — Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"). ASU 2017-04 simplifies the accounting for goodwill impairment for all entities by requiring impairment charges to be based on the first step in the previous two-step impairment test. Under the new guidance, if a reporting unit's carrying amount exceeds its fair value, an entity will record an impairment charge based on that difference. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit. The standard eliminates the prior requirement to calculate a goodwill impairment charge using Step 2, which requires an entity to calculate any impairment charge by comparing the implied fair value of goodwill with its carrying amount. ASU 2017-04 was effective for the Company on January 1, 2020 and did not have a material impact on the Company's financial statements.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820) — Changes to the Disclosure Requirements for Fair Value Measurement" ("ASU 2018-13"). ASU 2018-13 modifies the disclosure requirements on fair value measurements by requiring that Level 3 fair value disclosures include the range and weighted average of significant unobservable inputs used to develop those fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements. ASU 2018-13 was effective for the Company on January 1, 2020 and did not have a material impact on the Company's financial statement disclosures.

In August 2018, the FASB issued ASU 2018-15, "Intangibles — Goodwill and Other — Internal-Use Software (Subtopic 350-40) — Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract" ("ASU 2018-15"). ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by these amendments. ASU 2018-15 was effective for the Company on January 1, 2020 and did not have a material impact on the Company's financial statements.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law. Section 4013 of the CARES Act, "Temporary Relief From Troubled Debt Restructurings," provides banks the option to temporarily suspend certain requirements under U.S. GAAP related to troubled debt restructurings ("TDR") for a limited period of time to account for the effects of COVID-19. To qualify for Section 4013 of the CARES Act, borrowers must have been current at December 31, 2019. All modifications are eligible so long as they are executed between March 1, 2020 and the earlier of (i) December 31, 2020, or (ii) the 60th day after the end of the COVID-19 national emergency declared by the President of the U.S. Multiple modifications of the

same credits are allowed and there is no cap on the duration of the modification. On December 21, 2020, certain provisions of the CARES Act, including the temporary suspension of certain requirements related to TDRs, were extended through December 31, 2021. See Note 4 of the footnotes to the consolidated financial statements for disclosure of the impact to date.

In March 2020, various regulatory agencies, including the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation, ("the agencies") issued an interagency statement on loan modifications and reporting for financial institutions working with customers affected by the Coronavirus. The interagency statement was effective immediately and impacted accounting for loan modifications. Under Accounting Standards Codification 310-40, "Receivables – Troubled Debt Restructurings by Creditors," ("ASC 310-40"), a restructuring of debt constitutes a troubled debt restructuring ("TDR") if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grands a concession to the debtor that it would not otherwise consider. The agencies confirmed with the staff of the FASB that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not to be considered TDRs. This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented. Almost all of the Company's modifications fall under Section 4013 of the CARES Act and thus, the interagency statement has had very little impact on the Company to date.

NOTE 2 — BUSINESS COMBINATIONS AND DIVESTITURES

Transport Financial Solutions

On July 8, 2020, the Company, through its wholly-owned subsidiary Advance Business Capital LLC ("ABC"), acquired the transportation factoring assets and certain personnel (the "TFS Acquisition") of Transport Financial Solutions ("TFS"), a wholly owned subsidiary of Covenant Logistics Group, Inc. ("CVLG"), in exchange for cash consideration of $108,375,000, 630,268 shares of the Company's common stock valued at approximately $13,942,000, and contingent consideration of up to approximately $9,900,000 to be paid in cash following the twelve-month period ending July 31, 2021.

Subsequent to the closing of the TFS Acquisition, the Company identified that approximately $62,200,000 of the assets acquired at closing were advances against future payments to be made to three large clients (and their affiliated entities) of TFS pursuant to long-term contractual arrangements between the obligor on such contracts and such clients (and their affiliated entities) for services that had not yet been performed.

On September 23, 2020, the Company and ABC entered into an Account Management Agreement, Amendment to Purchase Agreement and Mutual Release (the "Agreement") with CVLG and Covenant Transport Solutions, LLC, a wholly owned subsidiary of CVLG ("CTS" and, together with CVLG, "Covenant"). Pursuant to the Agreement, the parties agreed to certain amendments to that certain Accounts Receivable Purchase Agreement (the "ARPA"), dated as of July 8, 2020, by and among ABC, as buyer, CTS, as seller, and the Company, as buyer indirect parent. Such amendments include:

- Return of the portion of the purchase price paid under the ARPA consisting of 630,268 shares of Company common stock, which was accomplished through the sale of such shares by Covenant pursuant to the terms of the Agreement and the surrender of the cash proceeds of such sale (net of brokerage or underwriting fees and commissions) to the Company;
- Elimination of the earn-out consideration potentially payable to CTS under the ARPA; and

- Modification of the indemnity provisions under the ARPA that eliminated the existing indemnifications for breaches of representations and warranties and replaced such with a newly established indemnification by Covenant in the event ABC incurs losses related to the $62,200,000 in over-formula advances made to specified clients identified in the Agreement (the "Over-Formula Advance Portfolio"). Under the terms of the new indemnification arrangement, Covenant is responsible for and will indemnify ABC for 100% of the first $30,000,000 of any losses incurred by ABC related to the Over-Formula Advance Portfolio, and for 50% of the next $30,000,000 of any losses incurred by ABC, for total indemnification by Covenant of $45,000,000.

Covenant's indemnification obligations under the Agreement are secured by a pledge of equipment collateral by Covenant with an estimated net orderly liquidation value of $60,000,000 (the "Equipment Collateral"). The Company's wholly-owned bank subsidiary, TBK Bank, SSB, has provided Covenant with a $45,000,000 line of credit, also secured by the Equipment Collateral, the proceeds of which may be drawn to satisfy Covenant's indemnification obligations under the Agreement.

Pursuant to the Agreement, Triumph and Covenant agreed to certain terms related to the management of the Over-Formula Advance Portfolio, and the terms by which Covenant may provide assistance to maximize recovery on the Over-Formula Advance Portfolio.

Pursuant to the Agreement, the Company and Covenant provided mutual releases to each other related to any and all claims related to the transactions contemplated by the ARPA or the Over-Formula Advance Portfolio.

The measurement period for this transaction was open at the time the Agreement was executed and the Company has determined that there is a clear and direct link between the Agreement and the ARPA. Therefore, the terms of the Agreement have been incorporated into the Company's purchase accounting which has resulted in the elimination of the contingent consideration component of the ARPA, the recognition of a receivable due from Covenant as part of the consideration for the transaction, and an indemnification asset to reflect the modification of Covenant's indemnification obligations.

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

(Dollars in thousands)	
Assets acquired:	
Factored receivables	$107,524
Allowance for credit losses	(37,415)
Factored receivables, net of ACL	70,109
Intangible assets	3,500
Indemnification asset	30,959
Deferred income taxes	1,448
	106,016
Liabilities assumed:	
Deposits	5,361
	5,361
Fair value of net assets acquired	100,655
Consideration:	
Cash paid	108,375
Stock consideration	13,942
Receivable due from seller subsequent to liquidation of stock consideration	(17,196)
Total consideration	105,121
Goodwill	$ 4,466

The acquired assets were allocated to the Company's Factoring segment. The Company has recognized goodwill of $4,466,000, which was calculated as the excess of the fair value of consideration exchanged as compared to the fair value of identifiable net assets acquired and was allocated to the Company's Factoring segment. The goodwill in this acquisition resulted from expected synergies and expansion in the factoring market. The goodwill is not deductible for tax purposes.

Consideration included a receivable due from Covenant subsequent to liquidation of the stock consideration with an acquisition date fair value of $17,196,000. The fair value of the receivable due from Covenant for initial purchase accounting measurement purposes was based on the Company's stock price on the date of the Agreement, less an estimate of broker commissions and discounts. During the year ended December 31, 2020, the entirety of the acquired stock was sold by Covenant and Covenant delivered net proceeds of $28,064,000. The Company recognized $10,868,000 of other noninterest income measured as the difference between the initial purchase accounting measurement and the amount of net proceeds delivered to the Company upon liquidation.

The intangible assets recognized include a customer relationship intangible asset with an acquisition date fair value of $3,500,000 which will be amortized utilizing an accelerated method over its eight year estimated useful life.

The indemnification asset was measured separately from the related covered portfolio. It is not contractually embedded in the covered portfolio nor is it transferable with the covered portfolio should the Company choose to dispose of the portfolio or a portion of the portfolio. The indemnification asset at the time of the TFS Acquisition had a fair value of $30,959,000, measured as the present value of the estimated cash payments expected to be

received from Covenant for probable losses on the covered Over-Formula Advance Portfolio. These cash flows were discounted at a rate to reflect the uncertainty of the timing and receipt of the payments from Covenant. The amount ultimately collected for this asset will be dependent upon the performance of the underlying covered portfolio, the passage of time, and Covenant's willingness and ability to make necessary payments. The terms of the Agreement are such that indemnification has no expiration date and the Company will continue to carry the indemnification asset until ultimate resolution of the covered portfolio. The Company has elected the fair value option for the indemnification asset. The indemnification asset is reviewed quarterly and changes to the asset are recorded as adjustments to other noninterest income or expense, as appropriate, within the Consolidated Statements of Income. The Company's estimate of probable losses on the covered portfolio increased between the acquisition date and year end resulting in an increase in the value of the indemnification asset of $5,266,000 to $36,225,000 at December 31, 2020.

The contractually required payments and the fair value at acquisition of factored receivables purchased for which there was not, at acquisition, evidence of more than insignificant deterioration of credit quality since origination (non-PCD loans) totaled $45,228,000 and $44,962,000, respectively.

Management determined that the $62,200,000 in Over-Formula Advances obtained through the TFS Acquisition had experienced more than insignificant credit deterioration since origination and thus, deemed those Over-Formula Advances to be purchased credit deteriorated ("PCD"). Other, less significant factored receivables were also considered to be PCD. The following table presents information at the acquisition date for factored receivables purchased for which there was, at acquisition, evidence of more than insignificant deterioration of credit quality since origination:

(Dollars in thousands)	
Purchase price of loans at acquisition	$25,147
Allowance for credit losses at acquisition	37,415
Non-credit discount/(premium) at acquisition	941
Par value of acquired loans at acquisition	$63,503

Revenue and earnings of TFS since the acquisition date have not been disclosed as the acquired company was merged into the Company and separate financial information is not readily available. The initial accounting for the acquisition has not been completed because the fair values of the assets acquired and liabilities assumed have not yet been finalized.

Expenses related to the acquisition, including professional fees and other transaction costs, totaling $827,000 were recorded in noninterest expense in the consolidated statements of income during the year ended December 31, 2020.

Triumph Premium Finance

On April 20, 2020, the Company entered into an agreement to sell the assets (the "Disposal Group") of Triumph Premium Finance ("TPF") and exit its premium finance line of business. The sale closed on June 30, 2020.

A summary of the carrying amount of the assets in the Disposal Group and the gain on sale is as follows:

(Dollars in thousands)	
Carrying amount of assets in the disposal group:	
Loans	$84,504
Premises and equipment, net	45
Other assets	11
	84,560
Carrying amount of liabilities in the disposal group:	
Other liabilities	479
Total carrying amount	$84,081
Total consideration received	94,531
Gain on sale of division	10,450
Transaction costs	692
Gain on sale of division, net of transaction costs	$ 9,758

The Disposal Group was included in the Banking segment, and the loans in the Disposal Group were previously included in the commercial loan portfolio.

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

Effective September 8, 2018 the Company acquired (i) First Bancorp of Durango, Inc. (“FBD”) and its community banking subsidiaries, The First National Bank of Durango and Bank of New Mexico and (ii) Southern Colorado Corp. (“SCC”) and its community banking subsidiary, Citizens Bank of Pagosa Springs, in all-cash transactions. The acquisitions expanded the Company’s market in Colorado and into New Mexico and further diversified the Company’s loan, customer, and deposit base.

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

(Dollars in thousands)	FBD	SCC	Total
Assets acquired:			
Cash and cash equivalents	$151,973	$14,299	$166,272
Securities	237,183	33,477	270,660
Loans held for sale	1,238	—	1,238
Loans	256,384	31,454	287,838
FHLB stock	786	129	915
Premises and equipment	7,495	840	8,335
Other real estate owned	213	—	213
Intangible assets	11,915	2,154	14,069
Other assets	2,715	403	3,118
	669,902	82,756	752,658
Liabilities assumed:			
Deposits	601,194	73,464	674,658
Federal Home Loan Bank advances	737	—	737
Other liabilities	1,313	64	1,377
	603,244	73,528	676,772
Fair value of net assets acquired	66,658	9,228	75,886
Cash consideration transferred	134,667	13,294	147,961
Goodwill	$ 68,009	$ 4,066	$ 72,075

The Company has recognized goodwill of $72,075,000, which was calculated as the excess of both the consideration exchanged and the liabilities assumed as compared to the fair value of identifiable net assets acquired and was allocated to the Company's Banking segment. The goodwill in these acquisitions resulted from expected synergies and expansion in the Colorado market and into the New Mexico market. The goodwill will be deducted for tax purposes. The intangible assets recognized in the transactions are being amortized utilizing an accelerated method over their ten year estimated useful lives.

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

	Loans Excluding PCI Loans			PCI Loans			Total Loans Acquired
(Dollars in thousands)	FBD	SCC	Total	FBD	SCC	Total	
Commercial real estate	$140,955	$11,894	$152,849	$ 832	$200	$1,032	$153,881
Construction, land development, land	13,949	5,229	19,178	3,081	—	3,081	22,259
1-4 family residential properties	59,228	10,180	69,408	75	—	75	69,483
Farmland	5,709	1,207	6,916	—	—	—	6,916
Commercial	26,125	2,121	28,246	1,020	—	1,020	29,266
Factored receivables	—	—	—	—	—	—	—
Consumer	5,410	623	6,033	—	—	—	6,033
Mortgage warehouse	—	—	—	—	—	—	—
	$251,376	$31,254	$282,630	$5,008	$200	$5,208	$287,838

The following presents information at the acquisition date for non-PCI loans acquired in the transactions:

(Dollars in thousands)	FBD	SCC	Total
Contractually required principal and interest payments	$318,674	$38,590	$357,264
Contractual cash flows not expected to be collected	$ 4,255	$ 550	$ 4,805
Fair value at acquisition	$251,376	$31,254	$282,630

The following presents information at the acquisition date for PCI loans acquired in the transactions:

(Dollars in thousands)	FBD	SCC	Total
Contractually required principal and interest payments	$10,511	$269	$10,780
Contractual cash flows not expected to be collected (nonaccretable difference)	2,570	5	2,575
Expected cash flows at acquisition	7,941	264	8,205
Interest component of expected cash flows (accretable yield)	2,933	64	2,997
Fair value of loans acquired with deterioration of credit quality	$ 5,008	$200	$ 5,208

The following table presents unaudited supplemental pro forma information for the years ended December 31, 2018 and 2017 as if the FBD and SCC acquisitions had occurred at the beginning of 2017. The supplemental pro forma information includes adjustments for interest income on loans acquired, depreciation expense on property acquired, amortization of intangibles arising from the transactions, and the related income tax effects. Additionally, because FBD and SCC were Subchapter S corporations before the acquisitions and did not incur any federal income tax liabilities, adjustments have been included to estimate the impact of federal income taxes on FBD and SCC's net income for the periods presented. The supplemental pro forma financial information is not necessarily indicative of the results of operations that would have occurred had the transactions been completed on the assumed date.

	Year Ended December 31, 2018		
(Dollars in thousands)	FBD	SCC	Total
Net interest income	$241,322	$228,797	$243,069
Noninterest income	$ 26,473	$ 23,412	$ 26,915
Net income	$ 52,269	$ 51,541	$ 52,102
Basic earnings per common share	$ 2.00	$ 2.05	$ 1.99
Diluted earnings per common share	$ 1.97	$ 2.01	$ 1.96

	Year Ended December 31, 2017		
(Dollars in thousands)	FBD	SCC	Total
Net interest income	$176,154	$158,166	$178,636
Noninterest income	$ 45,570	$ 41,166	$ 46,080
Net income	$ 39,211	$ 36,475	$ 39,466
Basic earnings per common share	$ 1.68	$ 1.83	$ 1.66
Diluted earnings per common share	$ 1.65	$ 1.79	$ 1.63

Revenue and earnings of FBD and SCC since the acquisition date have not been disclosed as the acquired companies were merged into the Company and separate financial information is not readily available.

Expenses related to the acquisitions, including professional fees and other transaction costs, totaling $5,871,000 were recorded in noninterest expense in the consolidated statements of income during the year ended December 31, 2018.

Interstate Capital Corporation

On June 2, 2018, the Company 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. ICC operates out of offices located in El Paso, Texas and provides invoice factoring to small and medium-sized businesses.

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

(Dollars in thousands)	
Assets acquired:	
Cash and cash equivalents	$ 75
Factored receivables	131,017
Premises and equipment	279
Intangible assets	13,920
Other assets	144
	145,435
Liabilities assumed:	
Deposits	7,389
Other liabilities	763
	8,152
Fair value of net assets acquired	137,283
Consideration:	
Cash paid	160,258
Contingent consideration	20,000
Total consideration	180,258
Goodwill	$ 42,975

ICC's net assets acquired were allocated to the Company's Factoring segment whose factoring operations were significantly expanded as a result of the transaction. The Company has recognized goodwill of $42,975,000, which was calculated as the excess of both the fair value of cash consideration exchanged and the fair value of the contingent liability assumed as compared to the fair value of identifiable net assets acquired and was allocated to the Company's Factoring segment. The goodwill in this acquisition resulted from expected synergies and expansion in the factoring market. The goodwill will be deducted for tax purposes. The intangible assets recognized include a customer relationship intangible asset with an acquisition date fair value of $13,500,000, which is being amortized utilizing an accelerated method over its eight year estimated useful life, and a trade name intangible asset with an acquisition date fair value of $420,000, which is being amortized on a straight-line basis over its three year estimated useful life.

Consideration paid included contingent consideration with an acquisition date fair value of $20,000,000. The contingent consideration is based on a proprietary index designed to approximate the rise and fall of transportation invoice prices subsequent to acquisition and is correlated to monthly movements in average invoice prices historically experienced by ICC. At the end of a 30 month earnout period, a final average index price will be calculated and the contingent consideration will be settled in cash based on the final average index price. Final contingent consideration payout will range from $0 to $22,000,000, and the fair value of the associated liability will be remeasured each reporting period with changes in fair value recorded in noninterest income in the consolidated statements of income. The full $22,000,000 of contingent consideration was paid out during the year ended December 31, 2020.

Revenue and earnings of ICC since the acquisition date have not been disclosed as the acquired company was merged into the Company and separate financial information is not readily available.

Expenses related to the acquisition, including professional fees and other transaction costs, totaling $1,094,000 were recorded in noninterest expense in the consolidated statements of income during the year ended December 31, 2018.

Triumph Healthcare Finance

On January 19, 2018, the Company entered into an agreement to sell the assets (the "Disposal Group") of Triumph Healthcare Finance ("THF") and exit its healthcare asset based lending line of business. At December 31, 2017, the carrying amount of the Disposal Group was transferred to assets held for sale. The sale closed on March 16, 2018.

A summary of the carrying amount of the assets in the Disposal Group and the gain on sale is as follows:

(Dollars in thousands)	
Carrying amount of assets in the disposal group:	
Loans	$70,147
Premises and equipment, net	19
Goodwill	1,457
Intangible assets, net	958
Other assets	197
Total carrying amount	72,778
Total consideration received	74,017
Gain on sale of division	1,239
Transaction costs	168
Gain on sale of division, net of transaction costs	$ 1,071

The Disposal Group was included in the Banking segment, and the loans in the Disposal Group were previously included in the commercial loan portfolio.

NOTE 3 — SECURITIES

Equity Securities with Readily Determinable Fair Values

The Company held equity securities with fair values of $5,826,000 and $5,437,000 at December 31, 2020 and 2019, respectively. The gross realized and unrealized gains (losses) recognized on equity securities with readily determinable fair values in noninterest income in the Company's consolidated statements of income were as follows:

(Dollars in thousands)	2020	2019
Unrealized gains (losses) on equity securities still held at the reporting date	$389	$393
Realized gains (losses) on equity securities sold during the period	—	—
	$389	$393

Debt Securities

Debt securities have been classified in the financial statements as available for sale or held to maturity. The following table summarizes the amortized cost, fair value, and allowance for credit losses of debt securities and

the corresponding amounts of gross unrealized gains and losses of available for sale securities recognized in accumulated other comprehensive income (loss) and gross unrecognized gains and losses of held to maturity securities

(Dollars in thousands) December 31, 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
Available for sale securities:					
U.S. Government agency obligations	$ 14,942	$ 146	$ —	$—	$ 15,088
Mortgage-backed securities, residential	26,547	1,139	(2)	—	27,684
Asset-backed securities	7,091	—	(52)	—	7,039
State and municipal	36,238	1,157	—	—	37,395
CLO Securities	118,128	4,335	(259)	—	122,204
Corporate bonds	11,373	205	(5)	—	11,573
SBA pooled securities	3,200	133	(6)	—	3,327
Total available for sale securities	$217,519	$7,115	$(324)	$—	$224,310

(Dollars in thousands) December 31, 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to maturity securities:				
CLO securities	$ 7,945	$—	$(2,095)	$5,850
Allowance for credit losses	(2,026)			
Total held to maturity securities, net of ACL	$ 5,919			

(Dollars in thousands) December 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
U.S. Government agency obligations	$ 39,679	$ 115	$ (34)	$ 39,760
U.S. Treasury notes	37,324	728	(36)	38,016
Mortgage-backed securities, residential	8,039	—	(80)	7,959
Asset-backed securities	31,746	327	(8)	32,065
State and municipal	75,592	39	(358)	75,273
Corporate bonds	50,889	695	(1)	51,583
SBA pooled securities	4,112	53	(1)	4,164
Total available for sale securities	$247,381	$1,957	$(518)	$248,820

(Dollars in thousands) December 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to maturity securities:				
CLO securities	$8,417	$—	$(1,510)	$6,907

The amortized cost and estimated fair value of debt securities at December 31, 2020, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale Securities		Held to Maturity Securities	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 26,603	$ 26,873	$ —	$ —
Due from one year to five years	12,119	12,394	—	—
Due from five years to ten years	23,434	24,944	7,945	5,850
Due after ten years	118,525	122,049	—	—
	180,681	186,260	7,945	5,850
Mortgage-backed securities, residential	26,547	27,684	—	—
Asset-backed securities	7,091	7,039	—	—
SBA pooled securities	3,200	3,327	—	—
	$217,519	$224,310	$7,945	$5,850

Proceeds from sales of debt securities and the associated gross gains and losses are as follows:

(Dollars in thousands)	2020	2019	2018
Proceeds	$70,198	$40,617	$123,016
Gross gains	3,233	133	3
Gross losses	(140)	(125)	(273)
Net gains and losses from calls of securities	133	53	(2)

Debt securities with a carrying amount of approximately $73,056,000 and $48,237,000 at December 31, 2020 and 2019, respectively, were pledged to secure public deposits, customer repurchase agreements, and for other purposes required or permitted by law.

Accrued interest on available for sale securities totaled $1,233,000 and $1,685,000 at December 31, 2020 and 2019, respectively, and was included in other assets in the Consolidated Balance Sheets.

The following table summarizes available for sale debt securities in an unrealized loss position for which an allowance for credit losses has not been recorded, aggregated by investment category and length of time that individual securities have been in a continuous loss position:

	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands) December 31, 2020	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale securities:						
U.S. Government agency obligations	$ —	$ —	$ —	$ —	$ —	$ —
Mortgage-backed securities, residential	100	(1)	215	(1)	315	(2)
Asset-backed securities	129	—	6,911	(52)	7,040	(52)
State and municipal	—	—	—	—	—	—
CLO Securities	12,083	(93)	29,785	(166)	41,868	(259)
Corporate bonds	498	(5)	150	—	648	(5)
SBA pooled securities	889	(6)	29	—	918	(6)
Total available for sale securities	$13,699	$(105)	$37,090	$(219)	$50,789	$(324)

(Dollars in thousands) December 31, 2019	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Total Unrealized Losses
Available for sale securities:						
U.S. Government agency obligations	$ —	$ —	$12,331	$ (34)	$12,331	$ (34)
Mortgage-backed securities, residential	3,549	(29)	777	(7)	4,326	(36)
Asset-backed securities	2,986	(36)	4,973	(44)	7,959	(80)
State and municipal	562	—	3,426	(8)	3,988	(8)
CLO Securities	58,160	(358)	—	—	58,160	(358)
Corporate bonds	—	—	149	(1)	149	(1)
SBA pooled securities	354	—	9	(1)	363	(1)
Total available for sale securities	$65,611	$(423)	$21,665	$ (95)	$87,276	$(518)

Management evaluates available for sale debt securities in unrealized loss positions to determine whether the impairment is due to credit-related factors or noncredit-related factors. Consideration is given to (1)the extent to which the fair value is less than cost, (2)the financial condition and near-term prospects of the issuer, and (3)the intent and ability of the Company to retain its investment in the security for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2020, the Company had 42 available for sale debt securities in an unrealized loss position without an allowance for credit losses. Management does not have the intent to sell any of these securities and believes that it is more likely than not that the Company will not have to sell any such securities before a recovery of cost. The fair value is expected to recover as the securities approach their maturity date or repricing date or if market yields for such investments decline. Accordingly, as of December 31, 2020, management believes that the unrealized losses detailed in the previous table are due to noncredit-related factors, including changes in interest rates and other market conditions, and therefore no losses have been recognized in the Company's consolidated statements of income.

The following table presents the activity in the allowance for credit losses for held to maturity debt securities:

(Dollars in thousands) Held to Maturity CLO Securities	Year Ended December 31, 2020	2019	2018
Allowance for credit losses:			
Beginning balance	$ —	$—	$—
Impact of adopting ASC 326	126	—	—
Credit loss expense	1,900	—	—
Allowance for credit losses ending balance	$2,026	$—	$—

The Company's held to maturity securities are investments in the unrated subordinated notes of collateralized loan obligation funds. These securities are the junior-most in securitization capital structures, and are subject to suspension of distributions if the credit of the underlying loan portfolios deteriorates materially. During the year ended December 31, 2020, pandemic-related downgrades and default activity caused overcollateralization triggers to be tripped on two of the three CLO investments which had a material impact on expected cash flows used to calculate the ACL. At year end, there were no overcollateralization triggers that remained tripped. Ultimately, the realized cash flows on CLO securities such as these will be driven by a variety of factors, including credit performance of the underlying loan portfolio, adjustments to the portfolio by the asset manager, and the timing of a potential call. At December 31, 2020, the Company's held to maturity securities were classified as nonaccrual.

NOTE 4 — LOANS AND ALLOWANCE FOR CREDIT LOSSES

Loans Held for Sale

The following table presents loans held for sale:

(Dollars in thousands)	December 31, 2020	December 31, 2019
1-4 family residential	$ 6,319	$2,735
Commercial	18,227	—
Total loans held for sale	$24,546	$2,735

Loans Held for Investment and Allowance for Credit Losses

The following table presents the amortized cost and unpaid principal for loans held for investment:

	December 31, 2020			December 31, 2019		
(Dollars in thousands)	Amortized Cost	Unpaid Principal	Difference	Amortized Cost	Unpaid Principal	Difference
Commercial real estate	$ 779,158	$ 782,614	$ (3,456)	$1,046,961	$1,051,684	$ (4,723)
Construction, land development, land	219,647	220,021	(374)	160,569	162,335	(1,766)
1-4 family residential properties	157,147	157,731	(584)	179,425	180,340	(915)
Farmland	103,685	104,522	(837)	154,975	156,995	(2,020)
Commercial	1,562,957	1,579,841	(16,884)	1,342,683	1,346,444	(3,761)
Factored receivables	1,120,770	1,122,008	(1,238)	619,986	621,697	(1,711)
Consumer	15,838	15,863	(25)	21,925	21,994	(69)
Mortgage warehouse	1,037,574	1,037,574	—	667,988	667,988	—
Total	4,996,776	$5,020,174	$(23,398)	4,194,512	$4,209,477	$(14,965)
Allowance for credit losses	(95,739)			(29,092)		
	$4,901,037			$4,165,420		

The difference between the amortized cost and unpaid principal balance is primarily (1) premiums and discounts associated with acquired loans totaling $18,511,000 and $13,573,000 at December 31, 2020 and 2019, respectively, and (2) net deferred origination and factoring fees totaling $4,887,000 and $1,392,000 at December 31, 2020 and 2019, respectively.

Accrued Interest on loans, which is excluded from the amortized cost of loans held for investment, totaled $18,198,000 and $18,553,000 at December 31, 2020 and December 31, 2019, respectively, and was included in other assets in the Consolidated Balance Sheets.

As of December 31, 2020, most of the Company's non-factoring business activity is with customers located within certain states. The states of Texas (22%), Colorado (17%), Illinois (12%), and Iowa (6%), make up 57% 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, 2019, the states of Texas (27%), Colorado (23%), Illinois (13%), and Iowa (7%) made up 70% of the Company's gross loans, excluding factored receivables.

A majority (90%) of the Company's factored receivables, representing approximately 20% of the total loan portfolio as of December 31, 2020, are transportation receivables. At December 31, 2019, 77% of our factored receivables, representing approximately 11% of our total loan portfolio, were transportation receivables.

At December 31, 2020 and 2019, the Company had $145,892,000 and $66,754,000, respectively, of customer reserves associated with factored receivables which are 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 and are periodically released to or withdrawn by customers. Customer reserves are reported as deposits in the consolidated balance sheets.

At December 31, 2020 the balance of the Over-Formula Advance Portfolio included in factored receivables was $62,100,000.

As of December 31, 2020 the Company carries a separate $19,600,000 receivable (the "Misdirected Payments") payable by the United States Postal Service ("USPS") arising from accounts factored to the largest Over-Formula Advance Portfolio carrier. This amount is included in factored receivables and is separate from the aforementioned Over-Formula Advance Portfolio. The amounts represented by this receivable were paid by the USPS directly to such customer in contravention of notices of assignment delivered to, and previously honored by, the USPS, which amount was then not remitted back to the Company by such customer as required. The USPS disputes their obligation to make such payment, citing purported deficiencies in the notices delivered to them. In addition to commencing litigation against such customer, the Company has also filed a declaratory judgment action in Federal District Court for the Southern District of Florida seeking a ruling that the USPS was obligated to make the payments represented by this receivable directly to the Company. Based on our legal analysis and discussions with our counsel advising us on this matter, the Company believes it is probable that it will prevail in such action and that the USPS will have the capacity to make payment on such receivable. Consequently, the Company has not reserved for such balance as of December 31, 2020.

Loans with carrying amounts of $2,255,441,000 and $1,301,851,000 at December 31, 2020 and 2019, respectively, were pledged to secure Federal Home Loan Bank borrowing capacity and, beginning in 2020, to secure Paycheck Protection Program Liquidity Facility borrowings and Federal Reserve Bank discount window borrowing capacity.

During the year ended December 31, 2020, loans with carrying amounts of $185,823,000 were transferred from loans held for investment to loans held for sale at fair value concurrently with management's change in intent and decision to sell the loans. During the year ended December 31, 2020, certain loans transferred to held for sale were sold resulting in proceeds of $165,877,000, and the Company recognized net losses on transfers and sales of loans, which were recorded as other noninterest income in the consolidated statements of income, of $770,000.

During the year ended December 31, 2019, loans with carrying amounts of $46,163,000 were transferred from loans held for investment to loans held for sale at fair value concurrently with management's change in intent and decision to sell the loans. During the year ended December 31, 2019, certain loans transferred to held for sale were sold resulting in proceeds of $47,832,000 and net gains on transfers and sales of loans, which were recorded as other noninterest income in the Consolidated Statements of Income, of $1,669,000.

During the year ended December 31, 2018, a related party loan with a carrying amount of $9,781,000 was transferred to loans held for sale as the Company made the decision to sell the loan. The loan was subsequently sold at its par value for no gain or loss. See Note 18 – Related Party Transactions for further information regarding the sale of the related party loan.

Allowance for Credit Losses

The Company's estimate of the ACL reflects losses expected over the remaining contractual life of the assets. The contractual term does not consider extensions, renewals or modifications unless the Company has identified

an expected troubled debt restructuring. The activity in the allowance for credit losses (“ACL”) related to loans held for investment is as follows:

(Dollars in thousands) Year ended December 31, 2020	Beginning Balance	Impact of Adopting ASC 326	Initial ACL on Loans Purchased with Credit Deterioration	Credit Loss Expense	Charge-offs	Recoveries	Reclassification To Held For Sale	Ending Balance
Commercial real estate	$ 5,353	$ 1,372	$ —	$ 3,607	$ (320)	$ 170	$ —	$10,182
Construction, land development, land	1,382	(187)	—	2,005	(23)	241	—	3,418
1-4 family residential properties	308	513	—	378	(27)	53	—	1,225
Farmland	670	437	—	(355)	—	80	—	832
Commercial	12,566	(184)	—	11,336	(2,344)	1,115	(449)	22,040
Factored receivables	7,657	(1,630)	37,415	16,079	(3,201)	143	—	56,463
Consumer	488	(52)	—	562	(573)	117	—	542
Mortgage warehouse	668	—	—	369	—	—	—	1,037
	$29,092	$ 269	$37,415	$33,981	$(6,488)	$1,919	$(449)	$95,739

(Dollars in thousands) Year ended December 31, 2019	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 4,493	$1,163	$ (304)	$ 1	$ 5,353
Construction, land development, land	1,134	234	(78)	92	1,382
1-4 family residential properties	317	71	(141)	61	308
Farmland	535	400	(265)	—	670
Commercial	12,865	2,580	(3,326)	447	12,566
Factored receivables	7,299	2,556	(2,494)	296	7,657
Consumer	615	583	(876)	166	488
Mortgage warehouse	313	355	—	—	668
	$27,571	$7,942	$(7,484)	$1,063	$29,092

(Dollars in thousands) Year ended December 31, 2018	Beginning Balance	Provision	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 3,435	$ 1,044	$ (90)	$ 104	$ 4,493
Construction, land development, land	883	293	(59)	17	1,134
1-4 family residential properties	293	23	(17)	18	317
Farmland	310	425	(200)	—	535
Commercial	8,150	10,052	(5,855)	518	12,865
Factored receivables	4,597	3,857	(1,224)	69	7,299
Consumer	783	457	(989)	364	615
Mortgage warehouse	297	16	—	—	313
	$18,748	$16,167	$(8,434)	$1,090	$27,571

The ACL as of December 31, 2020 was estimated using the current expected credit loss model. Management determined that the $62,200,000 in Over-Formula Advances and some smaller immaterial factored receivables obtained through the TFS Acquisition had experienced more than insignificant credit deterioration since origination and thus deemed those Over-Formula Advances to be purchased credit deteriorated (“PCD”). This

resulted in recording a $37,415,000 ACL on the PCD assets through purchase accounting during the year ended December 31, 2020. There was no initial impact to credit loss expense resulting from the PCD determination. At December 31, 2020, the ACL on the Over-Formula Advance PCD assets increased by $11,548,000 and the total ACL on all acquired PCD assets was $48,963,000. The change in ACL on PCD assets subsequent to acquisition was charged to credit loss expense. The primary reasons for the increase in required ACL during the year ended December 31, 2020 are the $48,963,000 PCD ACL and significant projected deterioration of the loss drivers that the Company forecasts to calculate expected losses during the period.

The Company uses the discounted cash flow (DCF) method to estimate ACL for the commercial real estate, construction, land development, land, 1-4 family residential, commercial (excluding liquid credit), and consumer loan pools. For all loan pools utilizing the DCF method, the Company utilizes and forecasts national unemployment as a loss driver. The Company also utilizes and forecasts either one-year percentage change in national retail sales (commercial real estate — non multifamily, commercial general, commercial agriculture, commercial asset-based lending, commercial equipment finance, consumer), one-year percentage change in the national home price index (1-4 family residential and construction, land development, land), or one-year percentage change in national gross domestic product (commercial real estate — multifamily) as a second loss driver depending on the nature of the underlying loan pool and how well that loss driver correlates to expected future losses. Consistent forecasts of the loss drivers are used across the loan segments.

For all DCF models at December 31, 2020, the Company has determined that four quarters represents a reasonable and supportable forecast period and reverts back to a historical loss rate over eight quarters on a straight-line basis. The Company leverages economic projections from a reputable and independent third-party to inform its loss driver forecasts over the four-quarter forecast period. Other internal and external indicators of economic forecasts are also considered by the Company when developing the forecast metrics. At December 31, 2020, as compared to January 1, 2020, the Company forecasted a significantly higher national unemployment rate, a lower one-year percentage change in national retail sales, a lower one-year percentage change in the national home price index, and a somewhat higher one-year percentage change in national gross domestic product over the reasonable and supportable forecast period. Specifically regarding the forecasts used to calculate the December 31, 2020 ACL, management expects unemployment to remain persistently above pre-pandemic levels over the forecast period. Percentage change in retail sales is assumed to return to pre-pandemic levels given additional federal stimulus and the expected broad distribution of a COVID-19 vaccine. A gradual decline in the percentage change in national home price index is expected over the forecasted period as the effects of the pandemic on home prices are expected to lag behind other loss drivers. Percentage change in GDP growth is forecasted to increase over the projected period as the national economy comes back on line over the next four quarters.

The Company uses a loss-rate method to estimate expected credit losses for the farmland, liquid credit, premium finance, factored receivable, and mortgage warehouse loan pools. For each of these loan segments, the Company applies an expected loss ratio based on internal and peer historical losses adjusted as appropriate for qualitative factors. Qualitative loss factors are based on the Company’s judgment of company, market, industry or business specific data, changes in underlying loan composition of specific portfolios, trends relating to credit quality, delinquency, non-performing and adversely rated loans, and reasonable and supportable forecasts of economic conditions. Loss factors used to calculate the required ACL on pools that use the loss-rate method reflect the forecasted economic conditions described above.

For the year ended December 31, 2020, the Company carried a PCD ACL of $48,963,000 previously discussed. The projected economic impact of COVID-19 on the Company’s loss drivers and assumptions over the reasonable and supportable forecast period created the need for $16,700,000 of additional ACL. The increase in required ACL was also driven by net charge-offs of $4,569,000 (which carried reserves of $1,000,000 at the time

of charge-off), and net new specific allowances recorded on non-PCD individual loans of $5,100,000. The increase was partially offset by changes in mix in the underlying portfolio eligible to receive an ACL.

The following table presents the amortized cost basis of collateral dependent loans, which are individually evaluated to determine expected credit losses, and the related ACL allocated to these loans:

(Dollars in thousands) December 31, 2020	Real Estate	Accounts Receivable	Equipment	Other	Total	ACL Allocation
Commercial real estate	$12,454	$ —	$ —	$ 162	$ 12,616	$ 1,334
Construction, land development, land	2,317	—	—	—	2,317	271
1-4 family residential	1,948	—	—	248	2,196	34
Farmland	2,189	—	143	198	2,530	—
Commercial	1,813	—	5,842	9,352	17,007	5,163
Factored receivables	—	92,437	—	—	92,437	51,371
Consumer	—	—	—	253	253	37
Mortgage warehouse	—	—	—	—	—	—
Total	$20,721	$92,437	$5,985	$10,213	$129,356	$58,210

At December 31, 2020 the balance of the Over-Formula Advance Portfolio included in factored receivables was $62,100,000 and carried an ACL allocation of $48,485,000. At December 31, 2020 the balance of Misdirected Payments included in factored receivables was $19,600,000 and carried no ACL allocation.

The following table presents loans individually and collectively evaluated for impairment, as well as purchased credit impaired (“PCI”) loans, and their respective allowance for credit loss allocations as of December 31, 2019, as determined in accordance with ASC 310 prior to the adoption of ASU 2016-13:

(Dollars in thousands)	Loan Evaluation				ALLL Allocations			
December 31, 2019	Individually	Collectively	PCI	Total loans	Individually	Collectively	PCI	Total ALLL
Commercial real estate	$ 7,455	$1,030,439	$ 9,067	$1,046,961	$ 344	$ 5,009	$—	$ 5,353
Construction, land development, land	2,138	155,985	2,446	160,569	271	1,111	—	1,382
1-4 family residential properties	1,728	177,189	508	179,425	33	275	—	308
Farmland	6,638	148,233	104	154,975	—	670	—	670
Commercial	15,618	1,326,515	550	1,342,683	1,278	11,284	4	12,566
Factored receivables	15,947	604,039	—	619,986	3,178	4,479	—	7,657
Consumer	327	21,598	—	21,925	9	479	—	488
Mortgage warehouse	—	667,988	—	667,988	—	668	—	668
	$49,851	$4,131,986	$12,675	$4,194,512	$5,113	$23,975	$ 4	$29,092

The following table presents information pertaining to impaired loans as of December 31, 2019, as determined in accordance with ASC 310 prior to the adoption of ASU 2016-13:

(Dollars in thousands) December 31, 2019	Impaired Loans and PCI Impaired Loans With a Valuation Allowance			Impaired Loans Without a Valuation Allowance	
	Recorded Investment	Unpaid Principal	Related Allowance	Recorded Investment	Unpaid Principal
Commercial real estate	$ 878	$ 907	$ 344	$ 6,577	$ 6,643
Construction, land development, land	935	935	271	1,203	1,305
1-4 family residential properties	35	22	33	1,693	1,799
Farmland	—	—	—	6,638	6,819
Commercial	6,032	6,053	1,278	9,586	9,751
Factored receivables	15,940	15,940	3,178	7	7
Consumer	17	16	9	310	311
Mortgage warehouse	—	—	—	—	—
PCI	71	55	4	—	—
	$23,908	$23,928	$5,117	$26,014	$26,635

The following table presents average impaired loans, as determined in accordance with ASC 310 prior to the adoption of ASU 2016-13, and interest recognized on such loans, for the years ended December 31, 2019 and 2018:

	Years Ended			
	December 31, 2019		December 31, 2018	
(Dollars in thousands)	Average Impaired Loans	Interest Recognized	Average Impaired Loans	Interest Recognized
Commercial real estate	$ 7,276	$117	$ 4,055	$ 86
Construction, land development, land	1,114	35	113	—
1-4 family residential properties	2,031	47	2,486	77
Farmland	7,031	107	5,612	197
Commercial	16,386	605	21,885	870
Factored receivables	11,353	—	5,742	—
Consumer	341	7	369	14
Mortgage warehouse	—	—	—	—
PCI	71	—	35	—
	$45,603	$918	$40,297	$1,244

Past Due and Nonaccrual Loans

The following tables present an aging of contractually past due loans:

(Dollars in thousands) December 31, 2020	Past Due 30-59 Days	Past Due 60-90 Days	Past Due 90 Days or More	Total Past Due	Current	Total	Past Due 90 Days or More Still Accruing
Commercial real estate	$ 1,512	$ 147	$ 7,623	$ 9,282	$ 769,876	$ 779,158	$ —
Construction, land development, land	185	1,001	323	1,509	218,138	219,647	22
1-4 family residential properties	1,978	448	952	3,378	153,769	157,147	—
Farmland	407	1,000	300	1,707	101,978	103,685	—
Commercial	2,084	1,765	5,770	9,619	1,553,338	1,562,957	35
Factored receivables	33,377	28,506	72,717	134,600	986,170	1,120,770	72,717
Consumer	385	116	81	582	15,256	15,838	—
Mortgage warehouse	—	—	—	—	1,037,574	1,037,574	—
	$39,928	$32,983	$87,766	$160,677	$4,836,099	$4,996,776	$72,774

(Dollars in thousands) December 31, 2019	Past Due 30-59 Days	Past Due 60-90 Days	Past Due 90 Days or More	Total Past Due	Current	Total	Past Due 90 Days or More Still Accruing
Commercial real estate	$ 1,752	$ 1,328	$ 1,759	$ 4,839	$1,042,122	$1,046,961	$ —
Construction, land development, land	1,785	842	361	2,988	157,581	160,569	—
1-4 family residential properties	1,396	723	554	2,673	176,752	179,425	—
Farmland	52	132	2,376	2,560	152,415	154,975	—
Commercial	4,444	4,154	9,555	18,153	1,324,530	1,342,683	—
Factored receivables	29,118	7,182	4,226	40,526	579,460	619,986	4,226
Consumer	508	429	183	1,120	20,805	21,925	—
Mortgage warehouse	—	—	—	—	667,988	667,988	—
	$39,055	$14,790	$19,014	$72,859	$4,121,653	$4,194,512	$4,226

At December 31, 2020, total past due Over-Formula Advances recorded in factored receivables was $62,100,000. Substantially all of the Over-Formula Advance balance is considered past due 90 days or more. Aging of the Over-Formula Advances is based upon the service month on which the advances were made by TFS prior to acquisition. Additionally, the entire $19,600,000 Misdirected Payments amount recorded in factored receivables was past due at December 31, 2020. Of this amount, approximately $6,000,000 was considered past due 90 days or more. Given the nature of factored receivables, these assets are disclosed as past due 90 days or more still accruing; however, the Company is not recognizing income on the assets at December 31, 2020. Historically, any income recognized on factored receivables that are past due 90 days or more has not been material.

The following table presents the amortized cost basis of loans on nonaccrual status and the amortized cost basis of loans on nonaccrual status for which there was no related allowance for credit losses:

	December 31, 2020		December 31, 2019	
(Dollars in thousands)	Nonaccrual	Nonaccrual With No ACL	Nonaccrual	Nonaccrual With No ACL
Commercial real estate	$ 9,945	$ 3,461	$ 7,501	$ 6,623
Construction, land development, land	2,294	1,199	3,922	2,987
1-4 family residential	1,848	1,651	1,730	1,694
Farmland	2,531	2,531	6,494	6,494
Commercial	17,202	4,891	16,080	9,977
Factored receivables	—	—	—	—
Consumer	253	188	327	310
Mortgage warehouse	—	—	—	—
	$34,073	$13,921	$36,054	$28,085

The following table presents accrued interest on nonaccrual loans reversed through interest income:

	December 31,		
(Dollars in thousands)	2020	2019	2018
Commercial real estate	$438	$ 58	$ 73
Construction, land development, land	1	44	1
1-4 family residential	32	12	4
Farmland	39	27	65
Commercial	86	32	142
Factored receivables	—	—	—
Consumer	2	3	5
Mortgage warehouse	—	—	—
	$598	$176	$290

There was no interest earned on nonaccrual loans during the years ended December 31, 2020, 2019, and 2018.

The following table presents information regarding nonperforming loans:

(Dollars in thousands)	December 31, 2020	December 31, 2019
Nonaccrual loans [(1)]	$34,073	$36,054
Factored receivables greater than 90 days past due	13,927	4,226
Other nonperforming factored receivables [(2)]	10,029	—
Troubled debt restructurings accruing interest	3	333
	$ 58,032	$ 40,613

(1) Includes troubled debt restructurings of $13,321,000 and $4,888,000 at December 31, 2020 and 2019, respectively.

(2) Other nonperforming factored receivables represent the portion of the Over-Formula Advance Portfolio that is not covered by Covenant's indemnification. This amount is also considered Classified from a risk rating perspective.

Credit Quality Information

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, including: current collateral and financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk on a regular basis. Large groups of smaller balance homogeneous loans, such as consumer loans, are analyzed primarily based on payment status. The Company uses the following definitions for risk ratings:

Pass — Pass rated loans have low to average risk and are not otherwise classified.

Classified — Classified loans are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. Certain classified loans have the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

PCI (Prior to the Adoption of ASU 2016-13) — At acquisition, PCI loans had the characteristics of classified loans and it was probable, at acquisition, that all contractually required principal and interest payments would not be collected. The Company evaluates these loans on a projected cash flow basis with this evaluation performed quarterly.

Management considers the guidance in ASC 310-20 when determining whether a modification, extension, or renewal of loan constitutes a current period origination. Generally, current period renewals of credit are re-underwritten at the point of renewal and considered current period originations for purposes of the table below. As of December 31, 2020 and 2019, based on the most recent analysis performed, the risk category of loans is as follows:

(Dollars in thousands) December 31, 2020	2020	2019	2018	2017	2016	Prior	Revolving Loans	Revolving Loans Converted To Term Loans	Total
Commercial real estate									
Pass	$ 271,406	$ 94,085	$ 62,075	$ 49,115	$ 27,921	$230,731	$ 27,666	$ 908	$ 763,907
Classified	10,298	2,239	133	1,367	664	550	—	—	15,251
Total commercial real estate	$ 281,704	$ 96,324	$ 62,208	$ 50,482	$ 28,585	$231,281	$ 27,666	$ 908	$ 779,158
Construction, land development, land									
Pass	$ 72,149	$ 12,490	$ 11,829	$ 5,820	$ 8,946	$105,584	$ 12	$ 500	$ 217,330
Classified	2,031	34	—	—	—	252	—	—	2,317
Total construction, land development, land	$ 74,180	$ 12,524	$ 11,829	$ 5,820	$ 8,946	$105,836	$ 12	$ 500	$ 219,647
1-4 family residential									
Pass	$ 58,300	$ 11,280	$ 11,425	$ 8,982	$ 4,400	$ 20,167	$ 35,326	$ 5,320	$ 155,200
Classified	1,473	149	137	23	11	49	105	—	1,947
Total 1-4 family residential	$ 59,773	$ 11,429	$ 11,562	$ 9,005	$ 4,411	$ 20,216	$ 35,431	$ 5,320	$ 157,147
Farmland									
Pass	$ 37,212	$ 10,095	$ 7,388	$ 15,262	$ 7,908	$ 20,572	$ 1,421	$ 486	$ 100,344
Classified	994	407	403	—	22	590	925	—	3,341
Total farmland	$ 38,206	$ 10,502	$ 7,791	$ 15,262	$ 7,930	$ 21,162	$ 2,346	$ 486	$ 103,685
Commercial									
Pass	$ 470,477	$162,203	$127,569	$ 94,154	$ 70,405	$181,312	$416,197	$11,396	$1,533,713
Classified	8,128	2,390	983	190	4,470	2,787	10,296	—	29,244
Total commercial	$ 478,605	$164,593	$128,552	$ 94,344	$ 74,875	$184,099	$426,493	$11,396	$1,562,957
Factored receivables									
Pass	$1,081,316	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$1,081,316
Classified	39,454	—	—	—	—	—	—	—	39,454
Total factored receivables	$1,120,770	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$1,120,770
Consumer									
Pass	$ 8,382	$ 2,251	$ 1,336	$ 1,258	$ 688	$ 1,594	$ 74	$ —	$ 15,583
Classified	146	28	18	36	11	16	—	—	255
Total consumer	$ 8,528	$ 2,279	$ 1,354	$ 1,294	$ 699	$ 1,610	$ 74	$ —	$ 15,838
Mortgage warehouse									
Pass	$1,037,574	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$1,037,574
Classified	—	—	—	—	—	—	—	—	—
Total mortgage warehouse	$1,037,574	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$1,037,574
Total loans									
Pass	$3,036,816	$292,404	$221,622	$174,591	$120,268	$559,960	$480,696	$18,610	$4,904,967
Classified	62,524	5,247	1,674	1,616	5,178	4,244	11,326	—	91,809
Total loans	$3,099,340	$297,651	$223,296	$176,207	$125,446	$564,204	$492,022	$18,610	$4,996,776

(Dollars in thousands) December 31, 2019	Pass	Classified	PCI	Total
Commercial real estate	$1,030,358	$ 7,536	$ 9,067	$1,046,961
Construction, land development, land	155,985	2,138	2,446	160,569
1-4 family residential	177,177	1,740	508	179,425
Farmland	144,777	10,094	104	154,975
Commercial	1,313,042	29,091	550	1,342,683
Factored receivables	604,774	15,212	—	619,986
Consumer	21,594	331	—	21,925
Mortgage warehouse	667,988	—	—	667,988
	$4,115,695	$66,142	$12,675	$4,194,512

Troubled Debt Restructurings

The Company had a recorded investment in troubled debt restructurings of $13,324,000 and $5,221,000 as of December 31, 2020 and 2019, respectively. The Company had allocated specific allowances for these loans of $2,469,000 and $718,000 at December 31, 2020 and 2019, respectively, and had not committed to lend additional amounts.

The following table presents the pre- and post-modification recorded investment of loans modified as troubled debt restructurings during the years ended December 31, 2020, 2019, and 2018. The Company did not grant principal reductions on any restructured loans.

(Dollars in thousands)	Extended Amortization Period	Payment Deferrals	AB Note Restructure	Extended Maturity and Reduced Interest Rate	Total Modifications	Number of Loans
December 31, 2020						
Commercial real estate	$ —	$ 727	$ —	$—	$ 727	3
Construction, land development, land	8	981	—	—	989	2
1-4 family residential properties	—	171	—	—	171	1
Farmland	3,486	—	—	—	3,486	1
Commercial	4,714	9,877	—	—	14,591	22
	$8,208	$11,756	$ —	$—	$19,964	29
December 31, 2019						
Commercial real estate	$ —	$ —	$4,597	$—	$ 4,597	1
1-4 family residential properties	—	38	—	—	38	2
Commercial	1,762	115	—	593	2,470	11
	$1,762	$ 153	$4,597	$593	$ 7,105	14
December 31, 2018						
Commercial real estate	$ —	$ 589	$ —	$—	$ 589	2
1-4 family residential properties	103	—	—	—	103	2
Farmland	263	—	—	—	263	1
Commercial	875	—	—	—	875	10
	$1,241	$ 589	$ —	$—	$ 1,830	15

During the year ended December 31, 2020, the Company had one loan modified as a troubled debt restructuring with a recorded investment of $5,741,000 for which there was a payment default within twelve months following the modification. The payment defaults did not result in incremental allowance allocations or charge-offs. During the year ended December 31, 2019, the Company had three loans modified as troubled debt restructurings with a recorded investment of $680,000 for which there were payment defaults within twelve months following the modification. There were no loans modified as troubled debt restructurings during the year ended December 31, 2018 for which there was a payment default during the year then ended. Default is determined at 90 or more days past due, charge-off, or foreclosure.

During the year ended December 31, 2020, the Company modified $628,022,000 in loans for borrowers impacted by the COVID-19 pandemic. These modifications primarily consisted of payment deferrals to assist customers. As these modifications related to the COVID-19 pandemic and qualify under the provisions of either Section 4013 of the CARES act or Interagency Guidance, they are not considered troubled debt restructurings. The following table summarized the amortized cost of loans with payments currently in deferral and the accrued interest related to the loans with payments currently in deferral at December 31, 2020:

(Dollars in thousands) December 31, 2020	Total Loans	Balance of Loans Currently in Deferral	Percentage of Portfolio	Accrued Interest Receivable
Commercial real estate	$ 779,158	$ 69,980	9%	$357
Construction, land development, land	219,647	18,821	9%	183
1-4 family residential	157,147	1,129	1%	15
Farmland	103,685	—	— %	—
Commercial	1,562,957	14,561	1%	166
Factored receivables	1,120,770	—	— %	—
Consumer	15,838	106	1%	5
Mortgage warehouse	1,037,574	—	— %	—
Total	$4,996,776	$104,597	2%	$726

Residential Real Estate Loans In Process of Foreclosure

At December 31, 2020 and 2019, the Company had $251,000 and $87,000, respectively, in 1-4 family residential real estate loans for which formal foreclosure proceedings were in process.

Purchased Credit Impaired Loans (Prior to the Adoption of ASU 2016-13)

The following table summarizes information pertaining to loans that were identified as purchased credit impaired prior to the adoption of ASU 2016-13:

(Dollars in thousands)	December 31, 2019
Contractually required principal and interest:	
Real estate loans	$14,015
Commercial loans	677
Outstanding contractually required principal and interest	$ 14,692
Gross carrying amount included in loans receivable	$ 12,675

The changes in accretable yield in regard to loans transferred at acquisition for which it was probable that all contractually required payments would not be collected are as follows:

(Dollars in thousands)	Years Ended December 31, 2019	2018
Accretable yield, beginning balance	$ 5,711	$ 2,793
Additions	—	2,997
Accretion	(3,835)	(1,430)
Reclassification from nonaccretable to accretable yield	257	1,351
Disposals	(814)	—
Accretable yield, ending balance	$ 1,319	$ 5,711

NOTE 5 — OTHER REAL ESTATE OWNED

Other real estate owned activity was as follows:

(Dollars in thousands)	Years Ended December 31, 2020	2019	2018
Beginning balance	$ 3,009	$ 2,060	$ 9,191
Acquired through business acquisition	—	—	213
Loans transferred to OREO	1,150	3,360	514
Premises transferred to OREO	—	—	1,139
Net OREO gains (losses) and valuation adjustments	(616)	351	(514)
Sales of OREO	(2,111)	(2,762)	(8,483)
Ending balance	$ 1,432	$ 3,009	$ 2,060

NOTE 6 — PREMISES AND EQUIPMENT

Premises and Equipment

Premises and equipment consisted of the following:

(Dollars in thousands)	December 31, 2020	December 31, 2019
Land	$ 12,992	$ 13,139
Buildings	51,377	50,525
Leasehold improvements	25,203	21,842
Automobiles and aircraft	15,542	6,060
Furniture, fixtures and equipment	29,204	25,989
	134,318	117,555
Accumulated depreciation	(30,914)	(20,960)
	$103,404	$ 96,595

Depreciation expense was $10,720,000, $8,135,000 and $5,720,000 for the years ended December 31, 2020, 2019 and 2018, respectively.

Leases

The Company leases certain premises and equipment under operating leases. At December 31, 2020 and 2019, the Company had lease liabilities totaling $19,148,000 and $21,042,000, respectively, and right-of-use assets totaling $18,118,000 and $21,066,000, respectively, related to these leases. Lease liabilities and right-of-use assets are reflected in other liabilities and other assets, respectively. For the years ended December 31, 2020 and 2019, the weighted average remaining lease term for operating leases was 7.2 years and 6.6 years, respectively, and the weighted average discount rate used in the measurement of operating lease liabilities was 3.2% and 3.4%, respectively.

Lease costs were as follows:

(Dollars in thousands)	Year Ended December 31, 2020	Year Ended December 31, 2019
Operating lease cost	$5,290	$4,377
Short-term lease cost	—	—
Variable lease cost	422	333
Total lease cost	$5,712	$4,710

Rent expense for the year ended December 31, 2018, prior to the adoption of ASU 2016-2, was $3,229,000.

There were no sale and leaseback transactions, leveraged leases, or lease transactions with related parties during the year ended December 31, 2020. At December 31, 2020, the Company did not have any leases that had not yet commenced, but will create significant rights and obligations for the Company.

A maturity analysis of operating lease liabilities and reconciliation of the undiscounted cash flows to the total operating lease liability is as follows:

(Dollars in thousands)	December 31, 2020
Lease payments due:	
Within one year	$ 3,885
After one but within two years	3,810
After two but within three years	3,274
After three but within four years	3,046
After four but within five years	2,925
After five years	4,241
Total undiscounted cash flows	21,181
Discount on cash flows	(2,033)
Total lease liability	$19,148

NOTE 7 — GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets consist of the following:

(Dollars in thousands)	December 31, 2020	December 31, 2019
Goodwill	$163,209	$158,743

(Dollars in thousands)	December 31, 2020			December 31, 2019		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit intangibles	$43,578	$(27,436)	$16,142	$43,578	$(22,258)	$21,320
Other intangible assets	19,200	(8,629)	10,571	15,700	(5,477)	10,223
	$62,778	$(36,065)	$26,713	$59,278	$(27,735)	$31,543

The changes in goodwill and intangible assets by operating segment during the year are as follows:

(Dollars in thousands) December 31, 2020	Banking	Factoring	Corporate	Total
Beginning balance	$129,272	$61,014	$—	$190,286
Acquired goodwill	—	4,466	—	4,466
Acquired intangibles	—	3,500	—	3,500
Amortization of intangibles	(5,390)	(2,940)	—	(8,330)
Ending balance	$123,882	$66,040	$—	$189,922

(Dollars in thousands) December 31, 2019	Banking	Factoring	Corporate	Total
Beginning balance	$135,477	$63,940	$—	$199,417
Amortization of intangibles	(6,205)	(2,926)	—	(9,131)
Ending balance	$129,272	$61,014	$—	$190,286

(Dollars in thousands) December 31, 2018	Banking	Factoring	Corporate	Total
Beginning balance	$ 54,910	$ 8,868	$—	$ 63,778
Acquired goodwill	72,075	42,975	—	115,050
Acquired intangibles	14,069	13,933	—	28,002
Amortization of intangibles	(5,144)	(1,836)	—	(6,980)
Divestiture of intangibles	(433)	—	—	(433)
Ending balance	$135,477	$63,940	$—	$199,417

No goodwill or intangibles have been assigned to the Corporate operating segment.

Impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value. The Company assesses goodwill for impairment at its reporting units that contain goodwill, Banking and Factoring. A goodwill impairment test was performed on the Company's reporting units as of October 1, 2020. The goodwill impairment test did not identify any goodwill impairment.

After performing an impairment test comparing the carrying value of intangible assets to the fair value of intangible assets during the years ended December 31, 2020, 2019 and 2018, it was determined that the fair value of the intangible assets exceeded their carrying amount and thus no intangible asset impairment was recorded.

Generally, material acquired intangible assets are being amortized utilizing an accelerated method over their estimated useful lives, which range from 8 to 10 years. The future amortization schedule for the Company's intangible assets is as follows:

(Dollars in thousands)	
2021	$ 7,399
2022	6,054
2023	4,771
2024	3,605
2025	2,472
Thereafter	2,412
	$26,713

NOTE 8 — EQUITY METHOD INVESTMENT

On October 17, 2019, the Company made a minority equity investment of $8,000,000 in Warehouse Solutions Inc. ("WSI"), purchasing 8% of the common stock of WSI and receiving warrants to purchase an additional 10% of the common stock of WSI upon exercise of the warrants at a later date. WSI provides technology solutions to help reduce supply chain costs for a global client base across multiple industries.

The following table presents the Company's investment in WSI, allocated to the purchased common stock and the purchased warrants:

(Dollars in thousands)	December 31, 2020	December 31, 2019
Common stock	$5,037	$4,813
Warrants	3,224	3,224
Total investment	$8,261	$8,037

The entire investment is included in other assets within the Company's consolidated balance sheets. Although the Company holds less than 20% of the voting stock of WSI, the investment in common stock is accounted for using the equity method as the Company's representation on WSI's board of directors, which is disproportionately larger in size than the common stock investment held, demonstrates that it has significant influence over the investee. The difference between the amount at which the investment in common stock is carried and the amount of underlying equity in net assets does not have a material impact on the Company's equity method earnings.

The Company has made an accounting policy election to record its equity method earnings from the investment in WSI common stock on a one quarter lag. Equity method earnings from the investment were not material for the year ended December 31, 2020, and as the Company's initial investment was made during the quarter ended December 31, 2019, the Company did not recognize any equity method earnings from the investment during the year ended December 31, 2019.

NOTE 9 — VARIABLE INTEREST ENTITIES

Collateralized Loan Obligation Funds — Closed

The Company holds investments in the subordinated notes of the following closed Collateralized loan Obligation ("CLO") funds:

(Dollars in thousands)	Offering Date	Offering Amount
Trinitas CLO IV, LTD (Trinitas IV)	June 2, 2016	$406,650
Trinitas CLO V, LTD (Trinitas V)	September 22, 2016	$409,000
Trinitas CLO VI, LTD (Trinitas VI)	June 20, 2017	$717,100

The net carrying amounts of the Company's investments in the subordinated notes of the CLO funds, which represent the Company's maximum exposure to loss as a result of its involvement with the CLO funds, totaled $5,919,000 and $8,417,000 at December 31, 2020 and 2019, respectively, and are classified as held to maturity securities within the Company's consolidated balance sheets.

The Company performed a consolidation analysis to confirm whether the Company was required to consolidate the assets, liabilities, equity or operations of the closed CLO funds in its financial statements. The Company concluded that the closed CLO funds are variable interest entities and that the Company holds variable interests in the entities in the form of its investments in the subordinated notes of the entities. However, the Company also concluded that the Company does not have the power to direct the activities that most significantly impact the entities' economic performance. As a result, the Company is not the primary beneficiary and therefore is not required to consolidate the assets, liabilities, equity or operations of the CLO funds in the Company's financial statements.

NOTE 10 — DERIVATIVE FINANCIAL INSTRUMENTS

The Company is exposed to certain risk arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its assets and liabilities and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's interest-bearing deposits.

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Beginning in 2020, such derivatives were used to hedge the variable cash flows associated with interest-bearing deposits.

For derivatives designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in Accumulated Other Comprehensive Income and subsequently reclassified into interest expense in the same period(s) during which the hedged transaction affects earnings. Amounts reported in

accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate interest-bearing deposits. During 2021, the Company estimates that an additional $98,000 will be reclassified as an increase in interest expense.

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Balance Sheet as of December 31, 2020. There were no such derivatives outstanding at December 31, 2019.

	Derivative Assets		
	As of December 31, 2020		
(Dollars in thousands)	Notional Amount	Balance Sheet Location	Fair Value Total
Derivatives designated as hedging instruments:			
Interest rate swaps	$200,000	Other Assets	$816

The table below presents the effect of fair value and cash flow hedge accounting on Accumulated Other Comprehensive Income, net of tax:

(Dollars in thousands) Year Ended December 31, 2020	Amount of Gain or (Loss) Recognized in OCI on Derivative	Amount of Gain or (Loss) Recognized in OCI Included Component	Location of Gain or (Loss) Recognized from AOCI into Income	Amount of Gain or (Loss) Reclassified from AOCI into Income	Amount of Gain or (Loss) Reclassified from AOCI into Income Included Component
Derivatives in cash flow hedging relationships:					
Interest rate swaps	$623	$623	Interest Expense	$26	$26

The Company has agreements with each of its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness, then the Company could also be declared in default on its derivative obligations.

The Company has agreements with certain of its derivative counterparties that contain a provision where if the company fails to maintain its status as a well capitalized institution, then the Company could be required to post additional collateral.

As of December 31, 2020, the fair value of derivatives in a net liability position, which includes accrued interest, related to these agreements was $0. As of December 31, 2020, the Company has not posted any collateral related to these agreements. If the Company had breached any of these provisions at December 31, 2020, it could have been required to settle its obligations under the agreements at their termination value of $0.

NOTE 11 — DEPOSITS

Deposits are summarized as follows:

(Dollars in thousands)	December 31, 2020	December 31, 2019
Noninterest-bearing demand	$1,352,785	$ 809,696
Interest-bearing demand	688,680	580,323
Individual retirement accounts	92,584	104,472
Money market	393,325	497,105
Savings	421,488	363,270
Certificates of deposit	790,844	1,084,425
Brokered time deposits	516,786	350,615
Other brokered deposits	460,108	—
Total deposits	$4,716,600	$3,789,906

At December 31, 2020, scheduled maturities of time deposits, including certificates of deposits, individual retirement accounts and brokered time deposits, are as follows:

(Dollars in thousands)	December 31, 2020
Within one year	$1,258,609
After one but within two years	117,535
After two but within three years	15,462
After three but within four years	8,608
After four but within five years	—
Total	$1,400,214

Time deposits, including individual retirement accounts, certificates of deposit, and brokered time deposits, with individual balances of $250,000 and greater totaled $164,441,000 and $252,529,000 at December 31, 2020 and 2019, respectively.

NOTE 12 — BORROWINGS AND BORROWING CAPACITY

Customer Repurchase Agreements

Customer repurchase agreements are overnight customer sweep arrangements. Information concerning customer repurchase agreements is summarized as follows:

(Dollars in thousands)	December 31, 2020	December 31, 2019
Amount outstanding at end of the year	$ 3,099	$ 2,033
Weighted average interest rate at end of the year	0.03%	0.03%
Average daily balance during the year	$ 6,716	$ 7,823
Weighted average interest rate during the year	0.03%	0.02%
Maximum month-end balance during the year	$14,192	$14,463

Customer repurchase agreements are secured by pledged securities with carrying amounts as follows:

(Dollars in thousands)	December 31, 2020	December 31, 2019
Asset-backed securities	$4,987	$ —
U.S. Government agency obligations	—	2,997
	$4,987	$2,997

FHLB Advances

FHLB advances are collateralized by assets, including a blanket pledge of certain loans. FHLB advances and weighted average interest rates at end of period by contractual maturity are summarized as follows:

	Fixed Rate		Variable Rate	
(Dollars in thousands)	Balance Outstanding	Weighted Average Interest Rate	Balance Outstanding	Weighted Average Interest Rate
2021	$75,000	0.10%	$ —	—
2027	—	—	30,000	0.33%
	$75,000	0.10%	$30,000	0.33%

Information concerning FHLB advances is summarized as follows:

(Dollars in thousands)	December 31, 2020	December 31, 2019
Amount outstanding at end of the year	$105,000	$430,000
Weighted average interest rate at end of the year	0.17%	1.58%
Average daily balance during the year	$342,264	$369,548
Weighted average interest rate during the year	0.58%	2.32%
Maximum month-end balance during the year	$850,000	$530,000

The Company's unused borrowing capacity with the FHLB is as follows:

(Dollars in thousands)	December 31, 2020	December 31, 2019
Borrowing capacity	$1,351,542	$1,300,985
Borrowings outstanding	105,000	430,000
Unused borrowing capacity	$1,246,542	$ 870,985

Paycheck Protection Program Liquidity Facility ("PPPLF")

The PPPLF is a lending facility offered by the Federal Reserve Banks to facilitate lending to small businesses under the Paycheck Protection Program. Borrowings under the PPPLF are secured by Paycheck Protection Program Loans ("PPP loans") guaranteed by the Small Business Administration ("SBA") and mature at the same time as the PPP Loan pledged to secure the extension of credit. The maturity dates of the borrowings will be accelerated if the underlying PPP Loan goes into default and Company sells the PPP Loan to the SBA to realize on the SBA guarantee or if the Company receives any loan forgiveness reimbursement from the SBA for the underlying PPP Loan.

Information concerning borrowings under the PPPLF is summarized as follows for the year ended December 31, 2020:

(Dollars in thousands)	December 31, 2020
Amount outstanding at end of period	$191,860
Weighted average interest rate at end of period	0.35%
Average amount outstanding during the period	143,608
Weighted average interest rate during the period	0.35%
Highest month end balance during the period	223,809

At December 31, 2020, scheduled maturities of PPPLF borrowings are as follows:

(Dollars in thousands)	December 31, 2020
Within one year	$ —
After one but within two years	191,860
Total	$191,860

At December 31, 2020, the PPPLF borrowings are secured by PPP Loans totaling $191,860,000 and bear interest at a fixed rate of 0.35% annually. There were no borrowings under the PPPLF during the year ended December 31, 2019.

Federal Funds Purchased

The Company had no federal funds purchased at December 31, 2020 or 2019. However, as of December 31, 2020, the Company had unsecured federal funds lines of credit with seven unaffiliated banks totaling $227,500,000.

Federal Reserve Bank Discount Window

During the year ended December 31, 2020, the Company entered into agreements with the Federal Reserve Bank of Dallas to borrow from its discount window. The Company had no Federal Reserve Bank discount window borrowings outstanding at December 31, 2020. At December 31, 2020, the Company had $523,900,000 of unused borrowing capacity from the Federal Reserve Bank discount window, to which the Company pledged loans with an outstanding balance of $711,172,000. The Company did not participate in the Federal Reserve Bank discount window program during the year ended December 31, 2019.

Subordinated Notes

On September 30, 2016, the Company issued $50,000,000 of Fixed-to-Floating Rate Subordinated Notes due 2026 (the "2016 Notes"). The 2016 Notes initially bear interest at 6.50% per annum, payable semi-annually in arrears, to, but excluding, September 30, 2021, and, thereafter and to, but excluding, the maturity date or earlier redemption, interest shall be payable quarterly in arrears, at an annual floating rate equal to three-month LIBOR as determined for the applicable quarterly period, plus 5.345%. The Company may, at its option, beginning on September 30, 2021 and on any scheduled interest payment date thereafter, redeem the 2016 Notes, in whole or in part, at a redemption price equal to the outstanding principal amount of the 2016 Notes to be redeemed plus accrued and unpaid interest to, but excluding, the date of redemption.

The 2016 Notes are included on the consolidated balance sheets as liabilities at their carrying values of $49,153,000 and $49,037,000 at December 31, 2020 and 2019, respectively; however, for regulatory purposes, the carrying value of these obligations were eligible for inclusion in Tier 2 regulatory capital. Issuance costs related to the Notes totaled $1,324,000, including an underwriting discount of 1.5%, or $750,000, and have been netted against the subordinated notes liability on the balance sheet. The underwriting discount and other debt issuance costs are being amortized using the effective interest method through maturity and recognized as a component of interest expense.

On November 27, 2019, the Company issued $39,500,000 of Fixed-to-Floating Rate Subordinated Notes due 2029 (the "2019 Notes"). The 2019 Notes initially bear interest at 4.875% per annum, payable semi-annually in arrears, to, but excluding, November 27, 2024, and, thereafter and to, but excluding, the maturity date or earlier redemption, interest shall be payable quarterly in arrears, at an annual floating rate equal to a benchmark rate, initially three-month LIBOR, as determined for the applicable quarterly period, plus 3.330%. The Company may, at its option, beginning on November 27, 2024 and on any scheduled interest payment date thereafter, redeem the 2019 Notes, in whole or in part, at a redemption price equal to the outstanding principal amount of the 2019 Notes to be redeemed plus accrued and unpaid interest to, but excluding, the date of redemption.

The 2019 Notes are included on the consolidated balance sheets as liabilities at their carrying values of $38,356,000 and $38,290,000 at December 31, 2020 and 2019, respectively; however, for regulatory purposes, the carrying value of these obligations were eligible for inclusion in Tier 2 regulatory capital. Issuance costs related to the Notes totaled $1,218,000, including an underwriting discount of 1.5%, or $593,000, and have been netted against the subordinated notes liability on the balance sheet. The underwriting discount and other debt issuance costs are being amortized using the effective interest method through maturity and recognized as a component of interest expense.

The 2016 Notes and the 2019 Notes are subordinated in right of payment to the Company's existing and future senior indebtedness and are structurally subordinated to the Company's subsidiaries' existing and future indebtedness and other obligations.

Junior Subordinated Debentures

The following provides a summary of the Company's junior subordinated debentures:

(Dollars in thousands)	Face Value	Carrying Value	Maturity Date	Variable Interest Rate	Interest Rate At December 31, 2020
National Bancshares Capital Trust II	$15,464	$13,220	September 2033	LIBOR + 3.00%	3.22%
National Bancshares Capital Trust III	17,526	12,975	July 2036	LIBOR + 1.64%	1.88%
ColoEast Capital Trust I	5,155	3,611	September 2035	LIBOR + 1.60%	1.84%
ColoEast Capital Trust II	6,700	4,703	March 2037	LIBOR + 1.79%	2.03%
Valley Bancorp Statutory Trust I	3,093	2,879	September 2032	LIBOR + 3.40%	3.65%
Valley Bancorp Statutory Trust II	3,093	2,684	July 2034	LIBOR + 2.75%	2.98%
	$51,031	$40,072			

These debentures are unsecured obligations due to trusts that are unconsolidated subsidiaries. The debentures were issued in conjunction with the trusts' issuances of obligated capital securities. The trusts used the proceeds from the issuances of their capital securities to buy floating rate junior subordinated deferrable interest debentures that bear the same interest rate and terms as the capital securities. These debentures are the trusts'

only assets and the interest payments from the debentures finance the distributions paid on the capital securities. These debentures rank junior and are subordinate in the right of payment to all other debt of the Company.

As part of the purchase accounting adjustments made with the National Bancshares, Inc. acquisition on October 15, 2013, the ColoEast acquisition on August 1, 2016, and the Valley acquisition on December 9, 2017, the Company adjusted the carrying value of the junior subordinated debentures to fair value as of the respective acquisition dates. The discount on the debentures will continue to be amortized through maturity and recognized as a component of interest expense.

The debentures may be called by the Company at par plus any accrued but unpaid interest. Interest on the debentures is calculated quarterly. The distribution rate payable on the capital securities is cumulative and payable quarterly in arrears. The Company has the right to defer payments on interest on the debentures at any time by extending the interest payment period for a period not exceeding 20 consecutive quarters with respect to each deferral period, provided that no extension period may extend beyond the redemption or maturity date of the debentures.

The debentures are included on the consolidated balance sheet as liabilities; however, for regulatory purposes, the carrying value of these obligations are eligible for inclusion in Tier I regulatory capital, subject to certain limitations. All of the carrying value of $40,072,000 and $39,566,000 was allowed in the calculation of Tier I regulatory capital as of December 31, 2020 and 2019, respectively.

NOTE 13 — EMPLOYEE BENEFIT PLANS

401(k) Plan

The Company sponsors a 401(k) benefit plan that allows employee contributions up to the maximum tax-deferred limitations established by the Internal Revenue Code, which are matched by the Company equal to 100% of the first 4% of the compensation contributed. Expense related to the 401(k) matching contributions for the years ended December 31, 2020, 2019 and 2018 was $2,519,000, $2,306,000 and $1,838,000, respectively.

NOTE 14 — INCOME TAXES

Income tax expense consisted of the following:

	Years Ended December 31,		
(Dollars in thousands)	2020	2019	2018
Income tax expense:			
Current	$22,766	$12,971	$14,091
Deferred	(2,080)	3,908	708
Change in valuation allowance for deferred tax asset	—	23	(7)
Income tax expense	$20,686	$16,902	$14,792

Effective tax rates differ from federal statutory rates applied to income before income taxes due to the following:

(Dollars in thousands)	Years Ended December 31, 2020	2019	2018
Tax provision computed at federal statutory rate	$17,789	$15,844	$13,965
Effect of:			
State taxes, net	2,919	1,704	1,716
Bank-owned life insurance	(121)	(114)	(141)
Tax exempt interest	(250)	(442)	(436)
Change in valuation allowance for deferred tax asset	—	23	(7)
Other	349	(113)	(305)
Income tax expense	$20,686	$16,902	$14,792

Deferred income taxes reflect the net tax effects of temporary differences between the recorded amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

(Dollars in thousands)	2020	2019
Deferred tax assets		
Federal net operating loss carryforwards	$ 4,067	$ 5,034
State net operating loss carryforwards	459	552
Acquired loan basis	(184)	450
Other real estate owned	64	44
AMT credit carryforward	—	714
Allowance for loan losses	24,317	6,828
Accrued liabilities	2,675	1,744
Lease liability	4,598	4,994
Other	2,181	1,925
Total deferred tax assets	38,177	22,285
Deferred tax liabilities		
Goodwill and intangible assets	2,452	2,143
Fair value adjustment on junior subordinated debentures	2,449	2,564
Premises and equipment	10,767	6,142
Installment gain on sale of subsidiary	1,049	1,816
Lease right-of-use asset	4,172	4,815
Unrealized gain on securities available for sale	1,601	339
Derivative financial instruments	193	—
Indemnification asset	8,575	—
Other	214	376
Total deferred tax liabilities	31,472	18,195
Net deferred tax asset before valuation allowance	6,705	4,090
Valuation allowance	(278)	(278)
Net deferred tax asset	$ 6,427	$ 3,812

The Company's federal and state net operating loss carryforwards as of December 31, 2020 were $19,365,000 and $10,649,000, respectively, which will expire at various dates from 2031 through 2035. The Company has a

Federal Alternative Minimum Tax Credit carryforward of $0 as of December 31, 2020. The Company has a valuation allowance on certain net operating loss carryforwards that are not expected to be realized before expiration.

The Company's federal and state net operating loss carryforwards as of December 31, 2019 were $23,970,000 and $13,340,000, respectively. The Company had a Federal Alternative Minimum Tax Credit carryforward of $714,000 as of December 31, 2019.

An Internal Revenue Code Section 382 ("Section 382") ownership change was triggered as part of previous acquisitions. A significant portion of the deferred tax asset relating to the Company's net operating loss carryforwards is subject to the annual limitation rules under Section 382. The utilization of tax carryforward attributes acquired from the EJ Financial Corp. (2010) acquisition is subject to an annual limitation of $341,000. The utilization of tax carryforward attributes acquired from the National Bancshares, Inc. (2013) acquisition is subject to an annual limitation of $2,040,000. Any remaining tax attribute carryforwards generated prior to the Section 382 ownership change in 2013 are subject to an annual limitation of $3,696,000.

The utilization of deferred tax assets related to the net operating loss and tax credit carryforwards acquired from the ColoEast (2016) stock acquisition are subject to an annual limitation of $1,906,000 under Section 382 rules.

At December 31, 2020 and 2019, the Company had no amounts recorded for uncertain tax positions and does not expect any material changes in uncertain tax benefits during the next 12 months. The Company recognizes interest and penalties related to income tax matters in income tax expense.

The Company is subject to U.S. federal income tax as well as income tax in various states. The Company is generally not subject to examination by taxing authorities for years prior to 2017.

NOTE 15 — LEGAL CONTINGENCIES

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

NOTE 16 — OFF-BALANCE SHEET LOAN COMMITMENTS

From time to time, the Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments.

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

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

	December 31, 2020			December 31, 2019		
(Dollars in thousands)	Fixed Rate	Variable Rate	Total	Fixed Rate	Variable Rate	Total
Unused lines of credit	$43,406	$547,430	$590,836	$49,057	$444,028	$493,085
Standby letters of credit	$ 5,464	$ 8,429	$ 13,893	$ 3,017	$ 3,781	$ 6,798
Commitments to purchase loans	$ —	$ 66,373	$ 66,373	$ —	$ 22,004	$ 22,004
Mortgage warehouse commitments	$ —	$417,722	$417,722	$ —	$340,502	$340,502

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

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

Commitments to purchase loans represent loans purchased by the Company that have not yet settled.

Mortgage warehouse commitments are unconditionally cancellable and represent the unused capacity on mortgage warehouse facilities the Company has approved. The Company reserves the right to refuse to buy any mortgage loans offered for sale by a customer, for any reason, at the Company's sole and absolute discretion.

The Company records an allowance for credit losses on off-balance sheet credit exposures through a charge to credit loss expense on the Company's consolidated statements of income. At December 31, 2020 and 2019, the allowance for credit losses on off balance sheet credit exposures totaled $5,005,000 and $638,000, respectively, and was included in other liabilities on the Company's consolidated balance sheets. For the year ended December 31, 2020, credit loss expense for off balance sheet credit exposures was $2,448,000. For the years ended December 31, 2019 and 2018, credit loss expense for off balance sheet credit exposures was $99,000 and $37,000, respectively, and was included in other noninterest expense on the Company's consolidated statements of income.

NOTE 17 — FAIR VALUE DISCLOSURES

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

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

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

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

Assets and liabilities measured at fair value on a recurring basis are summarized in the table below.

(Dollars in thousands) December 31, 2020	Fair Value Measurements Using Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value on a recurring basis				
Securities available for sale				
U.S. Government agency obligations	$ —	$ 15,088	$ —	$ 15,088
Mortgage-backed securities, residential	—	27,684	—	27,684
Asset-backed securities	—	7,039	—	7,039
State and municipal	—	37,395	—	37,395
CLO Securities	—	122,204	—	122,204
Corporate bonds	—	11,573	—	11,573
SBA pooled securities	—	3,327	—	3,327
	$ —	$224,310	$ —	$224,310
Equity securities				
Mutual fund	$5,826	$ —	$ —	$ 5,826
Loans held for sale	$ —	$ 24,546	$ —	$ 24,546
Indemnification asset	$ —	$ —	$36,225	$ 36,225
Derivative financial instruments (cash flow hedges)				
Interest rate swap	$ —	$ 816	$ —	$ 816

(Dollars in thousands) December 31, 2019	Fair Value Measurements Using Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value on a recurring basis				
Securities available for sale				
U.S. Government agency obligations	$ —	$ 39,760	$ —	$ 39,760
Mortgage-backed securities, residential	—	38,016	—	38,016
Asset-backed securities	—	7,959	—	7,959
State and municipal	—	32,065	—	32,065
CLO Securities	—	75,273	—	75,273
Corporate bonds	—	51,583	—	51,583
SBA pooled securities	—	4,164	—	4,164
	$ —	$248,820	$ —	$248,820
Equity securities				
Mutual fund	$5,437	$ —	$ —	$ 5,437
Loans held for sale	$ —	$ 2,735	$ —	$ 2,735
Liabilities measured at fair value on a recurring basis				
ICC Contingent consideration	$ —	$ —	$21,622	$ 21,622

The Company used the following methods and assumptions to estimate fair value of financial instruments that are measured at fair value on a recurring basis:

Securities available for sale – The fair values of debt securities available for sale are determined by third-party matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

Equity securities – The fair values of equity securities are determined based on quoted market prices in active markets and are classified in Level 1 of the valuation hierarchy.

Loans held for sale – The fair value of loans held for sale is determined using commitments on hand from investors or prevailing market prices and are classified in Level 2 of the valuation hierarchy.

Derivative Financial Instruments – Currently, the Company uses interest rate swaps as part of its cash flow strategy to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. The derivative financial instrument fair value is considered a Level 2 classification.

Indemnification Asset

The fair value of the indemnification asset is calculated as the present value of the estimated cash payments expected to be received from Covenant for probable losses on the covered Over-Formula Advance Portfolio. The cash flows are discounted at a rate to reflect the uncertainty of the timing and receipt of the payments from Covenant. The indemnification asset is reviewed quarterly and changes to the asset are recorded as adjustments to other noninterest income or expense, as appropriate, within the Consolidated Statements of Income. The indemnification asset fair value is considered a Level 3 classification. At December 31, 2020, the estimated cash payments expected to be received from Covenant for probable losses on the covered Over-Formula Advance Portfolio were $39,200,000 and a discount rate of 8.8% was applied to calculate the present value of the indemnification asset.

A reconciliation of the opening balance to the closing balance of the fair value of the indemnification asset is as follows:

(Dollars in thousands)	2020	2019	2018
Beginning balance	$ —	$—	$—
Indemnification asset recognized in business combination	30,959	—	—
Change in fair value of indemnification asset recognized in earnings	5,266	—	—
Ending balance	$36,225	$—	$—

ICC contingent consideration – The fair value of the ICC contingent consideration is based on a proprietary index designed to approximate the rise and fall of transportation invoice prices subsequent to acquisition and is

correlated to monthly movements in average invoice prices historically experienced by ICC. The index is calculated by a third-party data analytics firm and is correlated to monthly movements in average invoice prices historically experienced by ICC. At the end of the earnout period, a final average index price was calculated and the contingent consideration was settled in cash based on the final average index price, with a payout ranging from $0 to $22,000,000. The fair value of the contingent consideration was calculated each reporting period, and changes in the fair value of the contingent consideration are recorded in noninterest income in the consolidated statements of income. The fair value was classified in Level 3 of the valuation hierarchy. At December 31, 2019, the fair value calculation of the contingent consideration resulted in an estimated payout of $22,000,000 and a discount rate of 1.7% was applied to calculate the present value of the contingent consideration. During the year ended December 31, 2020, the maximum $22,000,000 of contingent consideration was paid out.

A reconciliation of the opening balance to the closing balance of the fair value of the contingent consideration is as follows:

(Dollars in thousands)	2020	2019	2018
Beginning balance	$ 21,622	$20,745	$ —
Contingent consideration recognized in business combination	—	—	20,000
Change in fair value of contingent consideration recognized in earnings	378	877	745
Consideration settlement payments	(22,000)	—	—
Ending balance	$ —	$21,622	$20,745

There were no transfers between levels for the years ended December 31, 2020 and 2019.

Assets measured at fair value on a non-recurring basis are summarized in the table below. There were no liabilities measured at fair value on a non-recurring basis at December 31, 2020 and 2019.

(Dollars in thousands)	Fair Value Measurements Using			Total
December 31, 2020	Level 1	Level 2	Level 3	Fair Value
Collateral dependent loans				
Commercial real estate	$—	$—	$ 5,107	$ 5,107
Construction, land development, land	—	—	824	824
1-4 family residential properties	—	—	—	—
Commercial	—	—	2,355	2,355
Factored receivables	—	—	41,065	41,065
Consumer	—	—	3	3
Other real estate owned [(1)]:				
Commercial real estate	—	—	273	273
1-4 family residential properties	—	—	114	114
Farmland	—	—	209	209
	$ —	$ —	$49,950	$49,950

(Dollars in thousands) December 31, 2019	Fair Value Measurements Using Level 1	Level 2	Level 3	Total Fair Value
Impaired loans				
Commercial real estate	$—	$—	$ 534	$ 534
Construction, land development, land	—	—	664	664
1-4 family residential properties	—	—	2	2
Commercial	—	—	4,754	4,754
Factored receivables	—	—	12,762	12,762
Consumer	—	—	8	8
PCI	—	—	67	67
Other real estate owned [(1)]:				
Commercial real estate	—	—	388	388
1-4 family residential properties	—	—	89	89
	$ —	$ —	$19,268	$19,268

(1) Represents the fair value of OREO that was adjusted subsequent to its initial classification as OREO.

As of December 31, 2020 and 2019, the only Level 3 assets with material unobservable inputs are associated with impaired loans and OREO.

Collateral Dependent Loans Specific Allocation of ACL

A loan is considered to be a collateral dependent loan when, based on current information and events, the Company expects repayment of the financial assets to be provided substantially through the operation or sale of the collateral and the Company has determined that the borrower is experiencing financial difficulty as of the measurement date. The ACL is measured by estimating the fair value of the loan based on the present value of expected cash flows, the market price of the loan, or the underlying fair value of the loan's collateral. For real estate loans, fair value of the loan's collateral is determined by third-party appraisals, which are then adjusted for the estimated selling and closing costs related to liquidation of the collateral. For this asset class, the actual valuation methods (income, sales comparable, or cost) vary based on the status of the project or property. For example, land is generally based on the sales comparable method while construction is based on the income and/or sales comparable methods. The unobservable inputs may vary depending on the individual assets with no one of the three methods being the predominant approach. The Company reviews the third-party appraisal for appropriateness and adjusts the value downward to consider selling and closing costs, which typically range from 5% to 8% of the appraised value. For non-real estate loans, fair value of the loan's collateral may be determined using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business.

OREO

OREO is primarily comprised of real estate acquired in partial or full satisfaction of loans. OREO is recorded at its estimated fair value less estimated selling and closing costs at the date of transfer, with any excess of the related loan balance over the fair value less expected selling costs charged to the ACL. Subsequent changes in fair value are reported as adjustments to the carrying amount and are recorded against earnings. The Company outsources the valuation of OREO with material balances to third-party appraisers. For this asset class, the actual valuation methods (income, sales comparable, or cost) vary based on the status of the project or property. For

example, land is generally based on the sales comparable method while construction is based on the income and/or sales comparable methods. The unobservable inputs may vary depending on the individual assets with no one of the three methods being the predominant approach. The Company reviews the third-party appraisal for appropriateness and adjusts the value downward to consider selling and closing costs, which typically range from 5% to 8% of the appraised value.

The estimated fair values of the Company's financial instruments not measured at fair value on a recurring or non-recurring basis were as follows:

	December 31, 2020				
	Carrying	Fair Value Measurements Using			Total
(Dollars in thousands)	Amount	Level 1	Level 2	Level 3	Fair Value
Financial assets:					
Cash and cash equivalents	$ 314,393	$314,393	$ —	$ —	$ 314,393
Securities - held to maturity	5,919	—	—	5,850	5,850
Loans not previously presented, gross	4,953,399	195,739	—	4,783,143	4,978,882
FHLB and other restricted stock	6,751	N/A	N/A	N/A	N/A
Accrued interest receivable	19,435	19,435	—	—	19,435
Financial liabilities:					
Deposits	4,716,600	—	4,719,625	—	4,719,625
Customer repurchase agreements	3,099	—	3,099	—	3,099
Federal Home Loan Bank advances	105,000	—	105,000	—	105,000
Paycheck Protection Program Liquidity Facility	191,860	—	191,860	—	191,860
Subordinated notes	87,509	—	89,413	—	89,413
Junior subordinated debentures	40,072	—	40,379	—	40,379
Accrued interest payable	4,270	4,270	—	—	4,270

	December 31, 2019				
	Carrying	Fair Value Measurements Using			Total
(Dollars in thousands)	Amount	Level 1	Level 2	Level 3	Fair Value
Financial assets:					
Cash and cash equivalents	$ 197,880	$197,880	$ —	$ —	$ 197,880
Securities - held to maturity	8,417	—	—	6,907	6,907
Loans not previously presented, gross	4,170,604	83,454	—	4,086,597	4,170,051
FHLB and other restricted stock	19,860	N/A	N/A	N/A	N/A
Accrued interest receivable	20,322	20,322	—	—	20,322
Financial liabilities:					
Deposits	3,789,906	—	3,793,603	—	3,793,603
Customer repurchase agreements	2,033	—	2,033	—	2,033
Federal Home Loan Bank advances	430,000	—	430,000	—	430,000
Subordinated notes	87,327	—	93,877	—	93,877
Junior subordinated debentures	39,566	—	40,700	—	40,700
Accrued interest payable	9,367	9,367	—	—	9,367

For those financial instruments not previously described, the following methods and assumptions were used by the Company in estimating the fair values of financial instruments as disclosed herein:

Cash and Cash Equivalents

For financial instruments with a shorter term or with no stated maturity, prevailing market rates, and limited credit risk, the carrying amounts approximate fair value and are considered a Level 1 classification.

Securities held to maturity

The fair values of the Company's investments in the subordinated notes of Trinitas IV, Trinitas V, and Trinitas VI classified as securities held to maturity are determined based on the securities' discounted projected future cash flows (net present value), resulting in a Level 3 classification.

Loans

Loans include loans held for investment, excluding impaired loans previously described above. For variable rate loans that reprice frequently and have no significant changes in credit risk, excluding previously presented impaired loans measured at fair value on a non-recurring basis, fair values are based on carrying values. Fair values for fixed rate loans are estimated using discounted cash flow analyses. The discount rates used to determine the fair value of loans use interest rate spreads that reflect factors such as liquidity, credit, and nonperformance risk of the loans. These loans are considered a Level 3 classification.

The fair values of commercial loans in the Company's liquid credit portfolio are determined based on quoted market prices in active markets and are considered a Level 1 classification.

FHLB and other restricted stock

FHLB and other restricted stock is restricted to member banks and there are restrictions placed on its transferability. As a result, the fair value of FHLB and other restricted stock was not practicable to determine.

Deposits

The fair values disclosed for demand deposits and non-maturity transaction accounts are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts) and are considered a Level 2 classification. Fair values for fixed rate time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on time deposits to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

Customer repurchase agreements

The carrying amount of customer repurchase agreements approximates fair value due to their short-term nature. The customer repurchase agreement fair value is considered a Level 2 classification.

Federal Home Loan Bank advances

The Company's FHLB advances have variable rates or a maturity of less than three months and therefore fair value materially approximates carrying value and is considered a Level 2 classification.

Paycheck Protection Program Liquidity Fund

The Company's PPPLF borrowings correspond to PPP loans and are expected to be short-term in duration, therefore fair value materially approximates carrying value and is considered a Level 2 classification.

Subordinated notes

The subordinated notes were valued based on quoted market prices, but due to limited trading activity for the subordinated notes in these markets, the subordinated notes are considered a Level 2 classification.

Junior subordinated debentures

The junior subordinated debentures were valued by discounting future cash flows using current interest rates for similar financial instruments, resulting in a Level 2 classification.

Accrued Interest Receivable and Accrued Interest Payable

The carrying amounts of accrued interest receivable and accrued interest payable approximate their fair values given the short-term nature of the receivables and are considered a Level 1 classification.

NOTE 18 — RELATED-PARTY TRANSACTIONS

In the ordinary course of business, we have granted loans to executive officers, directors, and their affiliates were as follows:

	Years Ended December 31,	
(Dollars in thousands)	2020	2019
Beginning balance	$ 39,651	$39,520
New loans and advances	500	952
Repayments and sales	(786)	(821)
Effect of changes in composition of related parties	(35,473)	—
Ending balance	$ 3,892	$39,651

At December 31, 2020 and 2019, there were no loans to executive officers, directors, or their affiliates that were considered non-performing or potential problem loans.

During the year ended December 31, 2018, a related party loan with a carrying amount of $9,781,000 was transferred to loans held for sale as the Company made the decision to sell the loan. The loan was subsequently sold at its par value for no gain or loss.

Deposits from executive officers, directors, and their affiliates at December 31, 2020 and 2019 were $30,294,000 and $5,641,000, respectively.

NOTE 19 — REGULATORY MATTERS

The Company (on a consolidated basis) and TBK Bank are subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's or TBK Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and TBK Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off balance sheet items

as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and TBK Bank to maintain minimum amounts and ratios (set forth in the table below) of total, common equity Tier 1, and Tier 1 capital to risk weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2020, the Company and TBK Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2020, TBK Bank's capital ratios exceeded those levels necessary to be categorized as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," TBK Bank must maintain minimum total risk based, common equity Tier 1 risk based, Tier 1 risk based, and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since December 31, 2020 that management believes have changed TBK Bank's category.

The actual capital amounts and ratios for the Company and TBK Bank are presented in the following table:

	Actual		Minimum for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2020						
Total capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$715,142	13.0%	$440,087	8.0%	N/A	N/A
TBK Bank, SSB	$653,359	12.1%	$431,973	8.0%	$539,966	10.0%
Tier 1 capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$581,580	10.6%	$329,196	6.0%	N/A	N/A
TBK Bank, SSB	$608,737	11.3%	$323,223	6.0%	$430,964	8.0%
Common equity Tier 1 capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$496,508	9.0%	$248,254	4.5%	N/A	N/A
TBK Bank, SSB	$608,737	11.3%	$242,417	4.5%	$350,158	6.5%
Tier 1 capital (to average assets)						
Triumph Bancorp, Inc.	$581,580	10.8%	$215,400	4.0%	N/A	N/A
TBK Bank, SSB	$608,737	11.3%	$215,482	4.0%	$269,353	5.0%
As of December 31, 2019						
Total capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$604,832	12.8%	$378,020	8.0%	N/A	N/A
TBK Bank, SSB	$555,213	12.0%	$370,142	8.0%	$462,678	10.0%
Tier 1 capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$487,775	10.3%	$284,141	6.0%	N/A	N/A
TBK Bank, SSB	$525,490	11.4%	$276,574	6.0%	$368,765	8.0%
Common equity Tier 1 capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$448,209	9.5%	$212,310	4.5%	N/A	N/A
TBK Bank, SSB	$525,490	11.4%	$207,430	4.5%	$299,621	6.5%
Tier 1 capital (to average assets)						
Triumph Bancorp, Inc.	$487,775	10.0%	$195,110	4.0%	N/A	N/A
TBK Bank, SSB	$525,490	10.9%	$192,840	4.0%	$241,050	5.0%

As permitted by the interim final rule issued on March 27, 2020 by the federal banking regulatory agencies, the Company has elected the option to delay the estimated impact on regulatory capital of ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments", which was effective January 1, 2020. The initial impact of adoption of ASU 2016-13 as well as 25% of the quarterly increases in the allowance for credit losses subsequent to adoption of ASU 2016-13 (collectively the "transition adjustments") will be delayed for two years. After two years, the cumulative amount of the transition adjustments will become fixed and will be phased out of the regulatory capital calculations evenly over a three year period, with 75% recognized in year three, 50% recognized in year four, and 25% recognized in year five. After five years, the temporary regulatory capital benefits will be fully reversed.

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

The capital conservation buffer set forth by the Basel III regulatory capital framework was 2.5% at December 31, 2020 and December 31, 2019. The capital conservation buffer is designed to absorb losses during periods of economic stress and requires increased capital levels for the purpose of capital distributions and other payments. Failure to meet the full amount of the buffer will result in restrictions on the Company's ability to make capital distributions, including dividend payments and stock repurchases, and to pay discretionary bonuses to executive officers. At December 31, 2020, the Company's and TBK Bank's risk based capital exceeded the required capital conservation buffer.

NOTE 20 — STOCKHOLDERS' EQUITY

The following summarizes the Company's capital structure.

Preferred Stock Series C

(Dollars in thousands, except per share amounts)	December 31, 2020
Shares authorized	51,750
Shares issued	45,000
Shares outstanding	45,000
Par value per share	$ 0.01
Liquidation preference per share	$ 1,000
Liquidation preference amount	$ 45,000
Dividend rate	7.125%
Dividend payment dates	Quarterly

On June 19, 2020, the Company issued 45,000 shares of 7.125% Series C Fixed-Rate Non-Cumulative Perpetual Preferred Stock, par value $0.01 per share, with a liquidation preference of $1,000 per share through an underwritten public offering of 1,800,000 depositary shares, each representing a 1/40th ownership interest in a share of the Series C Preferred Stock. Total gross proceeds from the preferred stock offering were $45,000,000. Net proceeds after underwriting discounts and offering expenses were $42,364,000. The net proceeds will be used for general corporate purposes.

Series C Preferred Stock holders are entitled to quarterly cash dividends accruing at the rate per annum of 7.125% beginning September 30, 2020, applied to the liquidation preference value of the stock. Any dividends not paid shall not accumulate but will be waived and not payable by the Company. Payments of dividends are subject to declaration by the board of the Company. The Series C Preferred Stock is not redeemable by the holder

and is senior to the Company's common stock. The Series C Preferred stock may be redeemed in whole or in part by the Company at liquidation value (i) on any dividend payment date on or after June 30, 2025 or (ii) within 90 days following a regulatory capital treatment event (as defined in the Statement of Designation), subject to regulatory approval.

Preferred Stock Series A and Series B

On October 26, 2018, 45,500 Preferred Stock Series A shares with a liquidation value of $4,550,000 were converted to 315,773 shares of common stock at the option of the holders at their preferred to common stock conversion ratio of 6.94008.

On October 26, 2018, 51,076 Preferred Stock Series B shares outstanding with a liquidation value of $5,108,000 were converted to 354,463 shares of common stock at the option of the holders at their preferred to common stock conversion ratio of 6.94008.

There were no preferred shares issued or outstanding at December 31, 2019 or 2018.

Common Stock

(Dollars in thousands, except per share amounts)	December 31, 2020	December 31, 2019
Shares authorized	50,000,000	50,000,000
Shares issued	27,951,721	27,163,642
Treasury shares	3,083,503	2,198,681
Shares outstanding	24,868,218	24,964,961
Par value per share	$ 0.01	$ 0.01

Common Stock Offerings

On April 12, 2018, the Company completed an underwritten common stock offering issuing 5,405,000 shares of the Company's common stock, including 705,000 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 $202,688,000. Net proceeds from the offering, after deducting the underwriting discount and offering expenses, were $192,053,000.

Stock Repurchase Program

During the year ended December 31, 2020, the Company purchased 871,319 shares into treasury stock under the Company's stock repurchase program at an average price of $40.81, for a total of $35,600,000, effectively completing the $50,000,000 stock repurchase program authorized by the Company's board of directors on October 16, 2019.

During the year ended December 31, 2019, the Company purchased 2,080,791 shares into treasury stock under the Company's stock repurchase program at an average price of $30.90, for a total of $64,366,000, under the stock repurchase programs authorized by the Company's board of directors on October 29, 2018, July 17, 2019, and October 16, 2019.

There were no stock repurchases made under stock repurchase programs during the year ended December 31, 2018.

NOTE 21 — STOCK BASED COMPENSATION

Stock based compensation expense that has been charged against income was $4,618,000, $3,654,000 and $2,735,000 for the years ended December 31, 2020, 2019 and 2018, respectively.

2014 Omnibus Incentive Plan

The Company's 2014 Omnibus Incentive Plan ("Omnibus Incentive Plan") provides for the grant of nonqualified and incentive stock options, stock appreciation rights, restricted stock awards, restricted stock units, and other awards that may be settled in, or based upon the value of, the Company's common stock. The aggregate number of shares of common stock available for issuance under the Omnibus Incentive Plan is 2,000,000 shares.

Restricted Stock Awards

A summary of changes in the Company's nonvested Restricted Stock Awards ("RSAs") under the Omnibus Incentive Plan for the year ended December 31, 2020 were as follows:

Nonvested RSAs	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2020	148,349	$31.86
Granted	138,417	26.54
Vested	(75,163)	29.64
Forfeited	(6,067)	29.44
Nonvested at December 31, 2020	205,536	$29.17

RSAs granted to employees under the Omnibus Incentive Plan generally vest over three to four years, but vesting periods may vary. The fair value of shares vested during the years ended December 31, 2020, 2019 and 2018, totaled $1,988,000, $1,466,000, and $2,625,000, respectively. Compensation expense for RSAs will be recognized on an accelerated basis over the vesting period of the awards based on the fair value of the stock at the issue date. As of December 31, 2020, there was $2,808,000 of total unrecognized compensation cost related to nonvested RSAs. The cost is expected to be recognized over a remaining weighted average period of 2.91 years.

Restricted Stock Units

A summary of changes in the Company's nonvested Restricted Stock Units ("RSUs") under the Omnibus Incentive Plan for the year ended December 31, 2020 were as follows:

Nonvested RSUs	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2020	55,228	$38.75
Granted	38,801	26.25
Vested	—	—
Forfeited	(4,316)	38.75
Nonvested at December 31, 2020	89,713	$33.34

RSUs granted to employees under the Omnibus Incentive Plan vest after five years. Compensation expense for the RSUs will be recognized over the vesting period of the awards based on the fair value of the stock at the issue date. As of December 31, 2020, there was $1,689,000 of unrecognized compensation cost related to the nonvested RSUs. The cost is expected to be recognized over a remaining period of 2.33 years.

Market Based Performance Stock Units

A summary of changes in the Company's nonvested Market Based Performance Stock Units ("Market Based PSUs") under the Omnibus Incentive Plan for the year ended December 31, 2020 were as follows:

Nonvested Market Based PSUs	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2020	67,707	$37.71
Granted	22,220	29.93
Vested	—	—
Forfeited	(4,316)	38.57
Nonvested at December 31, 2020	85,611	$35.65

Market Based PSUs granted to employees under the Omnibus Incentive Plan vest after three to five years. The number of shares issued upon vesting will range from 0% to 175% of the shares granted based on the Company's relative total shareholder return ("TSR") as compared to the TSR of a specified group of peer banks. Compensation expense for the Market Based PSUs will be recognized over the vesting period of the awards based on the fair value of the award at the grant date. The fair value of Market Based PSUs granted is estimated using a Monte Carlo simulation.

The fair value of the Market Based PSUs granted was determined using the following weighted average assumptions:

	Year Ended December 31, 2020	Year Ended December 31, 2019
Grant date	May 1, 2020	May 1, 2019
Performance period	3.00 Years	3.00 years
Stock price	$ 26.25	$ 30.82
Triumph stock price volatility	43.02%	28.29%
Risk-free rate	0.25%	2.25%

Expected volatilities were determined based on the historical volatilities of the Company and the specified peer group. The risk-free interest rate for the performance period was derived from the Treasury constant maturities yield curve on the valuation date.

As of December 31, 2020, there was $1,598,000 of unrecognized compensation cost related to the nonvested Market Based PSUs. The cost is expected to be recognized over a remaining period of 2.21 years.

Performance Based Performance Stock Units

A summary of changes in the Company's nonvested Performance Based Performance Stock Units ("Performance Based PSUs") under the Omnibus Incentive Plan for the year ended December 31, 2020 were as follows:

Nonvested Performance Based PSUs	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2020	254,000	$38.02
Granted	10,125	26.25
Vested	—	—
Forfeited	(7,500)	38.02
Nonvested at December 31, 2020	256,625	$37.56

Performance Based PSUs granted to employees under the Omnibus Incentive Plan vest after three years. The number of shares issued upon vesting will range from 0% to 200% of the shares granted based on the Company's cumulative diluted earnings per share over the performance period. Compensation expense for the Performance Based PSUs will be estimated each period based on the fair value of the stock at the grant date and the most probable outcome of the performance condition, adjusted for the passage of time within the vesting period of the awards. As of December 31, 2020, the maximum unrecognized compensation cost related to the nonvested Performance Based PSUs was $19,275,000, and the remaining performance period over which the cost could be recognized was 2.00 years. No compensation cost was recorded during the year ended December 31, 2020.

Stock Options

A summary of changes in the Company's stock options under the Omnibus Incentive Plan for the year ended December 31, 2020 were as follows:

Stock Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value (In Thousands)
Outstanding at January 1, 2020	225,055	$24.10		
Granted	32,937	24.66		
Exercised	(29,121)	16.02		
Forfeited	(443)	38.75		
Expired	(442)	38.75		
Outstanding at December 31, 2020	227,986	$25.16	6.89	$5,332
Fully vested shares and shares expected to vest at December 31, 2020	227,986	$25.16	6.89	$5,332
Shares exercisable at December 31, 2020	145,253	$22.49	6.18	$3,785

Information related to the stock options for the years ended December 31, 2020, 2019 and 2018 was as follows:

(Dollars in thousands, except per share amounts)	Year Ended December 31, 2020	2019	2018
Aggregate intrinsic value of options exercised	$ 940	$ 155	$ 59
Cash received from option exercises	$ —	$ —	$ —
Tax benefit realized from option exercises	$ 197	$ 33	$ 12
Weighted average fair value of options granted (per share)	$8.85	$10.03	$13.22
Fair value of vested awards	$ 471	$ 465	$ 313

Stock options awarded to employees under the Omnibus Incentive Plan are generally granted with an exercise price equal to the market price of the Company's common stock at the date of grant, vest over four years, and have ten years contractual terms. The fair value of stock options granted is estimated at the date of grant using the Black-Scholes option-pricing model.

The fair value of the stock options granted was determined using the following weighted average assumptions:

	2020	2019	2018
Risk-free interest rate	0.46%	2.33%	2.85%
Expected term	6.25 years	6.25 years	6.25 years
Expected stock price volatility	33.83%	27.46%	28.07%
Dividend yield	—	—	—

Expected volatilities were determined based on a blend of the Company's historical volatility and historical volatilities of a peer group of companies with a similar size, industry, stage of life cycle, and capital structure. The expected term of the options granted was determined based on the SEC simplified method, which calculates the expected term as the mid-point between the weighted average time to vesting and the contractual term. The risk-free interest rate for the expected term of the options was derived from the Treasury constant maturity yield curve on the valuation date.

As of December 31, 2020, there was $321,000 of unrecognized compensation cost related to nonvested stock options. The cost is expected to be recognized over a remaining weighted average period of 2.67 years.

Employee Stock Purchase Plan

During the year ended December 31, 2019, the Company's Board of Directors adopted, and the Company's stockholders approved, the Triumph Bancorp, Inc. 2019 Employee Stock Purchase Plan ("ESPP"). Under the ESPP, 2,500,000 shares of common stock were reserved for issuance. The ESPP enables eligible employees to purchase the Company's common stock at a price per share equal to 85% of the lower of the fair market value of the common stock at the beginning or end of each six month offering period. The first offering period has not yet commenced.

NOTE 22 — PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

The following tables present parent company only condensed financial information.

Condensed Parent Company Only Balance Sheets:

(Dollars in thousands)	December 31, 2020	December 31, 2019
ASSETS		
Cash and cash equivalents	$ 51,183	$ 35,914
Securities - held to maturity	5,919	8,417
Loans	—	719
Investment in bank subsidiary	793,938	713,348
Investment in non-bank subsidiaries	4,592	5,542
Other assets	866	1,174
Total assets	$856,498	$765,114
LIABILITIES AND EQUITY		
Subordinated notes	$ 87,509	$ 87,327
Junior subordinated debentures	40,072	39,566
Intercompany payables	178	318
Accrued expenses and other liabilities	1,958	1,313
Total liabilities	129,717	128,524
Stockholders' equity	726,781	636,590
Total liabilities and equity	$856,498	$765,114

Condensed Parent Company Only Statements of Income:

	Years Ended December 31,		
(Dollars in thousands)	2020	2019	2018
Interest income	$ 270	$ 1,163	$ 2,014
Interest expense	(7,477)	(6,464)	(6,092)
Credit loss expense	(1,899)	83	8
Other income	(20)	(187)	5
Salaries and employee benefits expense	(606)	(613)	(523)
Other expense	(2,376)	(2,069)	(3,710)
Income (loss) before income tax and income from subsidiaries	(12,108)	(8,087)	(8,298)
Income tax (expense) benefit	2,631	193	1,049
Dividends from subsidiaries and equity in undistributed subsidiary income	73,501	66,438	58,957
Net income	64,024	58,544	51,708
Dividends on preferred stock	(1,701)	—	(578)
Net income available to common stockholders	$ 62,323	$58,544	$51,130
Comprehensive income attributable to Parent	$ 68,071	$60,853	$51,101

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Condensed Parent Company Only Statements of Cash Flows:

(Dollars in thousands)	Years Ended December 31, 2020	2019	2018
Cash flows from operating activities:			
Net income	$ 64,024	$ 58,544	$ 51,708
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in undistributed subsidiary income	(58,501)	(35,938)	(58,957)
Net accretion of securities	(221)	(923)	(983)
Amortization of junior subordinated debentures	506	483	460
Amortization of subordinated notes issuance costs	182	116	101
Stock based compensation	315	315	320
Credit loss expense	1,900	—	—
Change in other assets	337	2,438	1,273
Change in accrued expenses and other liabilities	505	(4,771)	(6,458)
Net cash provided by (used in) operating activities	9,047	20,264	(12,536)
Cash flows from investing activities:			
Investment in subsidiaries	146	—	(59,038)
Proceeds from maturities, calls, and pay downs of securities held to maturity	693	993	1,053
Net change in loans	719	9,193	1,134
Cash used in acquisition of subsidiaries, net	—	—	(137,806)
Net cash provided by (used in) investing activities	1,558	10,186	(194,657)
Cash flows from financing activities:			
Proceeds from issuance of subordinated notes, net	—	38,282	—
Issuance of common stock, net of issuance costs	—	—	192,053
Issuance of preferred stock, net of issuance costs	42,364	—	—
Dividends on preferred stock	(1,701)	—	(578)
Purchase of treasury stock	(35,772)	(64,524)	(398)
Stock option exercises	(227)	—	(4)
Net cash provided by (used in) financing activities	4,664	(26,242)	191,073
Net increase (decrease) in cash and cash equivalents	15,269	4,208	(16,120)
Cash and cash equivalents at beginning of period	35,914	31,706	47,826
Cash and cash equivalents at end of period	$ 51,183	$ 35,914	$ 31,706

NOTE 23 — EARNINGS PER SHARE

The factors used in the earnings per share computation follow:

(Dollars in thousands)	Year Ended December 31, 2020	2019	2018
Basic			
Net income to common stockholders	$ 62,323	$ 58,544	$ 51,130
Weighted average common shares outstanding	24,387,932	25,941,395	24,791,448
Basic earnings per common share	$ 2.56	$ 2.26	$ 2.06
Diluted			
Net income to common stockholders	$ 62,323	$ 58,544	$ 51,130
Dilutive effect of preferred stock	—	—	578
Net income to common stockholders - diluted	$ 62,323	$ 58,544	$ 51,708
Weighted average common shares outstanding	24,387,932	25,941,395	24,791,448
Dilutive effects of:			
Assumed conversion of Preferred A	—	—	258,674
Assumed conversion of Preferred B	—	—	290,375
Assumed exercises of stock options	64,104	63,808	84,126
Restricted stock awards	86,498	47,242	52,851
Restricted stock units	25,978	3,441	3,039
Performance stock units - market based	51,304	4,119	—
Performance stock units - performance based	—	—	—
Average shares and dilutive potential common shares	24,615,816	26,060,005	25,480,513
Diluted earnings per common share	$ 2.53	$ 2.25	$ 2.03

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

	Years Ended December 31, 2020	2019	2018
Assumed conversion of Preferred A	—	—	—
Assumed conversion of Preferred B	—	—	—
Stock options	64,947	66,019	51,952
Restricted stock awards	—	—	—
Restricted stock units	—	—	—
Performance stock units - market based	—	55,228	59,658
Performance stock units - performance based	256,625	254,000	—

NOTE 24 — BUSINESS SEGMENT INFORMATION

The following presents the Company's operating segments. The accounting policies of the segments are the same as those described in Note 1 – Summary of Significant Accounting Policies. Transactions between segments consist primarily of borrowed funds. Beginning in 2019, intersegment interest expense is allocated to the Factoring segment based on Federal Home Loan Bank advance rates. Prior to 2019, intersegment interest was calculated based on the Company's prime rate. Credit loss expense is allocated based on the segment's ACL determination. Noninterest income and expense directly attributable to a segment are assigned to it. Taxes are paid on a consolidated basis but not allocated for segment purposes. The Factoring segment includes only factoring originated by TBC. General factoring services not originated through TBC are included in the Banking segment.

(Dollars in thousands) Year Ended December 31, 2020	Banking	Factoring	Corporate	Consolidated
Total interest income	$212,452	$109,391	$ 272	$322,115
Intersegment interest allocations	12,371	(12,371)	—	—
Total interest expense	29,911	—	7,476	37,387
Net interest income (expense)	194,912	97,020	(7,204)	284,728
Credit loss expense	20,389	16,042	1,898	38,329
Net interest income (expense) after credit loss expense	174,523	80,978	(9,102)	246,399
Gain on sale of subsidiary or division	9,758	—	—	9,758
Other noninterest income	29,503	21,010	114	50,627
Noninterest expense	163,995	54,011	4,068	222,074
Operating income (loss)	$ 49,789	$ 47,977	$(13,056)	$ 84,710

(Dollars in thousands) Year Ended December 31, 2019	Banking	Factoring	Corporate	Consolidated
Total interest income	$211,742	$ 98,247	$ 1,164	$311,153
Intersegment interest allocations	11,294	(11,294)	—	—
Total interest expense	48,786	—	6,464	55,250
Net interest income (expense)	174,250	86,953	(5,300)	255,903
Credit loss expense	5,533	2,486	(77)	7,942
Net interest income (expense) after credit loss expense	168,717	84,467	(5,223)	247,961
Noninterest income	26,875	4,727	(33)	31,569
Noninterest expense	148,620	51,780	3,684	204,084
Operating income (loss)	$ 46,972	$ 37,414	$(8,940)	$ 75,446

(Dollars in thousands) 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
Credit loss expense	12,373	3,802	(8)	16,167
Net interest income (expense) after credit loss expense	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) December 31, 2020	Banking	Factoring	Corporate	Eliminations	Consolidated
Total assets	$5,907,373	$1,121,704	$861,967	$(1,955,253)	$5,935,791
Gross loans held for investment	$4,872,494	$1,036,369	$ 800	$ (912,887)	$4,996,776

(Dollars in thousands) December 31, 2019	Banking	Factoring	Corporate	Eliminations	Consolidated
Total assets	$4,976,009	$662,002	$771,048	$(1,348,762)	$5,060,297
Gross loans held for investment	$4,108,735	$573,372	$ 1,519	$ (489,114)	$4,194,512

NOTE 25 — QUARTERLY FINANCIAL DATA (UNAUDITED)

The following presents quarterly financial data for the years ended December 31, 2020 and 2019.

	Year Ended December 31, 2020			
(Dollars in thousands)	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest income	$89,939	$82,364	$74,398	$75,414
Interest expense	6,341	7,985	10,147	12,914
Net interest income	83,598	74,379	64,251	62,500
Credit loss expense	4,680	(258)	13,609	20,298
Net interest income after credit loss expense	78,918	74,637	50,642	42,202
Gain on sale of subsidiary or division	—	—	9,758	—
Other noninterest income	22,386	10,493	10,271	7,477
Noninterest income	22,386	10,493	20,029	7,477
Noninterest expense	59,298	55,297	52,726	54,753
Net income before income taxes	42,006	29,833	17,945	(5,074)
Income tax expense	9,876	6,929	4,505	(624)
Net income	32,130	22,904	13,440	(4,450)
Dividends on preferred stock	(802)	(899)	—	—
Net income available to common stockholders	$31,328	$22,005	$13,440	$ (4,450)
Earnings per common share				
Basic	$ 1.27	$ 0.89	$ 0.56	$ (0.18)
Diluted	$ 1.25	$ 0.89	$ 0.56	$ (0.18)

	Year Ended December 31, 2019			
(Dollars in thousands)	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest income	$81,171	$79,415	$77,303	$73,264
Interest expense	14,763	14,650	13,884	11,953
Net interest income	66,408	64,765	63,419	61,311
Credit loss expense	382	2,865	3,681	1,014
Net interest income after credit loss expense	66,026	61,900	59,738	60,297
Noninterest income	8,666	7,742	7,623	7,538
Noninterest expense	52,661	52,153	50,704	48,566
Net income before income taxes	22,031	17,489	16,657	19,269
Income tax expense	5,322	3,172	3,927	4,481
Net income	16,709	14,317	12,730	14,788
Dividends on preferred stock	—	—	—	—
Net income available to common stockholders	$16,709	$14,317	$12,730	$14,788
Earnings per common share				
Basic	$ 0.67	$ 0.56	$ 0.48	$ 0.55
Diluted	$ 0.66	$ 0.56	$ 0.48	$ 0.55

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K, the Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply judgment in evaluating its controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective as of the end of the period covered by this report.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended December 31, 2020, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Report on Management's Assessment of Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). The Company's internal control system is a process designed to provide reasonable assurance regarding the preparation and fair presentation of published financial statements in accordance with GAAP. All internal control systems, no matter how well designed, have inherent limitations and can only provide reasonable assurance with respect to financial reporting.

As of December 31, 2020, management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control-Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on the assessment, management determined that the Company maintained effective internal control over financial reporting as of December 31, 2020.

Crowe LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K, has issued an attestation report on the Company's internal control over financial reporting as of December 31, 2020. Their report is included in Part IV, Item 15. Exhibits, Financial Statement Schedules under the heading "Report of Independent Registered Public Accounting Firm."

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE.

The information called for by this Item will be contained in our definitive Proxy Statement for our 2021 Annual Meeting of Stockholders, and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information called for by this Item will be contained in our definitive Proxy Statement for our 2021 Annual Meeting of Stockholders, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information called for by this Item will be contained in our definitive Proxy Statement for our 2021 Annual Meeting of Stockholders, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information called for by this Item will be contained in our definitive Proxy Statement for our 2021 Annual Meeting of Stockholders, and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information called for by this Item will be contained in our definitive Proxy Statement for our 2021 Annual Meeting of Stockholders, and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(a) Documents filed as part of this Report.

1., 2. Financial Statements and Schedules

The following financial statements of Triumph Bancorp, Inc., incorporated herein by reference to Item 8, Financial Statements and Supplementary Data:

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets as of December 31, 2020 and 2019
- Consolidated Statements of Income for the Years Ended December 31, 2020, 2019, and 2018
- Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2020, 2019, and 2018
- Consolidated Statements of Changes in Equity for the Years Ended December 31, 2020, 2019, and 2018
- Consolidated Statements of Cash Flows for the Years Ended December 31, 2020, 2019, and 2018
- Notes to Consolidated Financial Statements

Financial statement schedules have been omitted as they are not applicable or the required information is shown in the Consolidated Financial Statements or notes thereto.

3. Exhibits (Exhibits marked with a "†" denote management contracts or compensatory plans or arrangements)

2.1	Agreement and Plan of Merger, dated as of April 9, 2018, by and between the Registrant and First Bancorp of Durango, Inc., incorporated by reference to Exhibit 2.1 to Form 8-K filed with the SEC on April 9, 2018.*
2.2	Agreement and Plan of Merger, dated as of April 9, 2018, by and between the Registrant and Southern Colorado Corp., incorporated by reference to Exhibit 2.2 to Form 8-K filed with the SEC on April 9, 2018.*
2.3	Asset Purchase Agreement, dated as of April 9, 2018, by and among the Registrant, Advance Business Capital LLC, Interstate Capital Corporation, and certain affiliates and shareholders of ICC, incorporated by reference to Exhibit 2.3 to Form 8-K filed with the SEC on April 9, 2018.*
2.4	Closing Letter Agreement, dated as of June 2, 2018, as an amendment to Asset Purchase Agreement, dated as of April 9, 2018, by and among the Registrant, Advance Business Capital LLC, Interstate Capital Corporation, and certain affiliates and shareholders of ICC, incorporated by reference to Exhibit 2.2 to Form 8-K filed with the SEC on June 4, 2018.*
2.5	Agreement and Plan of Merger, dated as of July 26, 2017, by and among Valley Bancorp, Inc., the Registrant and James J. O'Dell as Shareholder Representative incorporated by reference to Exhibit 2.1 to Form 8-K filed with the SEC on July 26, 2017.*
3.1	Second Amended and Restated Certificate of Formation of the Registrant, effective November 7, 2014, incorporated by reference to Exhibit 3.1 to Form 8-K filed with the SEC on November 13, 2014.
3.2	Certificate of Amendment to Second Amended and Restated Certificate of Formation of Triumph Bancorp, Inc., incorporated by reference to Exhibit 3.1 to Form 8-K filed with the SEC on May 10, 2018.

3.3	Statement of Resolutions Deleting Series of Shares, incorporated by reference to Exhibit 3.1 to Form 8-K filed with the SEC on November 19, 2019.
3.4	Second Amended and Restated Bylaws of the Registrant, effective November 7, 2014, incorporated by reference to Exhibit 3.2 to Form 8-K filed with the SEC on November 13, 2014.
3.5	Amendment No. 1 to Second Amended and Restated Bylaws of Triumph Bancorp, Inc., incorporated by reference to Exhibit 3.2 to Form 8-K filed with the SEC on May 10, 2018.
3.6	Statement of Designation of 7.125% Series C Fixed-Rate Non-Cumulative Perpetual Preferred Stock, dated June 17, 2020, incorporated by reference to Exhibit 3.1 to Form 8-K filed with the SEC on June 19, 2020.
4.1	Description of Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934.
4.2	Specimen common stock certificate of Triumph Bancorp, Inc., incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (File No. 333-198838).
4.3	Indenture, dated as of September 30, 2016, between Triumph Bancorp, Inc., as Issuer, and Wells Fargo Bank, National Association, as Trustee, incorporated by reference to Exhibit 4.1 to Form 8-K filed with the SEC on September 30, 2016.
4.4	First Supplemental Indenture, dated as of September 30, 2016, between Triumph Bancorp, Inc., as Issuer, and Wells Fargo Bank, National Association, as Trustee, incorporated by reference to Exhibit 4.2 to Form 8-K filed with the SEC on September 30, 2016.
4.5	Second Supplemental Indenture, dated as of November 27, 2019, between Triumph Bancorp, Inc., as Issuer, and Wells Fargo Bank, National Association, as Trustee, incorporated by reference to Exhibit 4.2 to Form 8-K filed with the SEC on November 27, 2019.
4.6	Deposit Agreement, dated June 19, 2020, among Triumph Bancorp, Inc., Equiniti Trust Company, and the holders from time to time of the depositary receipts described therein, incorporated by reference to Exhibit 4.1 to Form 8-K filed with the SEC on June 19, 2020.
4.7	Form of Depositary Receipt Representing the Depositary Shares, incorporated by reference to Exhibit A included in Exhibit 4.1 to Form 8-K filed with the SEC on June 19, 2020.
	Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, the Company has not filed as an exhibit to this Form 10-K certain instruments defining the rights of the holders of certain additional long-term debt of the Company and its subsidiaries, none of which authorize a total amount of indebtedness in excess of 10% of the total assets of the Company and its subsidiaries on a consolidated basis. The Company agrees to furnish a copy of any of these agreements to the SEC upon request.
10.1†	Amended and Restated Employment Agreement of Aaron P. Graft dated March 30, 2016, incorporated by reference to Exhibit 10.1 to Form 8-K filed with the SEC on March 30, 2016.
10.2†	Amended and Restated Employment Agreement of Gail Lehmann dated March 30, 2016, incorporated by reference to Exhibit 10.2 to Form 8-K filed with the SEC on March 30, 2016.
10.3†	Amended and Restated Employment Agreement of R. Bryce Fowler dated March 30, 2016, incorporated by reference to Exhibit 10.3 to Form 8-K filed with the SEC on March 30, 2016.
10.4†	Amended and Restated Employment Agreement of Adam D. Nelson, dated March 30, 2016, incorporated by reference to Exhibit 10.4 to Form 10-Q filed with the SEC on May 4, 2016.
10.5†	Amended and Restated Employment Agreement of Daniel J. Karas, dated March 30, 2016, incorporated by reference to Exhibit 10.1 to Form 10-Q filed with the SEC on August 3, 2016.
10.6†	Employment Agreement between TBK Bank, SSB and Todd Ritterbusch, dated May 1, 2019, incorporated by reference to Exhibit 10.1 to Form 8-K filed with the SEC on May 1, 2019.
10.7†	Triumph Bancorp, Inc. Senior Executive Incentive Plan, incorporated by reference to Exhibit 10.9 to the Company's Registration Statement on Form S-1 (File No. 333-198838).

10.8†	Triumph Bancorp, Inc. 2014 Omnibus Incentive Plan, incorporated by reference to Exhibit 10.10 to the Company's Registration Statement on Form S-1 (File No. 333-198838).
10.9†	First Amendment to Triumph Bancorp, Inc. 2014 Omnibus Incentive Plan, incorporated by reference to Exhibit 10.1 to Form 8-K filed with the SEC on May 16, 2019.
10.10†	Form of Restricted Stock Award Agreement under Triumph Bancorp, Inc. 2014 Omnibus Incentive Plan, incorporated by reference to Exhibit 10.11 to the Company's Registration Statement on Form S-1 (File No. 333-198838).
10.11†	Form of Restricted Stock Award Agreement under Triumph Bancorp, Inc. 2014 Omnibus Incentive Plan, incorporated by reference to Exhibit 10.5 to Form 10-Q filed with the SEC on May 5, 2016.
10.12†	Form of Nonqualified Option Agreement under Triumph Bancorp, Inc. 2014 Omnibus Incentive Plan, incorporated by reference to Exhibit 10.6 to Form 10-Q filed with the SEC on May 5, 2016.
10.13†	Form of Director Award Letter under Triumph Bancorp, Inc. 2014 Omnibus Incentive Plan., incorporated by reference to Exhibit 10.7 to Form 10-Q filed with the SEC on May 5, 2016.
10.14†	Form of Indemnification Agreement, incorporated by reference to Exhibit 10.12 to the Company's Registration Statement on Form S-1 (File No. 333-198838).
10.15†	Form of Performance Restricted Stock Unit Award Agreement under Triumph Bancorp, Inc. 2014 Omnibus Incentive Plan, incorporated by reference to Exhibit 10.3 to Form 10-Q filed with the SEC on July 19, 2019.
10.16†	Form of Performance Restricted Stock Unit Award Agreement under Triumph Bancorp, Inc. 2014 Omnibus Incentive Plan, incorporated by reference to Exhibit 10.16 to Form 10-K filed with the SEC on February 11, 2020.
10.17†	Triumph Bancorp, Inc. Employee Stock Purchase Plan (incorporated herein by reference to Annex B to the Company's Definitive Proxy Statement on Schedule 14A filed with the SEC on April 3, 2019).
10.18	Triumph Bancorp, Inc. Warrant to Triumph Consolidated Cos., LLC for the Purchase of Common Shares dated December 12, 2012, incorporated by reference to Exhibit 10.13 to the Company's Registration Statement on Form S-1 (File No. 333-198838).
14.1	Corporate Code of Ethics.
21.1	Subsidiaries of Triumph Bancorp, Inc.
23.1	Consent of Crowe LLP.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document).
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).

* The schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K and will be provided to the SEC upon request.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TRIUMPH BANCORP, INC.
(Registrant)

Date: February 12, 2021

/s/ Aaron P. Graft
Aaron P. Graft
President and Chief Executive Officer

Date: February 12, 2021

/s/ R. Bryce Fowler
R. Bryce Fowler
Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Aaron P. Graft **Aaron P. Graft**	Director and President and Chief Executive Officer (Principal Executive Officer)	February 12, 2021
/s/ R. Bryce Fowler **R. Bryce Fowler**	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 12, 2021
/s/ Carlos M. Sepulveda, Jr. **Carlos M. Sepulveda, Jr.**	Director and Chairman	February 12, 2021
/s/ Charles A. Anderson **Charles A. Anderson**	Director	February 12, 2021
/s/ Debra Bradford **Debra Bradford**	Director	February 12, 2021
/s/ Richard Davis **Richard Davis**	Director	February 12, 2021
/s/ Laura Easley **Laura Easley**	Director	February 12, 2021
/s/ Maribess L. Miller **Maribess L. Miller**	Director	February 12, 2021
/s/ Fred Perpall **Fred Perpall**	Director	February 12, 2021
/s/ Michael P. Rafferty **Michael P. Rafferty**	Director	February 12, 2021
/s/ C. Todd Sparks **C. Todd Sparks**	Director	February 12, 2021

Exhibit 31.1

CERTIFICATION

I, Aaron P. Graft, certify that:

1. I have reviewed this annual report on Form 10-K of Triumph Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounted principles;
    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 12, 2021

By: /s/ Aaron P. Graft

Name: Aaron P. Graft
Title: President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, R. Bryce Fowler, certify that:

1. I have reviewed this annual report on Form 10-K of Triumph Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounted principles;
    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 12, 2021

By: /s/ R. Bryce Fowler

Name: R. Bryce Fowler
Title: Executive Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATIONS
SARBANES-OXLEY ACT SECTION 906

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, the undersigned President and Chief Executive Officer and Executive Vice President and Chief Financial Officer of Triumph Bancorp, Inc. ("the Company") certify, on the basis of such officers' knowledge and belief that:

(1) The Annual Report of the Company on Form 10-K for the period ended December 31, 2020, as filed with the Securities and Exchange Commission on February 12, 2021, (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Aaron P. Graft
Name: Aaron P. Graft
Title: President and Chief Executive Officer
Date: February 12, 2021

By: /s/ R. Bryce Fowler
Name: R. Bryce Fowler
Title: Executive Vice President and Chief Financial Officer
Date: February 12, 2021

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission upon request. This certification accompanies the Report and shall not be treated as having been filed as part of this Report.

CORPORATE *information*

Stock Exchange Listing
NASDAQ: TBK

Corporate Headquarters
Triumph Bancorp, Inc.
12700 Park Central Drive, Suite 1700
Dallas, TX 75251
214.365.6900
www.triumphbancorp.com

Stock Transfer Agent and Registrar
Please direct general questions about shareholder accounts, stock certifications, transfer of shares, or duplicate mailings to Triumph Bancorp's transfer agent:

EQ Shareowner Services
1110 Centre Pointe Curve, Suite 101
Mendota Heights, MN 55120-4101
800.468.9716
www.shareowneronline.com

Legal Counsel
Wachtell, Lipton, Rosen & Katz

Independent Auditor
Crowe LLP

Annual Meeting
The annual meeting of shareholders will be held on April 27, 2021 at 10:00 am CDT. It will be held live via the internet.

Please visit www.proxydocs.com/TBK for more details. There is no physical location.

Financial Information Requests
To receive additional copies of our annual report on Form 10-K as filed with the SEC or to obtain other Triumph Bancorp information, please contact the investor relations department at our corporate headquarters:

Email: ir@triumphllc.com

Officer Certifications
Our annual report on Form 10-K filed with the SEC is included herein, excluding all exhibits other than our Sarbanes-Oxley Act Section 302 and 906 certifications by the CEO and CFO. We will send shareholders copies of exhibits to our Annual Report on Form 10-K and any of our corporate governance documents, free of charge, upon request.

Forward-Looking Statements
This document contains forward-looking statements. Any statements about our expectations, beliefs, plans, predictions, forecasts, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. You can identify forward-looking statements by the use of forward-looking terminology such as "believes," "expects," "could," "may," "will," "should," "seeks," "likely," "intends," "plans," "pro forma," "projects," "estimates" or "anticipates" or the negative of these words and phrases or similar words or phrases that are predictions of or indicate future events or trends and that do not relate solely to historical matters. You can also identify forward-looking statements by discussions of strategy, plans or intentions. Forward-looking statements involve numerous risks and uncertainties and you should not rely on them as predictions of future events. Forward-looking statements depend on assumptions, data or methods that may be incorrect or imprecise and we may not be able to realize them. We do not guarantee that the transactions and events described will happen as described (or that they will happen at all). The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements: business and economic conditions generally and in the bank and non-bank financial services industries, nationally and within our local market areas; the impact of COVID-19 on our business, inlcuding the impact of the actions taken by governmental authorities to try and contain the virus and address the impact of the virus on the United States economy (including, without limitation, the CARES Act), and the resulting effect of all of such items on our operations, liquidity and capitial position, and on the financial condition of our borrowers and other consumers; our ability to mitigate our risk exposures; our ability to maintain our historical earnings trends; changes in management personnel; interest rate risk; concentration of our business 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; risks related to the integration of acquired businesses and any future acquisitions; 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 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 Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and their application by our regulators; governmental monetary and fiscal policies; changes in the scope and cost of Federal Deposit Insurance Corporation insurance and other coverages; failure to receive regulatory approval for future acquisitions; and increases in our capital requirements.

While forward-looking statements reflect our good-faith beliefs, they are not guarantees of future performance. All forward-looking statements are necessarily only estimates of future results. Accordingly, actual results may differ materially from those expressed in or contemplated by the particular forward-looking statement, and, therefore, you are cautioned not to place undue reliance on such statements. Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events or circumstances, except as required by applicable law. For a discussion of such risks and uncertainties, which could cause actual results to differ from those contained in the forward-looking statements, see "Risk Factors" and the forward-looking statement disclosure contained in Triumph's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 12, 2021.

12700 Park Central Drive, Suite 1700
Dallas, TX 75251
triumphbancorp.com