UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2022

OR

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

For the transition period from _______ to _______

Commission File Number 001-36722

TRIUMPH BANCORP, INC.
(Exact name of registrant as specified in its charter)

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

12700 Park Central Drive, Suite 1700

Dallas, Texas 75251

(Address of principal executive offices)

(214) 365-6900

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or 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 x No o

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 x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	x	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 o

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

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

Common Stock — $0.01 par value, 24,478,288 shares, as of October 17, 2022.

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.01 per share	TBK	NASDAQ Global Select Market
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 Global Select Market

TRIUMPH BANCORP, INC.

FORM 10-Q

September 30, 2022

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PART I – FINANCIAL INFORMATION

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FINANCIAL STATEMENTS

TRIUMPH BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
September 30, 2022 and December 31, 2021
(Dollar amounts in thousands)

	September 30, 2022	December 31, 2021
	(Unaudited)	
ASSETS		
Cash and due from banks	$ 139,937	$ 122,929
Interest bearing deposits with other banks	281,792	260,249
Total cash and cash equivalents	421,729	383,178
Securities - equity investments with readily determinable fair values	4,916	5,504
Securities - available for sale	238,434	182,426
Securities - held to maturity, net of allowance for credit losses of $2,430 and $2,082, respectively, fair value of $5,603 and $5,447, respectively	4,149	4,947
Loans held for sale	78	7,330
Loans, net of allowance for credit losses of $44,111 and $42,213, respectively	4,389,193	4,825,359
Federal Home Loan Bank and other restricted stock	6,213	10,146
Premises and equipment, net	104,272	105,729
Other real estate owned, net	—	524
Goodwill	233,709	233,727
Intangible assets, net	34,895	43,129
Bank-owned life insurance	41,390	40,993
Deferred tax asset, net	14,663	10,023
Indemnification asset	4,173	4,786
Other assets	144,636	98,449
Total assets	$ 5,642,450	$ 5,956,250
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest bearing	$ 1,897,309	$ 1,925,370
Interest bearing	2,544,045	2,721,309
Total deposits	4,441,354	4,646,679
Customer repurchase agreements	13,463	2,103
Federal Home Loan Bank advances	30,000	180,000
Paycheck Protection Program Liquidity Facility	—	27,144
Subordinated notes	107,587	106,957
Junior subordinated debentures	41,016	40,602
Other liabilities	117,857	93,901
Total liabilities	4,751,277	5,097,386
Commitments and contingencies - See Note 9 and Note 10		
Stockholders' equity - See Note 13		
Preferred stock	45,000	45,000
Common stock, 24,478,288 and 25,158,879 shares outstanding, respectively	283	283
Additional paid-in-capital	529,804	510,939
Treasury stock, at cost	(156,949)	(104,743)
Retained earnings	481,697	399,351
Accumulated other comprehensive income (loss)	(8,662)	8,034
Total stockholders' equity	891,173	858,864
Total liabilities and stockholders' equity	$ 5,642,450	$ 5,956,250

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the Three and Nine Months Ended September 30, 2022 and 2021
(Dollar amounts in thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Interest and dividend income:				
Loans, including fees	$ 44,928	$ 44,882	$ 129,906	$ 139,576
Factored receivables, including fees	53,317	50,516	174,549	135,639
Securities	2,308	1,126	4,815	3,963
FHLB and other restricted stock	65	28	175	131
Cash deposits	2,607	183	3,522	467
Total interest income	103,225	96,735	312,967	279,776
Interest expense:				
Deposits	2,743	1,948	7,010	7,790
Subordinated notes	1,304	2,449	3,905	5,148
Junior subordinated debentures	726	443	1,736	1,331
Other borrowings	182	124	539	434
Total interest expense	4,955	4,964	13,190	14,703
Net interest income	98,270	91,771	299,777	265,073
Credit loss expense (benefit)	2,646	(1,187)	6,048	(10,838)
Net interest income after credit loss expense (benefit)	95,624	92,958	293,729	275,911
Noninterest income:				
Service charges on deposits	1,558	2,030	5,185	5,674
Card income	2,034	2,144	6,125	6,341
Net OREO gains (losses) and valuation adjustments	(19)	(9)	(133)	(376)
Net gains (losses) on sale or call of securities	—	4	2,514	5
Net gains (losses) on sale of loans	1,107	377	18,310	2,965
Fee income	6,120	5,198	18,096	11,917
Insurance commissions	1,191	1,231	4,209	3,989
Other	677	1,080	17,643	9,727
Total noninterest income	12,668	12,055	71,949	40,242
Noninterest expense:				
Salaries and employee benefits	49,307	43,769	149,848	121,407
Occupancy, furniture and equipment	6,826	6,388	19,769	18,279
FDIC insurance and other regulatory assessments	386	353	1,179	1,830
Professional fees	4,263	2,362	11,529	9,959
Amortization of intangible assets	2,913	3,274	9,085	7,677
Advertising and promotion	1,929	1,403	4,916	3,534
Communications and technology	11,935	7,090	30,867	19,018
Other	9,130	8,174	26,667	22,799
Total noninterest expense	86,689	72,813	253,860	204,503
Net income before income tax expense	21,603	32,200	111,818	111,650
Income tax expense	5,374	7,771	27,068	25,316
Net income	$ 16,229	$ 24,429	$ 84,750	$ 86,334
Dividends on preferred stock	(801)	(802)	(2,404)	(2,405)
Net income available to common stockholders	$ 15,428	$ 23,627	$ 82,346	$ 83,929
Earnings per common share				
Basic	$ 0.64	$ 0.95	$ 3.36	$ 3.40
Diluted	$ 0.62	$ 0.94	$ 3.28	$ 3.33

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three and Nine Months Ended September 30, 2022 and 2021
(Dollar amounts in thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income	$ 16,229	$ 24,429	$ 84,750	$ 86,334
Other comprehensive income:				
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) arising during the period	(4,806)	(378)	(13,164)	(1,303)
Tax effect	1,127	89	3,067	300
Unrealized holding gains (losses) arising during the period, net of taxes	(3,679)	(289)	(10,097)	(1,003)
Reclassification of amount realized through sale or call of securities	—	(4)	(2,514)	(5)
Tax effect	—	1	620	1
Reclassification of amount realized through sale or call of securities, net of taxes	—	(3)	(1,894)	(4)
Change in unrealized gains (losses) on securities, net of tax	(3,679)	(292)	(11,991)	(1,007)
Unrealized gains (losses) on derivative financial instruments:				
Unrealized holding gains (losses) arising during the period	—	(9)	3,152	3,062
Tax effect	—	2	(754)	(729)
Unrealized holding gains (losses) arising during the period, net of taxes	—	(7)	2,398	2,333
Reclassification of amount of (gains) losses recognized into income	—	18	(9,316)	70
Tax effect	—	(4)	2,213	(17)
Reclassification of amount of (gains) losses recognized into income, net of taxes	—	14	(7,103)	53
Change in unrealized gains (losses) on derivative financial instruments	—	7	(4,705)	2,386
Total other comprehensive income (loss)	(3,679)	(285)	(16,696)	1,379
Comprehensive income	$ 12,550	$ 24,144	$ 68,054	$ 87,713

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Three and Nine Months Ended September 30, 2022 and 2021
(Dollar amounts in thousands)
(Unaudited)

	Preferred Stock	Common Stock			Treasury Stock			Accumulated	
	Liquidation Preference Amount	Shares Outstanding	Par Amount	Additional Paid-in-Capital	Shares Outstanding	Cost	Retained Earnings	Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, January 1, 2022	$ 45,000	25,158,879	$ 283	$ 510,939	3,102,801	$ (104,743)	$ 399,351	$ 8,034	$ 858,864
Issuance of restricted stock awards	—	5,502	—	—	—	—	—	—	—
Stock option exercises, net	—	2,021	—	(74)	—	—	—	—	(74)
Issuance of common stock pursuant to the Employee Stock Purchase Plan	—	10,585	—	688	—	—	—	—	688
Stock based compensation	—	—	—	4,952	—	—	—	—	4,952
Forfeiture of restricted stock awards	—	(487)	—	46	487	(46)	—	—	—
Purchase of treasury stock	—	(14,810)	—	—	14,810	(1,316)	—	—	(1,316)
Dividends on preferred stock	—	—	—	—	—	—	(801)	—	(801)
Net income	—	—	—	—	—	—	24,329	—	24,329
Other comprehensive income (loss)	—	—	—	—	—	—	—	23	23
Balance, March 31, 2022	$ 45,000	25,161,690	$ 283	$ 516,551	3,118,098	$ (106,105)	$ 422,879	$ 8,057	886,665
Vesting of performance stock units	—	20,996	—	—	—	—	—	—	—
Stock option exercises, net	—	32	—	—	—	—	—	—	—
Stock based compensation	—	—	—	7,880	—	—	—	—	7,880
Forfeiture of restricted stock awards	—	(2,417)	—	205	2,417	(205)	—	—	—
Purchase of treasury stock	—	(722,524)	—	—	722,524	(50,614)	—	—	(50,614)
Dividends on preferred stock	—	—	—	—	—	—	(802)	—	(802)
Net income	—	—	—	—	—	—	44,192	—	44,192
Other comprehensive income (loss)	—	—	—	—	—	—	—	(13,040)	(13,040)
Balance, June 30, 2022	$ 45,000	24,457,777	$ 283	$ 524,636	3,843,039	$ (156,924)	$ 466,269	$ (4,983)	874,281
Issuance of restricted stock awards	—	6,969	—	—	—	—	—	—	—
Stock based compensation	—	—	—	4,296	—	—	—	—	4,296
Forfeiture of restricted stock awards	—	(194)	—	12	194	(12)	—	—	—
Issuance of common stock pursuant to the employee stock purchase plan	—	13,931	—	860	—	—	—	—	860
Purchase of treasury stock	—	(195)	—	—	195	(13)	—	—	(13)
Dividends declared	—	—	—	—	—	—	(801)	—	(801)
Net income	—	—	—	—	—	—	16,229	—	16,229
Other comprehensive income (loss)	—	—	—	—	—	—	—	(3,679)	(3,679)
Balance, September 30, 2022	$ 45,000	24,478,288	$ 283	$ 529,804	3,843,428	$ (156,949)	$ 481,697	$ (8,662)	$ 891,173

	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, 2021	$ 45,000	24,868,218	$ 280	$ 489,151	3,083,503	$ (103,052)	$ 289,583	$ 5,819	$ 726,781
Issuance of restricted stock awards	—	4,613	—	—	—	—	—	—	—
Stock option exercises, net	—	10,205	—	191	—	—	—	—	191
Stock based compensation	—	—	—	1,350	—	—	—	—	1,350
Forfeiture of restricted stock awards	—	(107)	—	7	107	(7)	—	—	—
Dividends on preferred stock	—	—	—	—	—	—	(801)	—	(801)
Net income	—	—	—	—	—	—	33,923	—	33,923
Other comprehensive income (loss)	—	—	—	—	—	—	—	2,560	2,560
Balance, March 31, 2021	$ 45,000	24,882,929	$ 280	$ 490,699	3,083,610	$ (103,059)	$ 322,705	$ 8,379	$ 764,004
Issuance of restricted stock awards	—	224,287	2	(2)	—	—	—	—	—
Stock option exercises, net	—	18,934	—	(45)	—	—	—	—	(45)
Stock based compensation	—	—	—	3,386	—	—	—	—	3,386
Forfeiture of restricted stock awards	—	(2,278)	—	186	2,278	(186)	—	—	—
Purchase of treasury stock	—	(14,169)	—	—	14,169	(1,241)	—	—	(1,241)
Dividends on preferred stock	—	—	—	—	—	—	(802)	—	(802)
Net income	—	—	—	—	—	—	27,982	—	27,982
Other comprehensive income (loss)	—	—	—	—	—	—	—	(896)	(896)
Balance, June 30, 2021	$ 45,000	25,109,703	$ 282	$ 494,224	3,100,057	$ (104,486)	$ 349,885	$ 7,483	$ 792,388
Issuance of restricted stock awards	—	3,651	—	—	—	—	—	—	—
Stock option exercises, net	—	2,409	—	50	—	—	—	—	50
Stock based compensation	—	—	—	4,445	—	—	—	—	4,445
Forfeiture of restricted stock awards	—	(1,522)	—	114	1,522	(114)	—	—	—
Issuance of common stock pursuant to the ESPP	—	9,101	—	449	—	—	—	—	449
Dividends declared	—	—	—	—	—	—	(802)	—	(802)
Net income	—	—	—	—	—	—	24,429	—	24,429
Other comprehensive income (loss)	—	—	—	—	—	—	—	(285)	(285)
Balance, September 30, 2021	$ 45,000	25,123,342	$ 282	$ 499,282	3,101,579	$ (104,600)	$ 373,512	$ 7,198	$ 820,674

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2022 and 2021
(Dollar amounts in thousands)
(Unaudited)

	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Cash flows from operating activities:		
Net income	$ 84,750	$ 86,334
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	9,979	8,992
Net accretion on loans	(6,631)	(7,615)
Amortization of subordinated notes issuance costs	630	1,022
Amortization of junior subordinated debentures	414	395
Net (accretion) amortization on securities	(609)	(465)
Amortization of intangible assets	9,085	7,677
Deferred taxes	524	5,432
Credit loss expense (benefit)	6,048	(10,838)
Stock based compensation	17,128	9,181
Net (gains) losses on sale or call of debt securities	(2,514)	(5)
Net (gains) losses on equity securities	(9,575)	203
Net OREO (gains) losses and valuation adjustments	133	376
Origination of loans held for sale	(10,402)	(32,645)
Purchases of loans held for sale	(6,913)	(19,001)
Proceeds from sale of loans originated or purchased for sale	17,673	50,931
Net (gains) losses on sale of loans	(18,310)	(2,965)
Net change in operating leases	272	468
(Increase) decrease in other assets	(37,308)	(19,275)
Increase (decrease) in other liabilities	9,107	11,071
Net cash provided by (used in) operating activities	63,481	89,273
Cash flows from investing activities:		
Purchases of securities available for sale	(117,440)	(18,250)
Proceeds from sales of securities available for sale	40,163	—
Proceeds from maturities, calls, and pay downs of securities available for sale	23,562	76,864
Proceeds from maturities, calls, and pay downs of securities held to maturity	578	762
Purchases of loans held for investment	(133,674)	(77,571)
Proceeds from sale of loans	207,406	63,028
Net change in loans	285,854	227,650
Purchases of premises and equipment, net	(8,522)	(9,899)
Net proceeds from sale of OREO	438	807
(Purchases) redemptions of FHLB and other restricted stock, net	3,933	1,850
Net cash (paid for) received in acquisitions	—	(96,926)
Proceeds from sale of disposal group	85,923	—
Net cash provided by (used in) investing activities	388,221	168,315
Cash flows from financing activities:		
Net increase (decrease) in deposits	(194,494)	105,975
Increase (decrease) in customer repurchase agreements	11,360	8,891
Increase (decrease) in Federal Home Loan Bank advances	(150,000)	(75,000)
Proceeds from other borrowings, net	—	294,854
Repayment of other borrowings	(27,144)	(370,936)
Preferred dividends	(2,404)	(2,405)
Stock option exercises, net	(74)	196
Proceeds from employee stock purchase plan common stock issuance	1,548	449
Purchase of treasury stock	(51,943)	(1,241)
Net cash provided by (used in) financing activities	(413,151)	(39,217)
Net increase (decrease) in cash and cash equivalents	38,551	218,371
Cash and cash equivalents at beginning of period	383,178	314,393
Cash and cash equivalents at end of period	421,729	532,764

See accompanying condensed notes to consolidated financial statements.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2022 and 2021
(Dollar amounts in thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2022	2021
Supplemental cash flow information:		
Interest paid	$ 11,416	$ 15,551
Income taxes paid, net	$ 45,035	$ 36,353
Cash paid for operating lease liabilities	$ 2,691	$ 3,440
Supplemental noncash disclosures:		
Loans transferred to OREO	$ 47	$ 644
Loans held for investment transferred to loans held for sale	$ 197,899	$ 76,976
Assets transferred to assets held for sale	$ 80,819	$ —
Deposits transferred to deposits held for sale	$ 10,434	$ —
Lease liabilities arising from obtaining right-of-use assets	$ 5,267	$ 19,404
Securities available for sale purchased, not settled	$ 14,976	$ —
Indemnification reduction	$ —	$ 35,633
Non-cash consideration received from sale of loan portfolio or disposal group	$ 5,529	$ —

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 offering a diversified line of payments, factoring and banking services. The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Triumph CRA Holdings, LLC (“TCRA”), TBK Bank, SSB (“TBK Bank”), TBK Bank’s wholly owned subsidiary Advance Business Capital LLC, which currently operates under the d/b/a of Triumph Business Capital (“TBC”), and TBK Bank’s wholly owned subsidiary Triumph Insurance Group, Inc. (“TIG”). TriumphPay operates as a division of TBK Bank, SSB.

Basis of Presentation

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

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all normal and recurring adjustments considered necessary for a fair presentation. Transactions between the subsidiaries have been eliminated. These condensed consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2021. Operating results for the three and nine months ended September 30, 2022 are not necessarily indicative of the results that may be expected for the year ending December 31, 2022.

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 is consistent with the presentation of financial information to the chief operating decision maker to evaluate segment performance, develop strategy, and allocate resources. The Company's chief operating decision maker is the Chief Executive Officer of Triumph Bancorp, Inc. Management has determined that the Company has four reportable segments consisting of Banking, Factoring, Payments, and Corporate.

The Banking segment includes the operations of TBK Bank. The Banking segment derives its revenue principally from investments in interest-earning assets as well as noninterest income typical for the banking industry.

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

The Payments segment includes the operations of the TBK Bank's TriumphPay division, which is the payments network for presentment, audit, and payment of over-the-road trucking invoices. The Payments segment derives its revenue from transaction fees and interest income on factored receivables related to invoice payments. These factored receivables consist of both invoices where we offer a carrier a quickpay opportunity to receive payment at a discount in advance of the standard payment term for such invoice in exchange for the assignment of such invoice to us and from offering freight brokers the ability to settle their invoices with us on an extended term following our payment to their carriers as an additional liquidity option for such freight brokers.

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

Newly Issued, But Not Yet Effective Accounting Standards

In March 2022, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2022-02, "Financial Instruments – Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures" ("ASU 2022-02"). ASU 2022-02 eliminates the accounting guidance for troubled debt restructurings ("TDRs") in ASC 310-40, "Receivables - Troubled Debt Restructurings by Creditors" for entities that have adopted the current expected credit loss ("CECL") model introduced by ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" (ASU 2016-13"). ASU 2022-02 also requires that public business entities disclose current-period gross charge-offs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, "Financial Instruments—Credit Losses—Measured at Amortized Cost".

ASU 2022-02 is effective for the Company for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, with early adoption permitted. The Company is evaluating the effect that ASU 2022-02 will have on its consolidated financial statements and related disclosures.

NOTE 2 — ACQUISITIONS AND DIVESTITURES

Equipment Loan Sale

During the quarter ended June 30, 2022, the Company made the decision to sell a portfolio of equipment loans for cash consideration. The sale closed on June 23, 2022. A summary of the carrying amount of the assets sold and the gain on sale is as follows:

(Dollars in thousands)

Equipment loans	$	191,167
Accrued interest receivable	$	1,587
Assets sold	$	192,754
Cash consideration	$	197,454
Return of premium liability	$	(708)
Total consideration	$	196,746
Transaction costs	$	73
Gain on sale, net of transaction costs	$	3,919

The associated agreement contains a provision that in the event that a sold loan is prepaid in full prior to the due date of the final scheduled contractual payment, the Company will return a pro-rata portion of the premium calculated as of the date of such prepayment in full. As this transaction qualified as a sale of a group of entire financial assets, management must recognize, as proceeds, any assets obtained and liabilities incurred. Thus, management recorded a $708,000 liability for the potential return of premium measured at fair value as of the date of close. Management has elected the fair value option to account for the liability. It is recorded in other liabilities in the Company's Consolidated Balance Sheet and is marked to fair value through earnings at each reporting period.

The gain on sale, net of transaction costs, was included in net gains (losses) on sale of loans in the Company's Consolidated Statements of Income and was allocated to the Banking segment.

Factored Receivable Disposal Group

On June 30, 2022 and September 6, 2022, the Company entered into and closed two separate agreements to sell two separate portfolios of factored receivables. A summary of the carrying amounts of the assets and liabilities sold and the gains on sale are as follows:

(Dollars in thousands)	September 6, 2022	June 30, 2022	Total
Factored receivables	$ 20,131	$ 67,888	$ 88,019
Accrued interest and fee income	17	—	17
Assets held for sale	$ 20,148	$ 67,888	$ 88,036
Customer reserve noninterest bearing deposits	$ 1,149	$ 9,682	$ 10,831
Liabilities held for sale	$ 1,149	$ 9,682	$ 10,831
Net assets sold	$ 18,999	$ 58,206	$ 77,205
Cash consideration	$ 19,054	$ 66,292	$ 85,346
Revenue share asset	1,027	5,210	6,237
Total consideration	$ 20,081	$ 71,502	$ 91,583
Transaction costs	49	82	131
Gain on sale, net of transaction costs	$ 1,033	$ 13,214	$ 14,247

The June 30, 2022 agreement contains a revenue share provision that entitles the Company to an amount equal to fifteen percent of the future gross monthly revenue of the clients associated with the sold factored receivable portfolio. As this transaction qualified as a sale of a group of entire financial assets, management recognized, as proceeds, the assets obtained and liabilities incurred. Thus, management recorded a $5,210,000 asset for the contractual right to receive future cash flows from a third party measured at fair value as of the date of close. This is a financial asset for which management elected the fair value option. It is recorded in other assets in the Company's Consolidated Balance Sheet and is marked to fair value through earnings at each reporting period.

The September 6, 2022 agreement contains a revenue share provision that entitles the Company to an amount equal to a range of fifteen to twenty percent, depending on client, of the future gross monthly revenue of the clients associated with the sold factored receivable portfolio. As this transaction qualified as a sale of a group of entire financial assets, management recognized, as proceeds, the assets obtained and liabilities incurred. Thus, management recorded a $1,027,000 asset for the contractual right to receive future cash flows from a third party measured at fair value as of the date of close. This is a financial asset for which management elected the fair value option. It is recorded in other assets in the Company's Consolidated Balance Sheet and will be marked to fair value through earnings at each reporting period.

The gains on sale, net of transaction costs, were included in net gains (losses) on sale of loans in the Company’s Consolidated Statements of Income and were allocated to the Factoring segment.

HubTran Inc.

On June 1, 2021, the Company, through TriumphPay, a division of the Company's wholly-owned subsidiary TBK Bank, SSB, acquired HubTran, Inc. ("HubTran"), a cloud-based provider of automation software for the trucking industry's back-office.

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

(Dollars in thousands)	Initial Values	Measurement Period Adjustments	Adjusted Values
Assets acquired:			
Cash	$ 170	$ —	$ 170
Intangible assets - capitalized software	16,932	—	16,932
Intangible assets - customer relationship	10,360	—	10,360
Other assets	1,546	24	1,570
	29,008	24	29,032
Liabilities assumed:			
Deferred income taxes	4,703	(3,248)	1,455
Other liabilities	906	16	922
	5,609	(3,232)	2,377
Fair value of net assets acquired	$ 23,399	$ 3,256	$ 26,655
Consideration:			
Cash paid	$ 97,096	$ —	$ 97,096
Goodwill	$ 73,697	$ (3,256)	$ 70,441

The Company has recognized goodwill of $70,441,000, which included measurement period adjustments related to customary settlement adjustments and the finalization of the HubTran stub period tax return and its impact on the acquired deferred tax liability. Goodwill 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 Payments segment. The goodwill in this acquisition resulted from expected synergies and progress in the development of a fully integrated open loop payments network for the transportation industry. The goodwill will not be deducted for tax purposes.

The intangible assets recognized include a capitalized software intangible asset with an acquisition date fair value of $16,932,000 which will be amortized on a straight-line basis over its four year estimated useful life and customer relationship intangible assets with an acquisition date fair value of $10,360,000 which will be amortized utilizing an accelerated method over their eleven year estimated useful lives.

Revenue and earnings of HubTran 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 $2,992,000 were recorded in noninterest expense in the consolidated statements of income during the three months ended June 30, 2021.

Transportation Financial Solutions

On July 8, 2020, the Company, through its 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 $108,375,000, 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 will be 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 to eliminate the existing indemnifications for breaches of representations and warranties and to replace 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 will be 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 were 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 have 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 have 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 indemnification asset created by the ARPA is 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 was initially recorded in other assets in the Consolidated Balance Sheets at the time of the TFS Acquisition at 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 indemnification asset is reviewed quarterly and changes to the asset are recorded as adjustments to other noninterest income, as appropriate, within the Consolidated Statements of Income. The value of the indemnification asset was $4,173,000 and $4,786,000 at September 30, 2022 and December 31, 2021, respectively.

During the three months ended March 31, 2021, new adverse developments with the largest of the three Over-Formula Advance clients caused the Company to charge-off the entire Over-Formula Advance amount due from that client. This resulted in a net charge-off of $41,265,000; however, this net charge-off had no impact on credit loss expense for the three months ended March 31, 2021 as the entire amount had been reserved in a prior period. In accordance with the Agreement reached with Covenant, Covenant reimbursed the Company for $35,633,000 of this charge-off by drawing on its secured line of credit, which was reflected on the Company's March 31, 2021 Consolidated Balance Sheet as a current and performing equipment loan held for investment. Given separate developments with the other two Over-Formula Advance clients, the Company reserved an additional $2,844,000 reflected in credit loss expense for the three months ended March 31, 2021. The $2,844,000 increase in required ACL as well as accretion of most of the fair value discount on the indemnification asset held at December 31, 2020 resulted in a $4,654,000 gain on the indemnification asset which was recorded through non-interest income. Since March 31, 2021, Covenant has paid down its secured line of credit with TBK in its entirety and carries no outstanding balance at September 30, 2022. At September 30, 2022, Covenant had remaining availability of $9,361,000 on its TBK line of credit available to cover our undiscounted indemnification balance of $4,393,000.

During the nine months ended September 30, 2022, there were no material changes in the underlying credit quality of the remaining two Over-Formula Advance clients. As such, there were no charge-offs related to these balances. One of the remaining Over-Formula Advance clients has made payments totaling $1,291,000 during the nine months ended September 30, 2022, which resulted in a dollar-for-dollar reduction in the required ACL as well as a write-off of a portion of the corresponding indemnification asset. The impact of the payment to net income available to common stockholders for the nine months ended September 30, 2022 was not significant.

NOTE 3 — SECURITIES

Equity Securities With Readily Determinable Fair Values

The Company held equity securities with readily determinable fair values of $4,916,000 and $5,504,000 at September 30, 2022 and December 31, 2021, respectively. The gross realized and unrealized losses recognized on equity securities with readily determinable fair values in noninterest income in the Company’s consolidated statements of income were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2022	2021	2022	2021
Unrealized gains (losses) on equity securities held at the reporting date	$ (134)	$ (231)	$ (588)	$ (203)
Realized gains (losses) on equity securities sold during the period	—	—	—	—
	$ (134)	$ (231)	$ (588)	$ (203)

Equity Securities Without Readily Determinable Fair Values

The following table summarizes the Company's investments in equity securities without readily determinable fair values:

(Dollars in thousands)	September 30, 2022	December 31, 2021
Equity Securities without readily determinable fair value, at cost	$ 38,846	$ 14,671
Upward adjustments based on observable price changes, cumulative	10,163	—
Equity Securities without readily determinable fair value, carrying value	$ 49,009	$ 14,671

Equity securities without readily determinable fair values include Federal Home Loan Bank and other restricted stock, which are reported separately in the Company's consolidated balance sheets, and other investments, which are included in other assets in the Company's consolidated balance sheets.

The gross realized and unrealized gains (losses) recognized on equity securities without readily determinable fair values in noninterest income in the Company's consolidated statements of income were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2022	2021	2022	2021
Unrealized gains (losses) on equity securities still held at the reporting date	$ —	$ —	$ 10,163	$ —
Realized gains (losses) on equity securities sold during the period	—	—	—	—
	$ —	$ —	$ 10,163	$ —

During the three months ended June 30, 2022, the Company adjusted the fair value of an equity security without readily determinable fair value upwards due to an orderly and observable transaction for an identical investment. For further information on this transaction, see Note 6 – Equity Method Investment.

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) September 30, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
Available for sale securities:					
Mortgage-backed securities, residential	$ 49,962	$ —	$ (5,287)	$ —	$ 44,675
Asset-backed securities	6,501	—	(25)	—	6,476
State and municipal	14,485	2	(225)	—	14,262
CLO securities	175,386	25	(5,703)	—	169,708
Corporate bonds	1,270	1	(22)	—	1,249
SBA pooled securities	2,146	45	(127)	—	2,064
Total available for sale securities	$ 249,750	$ 73	$ (11,389)	$ —	$ 238,434

(Dollars in thousands) September 30, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrecognized Losses	Fair Value
Held to maturity securities:				
CLO securities	$ 6,579	$ 455	$ (1,431)	$ 5,603
Allowance for credit losses	(2,430)			
Total held to maturity securities, net of ACL	$ 4,149			

(Dollars in thousands) December 31, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
Available for sale securities:					
Mortgage-backed securities, residential	$ 36,885	$ 720	$ (156)	$ —	$ 37,449
Asset-backed securities	6,763	2	(1)	—	6,764
State and municipal	26,309	516	—	—	26,825
CLO Securities	103,579	3,109	(54)	—	106,634
Corporate bonds	1,992	64	—	—	2,056
SBA pooled securities	2,536	162	—	—	2,698
Total available for sale securities	$ 178,064	$ 4,573	$ (211)	$ —	$ 182,426

(Dollars in thousands) December 31, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrecognized Losses	Fair Value
Held to maturity securities:				
CLO securities	$ 7,029	$ —	$ (1,582)	$ 5,447
Allowance for credit losses	(2,082)			
Total held to maturity securities, net of ACL	$ 4,947			

The amortized cost and estimated fair value of securities at September 30, 2022, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale Securities		Held to Maturity Securities	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 1,527	$ 1,525	$ —	$ —
Due from one year to five years	3,122	3,067	—	—
Due from five years to ten years	53,433	51,539	6,579	5,603
Due after ten years	133,059	129,088	—	—
	191,141	185,219	6,579	5,603
Mortgage-backed securities, residential	49,962	44,675	—	—
Asset-backed securities	6,501	6,476	—	—
SBA pooled securities	2,146	2,064	—	—
	$ 249,750	$ 238,434	$ 6,579	$ 5,603

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2022	2021	2022	2021
Proceeds	$ —	$ —	$ 40,163	$ —
Gross gains	—	—	2,512	—
Gross losses	—	—	—	—
Net gains and losses from calls of securities	—	4	2	5

Debt securities with a carrying amount of approximately $96,198,000 and $72,805,000 at September 30, 2022 and December 31, 2021, 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 $1,764,000 and $802,000 at September 30, 2022 and December 31, 2021, respectively, and was included in other assets on the Company's consolidated balance sheets. There was no accrued interest related to debt securities reversed against interest income for the three and nine months ended September 30, 2022 and 2021.

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:

(Dollars in thousands)	Less than 12 Months		12 Months or More		Total	
September 30, 2022	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale securities:						
Mortgage-backed securities, residential	$ 44,500	$ (5,287)	$ 3	$ —	$ 44,503	$ (5,287)
Asset-backed securities	1,479	(21)	4,996	(4)	6,475	(25)
State and municipal	12,981	(225)	—	—	12,981	(225)
CLO securities	140,066	(5,119)	9,666	(584)	149,732	(5,703)
Corporate bonds	748	(22)	—	—	748	(22)
SBA pooled securities	1,380	(127)	—	—	1,380	(127)
	$ 201,154	$ (10,801)	$ 14,665	$ (588)	$ 215,819	$ (11,389)

(Dollars in thousands)	Less than 12 Months		12 Months or More		Total	
December 31, 2021	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale securities:						
Mortgage-backed securities, residential	$ 20,386	$ (155)	$ 6	$ (1)	$ 20,392	$ (156)
Asset-backed securities	37	—	4,999	(1)	5,036	(1)
State and municipal	30	—	—	—	30	—
CLO Securities	22,707	(54)	—	—	22,707	(54)
Corporate bonds	—	—	—	—	—	—
SBA pooled securities	—	—	—	—	—	—
	$ 43,160	$ (209)	$ 5,005	$ (2)	$ 48,165	$ (211)

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 September 30, 2022, the Company had 140 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 September 30, 2022, 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	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Allowance for credit losses:				
Beginning balance	$ 2,355	$ 1,727	$ 2,082	$ 2,026
Credit loss expense	75	10	348	(289)
Allowance for credit losses ending balance	$ 2,430	$ 1,737	$ 2,430	$ 1,737

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. The ACL on held to maturity securities is estimated at each measurement date on a collective basis by major security type. At September 30, 2022 and December 31, 2021, 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. 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 September 30, 2022, $5,130,000 of 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)	September 30, 2022	December 31, 2021
1-4 family residential	$ 68	$ 712
Commercial	10	6,618
Total loans held for sale	$ 78	$ 7,330

Loans Held for Investment

Loans

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

	September 30, 2022			December 31, 2021		
(Dollars in thousands)	Amortized Cost	Unpaid Principal	Difference	Amortized Cost	Unpaid Principal	Difference
Commercial real estate	$ 669,742	$ 670,980	$ (1,238)	$ 632,775	$ 634,319	$ (1,544)
Construction, land development, land	75,527	75,606	(79)	123,464	123,643	(179)
1-4 family residential	122,594	122,804	(210)	123,115	123,443	(328)
Farmland	66,595	66,838	(243)	77,394	77,905	(511)
Commercial	1,282,199	1,295,015	(12,816)	1,430,429	1,440,542	(10,113)
Factored receivables	1,449,080	1,453,591	(4,511)	1,699,537	1,703,936	(4,399)
Consumer	9,506	9,509	(3)	10,885	10,883	2
Mortgage warehouse	758,061	758,061	—	769,973	769,973	—
Total loans held for investment	4,433,304	$ 4,452,404	$ (19,100)	4,867,572	$ 4,884,644	$ (17,072)
Allowance for credit losses	(44,111)			(42,213)		
	$ 4,389,193			$ 4,825,359		

The difference between the amortized cost and the unpaid principal is due to (1) premiums and discounts associated with acquired loans totaling $14,263,000 and $11,723,000 at September 30, 2022 and December 31, 2021, respectively, and (2) net deferred origination and factoring fees totaling $4,837,000 and $5,349,000 at September 30, 2022 and December 31, 2021, respectively.

Accrued interest on loans, which is excluded from the amortized cost of loans held for investment, totaled $16,159,000 and $14,513,000 at September 30, 2022 and December 31, 2021, respectively, and was included in other assets on the Company's consolidated balance sheets.

At September 30, 2022 and December 31, 2021, the Company had $249,729,000 and $254,970,000, respectively, of customer reserves associated with factored receivables. These amounts represent customer reserves held to settle any payment disputes or collection shortfalls, may be used to pay customers' obligations to various third parties as directed by the customer, are periodically released to or withdrawn by customers, and are reported as deposits in the consolidated balance sheets.

At September 30, 2022 and December 31, 2021 the balance of the Over-Formula Advance Portfolio included in factored receivables was $8,785,000 and $10,077,000, respectively. These balances were fully reserved as of those respective dates.

At September 30, 2022 the Company carried a separate $19,361,000 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 separate from the acquired 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. We are a party to litigation in the United States Court of Federal Claims against the USPS 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 continue to 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 September 30, 2022.

Loans with carrying amounts of $1,416,089,000 and $1,733,917,000 at September 30, 2022 and December 31, 2021, respectively, were pledged to secure Federal Home Loan Bank borrowing capacity, Paycheck Protection Program Liquidity Facility borrowings and Federal Reserve Bank discount window borrowing capacity.

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) Three months ended September 30, 2022	Beginning Balance	Credit Loss Expense	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 5,167	$ (373)	$ —	$ —	$ 4,794
Construction, land development, land	1,192	(198)	—	1	995
1-4 family residential	757	(16)	—	1	742
Farmland	490	(23)	—	—	467
Commercial	12,738	3,431	(208)	59	16,020
Factored receivables	22,212	183	(2,433)	172	20,134
Consumer	197	62	(106)	49	202
Mortgage warehouse	654	103	—	—	757
	$ 43,407	$ 3,169	$ (2,747)	$ 282	$ 44,111

(Dollars in thousands) Three months ended September 30, 2021	Beginning Balance	Credit Loss Expense	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 4,404	$ (453)	$ (17)	$ 2	$ 3,936
Construction, land development, land	1,490	(434)	—	1	1,057
1-4 family residential	545	(64)	(1)	5	485
Farmland	669	(59)	—	—	610
Commercial	15,674	(1,187)	(211)	—	14,276
Factored receivables	21,823	1,186	(3,597)	239	19,651
Consumer	236	153	(139)	—	250
Mortgage warehouse	853	(101)	—	—	752
	$ 45,694	$ (959)	$ (3,965)	$ 247	$ 41,017

(Dollars in thousands) Nine Months Ended September 30, 2022	Beginning Balance	Credit Loss Expense	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 3,961	$ 881	$ (108)	$ 60	$ 4,794
Construction, land development, land	827	165	—	3	995
1-4 family residential	468	268	—	6	742
Farmland	562	(95)	—	—	467
Commercial	14,485	2,417	(1,192)	310	16,020
Factored receivables	20,915	2,298	(3,853)	774	20,134
Consumer	226	180	(313)	109	202
Mortgage warehouse	769	(12)	—	—	757
	$ 42,213	$ 6,102	$ (5,466)	$ 1,262	$ 44,111

(Dollars in thousands) Nine months ended September 30, 2021	Beginning Balance	Credit Loss Expense	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 10,182	$ (6,239)	$ (17)	$ 10	$ 3,936
Construction, land development, land	3,418	(2,352)	(12)	3	1,057
1-4 family residential	1,225	(804)	(26)	90	485
Farmland	832	(222)	—	—	610
Commercial	22,040	(7,936)	(426)	598	14,276
Factored receivables	56,463	8,547	(45,683)	324	19,651
Consumer	542	(99)	(285)	92	250
Mortgage warehouse	1,037	(285)	—	—	752
	$ 95,739	$ (9,390)	$ (46,449)	$ 1,117	$ 41,017

The increase in required ACL during the three months ended September 30, 2022 is a function of net charge-offs of $2,465,000 and credit loss expense of $3,169,000. The increase in required ACL during the nine months ended September 30, 2022 is a function of net charge-offs of $4,204,000 and credit loss expense of $6,102,000.

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 PPP), 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. The Company also forecasts prepayments speeds for use in the DCF models with higher prepayment speeds resulting in lower required ACL levels and vice versa for shorter prepayment speeds. These assumed prepayment speeds are based upon our historical prepayment speeds by loan type adjusted for the expected impact of the current interest rate environment. Generally, the impact of these assumed prepayment speeds is lesser in magnitude than the aforementioned loss driver assumptions.

For all DCF models at September 30, 2022, 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 September 30, 2022 as compared to December 31, 2021, the Company forecasted increasing national unemployment, a steeper decrease in one-year percentage change in national retail sales, a steeper decrease in one-year percentage change in the national home price index, and a steeper decrease in one-year percentage change in national gross domestic product. At September 30, 2022 for national unemployment, the Company projected a low percentage in the first quarter followed by a gradual rise in the following three quarters. For percentage change in national retail sales, the Company projected a sustained level in the first projected quarter followed by a decline to near-zero or negative levels over the last three projected quarters to a level below recent actual periods. For percentage changes in national home price index and national gross domestic product, the Company projected declines over the last three projected quarters to negative levels below recent actual periods. At September 30, 2022, the Company slowed its historical prepayment speeds in response to the rising interest rate environment in the macro economy.

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.

For the three months ended September 30, 2022, changes in projected loss drivers and prepayment assumptions over the reasonable and supportable forecast period did not have a significant impact on the ACL. Changes in net new required specific reserves increased the required ACL at September 30, 2022. Changes in loan volume and mix during the three months ended September 30, 2022 decreased the ACL during the period. Net charge-offs during the period were $2,465,000.

For the three months ended September 30, 2021, changes in projected loss drivers and prepayment assumptions over the reasonable and supportable forecast period decreased the required ACL by $177,000. Further, the Company experienced a net reserve release of specific reserves. Changes in loan volume and mix during the three months ended September 30, 2021 did not have a significant impact on the ACL during the period. Non-PCD-related net charge-offs reduced the ACL by $3,718,000 during the three months ended September 30, 2021.

For the nine months ended September 30, 2022, changes in projected loss drivers and prepayment assumptions over the reasonable and supportable forecast period increased the required ACL by $1,487,000. Changes in net new required specific reserves also increased the required ACL at September 30, 2022. Changes in loan volume and mix during the nine months ended September 30, 2022 decreased the ACL during the period. Net charge-offs during the period were $4,204,000.

For the nine months ended September 30, 2021, in addition to the impact of changes to the ACL on acquired PCD Over-Formula Advances previously discussed, changes in projected loss drivers and prepayment assumptions over the reasonable and supportable forecast period decreased the required ACL by $10,319,000. Further, the Company experienced a net reserve release of specific reserves on non-PCD loans. Changes in loan volume and mix during the nine months ended September 30, 2021 also decreased the ACL during the period. Non-PCD-related charge-offs reduced the ACL by $4,067,000 during the nine months ended September 30, 2021.

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) September 30, 2022	Real Estate	Accounts Receivable	Equipment	Other	Total	ACL Allocation
Commercial real estate	$ 1,240	$ —	$ —	$ 142	$ 1,382	$ 283
Construction, land development, land	151	—	—	—	151	—
1-4 family residential	1,663	—	—	47	1,710	80
Farmland	196	—	112	106	414	—
Commercial	208	—	3,256	14,403	17,867	4,330
Factored receivables	—	47,628	—	—	47,628	13,024
Consumer	—	—	—	154	154	13
Mortgage warehouse	—	—	—	—	—	—
Total	$ 3,458	$ 47,628	$ 3,368	$ 14,852	$ 69,306	$ 17,730

At September 30, 2022 the balance of the Over-Formula Advance Portfolio included in factored receivables was $8,785,000 and was fully reserved. At September 30, 2022 the balance of Misdirected Payments included in factored receivables was $19,361,000 and carried no ACL allocation.

(Dollars in thousands) December 31, 2021	Real Estate	Accounts Receivable	Equipment	Other	Total	ACL Allocation
Commercial real estate	$ 2,143	$ —	$ —	$ 155	$ 2,298	$ 283
Construction, land development, land	987	—	—	—	987	—
1-4 family residential	1,583	—	—	116	1,699	39
Farmland	1,803	—	126	116	2,045	—
Commercial	254	—	5,598	3,017	8,869	1,733
Factored receivables	—	42,863	—	—	42,863	12,640
Consumer	—	—	—	240	240	21
Mortgage warehouse	—	—	—	—	—	—
Total	$ 6,770	$ 42,863	$ 5,724	$ 3,644	$ 59,001	$ 14,716

At December 31, 2021 the balance of the Over-Formula Advance Portfolio included in factored receivables was $10,077,000 and carried an ACL allocation of $10,077,000. At December 31, 2021 the balance of Misdirected Payments included in factored receivables was $19,361,000 and carried no ACL allocation.

Past Due and Nonaccrual Loans

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

(Dollars in thousands) September 30, 2022	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 and Accruing
Commercial real estate	$ 1,465	$ —	$ 421	$ 1,886	$ 667,856	$ 669,742	$ —
Construction, land development, land	9	—	145	154	75,373	75,527	—
1-4 family residential	984	461	819	2,264	120,330	122,594	—
Farmland	—	—	—	—	66,595	66,595	—
Commercial	288	178	3,097	3,563	1,278,636	1,282,199	48
Factored receivables	42,637	13,455	38,969	95,061	1,354,019	1,449,080	38,969
Consumer	144	28	62	234	9,272	9,506	—
Mortgage warehouse	—	—	—	—	758,061	758,061	—
Total	$ 45,527	$ 14,122	$ 43,513	$ 103,162	$ 4,330,142	$ 4,433,304	$ 39,017

(Dollars in thousands) December 31, 2021	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 and Accruing
Commercial real estate	$ 1,021	$ —	$ 16	$ 1,037	$ 631,738	$ 632,775	$ —
Construction, land development, land	30	—	145	175	123,289	123,464	—
1-4 family residential	730	332	1,114	2,176	120,939	123,115	134
Farmland	378	154	977	1,509	75,885	77,394	—
Commercial	996	346	4,948	6,290	1,424,139	1,430,429	—
Factored receivables	70,109	18,302	39,134	127,545	1,571,992	1,699,537	39,134
Consumer	255	48	99	402	10,483	10,885	—
Mortgage warehouse	—	—	—	—	769,973	769,973	—
Total	$ 73,519	$ 19,182	$ 46,433	$ 139,134	$ 4,728,438	$ 4,867,572	$ 39,268

At September 30, 2022 and December 31, 2021, total past due Over-Formula Advances recorded in factored receivables was $8,785,000 and $10,077,000, respectively, all of which was 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. At September 30, 2022 and December 31, 2021, the Misdirected Payments totaled $19,361,000, all of which 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. 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:

	September 30, 2022		December 31, 2021	
(Dollars in thousands)	Total Nonaccrual	Nonaccrual With No ACL	Total Nonaccrual	Nonaccrual With No ACL
Commercial real estate	$ 1,108	$ 541	$ 2,025	$ 1,375
Construction, land development, land	151	151	964	964
1-4 family residential	1,710	1,604	1,683	1,582
Farmland	414	414	2,044	2,044
Commercial	17,291	3,015	8,078	3,910
Factored receivables	—	—	—	—
Consumer	154	112	240	159
Mortgage warehouse	—	—	—	—
	$ 20,828	$ 5,837	$ 15,034	$ 10,034

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2022	2021	2022	2021
Commercial real estate	$ —	$ —	$ —	$ 8
Construction, land development, land	—	—	2	—
1-4 family residential	1	—	1	1
Farmland	—	—	—	6
Commercial	—	—	4	23
Factored receivables	—	—	—	—
Consumer	—	3	—	3
Mortgage warehouse	—	—	—	—
	$ 1	$ 3	$ 7	$ 41

There was no interest earned on nonaccrual loans during the three and nine months ended September 30, 2022 and 2021.

The following table presents information regarding nonperforming loans:

(Dollars in thousands)	September 30, 2022	December 31, 2021
Nonaccrual loans[(1)]	$ 20,828	$ 15,034
Factored receivables greater than 90 days past due	30,184	29,057
Other nonperforming factored receivables[(2)]	4,331	1,428
Troubled debt restructurings accruing interest	577	765
	$ 55,920	$ 46,284

(1) Includes troubled debt restructurings of $2,034,000 and $3,912,000 at September 30, 2022 and December 31, 2021, respectively.

(2) Other nonperforming factored receivables represent the portion of the Over-Formula Advance Portfolio that is not covered by Covenant's indemnification as well as other nonperforming factored receivables less than 90 days past due. 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.

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 September 30, 2022 and December 31, 2021, based on the most recent analysis performed, the risk category of loans is as follows:

(Dollars in thousands)	Year of Origination								
September 30, 2022	2022	2021	2020	2019	2018	Prior	Revolving Loans	Revolving Loans Converted To Term Loans	Total
Commercial real estate									
Pass	$ 209,979	$ 162,141	$ 201,656	$ 27,482	$ 18,640	$ 38,969	$ 4,442	$ —	$ 663,309
Classified	2,634	779	1,883	39	—	1,098	—	—	6,433
Total commercial real estate	$ 212,613	$ 162,920	$ 203,539	$ 27,521	$ 18,640	$ 40,067	$ 4,442	$ —	$ 669,742
Construction, land development, land									
Pass	$ 46,466	$ 16,185	$ 7,115	$ 4,368	$ 654	$ 578	$ 10	$ —	$ 75,376
Classified	—	—	6	—	—	145	—	—	151
Total construction, land development, land	$ 46,466	$ 16,185	$ 7,121	$ 4,368	$ 654	$ 723	$ 10	$ —	$ 75,527
1-4 family residential									
Pass	$ 19,058	$ 23,089	$ 11,450	$ 3,046	$ 3,787	$ 22,067	$ 38,002	$ 308	$ 120,807
Classified	29	420	156	52	3	1,059	68	—	1,787
Total 1-4 family residential	$ 19,087	$ 23,509	$ 11,606	$ 3,098	$ 3,790	$ 23,126	$ 38,070	$ 308	$ 122,594
Farmland									
Pass	$ 10,092	$ 12,736	$ 10,381	$ 2,738	$ 6,790	$ 21,707	$ 1,370	$ 218	$ 66,032
Classified	199	11	131	112	—	110	—	—	563
Total farmland	$ 10,291	$ 12,747	$ 10,512	$ 2,850	$ 6,790	$ 21,817	$ 1,370	$ 218	$ 66,595
Commercial									
Pass	$ 300,479	$ 220,970	$ 181,171	$ 45,579	$ 7,594	$ 13,283	$ 473,205	$ 269	$ 1,242,550
Classified	14,656	10,681	3,701	2,148	110	115	8,238	—	39,649
Total commercial	$ 315,135	$ 231,651	$ 184,872	$ 47,727	$ 7,704	$ 13,398	$ 481,443	$ 269	$ 1,282,199
Factored receivables									
Pass	$ 1,411,243	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,411,243
Classified	17,693	—	20,144	—	—	—	—	—	37,837
Total factored receivables	$ 1,428,936	$ —	$ 20,144	$ —	$ —	$ —	$ —	$ —	$ 1,449,080
Consumer									
Pass	$ 3,112	$ 1,590	$ 1,033	$ 361	$ 355	$ 2,760	$ 141	$ —	$ 9,352
Classified	—	2	2	—	—	150	—	—	154
Total consumer	$ 3,112	$ 1,592	$ 1,035	$ 361	$ 355	$ 2,910	$ 141	$ —	$ 9,506
Mortgage warehouse									
Pass	$ 758,061	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 758,061
Classified	—	—	—	—	—	—	—	—	—
Total mortgage warehouse	$ 758,061	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 758,061
Total loans									
Pass	$ 2,758,490	$ 436,711	$ 412,806	$ 83,574	$ 37,820	$ 99,364	$ 517,170	$ 795	$ 4,346,730
Classified	35,211	11,893	26,023	2,351	113	2,677	8,306	—	86,574
Total loans	$ 2,793,701	$ 448,604	$ 438,829	$ 85,925	$ 37,933	$ 102,041	$ 525,476	$ 795	$ 4,433,304

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(Unaudited)

(Dollars in thousands)	Year of Origination							Revolving Loans Converted To Term Loans	
December 31, 2021	2021	2020	2019	2018	2017	Prior	Revolving Loans		Total
Commercial real estate									
Pass	$ 211,088	$ 249,652	$ 50,223	$ 25,930	$ 47,447	$ 37,290	$ 4,595	$ —	$ 626,225
Classified	2,879	3,358	41	—	16	—	256	—	6,550
Total commercial real estate	$ 213,967	$ 253,010	$ 50,264	$ 25,930	$ 47,463	$ 37,290	$ 4,851	$ —	$ 632,775
Construction, land development, land									
Pass	$ 56,764	$ 33,756	$ 4,744	$ 23,696	$ 1,199	$ 994	$ 8	$ —	$ 121,161
Classified	2,150	8	—	—	—	145	—	—	2,303
Total construction, land development, land	$ 58,914	$ 33,764	$ 4,744	$ 23,696	$ 1,199	$ 1,139	$ 8	$ —	$ 123,464
1-4 family residential									
Pass	$ 26,840	$ 15,195	$ 9,485	$ 6,526	$ 8,591	$ 22,151	$ 32,210	$ 318	$ 121,316
Classified	273	233	53	6	64	1,089	81	—	1,799
Total 1-4 family residential	$ 27,113	$ 15,428	$ 9,538	$ 6,532	$ 8,655	$ 23,240	$ 32,291	$ 318	$ 123,115
Farmland									
Pass	$ 14,387	$ 13,396	$ 7,892	$ 8,040	$ 10,040	$ 19,792	$ 1,317	$ 241	$ 75,105
Classified	199	612	593	333	128	298	126	—	2,289
Total farmland	$ 14,586	$ 14,008	$ 8,485	$ 8,373	$ 10,168	$ 20,090	$ 1,443	$ 241	$ 77,394
Commercial									
Pass	$ 466,254	$ 332,746	$ 77,010	$ 18,940	$ 15,032	$ 7,704	$ 490,159	$ 49	$ 1,407,894
Classified	9,317	6,858	5,088	558	56	456	202	—	22,535
Total commercial	$ 475,571	$ 339,604	$ 82,098	$ 19,498	$ 15,088	$ 8,160	$ 490,361	$ 49	$ 1,430,429
Factored receivables									
Pass	$ 1,667,922	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,667,922
Classified	10,826	20,789	—	—	—	—	—	—	31,615
Total factored receivables	$ 1,678,748	$ 20,789	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,699,537
Consumer									
Pass	$ 3,252	$ 1,794	$ 669	$ 553	$ 2,424	$ 1,882	$ 70	$ —	$ 10,644
Classified	5	—	—	12	119	105	—	—	241
Total consumer	$ 3,257	$ 1,794	$ 669	$ 565	$ 2,543	$ 1,987	$ 70	$ —	$ 10,885
Mortgage warehouse									
Pass	$ 769,973	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 769,973
Classified	—	—	—	—	—	—	—	—	—
Total mortgage warehouse	$ 769,973	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 769,973
Total loans									
Pass	$ 3,216,480	$ 646,539	$ 150,023	$ 83,685	$ 84,733	$ 89,813	$ 528,359	$ 608	$ 4,800,240
Classified	25,649	31,858	5,775	909	383	2,093	665	—	67,332
Total loans	$ 3,242,129	$ 678,397	$ 155,798	$ 84,594	$ 85,116	$ 91,906	$ 529,024	$ 608	$ 4,867,572

Troubled Debt Restructurings and Loan Modifications

The Company had troubled debt restructurings with an amortized cost of $2,611,000 and $4,677,000 as of September 30, 2022 and December 31, 2021, respectively. The Company had allocated $1,104,000 and $1,068,000 of allowance for those loans at September 30, 2022 and December 31, 2021, 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. The Company did not grant principal reductions on any restructured loans.

(Dollars in thousands)	Extended Amortization Period	Payment Deferrals	Protective Advances	Total Modifications	Number of Loans
Three months ended September 30, 2022					
Commercial	$ 45	$ —	$ —	$ 45	1
	$ 45	$ —	$ —	$ 45	1
Nine months ended September 30, 2022					
Commercial	$ 45	$ —	$ —	$ 45	1
	$ 45	$ —	$ —	$ 45	1
Nine months ended September 30, 2021					
Commercial real estate	$ —		$ 741	$ 741	1
	$ —	$ —	$ 741	$ 741	1

There were no loans modified as troubled debt restructurings during the three months ended September 30, 2021.

During the nine months ended September 30, 2022, the Company had two loans modified as troubled debt restructurings with a recorded investment of $546,000 for which there were payment defaults within twelve months following the modification. During the nine months ended September 30, 2021, the Company had three loans modified as troubled debt restructurings with a recorded investment of $1,681,000 for which there were payment defaults within twelve months following the modification. Default is determined at 90 or more days past due, upon charge-off, or upon foreclosure.

The following table summarizes the balance of loans modified for borrowers impacted by the COVID-19 pandemic.

(Dollars in thousands)	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Total modifications	—	—	—	10,459

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. There were no loans in deferral at September 30, 2022. The following table summarized the amortized cost of loans with payments in deferral and the accrued interest related to the loans with payments in deferral at December 31, 2021:

(Dollars in thousands) December 31, 2021	Total Loans	Balance of Loans Currently in Deferral	Percentage of Portfolio	Accrued Interest Receivable
Commercial real estate	$ 632,775	$ 30,212	4.8 %	$ 116
Construction, land development, land	123,464	1,340	1.1 %	5
1-4 family residential	123,115	—	— %	—
Farmland	77,394	338	0.4 %	3
Commercial	1,430,429	—	— %	—
Factored receivables	1,699,537	—	— %	—
Consumer	10,885	6	0.1 %	—
Mortgage warehouse	769,973	—	— %	—
Total	$ 4,867,572	$ 31,896	0.7 %	$ 124

Residential Real Estate Loans In Process of Foreclosure

At September 30, 2022 and December 31, 2021, the Company had $129,000 and $301,000, respectively, in 1-4 family residential real estate loans for which formal foreclosure proceedings were in process.

NOTE 5 — GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets consist of the following:

(Dollars in thousands)	September 30, 2022	December 31, 2021
Goodwill	$ 233,709	$ 233,727

	September 30, 2022			December 31, 2021		
(Dollars in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit intangibles	$ 43,578	$ (34,536)	$ 9,042	$ 43,578	$ (31,800)	$ 11,778
Software intangible assets	16,932	(5,644)	11,288	16,932	(2,469)	14,463
Other intangible assets	30,410	(15,845)	14,565	29,560	(12,672)	16,888
	$ 90,920	$ (56,025)	$ 34,895	$ 90,070	$ (46,941)	$ 43,129

The changes in goodwill and intangible assets during the three and nine months ended September 30, 2022 and 2021 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2022	2021	2022	2021
Beginning balance	$ 270,666	$ 286,567	$ 276,856	$ 189,922
Acquired goodwill	—	—	—	73,697
Acquired intangible assets	851	—	851	27,292
Acquired goodwill - measurement period adjustment	—	(3,238)	(18)	(3,179)
Amortization of intangibles	(2,913)	(3,274)	(9,085)	(7,677)
Ending balance	$ 268,604	$ 280,055	$ 268,604	$ 280,055

NOTE 6 — 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.

Although the Company held less than 20% of the voting stock of WSI, the investment in common stock was initially accounted for using the equity method as the Company's representation on WSI's board of directors, which was disproportionately larger in size than the common stock investment held, demonstrated that it had significant influence over the investee.

On June 10, 2022, the Company entered into two separate agreements with WSI. First, the Company entered into an Affiliate Agreement. The Affiliate Agreement canceled the Company's outstanding warrants and modified the structure of the existing operating agreement to be consistent with TriumphPay operating as an open loop payments network. By modifying the operating agreement, the Company's Payments segment operations now have greater ability to operate in the freight shipper audit space. As a result of the Affiliate Agreement, the Company recognized a total loss on impairment of the warrants of $3,224,000, which represented the full book balance of the warrants on the date the Affiliate Agreement was executed. The impairment loss was included in other noninterest income on the Company's consolidated statements of income during the three months ended June 30, 2022.

Separately, the Company also entered into an Amended and Restated Investor Rights Agreement (the "Investor Rights Agreement"). The Investor Rights Agreement eliminated the Company's representation on WSI's board of directors making the Company a completely passive investor. The Investor Rights Agreement also provided for the Company's purchase of an additional 10% of WSI's common stock for $23,000,000 raising the Company's ownership of WSI's common stock to 18%. As a passive investor, the Company no longer holds significant influence over the investee and the investment in WSI's common stock no longer qualifies for equity method accounting. The investment in WSI's common stock is now accounted for as an equity investment without a readily determinable fair value measured under the measurement alternative. The measurement alternative requires the Company to remeasure its investment in the common stock of WSI only upon the execution of an orderly and observable transaction in an identical or similar instrument.

The Company's additional investment in WSI under the Investor Rights Agreement resulted in the Company discontinuing the equity method of accounting and qualified as an orderly and observable transaction for an identical investment in WSI, therefore the fair value of the Company's original 8% common stock investment was required to be adjusted from $4,925,000 at March 31, 2022 to $15,088,000, resulting in a gain of $10,163,000 that was recorded in other noninterest income on the Company's consolidated statements of income during the three months ended June 30, 2022.

The following table presents the Company's investment in WSI:

(Dollars in thousands)	September 30, 2022	December 31, 2021
Common stock	$ 38,088	$ 5,142
Warrants	—	3,224
Total investment	$ 38,088	$ 8,366

The investment is included in other assets on the Company's consolidated balance sheets and has been allocated to the Payments segment. All gains and losses related to the investment are included in the Payment segment's operating results.

NOTE 7 — 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 June 2020, such derivatives were used to hedge the variable cash flows associated with interest bearing deposits.

The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the cash flows of the hedged item, the derivative is settled or terminated, or treatment of the derivative as a hedge is no longer appropriate or intended. During the three months ended March 31, 2022, the Company terminated its single derivative with a notional value totaling $200,000,000, resulting in a termination value of $9,316,000. During the nine months ended September 30, 2022, the Company reclassified $465,000 into earnings through interest expense in the consolidated statements of income. On May 4, 2022, the Company terminated the hedged funding, incurring a termination fee of $732,000, which was recognized through interest expense in the consolidated statements of income, and reclassified the remaining $8,851,000 unrealized gain on the terminated derivative into earnings through other noninterest income in the consolidated statements of income.

The following table presents the pre-tax impact of the terminated cash flow hedge on AOCI:

(Dollars in thousands)	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Unrealized gains on terminated hedges				
Beginning Balance	$ —	$ —	$ —	$ —
Unrealized gains arising during the period	—	—	9,316	—
Reclassification adjustments for amortization of unrealized (gains) into net income	—	—	(9,316)	—
Ending Balance	$ —	$ —	$ —	$ —

The Company did not have any derivative financial instruments at September 30, 2022. 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, 2021:

	Derivative Assets		
	As of December 31, 2021		
(Dollars in thousands)	Notional Amount	Balance Sheet Location	Fair Value Total
Derivatives designated as hedging instruments:			
Interest rate swaps	$ 200,000	Other Assets	$ 6,164

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

(Dollars in thousands)	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
Three Months Ended September 30, 2022					
Derivatives in cash flow hedging relationships:					
Interest rate swaps	$ —	$ —	Interest Expense, Noninterest Income	$ —	$ —
Three Months Ended September 30, 2021					
Derivatives in cash flow hedging relationships:					
Interest rate swaps	$ 7	$ 7	Interest Expense	$ 14	$ 14
Nine Months Ended September 30, 2022					
Derivatives in cash flow hedging relationships:					
Interest rate swaps	$ (4,705)	$ (4,705)	Interest Expense, Noninterest Income	$ (7,103)	$ (7,103)
Nine Months Ended September 30, 2021					
Derivatives in cash flow hedging relationships:					
Interest rate swaps	$ 2,386	$ 2,386	Interest Expense	$ 53	$ 53

NOTE 8 — 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 $4,149,000 and $4,947,000 at September 30, 2022 and December 31, 2021, 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 were variable interest entities and that the Company holds variable interests in the entities in the form of its investments in the subordinated notes of 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 was not the primary beneficiary and therefore was not required to consolidate the assets, liabilities, equity, or operations of the closed CLO funds in the Company's financial statements.

NOTE 9 — LEGAL CONTINGENCIES

Various legal claims have arisen from time to time in the normal course of business which, in the opinion of management as of September 30, 2022, will have no material effect on the Company's consolidated financial statements.

NOTE 10 — OFF-BALANCE SHEET LOAN COMMITMENTS

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

	September 30, 2022			December 31, 2021		
(Dollars in thousands)	Fixed Rate	Variable Rate	Total	Fixed Rate	Variable Rate	Total
Unused lines of credit	$ 3,994	$ 442,809	$ 446,803	$ 26,029	$ 523,483	$ 549,512
Standby letters of credit	$ 13,711	$ 4,920	$ 18,631	$ 11,090	$ 5,409	$ 16,499
Commitments to purchase loans	$ —	$ 79,030	$ 79,030	$ —	$ 108,423	$ 108,423
Mortgage warehouse commitments	$ —	$ 851,939	$ 851,939	$ —	$ 823,060	$ 823,060

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 September 30, 2022 and December 31, 2021, the allowance for credit losses on off-balance sheet credit exposures totaled \$3,680,000 and \$4,082,000, respectively, and was included in other liabilities on the Company's consolidated balance sheets. The following table presents credit loss expense for off balance sheet credit exposures:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2022	2021	2022	2021
Credit loss expense (benefit)	$ (598)	$ (238)	$ (402)	$ (1,159)

NOTE 11 — FAIR VALUE DISCLOSURES

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

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

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

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

The methods of determining the fair value of assets and liabilities presented in this note are consistent with the methodologies disclosed in Note 17 of the Company's 2021 Form 10-K.

Assets and liabilities measured at fair value on a recurring basis are summarized in the table below.

(Dollars in thousands)	Fair Value Measurements Using			
September 30, 2022	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value on a recurring basis				
Securities available for sale				
Mortgage-backed securities, residential	$ —	$ 44,675	$ —	$ 44,675
Asset-backed securities	—	6,476	—	6,476
State and municipal	—	14,262	—	14,262
CLO securities	—	169,708	—	169,708
Corporate bonds	—	1,249	—	1,249
SBA pooled securities	—	2,064	—	2,064
	$ —	$ 238,434	$ —	$ 238,434
Equity securities with readily determinable fair values				
Mutual fund	$ 4,916	$ —	$ —	$ 4,916
Loans held for sale	$ —	$ 78	$ —	$ 78
Indemnification asset	$ —	$ —	$ 4,173	$ 4,173
Revenue share asset	$ —	$ —	$ 6,178	$ 6,178
Liabilities measured at fair value on a recurring basis				
Return of premium liability	$ —	$ —	$ 570	$ 570

(Dollars in thousands)	Fair Value Measurements Using			
December 31, 2021	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value on a recurring basis				
Securities available for sale				
Mortgage-backed securities, residential	$ —	$ 37,449	$ —	$ 37,449
Asset-backed securities	—	6,764	—	6,764
State and municipal	—	26,825	—	26,825
CLO Securities	—	106,634	—	106,634
Corporate bonds	—	2,056	—	2,056
SBA pooled securities	—	2,698	—	2,698
	$ —	$ 182,426	$ —	$ 182,426
Equity securities with readily determinable fair values				
Mutual fund	$ 5,504	$ —	$ —	$ 5,504
Loans held for sale	$ —	$ 7,330	$ —	$ 7,330
Derivative financial instruments (cash flow hedges)				
Interest rate swap	$ —	$ 6,164	$ —	$ 6,164
Indemnification asset	$ —	$ —	$ 4,786	$ 4,786

There were no transfers between levels during 2022 or 2021.

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 September 30, 2022 and December 31, 2021, the estimated cash payments expected to be received from Covenant for probable losses on the covered Over-Formula Advance Portfolio were approximately $4,393,000 and $5,038,000, respectively, and a discount rate of 5.0% and 5.0%, respectively, 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2022	2021	2022	2021
Beginning balance	$ 4,377	$ 5,246	$ 4,786	$ 36,225
Indemnification asset recognized in business combination	—	—	—	—
Change in fair value of indemnification asset recognized in earnings	(204)	(460)	(613)	4,194
Indemnification reduction	—	—	—	(35,633)
Ending balance	$ 4,173	$ 4,786	$ 4,173	$ 4,786

Revenue Share Asset

On June 30, 2022 and September 6, 2022, the Company entered into and closed two separate agreements to sell two separate portfolios of factored receivables. The June 30, 2022 agreement contains revenue share provisions that entitles the Company to an amount equal to fifteen percent of the future gross monthly revenue of the clients associated with the sold factored receivable portfolio. The September 6, 2022 agreement contains revenue share provisions that entitles the Company to an amount ranging from fifteen to twenty percent, depending on the client, of the future gross monthly revenue of the clients associated with the sold factored receivable portfolio. The fair value of the revenue share assets is calculated each reporting period, and changes in the fair value of the revenue share assets are recorded in noninterest income in the consolidated statements of income. The revenue share asset fair value is considered a Level 3 classification.

At September 30, 2022, the estimated cash payments expected to be received from the purchaser for the Company's share of future gross monthly revenue as $8,653,000 and a discount rate of 10.0% was applied to calculate the present value of the revenue share asset. A reconciliation of the opening balance to the closing balance of the fair value of the revenue share asset is as follows:

(Dollars in thousands)	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2022
Beginning balance	$ 5,210	$ —
Revenue share asset recognized	1,027	6,237
Change in fair value of revenue share asset recognized in earnings	171	171
Revenue share payments received	(230)	(230)
Ending balance	$ 6,178	$ 6,178

Return of Premium Liability

On June 23, 2022, the Company made the decision to sell and closed on the sale of a portfolio of equipment loans for cash consideration. The associated agreement contains a provision that in the event that a sold loan is prepaid in full prior to the due date of the final scheduled contractual payment, the Company will return a pro-rata portion of the premium calculated as of the date of such prepayment in full. The fair value of the return of premium liability is calculated each reporting period, and changes in the fair value of the return of premium liability are recorded in noninterest income in the consolidated statements of income. The return of premium liability is considered a Level 3 classification. At September 30, 2022, the fair value of the estimated premium expected to be returned to the purchaser for sold loans prepaid in full was calculated as the difference between the discounted cash flows of each sold loan assuming no prepayments and the discounted cash flows of each sold loan assuming an 11.0% prepayment speed; consistent with management's expected prepayment speed. A reconciliation of the opening balance to the closing balance of the fair value of the return of premium liability is as follows:

(Dollars in thousands)	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Beginning balance	$ 708	$ —	$ —	$ —
Return of premium liability recognized in business combination	—	—	708	—
Change in fair value of return of premium liability recognized in earnings	(104)	—	(104)	—
Return of premium payments made	(34)	—	(34)	—
Ending balance	$ 570	$ —	$ 570	$ —

Assets measured at fair value on a non-recurring basis are summarized in the table below. There were no liabilities measured at fair value on a non-recurring basis at September 30, 2022 and December 31, 2021.

(Dollars in thousands) September 30, 2022	Fair Value Measurements Using Level 1	Level 2	Level 3	Total Fair Value
Collateral dependent loans				
Commercial real estate	$ —	$ —	$ 283	$ 283
1-4 family residential	—	—	25	25
Commercial	—	—	9,771	9,771
Factored receivables	—	—	34,604	34,604
Consumer	—	—	29	29
	$ —	$ —	$ 44,712	$ 44,712

(Dollars in thousands) December 31, 2021	Fair Value Measurements Using Level 1	Level 2	Level 3	Total Fair Value
Collateral dependent loans				
Commercial real estate	$ —	$ —	$ 366	$ 366
1-4 family residential	—	—	61	61
Commercial	—	—	2,435	2,435
Factored receivables	—	—	30,224	30,224
Consumer	—	—	60	60
Other real estate owned [1]				
Commercial real estate	—	—	7	7
Construction, land development, land	—	—	63	63
	$ —	$ —	$ 33,216	$ 33,216

[1] Represents the fair value of OREO that was adjusted during the year to date period and subsequent to its initial classification as 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 at September 30, 2022 and December 31, 2021 were as follows:

(Dollars in thousands)	Carrying	Fair Value Measurements Using			Total
September 30, 2022	Amount	Level 1	Level 2	Level 3	Fair Value
Financial assets:					
Cash and cash equivalents	$ 421,729	$ 421,729	$ —	$ —	$ 421,729
Securities - held to maturity	4,149	—	—	5,603	5,603
Loans not previously presented, gross	4,388,592	228,971	—	4,080,885	4,309,856
FHLB and other restricted stock	6,213	N/A	N/A	N/A	N/A
Accrued interest receivable	18,214	18,214	—	—	18,214
Financial liabilities:					
Deposits	4,441,354	—	4,429,225	—	4,429,225
Customer repurchase agreements	13,463	—	13,463	—	13,463
Federal Home Loan Bank advances	30,000	—	30,000	—	30,000
Subordinated notes	107,587	—	106,327	—	106,327
Junior subordinated debentures	41,016	—	42,847	—	42,847
Accrued interest payable	2,538	2,538	—	—	2,538

(Dollars in thousands) December 31, 2021	Carrying Amount	Fair Value Measurements Using Level 1	Level 2	Level 3	Total Fair Value
Financial assets:					
Cash and cash equivalents	$ 383,178	$ 383,178	$ —	$ —	$ 383,178
Securities - held to maturity	4,947	—	—	5,447	5,447
Loans not previously presented, gross	4,834,426	142,962	—	4,685,058	4,828,020
FHLB and other restricted stock	10,146	N/A	N/A	N/A	N/A
Accrued interest receivable	15,319	15,319	—	—	15,319
Financial liabilities:					
Deposits	4,646,679	—	4,646,552	—	4,646,552
Customer repurchase agreements	2,103	—	2,103	—	2,103
Federal Home Loan Bank advances	180,000	—	180,000	—	180,000
Paycheck Protection Program Liquidity Facility	27,144	—	27,144	—	27,144
Subordinated notes	106,957	—	110,045	—	110,045
Junior subordinated debentures	40,602	—	41,286	—	41,286
Accrued interest payable	1,951	1,951	—	—	1,951

NOTE 12 — 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 September 30, 2022 and December 31, 2021, the Company and TBK Bank meet all capital adequacy requirements to which they are subject.

As of September 30, 2022 and December 31, 2021, 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 September 30, 2022 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.

(Dollars in thousands)	Actual		Minimum for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
September 30, 2022	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$ 831,228	16.6%	$ 400,592	8.0%	N/A	N/A
TBK Bank, SSB	$ 781,506	15.7%	$ 398,220	8.0%	$ 497,775	10.0%
Tier 1 capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$ 685,113	13.6%	$ 302,256	6.0%	N/A	N/A
TBK Bank, SSB	$ 744,948	15.0%	$ 297,979	6.0%	$ 397,306	8.0%
Common equity Tier 1 capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$ 599,097	11.9%	$ 226,549	4.5%	N/A	N/A
TBK Bank, SSB	$ 744,948	15.0%	$ 223,484	4.5%	$ 322,811	6.5%
Tier 1 capital (to average assets)						
Triumph Bancorp, Inc.	$ 685,113	12.6%	$ 217,496	4.0%	N/A	N/A
TBK Bank, SSB	$ 744,948	13.7%	$ 217,503	4.0%	$ 271,879	5.0%
As of December 31, 2021						
Total capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$ 769,475	14.1%	$ 436,582	8.0%	N/A	N/A
TBK Bank, SSB	$ 698,286	12.9%	$ 433,046	8.0%	$ 541,307	10.0%
Tier 1 capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$ 628,094	11.5%	$ 327,701	6.0%	N/A	N/A
TBK Bank, SSB	$ 665,336	12.3%	$ 324,554	6.0%	$ 432,739	8.0%
Common equity Tier 1 capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$ 542,492	9.9%	$ 246,587	4.5%	N/A	N/A
TBK Bank, SSB	$ 665,336	12.3%	$ 243,416	4.5%	$ 351,600	6.5%
Tier 1 capital (to average assets)						
Triumph Bancorp, Inc.	$ 628,094	11.1%	$ 226,340	4.0%	N/A	N/A
TBK Bank, SSB	$ 665,336	11.8%	$ 225,538	4.0%	$ 281,922	5.0%

As permitted by the interim final rule issued on March 27, 2020 by the federal banking regulatory agencies, the Company 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") was delayed for two years. After two years, the cumulative amount of the transition adjustments became 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 September 30, 2022 and December 31, 2021. 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 September 30, 2022 and December 31, 2021, the Company's and TBK Bank's risk based capital exceeded the required capital conservation buffer.

NOTE 13 — STOCKHOLDERS' EQUITY

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

Preferred Stock Series C

(Dollars in thousands, except per share amounts)	September 30, 2022	December 31, 2021
Shares authorized	51,750	51,750
Shares issued	45,000	45,000
Shares outstanding	45,000	45,000
Par value per share	$ 0.01	$ 0.01
Liquidation preference per share	$ 1,000	$ 1,000
Liquidation preference amount	$ 45,000	$ 45,000
Dividend rate	7.125 %	7.125 %
Dividend payment dates	Quarterly	Quarterly

Common Stock

	September 30, 2022	December 31, 2021
Shares authorized	50,000,000	50,000,000
Shares issued	28,321,716	28,261,680
Treasury shares	(3,843,428)	(3,102,801)
Shares outstanding	24,478,288	25,158,879
Par value per share	$ 0.01	$ 0.01

Stock Repurchase Programs

On February 7, 2022, the Company announced that its board of directors had authorized the Company to repurchase up to $50,000,000 of its outstanding common stock. This program was completed during the three months ended June 30, 2022, and on May 23, 2022, the Company announced that its board of directors had authorized the Company to repurchase up to an additional $75,000,000 of its outstanding common stock in open market transactions or through privately negotiated transactions at the Company's discretion. The amount, timing and nature of any share repurchases will be based on a variety of factors, including the trading price of the Company's common stock, applicable securities laws restrictions, regulatory limitations and market and economic factors. The repurchase program is authorized for a period of up to one year and does not require the Company to repurchase any specific number of shares. The repurchase program may be modified, suspended or discontinued at any time, at the Company's discretion.

The following repurchases were made under the February 7, 2022 program. No shares have been purchased under the May 23, 2022 program.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Shares repurchased into treasury stock	—	—	709,795	—
Average price of shares repurchased into treasury stock	$ —	$ —	$ 70.41	$ —
Total cost of shares repurchased into treasury stock	$ —	$ —	$ 50,000,000	$ —

NOTE 14 — STOCK BASED COMPENSATION

Stock based compensation expense that has been charged against income was $4,296,000 and $4,445,000 for the three months ended September 30, 2022 and 2021, respectively, and $17,128,000 and $9,181,000 for the nine months ended September 30, 2022 and 2021, 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 maximum number of shares of common stock available for issuance under the Omnibus Incentive Plan is 2,450,000 shares.

Restricted Stock Awards

A summary of changes in the Company's nonvested Restricted Stock Awards ("RSAs") under the Omnibus Incentive Plan for the nine months ended September 30, 2022 were as follows:

Nonvested RSAs	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2022	363,404	67.56
Granted	12,471	74.42
Vested	(126,203)	61.74
Forfeited	(3,098)	45.60
Nonvested at September 30, 2022	246,574	71.17

RSAs granted to employees under the Omnibus Incentive Plan typically vest immediately or over four years. Compensation expense for the RSAs will be recognized over the vesting period of the awards based on the fair value of the stock at the issue date. As of September 30, 2022, there was $7,552,000 of unrecognized compensation cost related to the nonvested RSAs. The cost is expected to be recognized over a remaining period of 2.52 years.

Restricted Stock Units

A summary of changes in the Company's nonvested Restricted Stock Units ("RSUs") under the Omnibus Incentive Plan for the nine months ended September 30, 2022 were as follows:

Nonvested RSUs	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2022	122,470	52.07
Granted	91,849	69.44
Vested	—	—
Forfeited	(967)	52.46
Nonvested at September 30, 2022	213,352	59.55

RSUs granted to employees under the Omnibus Incentive Plan typically vest over four to 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 September 30, 2022, there was $7,688,000 of unrecognized compensation cost related to the nonvested RSUs. The cost is expected to be recognized over a remaining period of 3.19 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 nine months ended September 30, 2022 were as follows:

Nonvested Market Based PSUs	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2022	94,984	$ 43.68
Granted	33,276	84.22
Incremental shares earned	8,997	N/A
Vested	(20,996)	33.91
Forfeited	(535)	38.57
Nonvested at September 30, 2022	115,726	$ 56.38

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 Market Based PSUs 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. 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 dates.

The fair value of the Market Based PSUs granted was determined using the following weighted-average assumptions:

	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Grant date	May 1, 2022	May 1, 2021
Performance period	3.00 years	3.00 years
Stock price	$ 69.44	$ 88.63
Triumph stock price volatility	55.17 %	51.71 %
Risk-free rate	2.84 %	0.35 %

As of September 30, 2022, there was $3,343,000 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 nine months ended September 30, 2022 were as follows:

Nonvested Performance Based PSUs	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2022	259,383	$ 39.32
Granted	3,000	69.44
Vested	—	—
Forfeited	(6,349)	43.26
Nonvested at September 30, 2022	256,034	$ 39.57

Performance Based PSUs granted to employees under the Omnibus Incentive Plan vest after a three year performance period. 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.

During the three and nine months ended September 30, 2022, the Company recognized $298,000 and $5,433,000, respectively, of stock based compensation expense related to Performance Based PSUs. As of September 30, 2022, the maximum unrecognized compensation cost related to the nonvested Performance Based PSUs was $7,424,000, and the remaining performance period over which the cost could be recognized was 0.25 years. No compensation cost was recorded during the three and nine months ended September 30, 2021.

Stock Options

A summary of the changes in the Company's stock options under the Omnibus Incentive Plan for the nine months ended September 30, 2022 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, 2022	166,755	$ 33.34		
Granted	35,939	69.44		
Exercised	(3,797)	26.12		
Forfeited or expired	—	—		
Outstanding at September 30, 2022	198,897	$ 40.00	6.41	$ 3,976
Fully vested shares and shares expected to vest at September 30, 2022	198,897	$ 40.00	6.41	$ 3,976
Shares exercisable at September 30, 2022	128,958	$ 29.10	5.15	$ 3,401

Information related to the stock options for the nine months ended September 30, 2022 and 2021 was as follows:

(Dollars in thousands, except per share amounts)	Nine Months Ended September 30, 2022	2021
Aggregate intrinsic value of options exercised	$ 280	$ 2,249
Cash received from option exercises, net	(74)	196
Tax benefit realized from option exercises	59	472
Weighted average fair value per share of options granted	$ 32.15	$ 35.37

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 year contractual terms. The fair value of stock options granted is estimated at the date of grant using the Black-Scholes option-pricing model. Beginning in 2022, expected volatilities are determined based on the Company's historical volatility. Prior to 2022, 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 is 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 is derived from the Treasury constant maturity yield curve on the valuation date.

The fair value of the stock options granted was determined using the following weighted-average assumptions:

	Nine Months Ended September 30, 2022	2021
Risk-free interest rate	2.77 %	1.16 %
Expected term	6.25 years	6.25 years
Expected stock price volatility	43.33 %	39.26 %
Dividend yield	—	—

As of September 30, 2022, there was $1,059,000 of unrecognized compensation cost related to nonvested stock options granted under the Omnibus Incentive Plan. The cost is expected to be recognized over a remaining period of 3.28 years.

Employee Stock Purchase Plan

On April 1, 2019, the Company's Board of Directors adopted the Triumph Bancorp, Inc. Employee Stock Purchase Plan ("ESPP") and reserved 2,500,000 shares of common stock 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 commenced on February 1, 2021. During the nine months ended September 30, 2022, 24,516 shares were issued under the plan. No shares were issued during the nine months ended September 30, 2021.

NOTE 15 — EARNINGS PER SHARE

The factors used in the earnings per share computation follow:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2022	2021	2022	2021
Basic				
Net income to common stockholders	$ 15,428	$ 23,627	$ 82,346	$ 83,929
Weighted average common shares outstanding	24,227,020	24,759,419	24,483,054	24,719,861
Basic earnings per common share	$ 0.64	$ 0.95	$ 3.36	$ 3.40
Diluted				
Net income to common stockholders	$ 15,428	$ 23,627	$ 82,346	$ 83,929
Weighted average common shares outstanding	24,227,020	24,759,419	24,483,054	24,719,861
Dilutive effects of:				
Assumed exercises of stock options	85,239	121,110	95,252	129,149
Restricted stock awards	122,723	141,204	162,883	146,172
Restricted stock units	97,512	74,268	96,174	71,620
Performance stock units - market based	117,358	131,346	124,249	131,275
Performance stock units - performance based	327,016	—	109,005	—
Employee stock purchase program	2,389	616	2,245	1,914
Average shares and dilutive potential common shares	24,979,257	25,227,963	25,072,862	25,199,991
Diluted earnings per common share	$ 0.62	$ 0.94	$ 3.28	$ 3.33

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Stock options	52,878	16,939	52,878	16,939
Restricted stock awards	6,348	—	6,348	195,640
Restricted stock units	15,000	—	15,000	17,757
Performance stock units - market based	45,296	12,020	45,296	12,020
Performance stock units - performance based	—	259,383	—	259,383
Employee stock purchase program	—	—	—	—

NOTE 16 — 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. 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. The Company presents disaggregated revenue from contracts with customers in the consolidated statements of income.

Descriptions of the Company's significant revenue-generating activities within the scope of Topic 606, which are included in non-interest income in the Company's consolidated statements of income, are as follows:

- *Service charges on deposits*. Service charges on deposits primarily consists of fees from the Company's deposit customers for account maintenance, account analysis, and overdraft services. Account maintenance fees and analysis fees are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs.

- *Card income.* Card income primarily consists of interchange fees. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized when the transaction processing services are provided to the cardholder.

- *Net OREO gains (losses) and valuation adjustments.* The Company records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of OREO to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer.

- *Fee income.* Fee income for the Banking and Factoring segments primarily consists of transaction-based fees, including wire transfer fees, ACH and check fees, early termination fees, and other fees, earned from the Company's banking and factoring customers. Transaction based fees are recognized at the time the transaction is executed as that is the point in time the Company satisfies its performance obligations.

  Fee income for the Payments segment primarily consists of TriumphPay payment and audit fees. These fees totaled $3,545,000 and $3,095,000 for the three months ended September 30, 2022 and 2021, respectively, and $10,156,000 and $4,251,000 for the nine months ended September 30, 2022 and 2021, respectively. These fees are transaction based and are recognized at the time the transaction is executed as that is the point in time that the Company satisfies its performance obligations.

- *Insurance commissions.* Insurance commissions are earned for brokering insurance policies. The Company's primary performance obligations for insurance commissions are satisfied and revenue is recognized when the brokered insurance policies are executed.

NOTE 17 — BUSINESS SEGMENT INFORMATION

The following table presents the Company’s operating segments. The accounting policies of the reportable segments substantially the same as those described in the "Summary of Significant Accounting Policies" in Note 1 of the Company's 2021 Form 10-K. Transactions between segments consist primarily of borrowed funds. Intersegment interest expense is allocated to the Factoring and Payments segments based on Federal Home Loan Bank advance rates. Credit loss expense is allocated based on the segment’s allowance for credit losses determination. Noninterest income and expense directly attributable to a segment are assigned to it. The majority of salaries and benefits expense for the Company's executive leadership team as well as certain other selling, general, and administrative shared services costs are allocated to the Banking segment. Taxes are paid on a consolidated basis and are not allocated for segment purposes. The Factoring segment includes only factoring originated by TBC.

(Dollars in thousands)

Three months ended September 30, 2022	Banking	Factoring	Payments	Corporate	Consolidated
Total interest income	$ 49,864	$ 49,561	$ 3,756	$ 44	$ 103,225
Intersegment interest allocations	2,606	(2,458)	(148)	—	—
Total interest expense	2,924	—	—	2,031	4,955
Net interest income (expense)	49,546	47,103	3,608	(1,987)	98,270
Credit loss expense (benefit)	2,388	(52)	235	75	2,646
Net interest income after credit loss expense	47,158	47,155	3,373	(2,062)	95,624
Noninterest income	6,189	2,941	3,518	20	12,668
Noninterest expense	48,648	22,896	14,066	1,079	86,689
Net income (loss) before income tax expense	$ 4,699	$ 27,200	$ (7,175)	$ (3,121)	$ 21,603

(Dollars in thousands)

Three months ended September 30, 2021	Banking	Factoring	Payments	Corporate	Consolidated
Total interest income	$ 46,175	$ 47,222	$ 3,295	$ 43	$ 96,735
Intersegment interest allocations	2,452	(2,341)	(111)	—	—
Total interest expense	2,073	—	—	2,891	4,964
Net interest income (expense)	46,554	44,881	3,184	(2,848)	91,771
Credit loss expense (benefit)	(2,399)	1,164	38	10	(1,187)
Net interest income after credit loss expense	48,953	43,717	3,146	(2,858)	92,958
Noninterest income	7,371	1,557	3,086	41	12,055
Noninterest expense	41,183	19,106	11,416	1,108	72,813
Net income (loss) before income tax expense	$ 15,141	$ 26,168	$ (5,184)	$ (3,925)	$ 32,200

(Dollars in thousands)

Nine months ended September 30, 2022	Banking	Factoring	Payments	Corporate	Consolidated
Total interest income	$ 138,286	$ 161,789	$ 12,760	$ 132	$ 312,967
Intersegment interest allocations	6,651	(6,312)	(339)	—	—
Total interest expense	7,547	—	—	5,643	13,190
Net interest income (expense)	137,390	155,477	12,421	(5,511)	299,777
Credit loss expense (benefit)	2,638	1,961	405	1,044	6,048
Net interest income after credit loss expense	134,752	153,516	12,016	(6,555)	293,729
Noninterest income	34,496	20,333	17,069	51	71,949
Noninterest expense	138,741	66,408	46,062	2,649	253,860
Net income (loss) before income tax expense	$ 30,507	$ 107,441	$ (16,977)	$ (9,153)	$ 111,818

TRIUMPH BANCORP, INC. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(Dollars in thousands)

Nine months ended September 30, 2021	Banking	Factoring	Payments	Corporate	Consolidated
Total interest income	$ 144,087	$ 127,699	$ 7,939	$ 51	$ 279,776
Intersegment interest allocations	8,117	(7,700)	(417)	—	—
Total interest expense	8,225	—	—	6,478	14,703
Net interest income (expense)	143,979	119,999	7,522	(6,427)	265,073
Credit loss expense (benefit)	(19,187)	8,091	548	(290)	(10,838)
Net interest income after credit loss expense	163,166	111,908	6,974	(6,137)	275,911
Noninterest income	25,139	10,710	4,242	151	40,242
Noninterest expense	122,497	52,433	26,393	3,180	204,503
Net income (loss) before income tax expense	$ 65,808	$ 70,185	$ (15,177)	$ (9,166)	$ 111,650

Total assets and gross loans below include intersegment loans, which eliminate in consolidation.

(Dollars in thousands)

September 30, 2022	Banking	Factoring	Payments	Corporate	Eliminations	Consolidated
Total assets	$ 5,162,380	$ 1,406,367	$ 354,179	$ 1,041,293	$ (2,321,769)	$ 5,642,450
Gross loans	$ 3,849,962	$ 1,330,122	$ 118,958	$ —	$ (865,738)	$ 4,433,304

(Dollars in thousands)

December 31, 2021	Banking	Factoring	Payments	Corporate	Eliminations	Consolidated
Total assets	$ 5,568,826	$ 1,679,495	$ 293,212	$ 1,009,998	$ (2,595,281)	$ 5,956,250
Gross loans	$ 4,444,136	$ 1,546,361	$ 153,176	$ 700	$ (1,276,801)	$ 4,867,572

ITEM 2

MANAGEMENT’S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section presents management’s perspective on our financial condition and results of operations. The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the Company’s interim consolidated financial statements and the accompanying notes included elsewhere in this Quarterly Report on Form 10-Q and with the consolidated financial statements and accompanying notes and other detailed information appearing in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021. To the extent that this discussion describes prior performance, the descriptions relate only to the periods listed, which may not be indicative of our future financial outcomes. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause results to differ materially from management’s expectations. See the “Forward-Looking Statements” section of this discussion for further information on forward-looking statements.

Overview

We are a financial holding company headquartered in Dallas, Texas and registered under the Bank Holding Company Act, offering a diversified line of payments, factoring and banking services. As of September 30, 2022, we had consolidated total assets of $5.642 billion, total loans held for investment of $4.433 billion, total deposits of $4.441 billion and total stockholders’ equity of $891.2 million.

Through our wholly owned bank subsidiary, TBK Bank, we offer traditional banking services, commercial lending product lines focused on businesses that require specialized financial solutions and national lending product lines that further diversify our lending operations. Our banking operations commenced in 2010 and include a branch network developed through organic growth and acquisition, including concentrations the front range of Colorado, the Quad Cities market in Iowa and Illinois and a full-service branch in Dallas, Texas. Our traditional banking offerings include a full suite of lending and deposit products and services. These activities are focused on our local market areas and some products are offered on a nationwide basis. They generate a stable source of core deposits and a diverse asset base to support our overall operations. Our asset-based lending and equipment lending products are offered on a nationwide basis and generate attractive returns. Additionally, we offer mortgage warehouse and liquid credit lending products on a nationwide basis to provide further asset base diversification and stable deposits. Our Banking products and services share basic processes and have similar economic characteristics.

In addition to our traditional banking operations, we also operate a factoring business focused primarily on serving the over-the-road trucking industry. This business involves the provision of working capital to the trucking industry through the purchase of invoices generated by medium to large sized trucking fleets ("Carriers") at a discount to provide immediate working capital to such Carriers. We commenced these operations in 2012 through the acquisition of our factoring subsidiary, Triumph Business Capital. 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 described above. Given its acquisition, this business has a legacy and structure as a standalone company.

Our payments business, TriumphPay, is a division of our wholly owned bank subsidiary, TBK Bank, and is a payments network for the over-the-road trucking industry. TriumphPay was originally designed as a platform to manage Carrier payments for third party logistics companies, or 3PLs ("Brokers") and the manufacturers and other businesses that contract directly for the shipment of goods (“Shippers”), with a focus on increasing on-balance sheet factored receivable transactions through the offering of quickpay transactions for Carriers receiving such payments through the TriumphPay platform. During 2021, TriumphPay acquired HubTran, Inc., a software platform that offers workflow solutions for the processing and approval of Carrier Invoices for approval by Brokers or purchase by the factoring businesses providing working capital to Carriers ("Factors"). Following such acquisition, the TriumphPay strategy shifted from a capital-intensive on-balance sheet product with a greater focus on interest income to a payments network for the trucking industry with a focus on fee revenue. TriumphPay connects Brokers, Shippers, Factors and Carriers through forward-thinking solutions that help each party successfully manage the life cycle of invoice presentment for services provided by Carrier through the processing and audit of such invoice to its ultimate payment to the Carrier or the Factor providing working capital to such Carrier. TriumphPay offers supply chain finance to Brokers, allowing them to pay their Carriers faster and drive Carrier loyalty. TriumphPay provides tools and services to increase automation, mitigate fraud, create back-office efficiency and improve the payment experience. TriumphPay also operates in a highly specialized niche with unique processes and key performance indicators.

At September 30, 2022, our business is primarily focused on providing financial services to participants in the for-hire trucking ecosystem in the United States, including Brokers, Shippers, Factors and Carriers. Within such ecosystem, we operate our TriumphPay payments platform, which connects such parties to streamline and optimize the presentment, audit and payment of transportation invoices. We also act as capital provider to the Carrier industry through our factoring subsidiary, Triumph Business Capital. Our traditional banking operations provide stable, low cost deposits to support our operations, a diversified lending portfolio to add stability to our balance sheet, and a suite of traditional banking products and services to participants in the for-hire trucking ecosystem to deepen our relationship with such clients.

We have determined our reportable segments are Banking, Factoring, Payments and Corporate. For the nine months ended September 30, 2022, our Banking segment generated 45% of our total revenue (comprised of interest and noninterest income), our Factoring segment generated 47% of our total revenue, our Payments segment generated 8% of our total revenue, and our Corporate segment generated less than 1% of our total revenue.

Third Quarter 2022 Overview

Net income available to common stockholders for the three months ended September 30, 2022 was $15.4 million, or $0.62 per diluted share, compared to net income to common stockholders for the three months ended September 30, 2021 of $23.6 million, or $0.94 per diluted share. For the three months ended September 30, 2022, our return on average common equity was 7.17% and our return on average assets was 1.13%.

Net income available to common stockholders for the nine months ended September 30, 2022 was $82.3 million, or $3.28 per diluted share, compared to net income available to common stockholders for the nine months ended September 30, 2021 of $83.9 million, or $3.33 per diluted share. Excluding material gains and expenses related to merger and acquisition related activities, including divestitures, adjusted net income to common stockholders was $86.2 million, or $3.42 per diluted share, for the nine months ended September 30, 2021. There were no such adjustment for the nine months ended September 30, 2022. For the nine months ended September 30, 2022, our return on average common equity was 13.07% and our return on average assets was 1.95%.

At September 30, 2022, we had total assets of $5.642 billion, including gross loans held for investment of $4.433 billion, compared to $5.956 billion of total assets and $4.868 billion of gross loans held for investment at December 31, 2021. Total loans held for investment decreased $434.3 million during the nine months ended September 30, 2022. Our Banking loans, which constitute 67% of our total loan portfolio at September 30, 2022, decreased from $3.168 billion in aggregate as of December 31, 2021 to $2.984 billion as of September 30, 2022, a decrease of 5.8%. Our Factoring factored receivables, which constitute 30% of our total loan portfolio at September 30, 2022, decreased from $1.546 billion in aggregate as of December 31, 2021 to $1.330 billion as of September 30, 2022, a decrease of 14.0%. The period end balance of Factoring factored receivables was impacted by our decision to sell certain factored receivables (discussed in 2022 Items of Note) during the period. Our Payments factored receivables, which constitute 3% of our total loan portfolio at September 30, 2022, decreased from $153.2 million in aggregate as of December 31, 2021 to $119.0 million as of September 30, 2022, a decrease of 22.3%.

At September 30, 2022, we had total liabilities of $4.751 billion, including total deposits of $4.441 billion, compared to $5.097 billion of total liabilities and $4.647 billion of total deposits at December 31, 2021. Deposits decreased $205.3 million during the nine months ended September 30, 2022.

At September 30, 2022, we had total stockholders' equity of $891.2 million. During the nine months ended September 30, 2022, total stockholders’ equity increased $32.3 million, primarily due to our net income during the period, offset in part by our treasury stock purchases made under our share repurchase program. Capital ratios remained strong with Tier 1 capital and total capital to risk weighted assets ratios of 13.64% and 16.56%, respectively, at September 30, 2022.

The total dollar value of invoices purchased by Triumph Business Capital during the three months ended September 30, 2022 was $3.600 billion with an average invoice size of $2,141. The average transportation invoice size for the three months ended September 30, 2022 was $2,073. This compares to invoice purchase volume of $3.532 billion with an average invoice size of $2,300 and average transportation invoice size of $2,195 during the same period a year ago.

TriumphPay processed 4.7 million invoices paying Carriers a total of $5.952 billion during the three months ended September 30, 2022. This compares to processed volume of 3.8 million invoices for a total of $4.191 billion during the same period a year ago.

2022 Items of Note

Equipment Loan Sale

During the three months ended June 30, 2022, we made the decision to sell a portfolio of equipment loans. Equipment loans totaling $191.2 million were sold resulting in a gain on sale of loans of $3.9 million.

The gain on sale, net of transaction costs, was included in net gains (losses) on sale of loans in the Company's Consolidated Statements of Income and was allocated to the Banking segment.

Factored Receivable Disposal Group

During the three months ended June 30, 2022, Factored Receivable Disposal Group factored receivables totaling $67.9 million and customer reserves totaling $9.7 million were sold resulting in a gain on sale of loans of $13.2 million. During the three months ended September 30, 2022, Factored Receivable Disposal Group factored receivables totaling $20.1 million and customer reserves totaling $1.1 million were sold resulting in a gain on sale of loans of $1.0 million.

The gains on sale, net of transaction costs, totaling $14.2 million were included in net gains (losses) on sale of loans in the Company's Consolidated Statements of Income and were allocated to the Factoring segment.

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

Interest rate swap termination

During the three months ended March 31, 2022, we terminated our single derivative with a notional value totaling $200.0 million, resulting in a termination value of $9.3 million. During the three months ended June 30, 2022, we terminated the associated hedged funding, incurring a termination fee of $0.7 million which was recognized through interest expense in the consolidated statements of income, and reclassified the remaining $8.9 million unrealized gain on the terminated derivative into earnings through other noninterest income in the consolidated statements of income.

The gains and losses associated with this transaction were allocated to the Banking segment.

For further information on the above transaction, see Note 7 – Derivative Financial Instruments in the accompanying condensed notes to the consolidated financial statements included elsewhere in this report.

Equity Method Investment

On October 17, 2019, we made a minority equity investment of $8.0 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.

Although we held less than 20% of the voting stock of WSI, the investment in common stock was initially accounted for using the equity method as our representation on WSI's board of directors, which was disproportionately larger in size than the common stock investment held, demonstrated that we had significant influence over the investee.

On June 10, 2022, we entered into two separate agreements with WSI. First, we entered into an Affiliate Agreement. The Affiliate Agreement canceled our outstanding warrants in exchange for cancellation of an exclusivity clause included in the original investment agreement executed during 2019. By cancelling the exclusivity clause, our Payments segment operations now have greater ability to operate in the freight shipper audit space. As a result of the Affiliate Agreement, we recognized a total loss on impairment of the warrants of $3.2 million, which represented the full book balance of the warrants on the date the Affiliate Agreement was executed. The impairment loss was included in other noninterest income in the consolidated statements of income during the three and nine months ended September 30, 2022.

Separately, we also entered into an Amended and Restated Investor Rights Agreement (the "Investor Rights Agreement"). The Investor Rights Agreement eliminated our representation on WSI's board of directors making us a completely passive investor. The Investor Rights Agreement also provided for our purchase of an additional 10% of WSI's common stock for $23.0 million raising our ownership of WSI's common stock to 18%. As a passive investor, we no longer hold significant influence over the investee and the investment in WSI's common stock no longer qualifies for equity method accounting. The investment in WSI's common stock is now accounted for as an equity investment without a readily determinable fair value measured under the measurement alternative. The measurement alternative requires us to remeasure our investment in the common stock of WSI only upon the execution of an orderly and observable transaction in an identical or similar instrument.

Our additional investment in WSI under the Investor Rights Agreement resulted in us discontinuing the equity method of accounting and qualified as an orderly and observable transaction for an identical investment in WSI, therefore the fair value of our original 8% common stock investment was required to be adjusted from $4.9 million at March 31, 2022 to $15.1 million, resulting in a gain of $10.2 million that was recorded in other noninterest income in the consolidated statements of income during the three months ended June 30, 2022.

The gains and losses associated with this transaction were allocated to the Payments segment.

For further information on the above transactions, see Note 6 – Equity Method Investment in the accompanying condensed notes to the consolidated financial statements included elsewhere in this report.

Stock Repurchase Programs

On February 7, 2022, we announced that our board of directors had authorized us to repurchase up to $50.0 million of our outstanding common stock in open market transactions or through privately negotiated transactions at our discretion. During the three and six months ended June 30, 2022, we repurchased into treasury stock under the stock repurchase program 694,985 shares at an average price of $70.02 for a total of $48.7 million and 709,795 shares at an average price of $70.41 for a total of $50.0 million, respectively, completing this stock repurchase program.

On May 23, 2022, we announced that our board of directors had authorized us to repurchase up to an additional $75.0 million of our outstanding common stock 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. The 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. As of September 30, 2022, no share repurchases had been made under the May 23, 2022 plan.

Items related to our July 2020 acquisition of TFS

As disclosed on our SEC Forms 8-K filed on July 8, 2020 and September 23, 2020, we acquired the transportation factoring assets of TFS, a wholly owned subsidiary of Covenant Logistics Group, Inc. ("CVLG"), and subsequently amended the terms of that transaction. There were no material developments related to that transaction that impacted our operating results for the three months ended September 30, 2022.

At September 30, 2022, the carrying value of the acquired over-formula advances was $8.8 million, the total reserve on acquired over-formula advances was $8.8 million and the balance of our indemnification asset, the value of the payment that would be due to us from CVLG in the event that these over-advances are charged off, was $4.2 million.

As of September 30, 2022 we carry a separate $19.4 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 acquired 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. We are a party to litigation in the United States Court of Federal Claims against the USPS 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 continue to 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 September 30, 2022. The full amount of such receivable is reflected in non-performing and past due factored receivables as of September 30, 2022 in accordance with our policy. As of September 30, 2022, the entire $19.4 million Misdirected Payments amount was greater than 90 days past due.

2021 Items of Note

HubTran, Inc.

On June 1, 2021, we, through TriumphPay, a division of our wholly-owned subsidiary TBK Bank, SSB, entered into a definitive agreement to acquire HubTran, Inc., a cloud-based provider of automation software for the trucking industry's back-office, for $97 million in cash subject to customary purchase price adjustments.

The acquisition of HubTran enables us to create a payments network that will allow freight brokers and factors to lower costs, remove inefficiencies, reduce fraud and add value for their stakeholders. TriumphPay already offered tools and services to increase automation, mitigate fraud, create back-office efficiency and improve the payment experience. Through the acquisition of HubTran, TriumphPay created additional value through the enhancement of its presentment, audit, and payment capabilities for shippers, third party logistics companies (i.e., freight brokers) and their carriers, and factors. The acquisition of HubTran was a meaningful inflection point in the operations of TriumphPay as the TriumphPay strategy has shifted from a capital-intensive on-balance sheet product with a focus on interest income to a payments network for the trucking industry with a focus on fee revenue.

For further information on the above transaction, see Note 2 – Acquisitions and Divestitures in the accompanying condensed notes to the consolidated financial statements included elsewhere in this report.

Trucking transportation

The largest driver of changes in revenue at our Factoring segment is what is happening in freight markets, particularly in brokered freight, which is priced largely off the spot market and subject to variability in diesel prices.The third quarter saw continuing slow reduction in freight volume and spot rates. Volume was similar to pre-pandemic years in July and August of 2022, but September did not see the usual increase in volume. While spot rates declined, they remained above 2019 numbers and the third quarter was a good quarter for freight brokers as the differential between contract rates and spot rates remained wide. Flat bed truck activity had decreased the most by the end of the third quarter, driven by, among other items, fewer housing starts. Refrigerated van volume and rates maintained a relatively strong position, while dry vans saw dropping rates in most markets at a slow decline. Overall, there have been some dropouts of 1-5 truck firms and owner-operators. There has been a shift to shorter hauls by this segment, primarily due to diesel prices not supported within spot rates and much of the freight has shifted to contract haulers with a fuel surcharge written into the load tenders.

Financial Highlights

(Dollars in thousands, except per share amounts)	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Income Statement Data:				
Interest income	$ 103,225	$ 96,735	$ 312,967	$ 279,776
Interest expense	4,955	4,964	13,190	14,703
Net interest income	98,270	91,771	299,777	265,073
Credit loss expense (benefit)	2,646	(1,187)	6,048	(10,838)
Net interest income after credit loss expense (benefit)	95,624	92,958	293,729	275,911
Noninterest income	12,668	12,055	71,949	40,242
Noninterest expense	86,689	72,813	253,860	204,503
Net income (loss) before income taxes	21,603	32,200	111,818	111,650
Income tax expense (benefit)	5,374	7,771	27,068	25,316
Net income (loss)	$ 16,229	$ 24,429	$ 84,750	$ 86,334
Dividends on preferred stock	(801)	(802)	(2,404)	(2,405)
Net income available (loss) to common stockholders	$ 15,428	$ 23,627	$ 82,346	$ 83,929
Per Share Data:				
Basic earnings (loss) per common share	$ 0.64	$ 0.95	$ 3.36	$ 3.40
Diluted earnings (loss) per common share	$ 0.62	$ 0.94	$ 3.28	$ 3.33
Weighted average shares outstanding - basic	24,227,020	24,759,419	24,483,054	24,719,861
Weighted average shares outstanding - diluted	24,979,257	25,227,963	25,072,862	25,199,991
Adjusted Per Share Data[(1)]:				
Adjusted diluted earnings per common share	$ 0.62	$ 0.94	$ 3.28	$ 3.42
Adjusted weighted average shares outstanding - diluted	24,979,257	25,227,963	25,072,862	25,199,991
Performance ratios - Annualized:				
Return on average assets	1.13 %	1.61 %	1.95 %	1.91 %
Return on average total equity	7.16 %	11.85 %	12.77 %	14.72 %
Return on average common equity	7.17 %	12.13 %	13.07 %	15.18 %
Return on average tangible common equity [(1)]	10.47 %	19.21 %	19.28 %	22.12 %
Yield on loans[(2)]	8.95 %	7.92 %	8.77 %	7.65 %
Cost of interest bearing deposits	0.41 %	0.27 %	0.35 %	0.33 %
Cost of total deposits	0.24 %	0.16 %	0.20 %	0.21 %
Cost of total funds	0.42 %	0.38 %	0.36 %	0.38 %
Net interest margin[(2)]	7.71 %	6.69 %	7.69 %	6.41 %
Efficiency ratio	78.14 %	70.13 %	68.29 %	66.98 %
Adjusted efficiency ratio [(1)]	78.14 %	70.13 %	68.29 %	66.00 %
Net noninterest expense to average assets	5.15 %	4.00 %	4.19 %	3.63 %
Adjusted net noninterest expense to average assets [(1)]	5.15 %	4.00 %	4.19 %	3.57 %

(Dollars in thousands, except per share amounts)	September 30, 2022	December 31, 2021
Balance Sheet Data:		
Total assets	$ 5,642,450	$ 5,956,250
Cash and cash equivalents	421,729	383,178
Investment securities	247,499	192,877
Loans held for investment, net	4,389,193	4,825,359
Total liabilities	4,751,277	5,097,386
Noninterest bearing deposits	1,897,309	1,925,370
Interest bearing deposits	2,544,045	2,721,309
FHLB advances	30,000	180,000
Paycheck Protection Program Liquidity Facility	—	27,144
Subordinated notes	107,587	106,957
Junior subordinated debentures	41,016	40,602
Total stockholders' equity	891,173	858,864
Preferred stockholders' equity	45,000	45,000
Common stockholders' equity	846,173	813,864
Per Share Data:		
Book value per share	$ 34.57	$ 32.35
Tangible book value per share [1]	$ 23.60	$ 21.34
Shares outstanding end of period	24,478,288	25,158,879
Asset Quality ratios[3]:		
Past due to total loans	2.33 %	2.86 %
Nonperforming loans to total loans	1.26 %	0.95 %
Nonperforming assets to total assets	1.11 %	0.92 %
ACL to nonperforming loans	78.88 %	91.20 %
ACL to total loans	0.99 %	0.87 %
Net charge-offs to average loans[4]	0.09 %	0.95 %
Capital ratios:		
Tier 1 capital to average assets	12.57 %	11.11 %
Tier 1 capital to risk-weighted assets	13.64 %	11.51 %
Common equity Tier 1 capital to risk-weighted assets	11.93 %	9.94 %
Total capital to risk-weighted assets	16.56 %	14.10 %
Total stockholders' equity to total assets	15.79 %	14.42 %
Tangible common stockholders' equity ratio [1]	10.75 %	9.46 %

(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:

- "*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, including divestitures, 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands, except per share amounts)	2022	2021	2022	2021
Loan discount accretion	$ 1,539	$ 1,953	$ 6,631	$ 7,615

(3) Asset quality ratios exclude loans held for sale, except for non-performing assets to total assets.

(4) Net charge-offs to average loans ratios are for the nine months ended September 30, 2022 and the year ended December 31, 2021.

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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands, except per share amounts)	2022	2021	2022	2021
Net income available to common stockholders	$ 15,428	$ 23,627	$ 82,346	$ 83,929
Transaction costs	—	—	—	2,992
Tax effect of adjustments	—	—	—	(715)
Adjusted net income available to common stockholders	$ 15,428	$ 23,627	$ 82,346	$ 86,206
Weighted average shares outstanding - diluted	24,979,257	25,227,963	25,072,862	25,199,991
Adjusted diluted earnings per common share	$ 0.62	$ 0.94	$ 3.28	$ 3.42
Average total stockholders' equity	$ 898,845	$ 818,022	$ 887,497	$ 784,019
Average preferred stock liquidation preference	(45,000)	(45,000)	(45,000)	(45,000)
Average total common stockholders' equity	853,845	773,022	842,497	739,019
Average goodwill and other intangibles	(269,417)	(284,970)	(271,350)	(231,751)
Average tangible common equity	$ 584,428	$ 488,052	$ 571,147	$ 507,268
Net income available to common stockholders	$ 15,428	$ 23,627	$ 82,346	$ 83,929
Average tangible common equity	584,428	488,052	571,147	507,268
Return on average tangible common equity	10.47 %	19.21 %	19.28 %	22.12 %
Adjusted efficiency ratio:				
Net interest income	$ 98,270	$ 91,771	$ 299,777	$ 265,073
Noninterest income	12,668	12,055	71,949	40,242
Operating revenue	110,938	103,826	371,726	305,315
Total noninterest expense	$ 86,689	$ 72,813	$ 253,860	$ 204,503
Transaction costs	—	—	—	(2,992)
Adjusted noninterest expense	$ 86,689	$ 72,813	$ 253,860	$ 201,511
Adjusted efficiency ratio	78.14 %	70.13 %	68.29 %	66.00 %
Adjusted net noninterest expense to average assets ratio:				
Total noninterest expense	$ 86,689	$ 72,813	$ 253,860	$ 204,503
Transaction costs	—	—	—	(2,992)
Adjusted noninterest expense	86,689	72,813	253,860	201,511
Total noninterest income	12,668	12,055	71,949	40,242
Net noninterest expenses	$ 74,021	$ 60,758	$ 181,911	$ 161,269
Average total assets	$ 5,700,547	$ 6,020,631	$ 5,806,933	$ 6,042,677
Adjusted net noninterest expense to average assets ratio	5.15 %	4.00 %	4.19 %	3.57 %

(Dollars in thousands, except per share amounts)	September 30, 2022	December 31, 2021
Total stockholders' equity	$ 891,173	$ 858,864
Preferred stock	(45,000)	(45,000)
Total common stockholders' equity	846,173	813,864
Goodwill and other intangibles	(268,604)	(276,856)
Tangible common stockholders' equity	$ 577,569	$ 537,008
Common shares outstanding	24,478,288	25,158,879
Tangible book value per share	$ 23.60	$ 21.34
Total assets at end of period	$ 5,642,450	$ 5,956,250
Goodwill and other intangibles	(268,604)	(276,856)
Tangible assets at period end	$ 5,373,846	$ 5,679,394
Tangible common stockholders' equity ratio	10.75 %	9.46 %

Results of Operations

Three months ended September 30, 2022 compared with three months ended September 30, 2021.

Net Income

We earned net income of $16.2 million for the three months ended September 30, 2022 compared to net income of $24.4 million for the three months ended September 30, 2021, a decrease of $8.2 million. The decrease in net income was driven by a $13.9 million increase in noninterest expense and a $3.8 million increase in credit loss expense partially offset by a $6.5 million increase in net interest income, a $0.6 million increase in noninterest income, and a $2.4 million decrease in income tax expense.

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 liabilities, 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. Average balances and interest are inclusive of assets and deposits classified as held for sale.

	Three Months Ended September 30,					
	2022			2021		
(Dollars in thousands)	Average Balance	Interest	Average Rate[(4)]	Average Balance	Interest	Average Rate[(4)]
Interest earning assets:						
Cash and cash equivalents	452,136	2,607	2.29 %	474,122	183	0.15 %
Taxable securities	231,759	2,217	3.80 %	154,017	948	2.44 %
Tax-exempt securities	14,197	91	2.54 %	27,839	178	2.54 %
FHLB and other restricted stock	6,171	65	4.18 %	7,956	28	1.40 %
Loans [(1)]	4,355,132	98,245	8.95 %	4,777,409	95,398	7.92 %
Total interest earning assets	5,059,395	103,225	8.09 %	5,441,343	96,735	7.05 %
Noninterest earning assets:						
Cash and cash equivalents	108,323			75,374		
Other noninterest earning assets	532,829			503,914		
Total assets	5,700,547			6,020,631		
Interest bearing liabilities:						
Deposits:						
Interest bearing demand	879,851	812	0.37 %	779,625	435	0.22 %
Individual retirement accounts	77,004	97	0.50 %	86,571	126	0.58 %
Money market	524,483	313	0.24 %	417,435	225	0.21 %
Savings	524,106	209	0.16 %	479,915	185	0.15 %
Certificates of deposit	407,130	564	0.55 %	595,001	725	0.48 %
Brokered time deposits	186,856	748	1.59 %	99,116	29	0.12 %
Other brokered deposits	26,758	—	— %	441,446	223	0.20 %
Total interest bearing deposits	2,626,188	2,743	0.41 %	2,899,109	1,948	0.27 %
Federal Home Loan Bank advances	30,000	182	2.41 %	36,522	22	0.24 %
Subordinated notes	107,477	1,304	4.81 %	114,071	2,449	8.52 %
Junior subordinated debentures	40,948	726	7.03 %	40,390	443	4.35 %
Other borrowings	13,180	—	— %	127,946	102	0.32 %
Total interest bearing liabilities	2,817,793	4,955	0.70 %	3,218,038	4,964	0.61 %
Noninterest bearing liabilities and equity:						
Noninterest bearing demand deposits	1,885,111			1,912,398		
Other liabilities	98,798			72,173		
Total equity	898,845			818,022		
Total liabilities and equity	5,700,547			6,020,631		
Net interest income		98,270			91,771	
Interest spread [(2)]			7.39 %			6.44 %
Net interest margin [(3)]			7.71 %			6.69 %

(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.

(4) Ratios have been annualized.

The following table presents loan yields earned on our loan portfolios:

	Three Months Ended September 30,	
(Dollars in thousands)	2022	2021
Average Banking loans	$ 2,830,507	$ 3,299,152
Average Factoring receivables	1,393,141	1,362,856
Average Payments receivables	131,484	115,401
Average total loans	$ 4,355,132	$ 4,777,409
Banking yield	6.30 %	5.40 %
Factoring yield	14.11 %	13.75 %
Payments yield	11.33 %	11.33 %
Total loan yield	8.95 %	7.92 %

We earned net interest income of $98.3 million for the three months ended September 30, 2022 compared to $91.8 million for the three months ended September 30, 2021, an increase of $6.5 million, or 7.1%, primarily driven by the following factors.

Interest income increased $6.5 million, or 6.7%, in spite of a decrease in average interest earning assets of $381.9 million, or 7.0%, and a decrease in average total loans of $422.3 million, or 8.8%. The average balance of our higher yielding Factoring factored receivables increased $30.3 million, or 2.2%, partially driving the increase in interest income along with an increase in average Payments factored receivables. This was partially offset by a decrease in average Banking loans of $468.6 million, or 14.2% due to decreases in the average balances of all Banking loan types except for general commercial, asset based lending, and liquid credit. In addition to volumes, the increase in interest income was impacted by higher average rates discussed below. Interest income from our Banking loans is impacted by our lower yielding mortgage warehouse lending product. The average mortgage warehouse lending balance was $610.8 million for the three months ended September 30, 2022 compared to $772.3 million for the three months ended September 30, 2021. Further, included in our Banking loans were PPP loans with a carrying amounts of $0.1 million and $87.4 million at September 30, 2022 and September 30, 2021, respectively. A component of interest income consists of discount accretion on acquired loan portfolios and acquired liquid credit. We recognized discount accretion on purchased loans of $1.5 million and $2.0 million for the three months ended September 30, 2022 and 2021, respectively.

Interest expense decreased $0.01 million, or 0.2%, despite a larger decrease in average interest-bearing liabilities. More specifically, average total interest bearing deposits decreased $272.9 million, or 9.4%. Average noninterest bearing demand deposits decreased $27.3 million. The change in interest expense period over period was driven by higher average rates discussed below.

Net interest margin increased to 7.71% for the three months ended September 30, 2022 from 6.69% for the three months ended September 30, 2021, an increase of 102 basis points or 15.2%.

The increase in our net interest margin was impacted by an increase in our yield on interest earning assets of 104 basis points to 8.09% for the three months ended September 30, 2022. This increase was primarily driven by higher yields on loans which increased 103 basis points to 8.95% for the same period. Factoring yield increased period over period and, average Factoring factored receivables as a percentage of the total loan portfolio increased which had a meaningful upward impact on total loan yield. Our transportation factoring balances, which generally generate a higher yield than our non-transportation factoring balances, were 96% and 90% of our Factoring portfolio at September 30, 2022 and 2021, respectively. Banking yields also increased period over period while Payments yields were flat. Non-loan yields were generally higher period over period, but had little impact on the change in our yield on interest earning assets.

The increase in our net interest margin was also impacted by an increase in our average cost of interest bearing liabilities of 9 basis points. This increase in average cost was caused by generally higher interest rates paid on our interest-bearing liabilities driven by changes in interest rates in the macro economy.

The following table shows the effects that changes in average balances (volume) and average interest rates (rate) had on the interest earned on our interest earning assets and the interest incurred on our interest bearing:

	Three Months Ended September 30, 2022 vs. 2021		
	Increase (Decrease) Due to:		
(Dollars in thousands)	Rate	Volume	Net Increase
Interest earning assets:			
Cash and cash equivalents	$ 2,551	$ (127)	$ 2,424
Taxable securities	525	744	1,269
Tax-exempt securities	—	(87)	(87)
FHLB and other restricted stock	56	(19)	37
Loans	12,373	(9,526)	2,847
Total interest income	15,505	(9,015)	6,490
Interest bearing liabilities:			
Interest bearing demand	285	92	377
Individual retirement accounts	(17)	(12)	(29)
Money market	24	64	88
Savings	6	18	24
Certificates of deposit	99	(260)	(161)
Brokered time deposits	368	351	719
Other brokered deposits	(223)	—	(223)
Total interest bearing deposits	542	253	795
Federal Home Loan Bank advances	200	(40)	160
Subordinated notes	(1,065)	(80)	(1,145)
Junior subordinated debentures	273	10	283
Other borrowings	(102)	—	(102)
Total interest expense	(152)	143	(9)
Change in net interest income	$ 15,657	$ (9,158)	$ 6,499

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 Company's 2021 Form 10-K 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:

	Three Months Ended September 30,			
(Dollars in thousands)	2022	2021	$ Change	% Change
Credit loss expense (benefit) on loans	$ 3,169	$ (959)	$ 4,128	430.4 %
Credit loss expense (benefit) on off balance sheet credit exposures	(598)	(238)	(360)	(151.3)%
Credit loss expense (benefit) on held to maturity securities	75	10	65	650.0 %
Credit loss expense on available for sale securities	—	—	—	—
Total credit loss expense (benefit)	$ 2,646	$ (1,187)	$ 3,833	322.9 %

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 September 30, 2022 and June 30, 2022, 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 three months ended September 30, 2022. The same was true for the same period in the prior year.

The ACL on held to maturity ("HTM") securities is estimated at each measurement date on a collective basis by major security type. At September 30, 2022 and December 31, 2021, 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 September 30, 2022 and June 30, 2022, the Company carried $6.6 million and $6.7 million of these HTM securities at amortized cost, respectively. The required ACL on these balances was $2.4 million at September 30, 2022 and June 30, 2022 resulting in an immaterial impact to credit loss expense during the current quarter. Credit loss expense during the three months ended September 30, 2021 was also insignificant. None of the overcollateralization triggers tied to the CLO securities were tripped as of September 30, 2022. 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 $44.1 million as of September 30, 2022, compared to $42.2 million as of December 31, 2021, representing an ACL to total loans ratio of 0.99% and 0.87% respectively.

Our credit loss expense on loans increased $4.1 million, or 430.4%, for the three months ended September 30, 2022 compared to the three months ended September 30, 2021.

During the three months ended September 30, 2022, we decreased our reserve on Over-Formula Advance clients reflecting payment made during the quarter. This resulted in a benefit to credit loss expense of $0.4 million. We continue to reserve the full balance of the Over-Formula Advance clients at September 30, 2022 which totals $8.8 million.

The increased credit loss expense was primarily the result of changes in net new specific reserves (including reserves on Over-Formula Advances) which resulted in $3.7 million of credit loss expense during the three months ended September 30, 2022 compared to a $1.4 million benefit to credit loss expense during the same period a year ago.

Changes to projected loss drivers that the Company forecasted over the reasonable and supportable forecast period to calculate expected losses resulted in a benefit to credit loss expense of $0.1 million for the three months ended September 30, 2022 compared to a benefit of $0.2 million during the same period a year ago.

Changes in loan volume and mix resulted in a benefit to credit loss expense of $0.5 million during the three months ended September 30, 2022 compared to credit loss expense of $0.1 during the same period a year prior.

Net charge-offs were $2.5 million for the three months ended September 30, 2022 and approximately $2.4 million of the gross charge-off balance had been reserved in a prior period. Net charge-offs were $3.7 million for the three months ended September 30, 2021 and approximately $3.2 million of the gross charge-off balance had been reserved in a prior period.

Credit loss expense for off balance sheet credit exposures decreased $0.4 million, primarily due to the changes in the assumptions used to project the loss rates previously discussed and changes to underlying outstanding commitments to fund period over period.

Noninterest Income

The following table presents our major categories of noninterest income:

(Dollars in thousands)	Three Months Ended September 30, 2022	2021	$ Change	% Change
Service charges on deposits	$ 1,558	$ 2,030	$ (472)	(23.3)%
Card income	2,034	2,144	(110)	(5.1)%
Net OREO gains (losses) and valuation adjustments	(19)	(9)	(10)	(111.1)%
Net gains (losses) on sale or call of securities	—	4	(4)	(100.0)%
Net gains (losses) on sale of loans	1,107	377	730	193.6 %
Fee income	6,120	5,198	922	17.7 %
Insurance commissions	1,191	1,231	(40)	(3.2)%
Other	677	1,080	(403)	(37.3)%
Total noninterest income	$ 12,668	$ 12,055	$ 613	5.1 %

Noninterest income increased $0.6 million, or 5.1%. Changes in selected components of noninterest income in the above table are discussed below.

- *Net gains (losses) on sale of loans.* Net gains (losses) on sale of loans increased $0.7 million due to the aforementioned gain on sale of factored receivables of $1.0 million during the three months ended September 30, 2022.

- *Fee income*. Fee income increased $0.9 million, or 17.7%, due to a $0.5 million increase in payment fees earned by TriumphPay Audit during the three months ended September 30, 2022 compared to the same period a year ago. Additionally, wire fees increased $0.4 million period over period. There were no other significant changes within the components of fee income.

- *Other.* Other noninterest income decreased $0.4 million, or 37.3%, primarily due to a $0.5 million BOLI death benefit paid out during the three months ended September 30, 2021 that did not repeat during the current period. There were no other significant changes within the components of other noninterest income.

Noninterest Expense

The following table presents our major categories of noninterest expense:

(Dollars in thousands)	Three Months Ended September 30, 2022	2021	$ Change	% Change
Salaries and employee benefits	$ 49,307	$ 43,769	$ 5,538	12.7 %
Occupancy, furniture and equipment	6,826	6,388	438	6.9 %
FDIC insurance and other regulatory assessments	386	353	33	9.3 %
Professional fees	4,263	2,362	1,901	80.5 %
Amortization of intangible assets	2,913	3,274	(361)	(11.0)%
Advertising and promotion	1,929	1,403	526	37.5 %
Communications and technology	11,935	7,090	4,845	68.3 %
Travel and entertainment	1,340	1,352	(12)	(0.9)%
Other	7,790	6,822	968	14.2 %
Total noninterest expense	$ 86,689	$ 72,813	$ 13,876	19.1 %

Noninterest expense increased $13.9 million, or 19.1%. 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 $5.5 million, or 12.7%, which is primarily due to merit increases for existing employees, higher health insurance benefit costs, incentive compensation, and 401(k) expense. Further, the size of our workforce increased period over period due to organic growth within the Company. Our average full-time equivalent employees were 1,410.3 and 1,215.7 for the three months ended September 30, 2022 and 2021, respectively. Further, accruals for bonus expense were $0.2 million higher period over period and stock based compensation expense increased $0.1 million period over period. Additionally, compensation paid to temporary contract labor increased $1.5 million period over period. Sales commissions, primarily related to our operations at Triumph Business Capital and TriumphPay, decreased $1.8 million period over period.
- *Professional Fees*. Professional fees increased $1.9 million, or 80.5%, primarily due to a $1.7 million increase in legal and consulting fees period over period.
- *Advertising and Promotion*. Advertising and promotion increased $0.5 million, or 37.5%, primarily due increased activity in this area period over period.
- *Communication and Technology.* Communication and technology increased $4.8 million, or 68.3%, primarily as a result of increased spending on IT consulting and IT license and software maintenance to develop efficiency in our operations and improve the functionality of our technology platforms period over period.
- *Other.* Other noninterest expense includes loan-related expenses, software amortization, training and recruiting, postage, insurance, and subscription services. Other noninterest expense increased $1.0 million, or 14.2% due to a $0.5 million increase in recruiting and placement expense. There were no other significant increases or decreases in the individual 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 and the effect of changes in valuation allowances maintained against deferred tax benefits.

Income tax expense decreased $2.4 million, from $7.8 million for the three months ended September 30, 2021 to $5.4 million for the three months ended September 30, 2022. The effective tax rate was 25% for the three months ended September 30, 2022, compared to 24% for the three months ended September 30, 2021.

Operating Segment Results

Our reportable segments are Banking, Factoring, Payments, 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 Factoring segment includes the operations of Triumph Business Capital with revenue derived from factoring services. The Payments segment includes the operations of the TBK Bank's TriumphPay division, which provides a presentment, audit, and payment solution to Shipper, Broker, and Factor clients in the trucking industry. The Payments segment derives its revenue from transaction fees and interest income on factored receivables related to invoice payments. These factored receivables consist of both invoices where we offer a Carrier a quickpay opportunity to receive payment at a discount in advance of the standard payment term for such invoice in exchange for the assignment of such invoice to us and from offering Brokers the ability to settle their invoices with us on an extended term following our payment to their Carriers as an additional liquidity option for such Brokers.

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 substantially the same as those described in the "Summary of Significant Accounting Policies" in Note 1 of the Company's 2021 Form 10-K. Transactions between segments consist primarily of borrowed funds. Intersegment interest expense is allocated to the Factoring and Payments segments based on Federal Home Loan Bank advance rates. 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. The majority of salaries and benefits expense for our executive leadership team as well as other selling, general, and administrative shared services costs are allocated to the Banking segment. Taxes are paid on a consolidated basis and are not allocated for segment purposes. The Factoring segment includes only factoring originated by TBC.

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

(Dollars in thousands)

Three Months Ended September 30, 2022	Banking	Factoring	Payments	Corporate	Consolidated
Total interest income	$ 49,864	$ 49,561	$ 3,756	$ 44	$ 103,225
Intersegment interest allocations	2,606	(2,458)	(148)	—	—
Total interest expense	2,924	—	—	2,031	4,955
Net interest income (expense)	49,546	47,103	3,608	(1,987)	98,270
Credit loss expense (benefit)	2,388	(52)	235	75	2,646
Net interest income after credit loss expense	47,158	47,155	3,373	(2,062)	95,624
Noninterest income	6,189	2,941	3,518	20	12,668
Noninterest expense	48,648	22,896	14,066	1,079	86,689
Net income (loss) before income tax expense	$ 4,699	$ 27,200	$ (7,175)	$ (3,121)	$ 21,603

(Dollars in thousands)

Three Months Ended September 30, 2021	Banking	Factoring	Payments	Corporate	Consolidated
Total interest income	$ 46,175	$ 47,222	$ 3,295	$ 43	$ 96,735
Intersegment interest allocations	2,452	(2,341)	(111)	—	—
Total interest expense	2,073	—	—	2,891	4,964
Net interest income (expense)	46,554	44,881	3,184	(2,848)	91,771
Credit loss expense (benefit)	(2,399)	1,164	38	10	(1,187)
Net interest income after credit loss expense	48,953	43,717	3,146	(2,858)	92,958
Noninterest income	7,371	1,557	3,086	41	12,055
Noninterest expense	41,183	19,106	11,416	1,108	72,813
Net income (loss) before income tax expense	$ 15,141	$ 26,168	$ (5,184)	$ (3,925)	$ 32,200

(Dollars in thousands)

September 30, 2022	Banking	Factoring	Payments	Corporate	Eliminations	Consolidated
Total assets	$ 5,162,380	$ 1,406,367	$ 354,179	$ 1,041,293	$ (2,321,769)	$ 5,642,450
Gross loans	$ 3,849,962	$ 1,330,122	$ 118,958	$ —	$ (865,738)	$ 4,433,304

(Dollars in thousands)

December 31, 2021	Banking	Factoring	Payments	Corporate	Eliminations	Consolidated
Total assets	$ 5,568,826	$ 1,679,495	$ 293,212	$ 1,009,998	$ (2,595,281)	$ 5,956,250
Gross loans	$ 4,444,136	$ 1,546,361	$ 153,176	$ 700	$ (1,276,801)	$ 4,867,572

Banking

(Dollars in thousands) Banking	Three Months Ended September 30, 2022	2021	$ Change	% Change
Total interest income	$ 49,864	$ 46,175	$ 3,689	8.0 %
Intersegment interest allocations	2,606	2,452	154	6.3 %
Total interest expense	2,924	2,073	851	41.1 %
Net interest income (expense)	49,546	46,554	2,992	6.4 %
Credit loss expense (benefit)	2,388	(2,399)	4,787	199.5 %
Net interest income after credit loss expense	47,158	48,953	(1,795)	(3.7)%
Other noninterest income	6,189	7,371	(1,182)	(16.0)%
Noninterest expense	48,648	41,183	7,465	18.1 %
Operating income (loss)	$ 4,699	$ 15,141	$ (10,442)	(69.0)%

Our Banking segment’s operating income decreased $10.4 million, or 69.0%.

Total interest income increased $3.7 million, or 8.0%, at our Banking segment despite decreases in the majority of the balances of our interest earning assets, primarily loans. The increase in interest income was driven by an increase in yields on interest earning assets at our Banking segment. Average loans in our Banking segment, excluding intersegment loans, decreased 14.2% from $3.299 billion for the three months ended September 30, 2021 to $2.831 billion for the three months ended September 30, 2022. The decrease in average loan balances reflects decreases in the average balances of all Banking segment loan types except for general commercial, asset based lending, and liquid credit.

Interest expense increased despite a decrease in average interest-bearing liabilities including a decrease in average total interest bearing deposits period over period. This increase was driven by higher interest rates paid on our 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 $3.0 million for the three months ended September 30, 2022 compared to a benefit to credit loss expense on loans of $2.2 million for the three months ended September 30, 2021. The increase in credit loss expense was primarily the result of increased net new specific reserves period over period as well as changes in the volume and mix of the Banking segment's loan portfolio. Net charge-off activity and changes to projected prepayments speeds and loss driver assumptions did not have a material impact on credit loss expense at our Banking segment period over period.

Credit loss expense for off balance sheet credit exposures decreased $0.4 million, from a benefit of $0.2 million for the three months ended September 30, 2021 to a benefit of $0.6 million for the three months ended September 30, 2022, primarily due to the changes in the assumptions used to project the loss rates and changes to outstanding commitments to fund period over period.

Noninterest income at our Banking segment decreased $1.2 million primarily due to a $0.5 million BOLI death benefit paid out during the three months ended September 30, 2021 that did not repeat during the current period and a $0.5 million decrease in service charges on deposits. There were no other significant changes within the components of other noninterest income at our Banking segment.

Noninterest expense increased primarily due to an increase in salaries and employee benefits expense due to merit increases for existing employees, higher health insurance benefit costs, incentive compensation, stock based compensation and 401(k) expense. It should be noted that the majority of our executive leadership team's salary and employee benefits expense as well as other selling, general, and administrative shared services costs, including a significant amount of information technology expense, are allocated to the Banking segment.

Factoring

(Dollars in thousands) Factoring	Three Months Ended September 30, 2022	2021	$ Change	% Change
Total interest income	$ 49,561	$ 47,222	$ 2,339	5.0 %
Intersegment interest allocations	(2,458)	(2,341)	(117)	(5.0)%
Total interest expense	—	—	—	—
Net interest income (expense)	47,103	44,881	2,222	5.0 %
Credit loss expense (benefit)	(52)	1,164	(1,216)	(104.5)%
Net interest income (expense) after credit loss expense	47,155	43,717	3,438	7.9 %
Noninterest income	2,941	1,557	1,384	88.9 %
Noninterest expense	22,896	19,106	3,790	19.8 %
Net income (loss) before income tax expense	$ 27,200	$ 26,168	$ 1,032	3.9 %

	Three Months Ended September 30, 2022	2021
Factored receivable period end balance	$ 1,330,122,000	$ 1,479,989,000
Yield on average receivable balance	14.11 %	13.75 %
Current quarter charge-off rate	0.16 %	0.24 %
Factored receivables - transportation concentration	96 %	90 %
Interest income, including fees	$ 49,561,000	$ 47,222,000
Non-interest income[(1)]	2,941,000	1,557,000
Factored receivable total revenue	52,502,000	48,779,000
Average net funds employed	1,242,133,000	1,235,610,000
Yield on average net funds employed	16.77 %	15.66 %
Accounts receivable purchased	$ 3,599,771,000	$ 3,531,811,000
Number of invoices purchased	1,681,489	1,535,321
Average invoice size	$ 2,141	$ 2,300
Average invoice size - transportation	$ 2,073	$ 2,195
Average invoice size - non-transportation	$ 5,701	$ 4,944

Metrics above include assets and deposits held for sale.

(1) Non-interest income for the three months ended September 30, 2022 includes a $1.0 million gain on sale of a portfolio of factored receivables, which contributed 0.33% to the yield on average net funds employed for the quarter.

Our Factoring segment's operating income increased $1.0 million, or 3.9%.

Our average invoice size decreased 6.9% from $2,300 for the three months ended September 30, 2021 to $2,141 for the three months ended September 30, 2022; however, the number of invoices purchased increased 9.5% period over period.

Net interest income at our Factoring segment increased period over period. Overall average net funds employed ("NFE") increased 0.5% during the three months ended September 30, 2022 compared to the same period in 2021. The increase in average NFE was the result of increased invoice purchase volume partially offset by a decrease in average invoice size. Those, in turn, resulted from a softening transportation market. See further discussion under the Recent Developments: Trucking Transportation section. We maintained high concentration in transportation factoring balances, which typically generate a higher yield than our non-transportation factoring balances. This concentration was at 90% at September 30, 2021 and 96% at September 30, 2022.

Credit loss expense at our Factoring segment decreased period over period, primarily due to a reduction in the period end volume of the factoring portfolio period over period. This reduction was partially offset by additional required specific reserves. Net charge-offs at our Factoring segment during the three months ended September 30, 2022 were $2.3 million compared to $3.3 million during the same period a year ago. Changes in loss assumptions did not have a material impact on the change in credit loss expense period over period.

Noninterest income at our Factoring segment increased period over period due to the aforementioned gain on sale of factored receivables of $1.0 million during the three months ended September 30, 2022. There were no other material fluctuations in noninterest income at our Factoring segment.

Noninterest expense increased primarily due to an increase in communications and technology expense as a result of increased spending on IT consulting to develop efficiency in our Factoring segment and improve the functionality of our technology platforms. Additionally at or Factoring segment, professional fees increased $0.8 million and salaries and employee benefits expense increased $0.5 million. Remaining fluctuations in the individual components of noninterest expense at our Factoring segment were insignificant period over period.

Payments

(Dollars in thousands)	Three Months Ended September 30,			
Payments	2022	2021	$ Change	% Change
Total interest income	$ 3,756	$ 3,295	$ 461	14.0 %
Intersegment interest allocations	(148)	(111)	(37)	(33.3)%
Total interest expense	—	—	—	— %
Net interest income (expense)	3,608	3,184	424	13.3 %
Credit loss expense (benefit)	235	38	197	518.4 %
Net interest income after credit loss expense	3,373	3,146	227	7.2 %
Noninterest income	3,518	3,086	432	14.0 %
Noninterest expense	14,066	11,416	2,650	23.2 %
Net income (loss) before income tax expense	$ (7,175)	$ (5,184)	$ (1,991)	(38.4)%

	Three Months Ended September 30,	
	2022	2021
Factored receivable period end balance	$ 118,958,000	$ 127,039,000
Interest income	$ 3,756,000	$ 3,295,000
Noninterest income	3,518,000	3,086,000
Total revenue	$ 7,274,000	$ 6,381,000
Operating income (loss)	$ (7,175,000)	$ (5,184,000)
Interest expense	148,000	111,000
Depreciation and software amortization expense	120,000	77,000
Intangible amortization expense	1,450,000	1,490,000
Earnings (losses) before interest, taxes, depreciation, and amortization	$ (5,457,000)	$ (3,506,000)
Number of invoices processed	4,676,249	3,760,948
Amount of payments processed	$ 5,951,706,000	$ 4,191,424,000
Conforming invoice volume	144,253	—
Conforming payment volume	$ 288,410,000	$ —

Our Payments segment's operating loss increased $2.0 million, or 38.4%.

The number of invoices processed by our Payments segment increased 24.3% from 3,760,948 for the three months ended September 30, 2021 to 4,676,249 for the three months ended September 30, 2022, and the amount of payments processed increased 42.0% from $4.191 billion for the three months ended September 30, 2021 to $5.952 billion for the three months ended September 30, 2022.

We began processing conforming transactions during the first quarter of 2022. When a fully integrated TriumphPay payor receives an invoice from a fully integrated TriumphPay payee, we call that a “conforming transaction.” All conforming transactions are included in our payment processing volume above. These transactions are facilitated through TriumphPay APIs with parties on both sides of the transaction using structured data; similar to how a credit card works at a point-of-sale terminal. The integrations largely automate the process and make it cheaper, faster and safer. During the three months ended September 30, 2022, we processed 144,253 conforming invoices representing a conforming payment volume of $288.4 million.

Net interest income increased due increased factoring activity and increased yields at our Payments segment period over period.

Noninterest income increased due to a $0.5 million increase in payment fees earned by TriumphPay during the three months ended September 30, 2022 compared to the same period a year ago. The fees were primarily a result of the acquired operations of HubTran during June of the prior year.

Noninterest expense increased primarily due to an increase in salaries and employee benefits expense driven by increased headcount, merit increases for existing employees, higher health insurance benefit costs, incentive compensation, stock based compensation and 401(k) expense. Additionally at our Payments segment, professional fees increased $0.5 million. We continue to invest heavily in the operations of TriumphPay.

The acquisition of HubTran during 2021 allows TriumphPay to create a fully integrated payments network for trucking, servicing brokers and factors. TriumphPay already offered tools and services to increase automation, mitigate fraud, create back-office efficiency and improve the payment experience. Through the acquisition of HubTran, TriumphPay created additional value through the enhancement of its presentment, audit, and payment capabilities for shippers, third party logistics companies (i.e., freight brokers) and their carriers, and factors. The acquisition of HubTran was a meaningful inflection point in the operations of TriumphPay as the TriumphPay strategy has shifted from a capital-intensive on-balance sheet product with a focus on interest income to an open-loop payments network for the trucking industry with a focus on fee revenue. It is for this reason that management believes that earnings before interest, taxes, depreciation, and amortization and the adjustment to that metric enhance investors' overall understanding of the financial performance of the Payments segment. Further, as a result of the HubTran acquisition, management recorded $27.3 million of intangible assets that will lead to meaningful amounts of amortization going forward.

Corporate

(Dollars in thousands)	Three Months Ended September 30,			
Corporate	2022	2021	$ Change	% Change
Total interest income	$ 44	$ 43	$ 1	2.3 %
Intersegment interest allocations	—	—	—	—
Total interest expense	2,031	2,891	(860)	(29.7)%
Net interest income (expense)	(1,987)	(2,848)	861	30.2 %
Credit loss expense (benefit)	75	10	65	650.0 %
Net interest income (expense) after credit loss expense	(2,062)	(2,858)	796	27.9 %
Other noninterest income	20	41	(21)	(51.2)%
Noninterest expense	1,079	1,108	(29)	(2.6)%
Net income (loss) before income tax expense	$ (3,121)	$ (3,925)	$ 804	20.5 %

The Corporate segment reported an operating loss of $3.1 million for the three months ended September 30, 2022 compared to an operating loss of $3.9 million for the three months ended September 30, 2021. Interest expense decreased due to a full quarter of impact of subordinated notes issued August 26, 2021 that carry a lower interest rate than the subordinated notes that they replaced. There were no other material fluctuations in the operating results of our Corporate segment period over period.

Results of Operations

Nine months ended September 30, 2022 compared with nine months ended September 30, 2021

Net Income

We earned net income of $84.8 million for the nine months ended September 30, 2022 compared to $86.3 million for the nine months ended September 30, 2021, a decrease of $1.6 million.

The results for the nine months ended September 30, 2021 were impacted by $3.0 million of pre-tax transaction costs associated with the HubTran acquisition reported as noninterest expense. Excluding the transaction costs, net of taxes, we earned adjusted net income of $88.6 million for the nine months ended September 30, 2021. There were no such adjustments during the nine months ended September 30, 2022. The adjusted decrease in net income for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021 totaled $3.9 million and was driven by a $52.4 million increase in adjusted noninterest expense, a $16.9 million increase in credit loss expense, and a $1.0 million increase in adjusted income tax expense partially offset by a $34.7 million increase in net interest income and a $31.7 million increase in 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 liabilities, 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. Average balances and interest are inclusive of assets and deposits classified as held for sale.

	Nine Months Ended September 30,					
	2022			2021		
(Dollars in thousands)	Average Balance	Interest	Average Rate[4]	Average Balance	Interest	Average Rate[4]
Interest earning assets:						
Cash and cash equivalents	$ 357,016	$ 3,522	1.32 %	$ 508,279	$ 467	0.12 %
Taxable securities	192,325	4,537	3.15 %	169,607	3,343	2.64 %
Tax-exempt securities	14,452	278	2.57 %	31,977	620	2.59 %
FHLB and other restricted stock	9,549	175	2.45 %	8,094	131	2.16 %
Loans [1]	4,639,280	304,455	8.77 %	4,812,985	275,215	7.65 %
Total interest earning assets	5,212,622	312,967	8.03 %	5,530,942	279,776	6.76 %
Noninterest earning assets:						
Cash and cash equivalents	89,932			81,419		
Other noninterest earning assets	504,379			430,316		
Total assets	$ 5,806,933			$ 6,042,677		
Interest bearing liabilities:						
Deposits:						
Interest bearing demand	$ 861,753	$ 1,791	0.28 %	$ 746,590	$ 1,288	0.23 %
Individual retirement accounts	80,437	308	0.51 %	88,579	455	0.69 %
Money market	536,130	875	0.22 %	404,651	670	0.22 %
Savings	516,972	602	0.16 %	465,041	530	0.15 %
Certificates of deposit	461,862	1,697	0.49 %	674,284	3,838	0.76 %
Brokered time deposits	102,793	1,052	1.37 %	134,781	259	0.26 %
Other brokered deposits	109,684	685	0.83 %	641,959	750	0.16 %
Total interest bearing deposits	2,669,631	7,010	0.35 %	3,155,885	7,790	0.33 %
Federal Home Loan Bank advances	83,022	535	0.86 %	37,234	67	0.24 %
Subordinated notes	107,261	3,905	4.87 %	96,495	5,148	7.13 %
Junior subordinated debentures	40,805	1,736	5.69 %	40,256	1,331	4.42 %
Other borrowings	8,068	4	0.07 %	146,005	367	0.34 %
Total interest bearing liabilities	2,908,787	13,190	0.61 %	3,475,875	14,703	0.57 %
Noninterest bearing liabilities and equity:						
Noninterest bearing demand deposits	1,924,556			1,720,213		
Other liabilities	86,093			62,570		
Total equity	887,497			784,019		
Total liabilities and equity	$ 5,806,933			$ 6,042,677		
Net interest income		$ 299,777			$ 265,073	
Interest spread [2]			7.42 %			6.19 %
Net interest margin [3]			7.69 %			6.41 %

(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.

(4) Ratios have been annualized.

The following table presents loan yields earned on our loan portfolios:

	Nine Months Ended September 30,	
(Dollars in thousands)	2022	2021
Average Banking loans	$ 2,958,534	$ 3,511,379
Average Factoring receivables	1,527,126	1,203,494
Average Payments receivables	153,620	98,112
Average total loans	$ 4,639,280	$ 4,812,985
Banking yield	5.87 %	5.31 %
Factoring yield	14.16 %	14.19 %
Payments Yield	11.11 %	10.82 %
Total loan yield	8.77 %	7.65 %

We earned net interest income of $299.8 million for the nine months ended September 30, 2022 compared to $265.1 million for the nine months ended September 30, 2021, an increase of $34.7 million, or 13.1%, primarily driven by the following factors.

Interest income increased $33.2 million, or 11.9%, in spite of a decrease in total average interest earning assets of $318.3 million, or 5.8%, and a decrease in average total loans of $173.7 million, or 3.6%. The average balance of our higher yielding Factoring factored receivables increased $323.6 million, or 26.9%, driving the majority of the increase in interest income along with an increase in average Payments factored receivables. This was partially offset by a decrease in average Banking loans of $552.8 million, or 15.7% due to decreases in the average balances of all Banking loan types except for general commercial, asset based lending, and liquid credit. Interest income from our Banking loans is impacted by our lower yielding mortgage warehouse lending product. The average mortgage warehouse lending balance was $632.9 million for the nine months ended September 30, 2022 compared to $827.1 million for the nine months ended September 30, 2021. A component of interest income consists of discount accretion on acquired loan portfolios. We recognized discount accretion on purchased loans of $6.6 million and $7.6 million for the nine months ended September 30, 2022 and 2021, respectively.

Interest expense decreased $1.5 million, or 10.3%, and average interest bearing liabilities decreased $567.1 million, or 16.3%. More specifically, average total interest bearing deposits decreased $486.3 million, or 15.4%. Average noninterest bearing deposits grew $204.3 million. Average rates on interest bearing liabilities were up slightly as discussed below.

Net interest margin increased to 7.69% for the nine months ended September 30, 2022 from 6.41% for the nine months ended September 30, 2021, an increase of 128 basis points, or 20.0%.

Our net interest margin was impacted by an increase in yield on our interest earning assets of 127 basis points to 8.03% for the nine months ended September 30, 2022. This increase was driven by higher yields on loans which increased 112 basis points to 8.77% for the same period. Factoring yield decreased period over period; however, average Factoring factored receivables as a percentage of the total loan portfolio increased which had a meaningful upward impact on total loan yield. 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 96% at September 30, 2022 compared to 91% at September 30, 2021. Banking and Payments yields increased period over period and non-loan yields had little impact on our yield on interest earning assets.

The increase in our net interest margin was minimally impacted by an increase in our average cost of interest bearing liabilities of 4 basis points.

The following table shows the effects that changes in average balances (volume) and average interest rates (rate) had on the interest earned on our interest earning assets and the interest incurred on our interest bearing liabilities:

	Nine Months Ended September 30, 2022 vs. 2021		
	Increase (Decrease) Due to:		
(Dollars in thousands)	Rate	Volume	Net Increase
Interest earning assets:			
Cash and cash equivalents	$ 4,547	$ (1,492)	$ 3,055
Taxable securities	658	536	1,194
Tax-exempt securities	(5)	(337)	(342)
FHLB and other restricted stock	17	27	44
Loans	40,639	(11,399)	29,240
Total interest income	45,856	(12,665)	33,191
Interest bearing liabilities:			
Interest bearing demand	264	239	503
Individual retirement accounts	(116)	(31)	(147)
Money market	(10)	215	205
Savings	12	60	72
Certificates of deposit	(1,361)	(780)	(2,141)
Brokered time deposits	1,120	(327)	793
Other brokered deposits	3,259	(3,324)	(65)
Total interest bearing deposits	3,168	(3,948)	(780)
Federal Home Loan Bank advances	173	295	468
Subordinated notes	(1,635)	392	(1,243)
Junior subordinated debentures	382	23	405
Other borrowings	(295)	(68)	(363)
Total interest expense	1,793	(3,306)	(1,513)
Change in net interest income	$ 44,063	$ (9,359)	$ 34,704

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 Company’s 2021 Form 10-K 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:

	Nine Months Ended September 30,			
(Dollars in thousands)	2022	2021	$ Change	% Change
Credit loss expense on loans	$ 6,102	$ (9,390)	$ 15,492	165.0 %
Credit loss expense on off balance sheet credit exposures	(402)	(1,159)	757	65.3 %
Credit loss expense on held to maturity securities	348	(289)	637	220.4 %
Credit loss expense on available for sale securities	—	—	—	—
Total credit loss expense	$ 6,048	$ (10,838)	$ 16,886	155.8 %

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 December 31, 2021 and September 30, 2022, 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 nine months ended September 30, 2022. The same was true for the same period in the prior year.

The ACL on held to maturity securities is estimated at each measurement date on a collective basis by major security type. At September 30, 2022 and December 31, 2021, 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 September 30, 2022 and December 31, 2021, the Company carried $6.6 million and $7.0 million of these HTM securities at amortized cost, respectively. The ACL on these balances was $2.4 million at September 30, 2022 and $2.1 million at December 31, 2021 and we recognized credit loss expense of $0.3 million during the nine months ended September 30, 2022. None of the overcollateralization triggers tied to the CLO securities were tripped as of September 30, 2022. 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 September 30, 2021 and December 31, 2020, the Company carried $7.2 million and $7.9 million of these HTM securities at amortized cost, respectively. The ACL on these balances was $1.7 million at September 30, 2021 and $2.0 million at December 31, 2020, and we recognized a benefit to credit loss expense of $0.3 million during the nine months ended September 30, 2021.

Our ACL on loans was $44.1 million as of September 30, 2022, compared to $42.2 million as of December 31, 2021, representing an ACL to total loans ratio of 0.99% and 0.87% respectively.

Our credit loss expense on loans increased $15.5 million, or 165.0%, for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021.

The Over-Formula Advances classified as factored receivables and deemed to be purchased credit deteriorated ("PCD") from Covenant had an impact on credit loss expense during the nine months ended September 30, 2021. During that time, new adverse developments with the largest of the three Over-Formula Advance clients caused us to charge-off the entire Over-Formula Advance amount due from that client. This resulted in a net charge-off of $41.3 million; however, this net charge-off had no impact on credit loss expense for the nine months ended September 30, 2021 as the entire amount had been reserved in a prior period. In accordance with the Agreement reached with Covenant, Covenant reimbursed us for $35.6 million of this charge-off by drawing on its secured line of credit which has been paid in full as of September 30, 2022. Given separate developments with the other two Over-Formula Advance clients, we reserved an additional $2.8 million reflected in credit loss expense during the nine months ended September 30, 2021.

During the nine months ended September 30, 2022, we decreased our reserve on Over-Formula Advance clients reflecting payment made during the quarter. This resulted in a benefit to credit loss expense of $1.3 million. We continue to reserve the full balance of the Over-Formula Advance clients at September 30, 2022 which totals $8.8 million.

The increased credit loss expense for the nine months ended September 30, 2022 was primarily the result of projected improvement of the loss drivers during the prior period which resulted in a benefit to credit loss expense of $10.3 million for the nine months ended September 30, 2021. During the nine months ended September 30, 2022 the Company forecasted some deterioration in the loss factors as well as slower prepayment speeds which resulted in credit loss expense of $1.5 million. See further discussion in the allowance for credit loss section below.

The increased credit loss expense was also result of changes in net new specific reserves (including reserves on Over-Formula Advances) which resulted in $3.8 million of credit loss expense during the nine months ended September 30, 2022 compared to $1.1 million of credit loss expense during the same period a year ago.

Increased credit loss expense was also driven by charge-off activity. Net charge-offs were $4.2 million for the nine months ended September 30, 2022 and approximately $0.7 million of the gross charge-off balance had been reserved in a prior period. Net charge-offs were $45.3 million for the nine months ended September 30, 2021 and approximately $45.2 million of the gross charge-off balance had been reserved in a prior period.

Changes in loan volume and mix resulted in a benefit to credit loss expense of $2.7 million during the nine months ended September 30, 2022 compared to a benefit of $0.4 during the same period a year prior.

Credit loss expense for off balance sheet credit exposures increased $0.8 million, primarily due to the changes in the assumptions used to project the loss rates previously discussed and changes to outstanding commitments to fund period over period.

Noninterest Income

The following table presents our major categories of noninterest income:

	Nine Months Ended September 30,						
(Dollars in thousands)		2022		2021		$ Change	% Change
Service charges on deposits	$	5,185	$	5,674	$	(489)	(8.6 %)
Card income		6,125		6,341		(216)	(3.4 %)
Net OREO gains (losses) and valuation adjustments		(133)		(376)		243	64.6 %
Net gains (losses) on sale or call of securities		2,514		5		2,509	N/M
Net gains (losses) on sale of loans		18,310		2,965		15,345	517.5 %
Fee income		18,096		11,917		6,179	51.9 %
Insurance commissions		4,209		3,989		220	5.5 %
Other		17,643		9,727		7,916	81.4 %
Total noninterest income	$	71,949	$	40,242	$	31,707	78.8 %

Noninterest income increased $31.7 million, or 78.8%. Changes in selected components of noninterest income in the above table are discussed below.

- *Net gains (losses) on sale or call of securities.* Net gains (losses) on sale or call of securities increased $2.5 million due to gains on the sale of certain available for sale CLOs during the nine months ended September 30, 2022.

- *Net gains (losses) on sale of loans.* Net gains (losses) on sale of loans increased $15.3 million, due to the aforementioned gain on sales of factored receivables of $14.2 million and gain on sale of equipment loans of $3.9 million during the nine months ended September 30, 2022.

- *Fee income*. Fee income increased $6.2 million, or 51.9% primarily due to a $5.9 million increase in payment fees earned by TriumphPay Audit during the nine months ended September 30, 2022 compared to the same period a year ago. The fees were primarily a result of the acquired operations of HubTran during June of the prior year. Additionally, wire fees increased $1.4 million period over period. These increases were partially offset by a combined $1.2 million of early termination fees charged to two customers during the nine months ended September 30, 2021 that did not repeat during the current year. There were no other significant changes within the components of fee income.

- *Other*. Other noninterest income increased $7.9 million, or 81.4% primarily due to a gain of $8.9 million on the aforementioned termination of an interest rate swap recognized during the nine months ended September 30, 2022. During that same period, we recognized a net gain of $7.0 million on the aforementioned termination of WSI warrants and additional investment in WSI common stock. These increases were partially offset by a $1.5 million recovery during the nine months ended September 30, 2021 on an acquired loan that was charged off prior to our acquisition of the originating bank. Also offsetting the increases was a $4.2 million gain on our indemnification asset recognized during the nine months ended September 30, 2021 compared to a write off of the indemnification asset of $0.6 million during the same period of the current year. There were no other significant changes within the components of other noninterest income.

Noninterest Expense

The following table presents our major categories of noninterest expense:

	Nine Months Ended September 30,			
(Dollars in thousands)	2022	2021	$ Change	% Change
Salaries and employee benefits	$ 149,848	$ 121,407	$ 28,441	23.4 %
Occupancy, furniture and equipment	19,769	18,279	1,490	8.2 %
FDIC insurance and other regulatory assessments	1,179	1,830	(651)	(35.6 %)
Professional fees	11,529	9,959	1,570	15.8 %
Amortization of intangible assets	9,085	7,677	1,408	18.3 %
Advertising and promotion	4,916	3,534	1,382	39.1 %
Communications and technology	30,867	19,018	11,849	62.3 %
Travel and entertainment	3,864	2,725	1,139	41.8 %
Other	22,803	20,074	2,729	13.6 %
Total noninterest expense	$ 253,860	$ 204,503	$ 49,357	24.1 %

Noninterest expense increased $49.4 million, or 24.1%. Noninterest expense for the nine months ended September 30, 2021 was impacted by $3.0 million of transaction costs associated with the HubTran acquisition. Excluding the HubTran acquisition costs, we incurred adjusted noninterest expense of $201.5 million for the nine months ended September 30, 2021, resulting in an adjusted increase in noninterest expense of $52.4 million, or 26.0%, period over period. Details of the more significant changes in the various components of noninterest expense are further discussed below.

- *Salaries and Employee Benefits.* Salaries and employee benefits expenses increased $28.4 million, or 23.4%, which is primarily due to merit increases for existing employees, higher health insurance benefit costs, incentive compensation, and 401(k) expense. The size of our workforce increased period over period in part due to the acquisition of HubTran as well as organic growth within the Company. Our average full-time equivalent employees were 1,355.6 and 1,181.8 for the nine months ended September 30, 2022 and 2021, respectively. Accruals for bonus expense were $1.4 million higher period over period and stock based compensation expense increased $7.9 million period over period. Additionally, compensation paid to temporary contract labor increased $3.6 million period over period. Sales commissions, primarily related to our operations at Triumph Business Capital and TriumphPay, decreased $1.1 million period over period.

- *Occupancy, Furniture and Equipment.* Occupancy, furniture and equipment expenses increased $1.5 million, or 8.2%, primarily due to growth in our operations period over period.

- *FDIC Insurance and Other Regulatory Assessments*. FDIC insurance and other regulatory assessments decreased $0.7 million, or 35.6%, due to decreased assessments period over period.

- *Professional Fees*. Professional fees increased $1.6 million, or 15.8%, primarily due to a $1.4 million increase in legal and consulting fees period over period.

- *Amortization of intangible assets*. Amortization of intangible assets increased $1.4 million, or 18.3%, due to the additional intangibles recorded through the HubTran acquisition during the prior year.

- *Advertising and Promotion*. Advertising and promotion increased $1.4 million, or 39.1%, due to increased activity in this area period over period.

- *Communications and Technology.* Communications and technology expenses increased $11.8 million, or 62.3%, primarily as a result of increased spending on IT consulting and IT license and software maintenance to develop efficiency in our operations and improve the functionality of the TriumphPay platform period over period.

- *Travel and entertainment.* Travel and entertainment expenses increased $1.1 million, or 41.8%, primarily due to increased business development activity in this area period over period.

- *Other.* Other noninterest expense increased $2.7 million or 13.6% despite a $1.1 million decrease in other loan related expenses period over period. There were no other significant increases or decreases in the individual 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 and the effect of changes in valuation allowances maintained against deferred tax benefits.

Income tax expense increased $1.8 million, or 6.9%, from $25.3 million for the nine months ended September 30, 2021 to $27.1 million for the nine months ended September 30, 2022. The effective tax rate was 24% for the nine months ended September 30, 2022 and 23% for the nine months ended September 30, 2021. The prior period effective tax rate was impacted by restricted stock and stock option activity as well as amended return benefit.

Operating Segment Results

Our reportable segments are Banking, Factoring, Payments, 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 Factoring segment includes the operations of Triumph Business Capital with revenue derived from factoring services. The Payments segment includes the operations of the TBK Bank's TriumphPay division, which provides a presentment, audit, and payment solution to shipper, freight broker, and factor clients in the trucking industry. The Payments segment derives its revenue from transaction fees and interest income on factored receivables related to invoice payments. These factored receivables consist of both invoices where we offer a carrier a quickpay opportunity to receive payment at a discount in advance of the standard payment term for such invoice in exchange for the assignment of such invoice to us and from offering freight brokers the ability to settle their invoices with us on an extended term following our payment to their carriers as an additional liquidity option for such freight brokers.

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 substantially the same as those described in the “Summary of Significant Accounting Policies” in Note 1 of the Company’s 2021 Form 10-K. Transactions between segments consist primarily of borrowed funds. Intersegment interest expense is allocated to the Factoring and Payments segments based on Federal Home Loan Bank advance rates. Credit loss expense is allocated based on the segment’s ACL determination. Noninterest income and expense directly attributable to a segment are assigned accordingly. The majority of salaries and benefits expense for our executive leadership team as well as other selling, general, and administrative shared services costs are allocated to the Banking segment. Taxes are paid on a consolidated basis and are not allocated for segment purposes. The Factoring segment includes only factoring originated by TBC.

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

(Dollars in thousands)

Nine Months Ended September 30, 2022	Banking	Factoring	Payments	Corporate	Consolidated
Total interest income	$ 138,286	$ 161,789	$ 12,760	$ 132	$ 312,967
Intersegment interest allocations	6,651	(6,312)	(339)	—	—
Total interest expense	7,547	—	—	5,643	13,190
Net interest income (expense)	137,390	155,477	12,421	(5,511)	299,777
Credit loss expense (benefit)	2,638	1,961	405	1,044	6,048
Net interest income after credit loss expense	134,752	153,516	12,016	(6,555)	293,729
Noninterest income	34,496	20,333	17,069	51	71,949
Noninterest expense	138,741	66,408	46,062	2,649	253,860
Net income (loss) before income tax expense	$ 30,507	$ 107,441	$ (16,977)	$ (9,153)	$ 111,818

(Dollars in thousands) Nine Months Ended September 30, 2021	Banking	Factoring	Payments	Corporate	Consolidated
Total interest income	$ 144,087	$ 127,699	$ 7,939	$ 51	$ 279,776
Intersegment interest allocations	8,117	(7,700)	(417)	—	—
Total interest expense	8,225	—	—	6,478	14,703
Net interest income (expense)	143,979	119,999	7,522	(6,427)	265,073
Credit loss expense (benefit)	(19,187)	8,091	548	(290)	(10,838)
Net interest income after credit loss expense	163,166	111,908	6,974	(6,137)	275,911
Noninterest income	25,139	10,710	4,242	151	40,242
Noninterest expense	122,497	52,433	26,393	3,180	204,503
Net income (loss) before income tax expense	$ 65,808	$ 70,185	$ (15,177)	$ (9,166)	$ 111,650

(Dollars in thousands) September 30, 2022	Banking	Factoring	Payments	Corporate	Eliminations	Consolidated
Total assets	$ 5,162,380	$ 1,406,367	$ 354,179	$ 1,041,293	$ (2,321,769)	$ 5,642,450
Gross loans	$ 3,849,962	$ 1,330,122	$ 118,958	$ —	$ (865,738)	$ 4,433,304

(Dollars in thousands) December 31, 2021	Banking	Factoring	Payments	Corporate	Eliminations	Consolidated
Total assets	$ 5,568,826	$ 1,679,495	$ 293,212	$ 1,009,998	$ (2,595,281)	$ 5,956,250
Gross loans	$ 4,444,136	$ 1,546,361	$ 153,176	$ 700	$ (1,276,801)	$ 4,867,572

Banking

(Dollars in thousands)	Nine Months Ended September 30,			
Banking	2022	2021	$ Change	% Change
Total interest income	$ 138,286	$ 144,087	$ (5,801)	(4.0 %)
Intersegment interest allocations	6,651	8,117	(1,466)	(18.1 %)
Total interest expense	7,547	8,225	(678)	(8.2 %)
Net interest income	137,390	143,979	(6,589)	(4.6 %)
Credit loss expense (benefit)	2,638	(19,187)	21,825	113.7 %
Net interest income after credit loss expense	134,752	163,166	(28,414)	(17.4 %)
Noninterest income	34,496	25,139	9,357	37.2 %
Noninterest expense	138,741	122,497	16,244	13.3 %
Net income (loss) before income tax expense	$ 30,507	$ 65,808	$ (35,301)	(53.6 %)

Our Banking segment's operating income decreased $35.3 million, or 53.6%.

Total interest income decreased $5.8 million, or 4.0%, primarily as a result of decreases in the balances of our interest earning assets, primarily loans. Average loans in our Banking segment, excluding intersegment loans, decreased 15.7% from $3.511 billion for the nine months ended September 30, 2021 to $2.959 billion for the nine months ended September 30, 2022. The decrease in interest income was partially offset by an increase in yields on interest earning assets at our Banking segment.

Interest expense decreased $0.7 million, or 8.2%. Average balance of interest bearing liabilities at our Banking segment decreased overall, and average total interest bearing deposits decreased $486.3 million, or 15.4%. Average rates on interest bearing liabilities at our Banking segment were slightly higher period over period.

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 $3.0 million for the nine months ended September 30, 2022 compared to a benefit to credit loss expense on loans of $18.0 million for the nine months ended September 30, 2021. The increase in credit loss expense was primarily the result of slower projected prepayment speeds and deterioration of the loss driver assumptions that the Company forecasted over the reasonable and supportable forecast periods to calculate expected losses at our Banking segment. We also recorded more specific reserves at our Banking segment during the nine months ended September 30, 2022 compared to the same period a year ago. Changes in volume and mix also contributed to the increase in provision expense period over period. We recorded $0.4 million of net charge-offs at our Banking segment during the nine months ended September 30, 2022 compared to insignificant charge-offs during the same period a year ago.

Credit loss expense for off balance sheet credit exposures increased $0.8 million from a benefit of $1.2 million for the nine months ended September 30, 2021 to a benefit of $0.4 million for the nine months ended September 30, 2022, primarily due to the changes in the assumptions used to project the loss rates previously discussed and changes to outstanding commitments to fund period over period.

Noninterest income at our Banking segment increased due to $2.5 million of gains on the sales of certain available for sale CLOs as well as the $3.9 million gain on sale of equipment loans during the nine months ended September 30, 2022. Further, we recognized a gain of $8.9 million on the termination of an interest rate swap during the same period. These increases were partially offset by a $1.5 million recovery during the nine months ended September 30, 2021 on an acquired loan that was charged off prior to our acquisition of the originating bank and a $2.8 million decrease in gains on sale of liquid credit and mortgage loans. There were no other significant changes within the components of other noninterest income at our Banking segment.

Noninterest expense increased primarily due to an increase in salaries and employee benefits expense due to merit increases for existing employees, higher health insurance benefit costs, incentive compensation, stock based compensation and 401(k) expense. It should be noted that the majority of our executive leadership team's salary and employee benefits expense as well as other selling, general, and administrative shared services costs, including a significant amount of information technology expense, are allocated to the Banking segment.

During the nine months ended September 30, 2022, the aggregate outstanding balances of our banking products decreased $183.8 million, or 5.8%, to $2.984 billion as of September 30, 2022. See the Financial Condition section below for further discussion of changes in loan balances:

(Dollars in thousands)	September 30, 2022	December 31, 2021
Banking		
Commercial real estate	$ 669,742	$ 632,775
Construction, land development, land	75,527	123,464
1-4 family residential	122,594	123,115
Farmland	66,595	77,394
Commercial - General	319,016	295,662
Commercial - Paycheck Protection Program	60	27,197
Commercial - Agriculture	60,409	70,127
Commercial - Equipment	439,604	621,437
Commercial - Asset-based lending	238,119	281,659
Commercial - Liquid Credit	224,991	134,347
Consumer	9,506	10,885
Mortgage Warehouse	758,061	769,973
Total banking loans	$ 2,984,224	$ 3,168,035

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Factoring

(Dollars in thousands) Factoring	Nine Months Ended September 30, 2022	2021	$ Change	% Change
Total interest income	$ 161,789	$ 127,699	$ 34,090	26.7 %
Intersegment interest allocations	(6,312)	(7,700)	1,388	18.0 %
Total interest expense	—	—	—	—
Net interest income	155,477	119,999	35,478	29.6 %
Credit loss expense (benefit)	1,961	8,091	(6,130)	(75.8 %)
Net interest income after credit loss expense	153,516	111,908	41,608	37.2 %
Noninterest income	20,333	10,710	9,623	89.9 %
Noninterest expense	66,408	52,433	13,975	26.7 %
Net income (loss) before income tax expense	$ 107,441	$ 70,185	$ 37,256	53.1 %

	Nine Months Ended September 30, 2022	2021
Factored receivable period end balance	$ 1,330,122,000	$ 1,479,989,000
Yield on average receivable balance	14.16 %	14.19 %
Year to date charge-off rate[(1)]	0.19 %	3.76 %
Factored receivables - transportation concentration	96 %	90 %
Interest income, including fees	$ 161,789,000	$ 127,699,000
Non-interest income[(2)]	20,333,000	6,056,000
Factored receivable total revenue	182,122,000	133,755,000
Average net funds employed	1,367,041,000	1,082,610,000
Yield on average net funds employed	17.81 %	16.52 %
Accounts receivable purchased	$ 11,665,223,000	$ 9,092,541,000
Number of invoices purchased	5,011,222	4,125,694
Average invoice size	$ 2,328	$ 2,204
Average invoice size - transportation	$ 2,213	$ 2,096
Average invoice size - non-transportation	$ 5,927	$ 4,812

(1) Net charge-offs for the nine months ended September 30, 2021 includes a $41.3 million charge-off related to the TFS acquisition, which contributed approximately 3.43% to the net charge-off rate for the period.

(2) Non-interest income for the nine months ended September 30, 2022 includes $14.2 million of gains on sale of a portfolio of factored receivables, which contributed 1.39% to the yield on average net funds employed for the period.

Non-interest income for the nine months ended September 30, 2021 excludes $4.7 million of income recognized on our indemnification asset resulting from the amended TFS acquisition agreement.

Our Factoring segment's operating income increased $37.3 million, or 53.1%.

Our average invoice size increased 5.6% from $2,204 for the nine months ended September 30, 2021 to $2,328 for the nine months ended September 30, 2022 and the number of invoices purchased increased 21.5% period over period.

Net interest income at our Factoring segment increased period over period. Overall average net funds employed ("NFE") increased 26.3% during the nine months ended September 30, 2022 compared to the same period in 2021. The increase in average NFE was the result of increased invoice purchase volume as well as increased average invoice size. Those, in turn, resulted from historically high freight volume in a reduced capacity market seen during the period. See further discussion under the Recent Developments: Trucking Transportation section. The increase in net interest income was partially offset by decreased purchase discount rates driven by greater focus on larger lower priced fleets and competitive pricing pressure; however, those negative factors were somewhat mitigated by high concentration in transportation factoring balances, which typically generate a higher yield than our non-transportation factoring balances. This concentration, calculated based on receivables held for investment and held for sale, was at 90% at September 30, 2021 and 96% at September 30, 2022.

The period over period decrease in credit loss expense at our Factoring segment is primarily due to decreased charge-off activity and a reduction in the period end volume of the factoring portfolio during the periods. Net charge-offs at our Factoring segment during the nine months ended September 30, 2022 were $3.0 million compared to $45.2 million during the same period a year ago. Net charge-offs during the nine months ended September 30, 2021 reflect the aforementioned $41.3 million net charge-off of Over-Formula Advances which was fully reserved in a period prior to charge-off. Changes in specific reserves and loss assumptions did not have a material impact on the change in credit loss expense period over period.

The increase in noninterest income at our Factoring segment was primarily due to the aforementioned $14.2 million gain on sale of factored receivables during the nine months ended September 30, 2022. Additionally, wire transfer fees and ACH/check fees increased $1.9 million. These increases were partially offset by a combined $1.2 million of early termination fees charged to two customers during the nine months ended September 30, 2021 that did not repeat during the current year. Also offsetting the increases was a $4.2 million gain on our indemnification asset recognized during the nine months ended September 30, 2021 compared to a write off of the indemnification asset of $0.6 million during the same period of the current year. There were no other material fluctuations in noninterest income at our Factoring segment.

Noninterest expense increased primarily due to an increase in salaries and employee benefits expense due to merit increases for existing employees, higher health insurance benefit costs, incentive compensation, stock based compensation and 401(k) expense. Additionally, communications and technology expense increased $4.9 million as a result of increased spending on IT consulting to develop efficiency in our Factoring segment and improve the functionality of our technology platforms. Additionally, professional fees increased $1.4 million. Remaining fluctuations in the individual components of noninterest expense at our Factoring segment were insignificant period over period.

Payments

(Dollars in thousands)	Nine Months Ended September 30,			
Payments	2022	2021	$ Change	% Change
Total interest income	$ 12,760	$ 7,939	$ 4,821	60.7 %
Intersegment interest allocations	(339)	(417)	78	18.7 %
Total interest expense	—	—	—	— %
Net interest income	12,421	7,522	4,899	65.1 %
Credit loss expense (benefit)	405	548	(143)	(26.1)%
Net interest income after credit loss expense	12,016	6,974	5,042	72.3 %
Noninterest income	17,069	4,242	12,827	302.4 %
Noninterest expense	46,062	26,393	19,669	74.5 %
Net income (loss) before income tax expense	$ (16,977)	$ (15,177)	$ (1,800)	(11.9)%

	Nine Months Ended	
	2022	2021
Factored receivable period end balance	$ 118,958,000	$ 127,039,000
Interest income	$ 12,760,000	$ 7,939,000
Noninterest income	17,069,000	4,242,000
Total revenue	$ 29,829,000	$ 12,181,000
Operating income (loss)	$ (16,977,000)	$ (15,177,000)
Interest expense	339,000	417,000
Depreciation and software amortization expense	331,000	210,000
Intangible amortization expense	4,417,000	1,987,000
Earnings (losses) before interest, taxes, depreciation, and amortization	$ (11,890,000)	$ (12,563,000)
Transaction costs	$ —	$ 2,992,000
Adjusted earnings (losses) before interest, taxes, depreciation, and amortization[(1)]	$ (11,890,000)	$ (9,571,000)
Number of invoices processed	13,043,134	9,455,740
Amount of payments processed	$ 17,686,453,000	$ 9,919,865,000
Conforming invoice volume	315,015	—
Conforming payment volume	$ 671,291,000	$ —

(1) Adjusted earnings (losses) before interest, taxes, depreciation, and amortization excludes material gains and expenses related to merger and acquisition-related activities and is a non-GAAP financial measure used to provide meaningful supplemental information regarding the segment's operational performance and to enhance investors' overall understanding of such financial performance by removing the volatility associated with certain acquisition-related items that are unrelated to our core business.

Our Payments segment's operating loss increased $1.8 million, or 11.9%.

The number of invoices processed by our Payments segment increased 37.9% from 9,455,740 for the nine months ended September 30, 2021 to 13,043,134 for the nine months ended September 30, 2022, and the amount of payments processed increased 78.3% from $9.920 billion for the nine months ended September 30, 2021 to $17.686 billion for the nine months ended September 30, 2022.

We began processing conforming transactions during the first quarter of 2022. When a fully integrated TriumphPay payor receives an invoice from a fully integrated TriumphPay payee, we call that a “conforming transaction.” All conforming transactions are included in our payment processing volume above. These transactions are facilitated through TriumphPay APIs with parties on both sides of the transaction using structured data; similar to how a credit card works at a point-of-sale terminal. The integrations largely automate the process and make it cheaper, faster and safer. During the nine months ended September 30, 2022, we processed 315,015 conforming invoices representing a conforming payment volume of $671.3 million.

Net interest income increased due to increased factoring activity and increased yields at our Payments segment period over period.

Noninterest income increased due to a $5.9 million increase in payment fees earned by TriumphPay during the nine months ended September 30, 2022 compared to the same period a year ago. The fees were primarily a result of the acquired operations of HubTran during June of the prior year. Additionally, we recognized a net gain of $7.0 million on the aforementioned termination of WSI warrants and additional investment in WSI common stock.

Noninterest expense increased primarily due to an increase in salaries and employee benefits expense driven by increased headcount, merit increases for existing employees, higher health insurance benefit costs, incentive compensation, stock based compensation and 401(k) expense. Additionally at our Payments segment, IT expense increased $2.6 million and amortization of the intangible assets acquired in the HubTran acquisition increased $2.4 million. We continue to invest heavily in the operations of TriumphPay.

The acquisition of HubTran during 2021 allows TriumphPay to create a fully integrated payments network for trucking; servicing brokers and factors. TriumphPay already offered tools and services to increase automation, mitigate fraud, create back-office efficiency and improve the payment experience. Through the acquisition of HubTran, TriumphPay created additional value through the enhancement of its presentment, audit, and payment capabilities for shippers, third party logistics companies (i.e., freight brokers) and their carriers, and factors. The acquisition of HubTran was a meaningful inflection point in the operations of TriumphPay as the TriumphPay strategy has shifted from a capital-intensive on-balance sheet product with a focus on interest income to an open-loop payments network for the trucking industry with a focus on fee revenue. It is for this reason that management believes that earnings before interest, taxes, depreciation, and amortization and the adjustment to that metric enhance investors' overall understanding of the financial performance of the Payments segment. Further, as a result of the HubTran acquisition, management recorded $27.3 million of intangible assets that will lead to meaningful amounts of amortization going forward.

Corporate

(Dollars in thousands)	Nine Months Ended September 30,			
Corporate	2022	2021	$ Change	% Change
Total interest income	$ 132	$ 51	$ 81	158.8 %
Intersegment interest allocations	—	—	—	—
Total interest expense	5,643	6,478	(835)	(12.9 %)
Net interest income (expense)	(5,511)	(6,427)	916	14.3 %
Credit loss expense (benefit)	1,044	(290)	1,334	460.0 %
Net interest income (expense) after credit loss expense	(6,555)	(6,137)	(418)	(6.8 %)
Noninterest income	51	151	(100)	(66.2 %)
Noninterest expense	2,649	3,180	(531)	(16.7 %)
Net income (loss) before income tax expense	$ (9,153)	$ (9,166)	$ 13	0.1 %

The Corporate segment reported an operating loss of $9.2 million for the nine months ended September 30, 2022 and 2021, respectively. Credit loss expense on our HTM CLOs previously discussed in the Credit Loss Expense section increased. Additionally, during the nine months ended September 30, 2022, management charged off a $0.7 million community reinvestment act loan that carried no reserve from a prior period. Interest expense decreased due to a full quarter of impact of subordinated notes issued August 26, 2021 that carry a lower interest rate than the subordinated notes that they replaced. There were no other significant fluctuations in accounts in our Corporate segment period over period.

Financial Condition

Assets

Total assets were $5.642 billion at September 30, 2022, compared to $5.956 billion at December 31, 2021, a decrease of $313.8 million, the components of which are discussed below.

Loan Portfolio

Loans held for investment were $4.433 billion at September 30, 2022, compared with $4.868 billion at December 31, 2021.

The following table shows our total loan portfolio by portfolio segments:

	September 30, 2022		December 31, 2021			
(Dollars in thousands)		% of Total		% of Total	$ Change	% Change
Commercial real estate	$ 669,742	15 %	$ 632,775	13 %	$ 36,967	5.8 %
Construction, land development, land	75,527	2 %	123,464	3 %	(47,937)	(38.8 %)
1-4 family residential	122,594	3 %	123,115	3 %	(521)	(0.4 %)
Farmland	66,595	2 %	77,394	2 %	(10,799)	(14.0 %)
Commercial	1,282,199	29 %	1,430,429	29 %	(148,230)	(10.4 %)
Factored receivables	1,449,080	32 %	1,699,537	34 %	(250,457)	(14.7 %)
Consumer	9,506	— %	10,885	— %	(1,379)	(12.7 %)
Mortgage warehouse	758,061	17 %	769,973	16 %	(11,912)	(1.5 %)
Total Loans	$ 4,433,304	100 %	$ 4,867,572	100 %	$ (434,268)	(8.9 %)

Commercial Real Estate Loans. Our commercial real estate loans increased $37.0 million, or 5.8%, due to new origination activity that outpaced paydowns.

Construction and Development Loans. Our construction and development loans decreased $47.9 million, or 38.8%, due to paydowns and conversions to term loans that were offset by modest origination and draw activity.

Residential Real Estate Loans. Our one-to-four family residential loans decreased $0.5 million, or 0.4%, due to paydowns that outpaced new origination activity.

Farmland Loans. Our farmland loans decreased $10.8 million, or 14.0%, due to paydowns that outpaced modest origination activity.

Commercial Loans. Our commercial loans held for investment decreased $148.2 million, or 10.4%, due to the sale of $191.2 million of equipment loans during the period. Our other commercial lending products, comprised primarily of general commercial loans originated in our community banking markets, increased $23.4 million, or 7.9%.

The following table shows our commercial loans:

(Dollars in thousands)	September 30, 2022	December 31, 2021	$ Change	% Change
Commercial				
Equipment	$ 439,604	$ 621,437	$ (181,833)	(29.3 %)
Asset-based lending	238,119	281,659	(43,540)	(15.5 %)
Liquid credit	224,991	134,347	90,644	67.5 %
Paycheck Protection Program loans	60	27,197	(27,137)	(99.8 %)
Agriculture	60,409	70,127	(9,718)	(13.9 %)
Other commercial lending	319,016	295,662	23,354	7.9 %
Total commercial loans	$ 1,282,199	$ 1,430,429	$ (148,230)	(10.4 %)

Factored Receivables. Our factored receivables decreased $250.5 million, or 14.7% due to the sale of $88.0 million of factored receivables during the period and a slowing freight market. At September 30, 2022, the balance of the Over-Formula Advance Portfolio included in factored receivables was $8.8 million. At September 30, 2022, the balance of Misdirected Payments included in factored receivables was $19.4 million. 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 period.

Consumer Loans. Our consumer loans decreased $1.4 million, or 12.7%, due to paydowns that outpaced modest origination activity.

Mortgage Warehouse. Our mortgage warehouse facilities decreased $11.9 million, or 1.5%, due to decreased utilization in a rising interest rate environment. Client utilization of mortgage warehouse facilities may experience significant fluctuation on a day-to-day basis given mortgage origination market conditions. Our average mortgage warehouse lending balance was $610.8 million for the three months ended September 30, 2022 compared to $772.3 million for the three months ended September 30, 2021 and $632.9 million for the nine months ended September 30, 2022 compared to $827.1 million for the nine months ended September 30, 2021.

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

	September 30, 2022				
(Dollars in thousands)	One Year or Less	After One but within Five Years	After Five but within Fifteen Years	After Fifteen Years	Total
Commercial real estate	$ 135,892	$ 453,614	$ 75,522	$ 4,714	$ 669,742
Construction, land development, land	24,508	47,742	3,243	34	75,527
1-4 family residential	8,896	31,273	16,477	65,948	122,594
Farmland	11,688	21,976	28,756	4,175	66,595
Commercial	381,223	778,603	122,063	310	1,282,199
Factored receivables	1,449,080	—	—	—	1,449,080
Consumer	1,273	7,055	1,169	9	9,506
Mortgage warehouse	758,061	—	—	—	758,061
	$ 2,770,621	$ 1,340,263	$ 247,230	$ 75,190	$ 4,433,304

Sensitivity of loans to changes in interest rates:			
Predetermined (fixed) interest rates	$ 819,714	$ 23,284	$ 6,454
Floating interest rates	520,549	223,946	68,736
Total	$ 1,340,263	$ 247,230	$ 75,190

As of September 30, 2022, most of the Company’s non-factoring business activity is with customers located within certain states. The states of Texas (21%), Colorado (13%), Illinois (11%), and Iowa (6%) make up 51% 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, 2021, the states of Texas (21%), Illinois (15%), Colorado (15%), and Iowa (6%) made up 57% of the Company’s gross loans, excluding factored receivables.

Further, a majority (96%) of our factored receivables, including factored receivables held for sale, representing approximately 31% of our total loan portfolio as of September 30, 2022, are receivables purchased from trucking fleets, owner-operators, and freight brokers in the transportation industry. Although such concentration may cause our future interest income with respect to our factoring operations to be correlated with demand for the transportation industry in the United States generally, we feel that 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, 2021, 91% of our factored receivables, representing approximately 32% of our total loan portfolio, were receivables purchased from trucking fleets, owner-operators, and freight brokers in the transportation industry.

Nonperforming Assets

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

The following table sets forth the allocation of our nonperforming assets among our different asset categories as of the dates indicated. We classify nonperforming assets as 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)	September 30, 2022	December 31, 2021
Nonperforming loans:		
Commercial real estate	$ 1,108	$ 2,025
Construction, land development, land	151	964
1-4 family residential	1,710	1,684
Farmland	414	2,044
Commercial	17,868	8,842
Factored receivables	34,515	30,485
Consumer	154	240
Mortgage warehouse	—	—
Total nonperforming loans	55,920	46,284
Held to maturity securities	5,130	5,612
Other real estate owned, net	—	524
Other repossessed assets	1,751	2,368
Total nonperforming assets	$ 62,801	$ 54,788
Nonperforming assets to total assets	1.11 %	0.92 %
Nonperforming loans to total loans held for investment	1.26 %	0.95 %
Total past due loans to total loans held for investment	2.33 %	2.86 %

Nonperforming loans increased $9.6 million, or 20.8%, due to the addition of a $12.0 million liquid credit loan secured by the enterprise value of the borrower and a $4.0 million increase in nonperforming factored receivables. These additions were offset by the removal of a $1.6 million equipment finance loan through payoff and consistent decreases in nonperforming loans across several loan types. The portion of the factoring Over-Formula Advances not covered by Covenant's indemnification and thus, considered nonperforming, is $0.8 million at September 30, 2022. The entire $19.4 million of Misdirected Payments is included in nonperforming loans (specifically, factored receivables) in accordance with our policy.

OREO decreased $0.5 million, or 100.0%, due to the removal of individually insignificant OREO properties throughout the period.

As a result of the activity previously described and changes in our period end total loans held for investment, the ratio of nonperforming loans to total loans held for investment increased to 1.26% at September 30, 2022 from 0.95% December 31, 2021.

Our ratio of nonperforming assets to total assets increased to 1.11% at September 30, 2022 from 0.92% December 31, 2021. This is due to the aforementioned loan activity and changes in our period end total assets. Additionally, the amortized cost basis of our HTM CLO securities considered to be nonaccrual decreased $0.5 million during the year.

Past due loans to total loans held for investment decreased to 2.33% at September 30, 2022 from 2.86% at December 31, 2021, as a result of the aforementioned loan activity and a decrease in past due factored receivables. Both the $8.8 million acquired factoring Over-Formula Advance balance and the $19.4 million Misdirected Payments balance are considered greater than 90 days past due at September 30, 2022.

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 of the Company's 2021 Form 10-K and 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:

	September 30, 2022			December 31, 2021		
(Dollars in thousands)	Allocated Allowance	% of Loan Portfolio	ACL to Loans	Allocated Allowance	% of Loan Portfolio	ACL to Loans
Commercial real estate	$ 4,794	15 %	0.72 %	$ 3,961	13 %	0.63 %
Construction, land development, land	995	2 %	1.32 %	827	3 %	0.67 %
1-4 family residential	742	3 %	0.61 %	468	3 %	0.38 %
Farmland	467	2 %	0.70 %	562	2 %	0.73 %
Commercial	16,020	29 %	1.25 %	14,485	29 %	1.01 %
Factored receivables	20,134	32 %	1.39 %	20,915	34 %	1.23 %
Consumer	202	— %	2.12 %	226	— %	2.08 %
Mortgage warehouse	757	17 %	0.10 %	769	16 %	0.10 %
Total Loans	$ 44,111	100 %	0.99 %	$ 42,213	100 %	0.87 %

The ACL increased $1.9 million, or 4.5%. This increase reflects net charge-offs of $4.2 million and credit loss expense of $6.1 million. Refer to the Results of Operations: Credit Loss Expense section for discussion of material charge-offs and credit loss expense. At quarter end, our entire remaining Over-Formula Advance position was down from $10.1 million at December 31, 2021 to $8.8 million at September 30, 2022 and the entire balance at September 30, 2022 was fully reserved. At September 30, 2022, the Misdirected Payments amount was $19.4 million. Based on our legal analysis and discussions with our counsel advising us on this matter, we continue to 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 September 30, 2022.

A driver of the change in ACL is projected deterioration of the loss drivers that the Company forecasted to calculate expected losses at September 30, 2022 as compared to December 31, 2021. It had a negative impact on the Company's loss drivers and assumptions over the reasonable and supportable forecast period and resulted in an increase of $1.5 million of ACL period over 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 PPP), 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. The Company also forecasts prepayments speeds for use in the DCF models with higher prepayment speeds resulting in lower required ACL levels and vice versa for shorter prepayment speeds. These assumed prepayment speeds are based upon our historical prepayment speeds by loan type adjusted for the expected impact of the current interest rate environment. Generally, the impact of these assumed prepayment speeds is lesser in magnitude than the aforementioned loss driver assumptions.

For all DCF models at September 30, 2022, 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 September 30, 2022 as compared to December 31, 2021, the Company forecasted increasing national unemployment, a steeper decrease in one-year percentage change in national retail sales, a steeper decrease in one-year percentage change in the national home price index, and a steeper decrease in one-year percentage change in national gross domestic product. At September 30, 2022 for national unemployment, the Company projected a low percentage in the first quarter followed by a gradual rise in the following three quarters. For percentage change in national retail sales, the Company projected a sustained level in the first projected quarter followed by a decline to near-zero or negative levels over the last three projected quarters to a level below recent actual periods. For percentage changes in national home price index and national gross domestic product, the Company projected declines over the last three projected quarters to negative levels below recent actual periods. At September 30, 2022, the Company slowed its historical prepayment speeds in response to the rising interest rate environment in the macro economy.

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 following tables show our credit ratios and an analysis of our credit loss expense:

(Dollars in thousands)	September 30, 2022	December 31, 2021
Allowance for credit losses on loans	$ 44,111	$ 42,213
Total loans held for investment	$ 4,433,304	$ 4,867,572
Allowance to total loans held for investment	0.99 %	0.87 %
Nonaccrual loans	$ 20,828	$ 15,034
Total loans held for investment	$ 4,433,304	$ 4,867,572
Nonaccrual loans to total loans held for investment	0.47 %	0.31 %
Allowance for credit losses on loans	$ 44,111	$ 42,213
Nonaccrual loans	$ 20,828	$ 15,034
Allowance for credit losses to nonaccrual loans	211.79 %	280.78 %

(Dollars in thousands)	Three Months Ended September 30, 2022 Net Charge-Offs	2022 Average Loans HFI	2022 Net Charge-Off Ratio	2021 Net Charge-Offs	2021 Average Loans HFI	2021 Net Charge-Off Ratio
Commercial real estate	$ —	$ 670,912	— %	$ 15	$ 675,859	— %
Construction, land development, land	(1)	84,116	— %	(1)	182,550	— %
1-4 family residential	(1)	127,574	— %	(4)	130,808	— %
Farmland	—	67,708	— %	—	86,236	— %
Commercial	149	1,258,735	0.01 %	211	1,432,667	0.01 %
Factored receivables	2,261	1,524,625	0.15 %	3,358	1,478,257	0.23 %
Consumer	57	9,730	0.59 %	139	12,197	1.14 %
Mortgage warehouse	—	610,844	— %	—	772,275	— %
Total Loans	$ 2,465	$ 4,354,244	0.06 %	$ 3,718	$ 4,770,849	0.08 %

Quarter to date net loans charged off decreased $1.3 million with no individually significant charge-offs in either period.

(Dollars in thousands)	Nine Months Ended September 30, 2022 Net Charge-Offs	2022 Average Loans HFI	2022 Net Charge-Off Ratio	2021 Net Charge-Offs	2021 Average Loans HFI	2021 Net Charge-Off Ratio
Commercial real estate	$ 48	$ 650,006	0.01 %	$ 7	$ 731,836	— %
Construction, land development, land	(3)	109,552	— %	9	202,712	— %
1-4 family residential	(6)	127,079	— %	(64)	139,517	(0.05)%
Farmland	—	71,590	— %	—	94,536	— %
Commercial	882	1,352,309	0.07 %	(172)	1,490,058	(0.01)%
Factored receivables	3,079	1,680,746	0.18 %	45,359	1,301,606	3.48 %
Consumer	204	10,166	2.01 %	193	13,661	1.41 %
Mortgage warehouse	—	632,879	— %	—	827,133	— %
Total Loans	$ 4,204	$ 4,634,327	0.09 %	$ 45,332	$ 4,801,059	0.94 %

Year to date net loans charged off decreased $41.1 million due to the aforementioned charge-off of $41.3 million of PCD Over-Formula Advances classified as factored receivables. Remaining charge-off and recovery activity during the periods was insignificant individually and in the aggregate.

Securities

As of September 30, 2022 and December 31, 2021, we held equity securities with readily determinable fair values of $4.9 million and $5.5 million, respectively. 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 reflected in earnings.

As of September 30, 2022, we held debt securities classified as available for sale with a fair value of $238.4 million, an increase of $56.0 million from $182.4 million at December 31, 2021. The following table illustrates the changes in our available for sale debt securities:

(Dollars in thousands)	Available For Sale Debt Securities: September 30, 2022	December 31, 2021	$ Change	% Change
Mortgage-backed securities, residential	$ 44,675	$ 37,449	$ 7,226	19.3 %
Asset-backed securities	6,476	6,764	(288)	(4.3)%
State and municipal	14,262	26,825	(12,563)	(46.8)%
CLO Securities	169,708	106,634	63,074	59.1 %
Corporate bonds	1,249	2,056	(807)	(39.3)%
SBA pooled securities	2,064	2,698	(634)	(23.5)%
	$ 238,434	$ 182,426	$ 56,008	30.7 %

Our available for sale CLO portfolio consists of investment grade positions in high ranking tranches within their respective securitization structures. As of September 30, 2022, 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 September 30, 2022. 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 September 30, 2022, we held investments classified as held to maturity with an amortized cost, net of ACL, of $4.1 million, a decrease of $0.8 million from $4.9 million at December 31, 2021. 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 September 30, 2022.

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

	Maturity as of September 30, 2022									
	One Year or Less		After One but within Five Years		After Five but within Ten Years		After Ten 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
Mortgage-backed securities	$ 1,837	1.97 %	$ 9,167	3.90 %	$ 2,111	2.45 %	$ 36,847	3.32 %	$ 49,962	3.35 %
Asset-backed securities	—	— %	—	— %	5,000	1.32 %	1,501	3.72 %	6,501	1.88 %
State and municipal	1,027	2.64 %	2,621	3.06 %	1,168	2.48 %	9,669	2.50 %	14,485	2.61 %
CLO securities	—	— %	—	— %	52,265	5.44 %	123,121	4.15 %	175,386	4.53 %
Corporate bonds	500	3.74 %	501	4.23 %	—	— %	269	5.07 %	1,270	4.20 %
SBA pooled securities	—	— %	2	5.12 %	20	8.77 %	2,124	4.07 %	2,146	4.11 %
Total available for sale securities	$ 3,364	2.44 %	$ 12,291	3.74 %	$ 60,564	4.95 %	$ 173,531	3.88 %	$ 249,750	4.11 %
Held to maturity securities:	$ —	— %	$ —	— %	$ 6,579	2.44 %	$ —	— %	$ 6,579	2.44 %

Liabilities

Total liabilities were $4.751 billion as of September 30, 2022, compared to $5.097 billion at December 31, 2021, a decrease of $346.1 million, the components of which are discussed below.

Deposits

The following table summarizes our deposits:

(Dollars in thousands)	September 30, 2022	December 31, 2021	$ Change	% Change
Noninterest bearing demand	$ 1,897,309	$ 1,925,370	$ (28,061)	(1.5 %)
Interest bearing demand	883,581	830,019	53,562	6.5 %
Individual retirement accounts	74,423	83,410	(8,987)	(10.8 %)
Money market	505,082	520,358	(15,276)	(2.9 %)
Savings	546,862	504,146	42,716	8.5 %
Certificates of deposit	373,734	533,206	(159,472)	(29.9 %)
Brokered time deposits	160,363	40,125	120,238	299.7 %
Other brokered deposits	—	210,045	(210,045)	(100.0 %)
Total Deposits	$ 4,441,354	$ 4,646,679	$ (205,325)	(4.4 %)

Our total deposits decreased $205.3 million, or 4.4%, primarily due to decreases in other brokered deposits and certificates of deposit. Other brokered deposits are non-maturity deposits obtained from wholesale sources and these deposits were terminated in connection with the terminated interest rate swap during the nine months ended September 30, 2022. As of September 30, 2022, interest bearing demand deposits, noninterest bearing deposits, money market deposits, other brokered deposits, and savings deposits accounted for 86% of our total deposits, while individual retirement accounts, certificates of deposit, and brokered time deposits made up 14% of total deposits.

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At September 30, 2022 we held $68.5 million of time deposits that meet or exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limit. The following table provides information on the maturity distribution of time deposits exceeding the FDIC insurance limit as of September 30, 2022:

(Dollars in thousands)	Over $250,000
Maturity	
3 months or less	$ 23,581
Over 3 through 6 months	11,467
Over 6 through 12 months	17,264
Over 12 months	6,661
	$ 58,973

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

	Three Months Ended September 30, 2022			Three Months Ended September 30, 2021		
(Dollars in thousands)	Average Balance	Weighted Avg Rates	% of Total	Average Balance	Weighted Avg Rates	% of Total
Interest bearing demand	$ 879,851	0.37 %	20 %	$ 779,625	0.22 %	16 %
Individual retirement accounts	77,004	0.50 %	2 %	86,571	0.58 %	2 %
Money market	524,483	0.24 %	12 %	417,435	0.21 %	9 %
Savings	524,106	0.16 %	12 %	479,915	0.15 %	10 %
Certificates of deposit	407,130	0.55 %	9 %	595,001	0.48 %	12 %
Brokered time deposits	186,856	1.59 %	4 %	99,116	0.12 %	2 %
Other brokered deposits	26,758	— %	1 %	441,446	0.20 %	9 %
Total interest bearing deposits	2,626,188	0.41 %	60 %	2,899,109	0.27 %	60 %
Noninterest bearing demand	1,885,111	—	40 %	1,912,398	—	40 %
Total deposits	$ 4,511,299	0.24 %	100 %	$ 4,811,507	0.16 %	100 %

	Nine Months Ended September 30, 2022			Nine Months Ended September 30, 2021		
(Dollars in thousands)	Average Balance	Weighted Avg Yields	% of Total	Average Balance	Weighted Avg Yields	% of Total
Interest bearing demand	$ 861,753	0.28 %	19 %	$ 746,590	0.23 %	15 %
Individual retirement accounts	80,437	0.51 %	2 %	88,579	0.69 %	2 %
Money market	536,130	0.22 %	12 %	404,651	0.22 %	8 %
Savings	516,972	0.16 %	11 %	465,041	0.15 %	10 %
Certificates of deposit	461,862	0.49 %	10 %	674,284	0.76 %	14 %
Brokered time deposits	102,793	1.37 %	2 %	134,781	0.26 %	3 %
Other brokered deposits	109,684	0.83 %	2 %	641,959	0.16 %	13 %
Total interest bearing deposits	2,669,631	0.35 %	58 %	3,155,885	0.33 %	65 %
Noninterest bearing demand	1,924,556	—	42 %	1,720,213	—	35 %
Total deposits	$ 4,594,187	0.20 %	100 %	$ 4,876,098	0.21 %	100 %

Other Borrowings

Customer Repurchase Agreements

The following provides a summary of our customer repurchase agreements as of and for the nine months ended September 30, 2022 and the year ended December 31, 2021:

(Dollars in thousands)	September 30, 2022	December 31, 2021
Amount outstanding at end of period	$ 13,463	$ 2,103
Weighted average interest rate at end of period	0.03 %	0.03 %
Average daily balance during the period	$ 7,171	$ 5,985
Weighted average interest rate during the period	0.03 %	0.03 %
Maximum month-end balance during the period	$ 13,463	$ 12,405

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

The following provides a summary of our FHLB advances as of and for the nine months ended September 30, 2022 and the year ended December 31, 2021:

(Dollars in thousands)	September 30, 2022	December 31, 2021
Amount outstanding at end of period	$ 30,000	$ 180,000
Weighted average interest rate at end of period	2.76 %	0.15 %
Average amount outstanding during the period	83,022	37,671
Weighted average interest rate during the period	0.86 %	0.24 %
Highest month end balance during the period	230,000	180,000

Our FHLB advances are collateralized by assets, including a blanket pledge of certain loans. At September 30, 2022 and December 31, 2021, we had $736.0 million and $798.8 million, respectively, in unused and available advances from the FHLB.

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 PPP. Borrowings under the PPPLF are secured by 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 nine months ended September 30, 2022 and the year ended December 31, 2021:

(Dollars in thousands)	September 30, 2022	December 31, 2021
Amount outstanding at end of period	$ —	$ 27,144
Weighted average interest rate at end of period	— %	0.35 %
Average amount outstanding during the period	896	118,880
Weighted average interest rate during the period	0.32 %	0.35 %
Highest month end balance during the period	—	181,635

We did not have any PPPLF borrowings outstanding at September 30, 2022. At December 31, 2021, the PPPLF borrowings were secured by PPP Loans totaling $27.1 million and incurred interest at a fixed rate of 0.35% annually.

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Subordinated Notes

The following provides a summary of our subordinated notes as of September 30, 2022:

(Dollars in thousands)	Face Value		Carrying Value		Maturity Date	Current Interest Rate	First Repricing Date	Variable Interest Rate at Repricing Date	Initial Issuance Costs	
Subordinated Notes issued November 27, 2019	$	39,500	$	38,780	2029	4.875%	11/27/2024	Three Month LIBOR plus 3.330%	$	1,218
Subordinated Notes issued August 26, 2021		70,000		68,807	2031	3.500%	9/01/2026	Three Month SOFR[(1)] plus 2.860%	$	1,776
	$	109,500	$	107,587						

[(1)] Secured Overnight Financing Rate

The Subordinated Notes bear interest payable semi-annually in arrears to, but excluding the first repricing date, and thereafter payable quarterly in arrears at an annual floating rate. We may, at our option, beginning on the respective first repricing date and on any scheduled interest payment date thereafter, redeem the Subordinated Notes, in whole or in part, at a redemption price equal to the outstanding principal amount of the Subordinated Notes to be redeemed plus accrued and unpaid interest to, but excluding, the date of redemption.

The Subordinated Notes are included on the consolidated balance sheets as liabilities at their carrying values; however, for regulatory purposes, the carrying value of these obligations were eligible for inclusion in Tier 2 regulatory capital. Issuance costs related to the Subordinated Notes have been netted against the subordinated notes liability on the balance sheet. The debt issuance costs are being amortized using the effective interest method through maturity and recognized as a component of interest expense.

The Subordinated 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 our junior subordinated debentures as of September 30, 2022:

(Dollars in thousands)	Face Value		Carrying Value		Maturity Date	Interest Rate
National Bancshares Capital Trust II	$	15,464	$	13,452	September 2033	LIBOR + 3.00%
National Bancshares Capital Trust III		17,526		13,353	July 2036	LIBOR + 1.64%
ColoEast Capital Trust I		5,155		3,739	September 2035	LIBOR + 1.60%
ColoEast Capital Trust II		6,700		4,847	March 2037	LIBOR + 1.79%
Valley Bancorp Statutory Trust I		3,093		2,903	September 2032	LIBOR + 3.40%
Valley Bancorp Statutory Trust II		3,093		2,722	July 2034	LIBOR + 2.75%
	$	51,031	$	41,016		

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 contractual 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 discounts 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 $41.0 million was allowed in the calculation of Tier I capital as of September 30, 2022.

Capital Resources and Liquidity Management

Capital Resources

Our stockholders’ equity totaled $891.2 million as of September 30, 2022, compared to $858.9 million as of December 31, 2021, an increase of $32.3 million. Stockholders’ equity increased during this period primarily due to our net income of $84.8 million, offset in part by shares purchased into treasury stock under our share repurchase program of $50.0 million.

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 that 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 September 30, 2022, TBK Bank had $518.1 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.

Contractual Obligations

The following table summarizes our contractual obligations and other commitments to make future payments as of September 30, 2022. 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 - September 30, 2022				
(Dollars in thousands)	Total	One Year or Less	After One but within Three Years	After Three but within Five Years	After Five Years
Customer repurchase agreements	$ 13,463	$ 13,463	$ —	$ —	$ —
Federal Home Loan Bank advances	30,000			30,000	
Subordinated notes	109,500	—	—	—	109,500
Junior subordinated debentures	51,031	—	—	—	51,031
Operating lease agreements	39,961	5,600	10,523	9,751	14,087
Time deposits with stated maturity dates	608,520	477,072	119,484	10,379	1,585
Total contractual obligations	$ 852,475	$ 496,135	$ 130,007	$ 50,130	$ 176,203

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 12 – Regulatory Matters in the accompanying condensed notes to the consolidated financial statements included elsewhere in this report.

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 10 – Off-Balance Sheet Loan Commitments in the accompanying condensed notes to the consolidated financial statements included elsewhere in this report.

Critical Accounting Policies and Estimates

Our accounting policies are fundamental to understanding our management's discussion and analysis of our results of operations and financial condition. We have identified certain significant accounting policies which involve a higher degree of judgment and complexity in making certain estimates and assumptions that affect amounts reported in our consolidated financial statements. The significant accounting policy which we believe to be the most critical in preparing our consolidated financial statements is the determination of the allowance for credit losses. Since December 31, 2021, there have been no changes in critical accounting policies as further described under "Critical Accounting Policies and Estimates" and in Note 1 to the Consolidated Financial Statements in our 2021 Form 10-K.

Recently Issued Accounting Pronouncements

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

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, particularly with regard to developments related to COVID-19. 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 are 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;
- 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, including our acquisition of HubTran Inc. and developments related to our acquisition of Transport Financial Solutions and the related over-formula advances, 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.

ITEM 3

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

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 foreign exchange or commodity price 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, and 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 as of September 30, 2022 and December 31, 2021:

	September 30, 2022		December 31, 2021	
	Following 12 Months	Months 13-24	Following 12 Months	Months 13-24
+400 basis points	17.3 %	19.0 %	17.5 %	23.6 %
+300 basis points	12.9 %	14.1 %	13.1 %	18.1 %
+200 basis points	8.5 %	9.2 %	8.7 %	12.8 %
+100 basis points	4.2 %	4.5 %	4.4 %	7.5 %
Flat rates	0.0 %	0.0 %	0.0 %	0.0 %
-100 basis points	(4.3 %)	(4.7 %)	(2.7 %)	(1.4 %)

The following table presents the change in our economic value of equity as of September 30, 2022 and December 31, 2021, assuming immediate parallel shifts in interest rates:

	Economic Value of Equity at Risk (%)	
	September 30, 2022	December 31, 2021
+400 basis points	19.4 %	31.1 %
+300 basis points	15.1 %	24.3 %
+200 basis points	10.5 %	16.9 %
+100 basis points	5.4 %	8.8 %
Flat rates	0.0 %	0.0 %
-100 basis points	(6.1 %)	(9.5 %)

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. We intend to focus our strategy on utilizing our deposit base and operating platform to increase these deposit transaction accounts.

ITEM 4

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, 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 September 30, 2022, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. 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 lawsuit in the United States Court of Federal Claims seeking a ruling that the United States Postal Service ("USPS") is obligated to make payment to us with respect to invoices totaling approximately $19.4 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 1A. Risk Factors

There have been no material changes in the Company's risk factors from those disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibits (Exhibits marked with a "†" denote management contracts or compensatory plans or arrangements)

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	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.
3.4	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.
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).

* Schedules and exhibits have been omitted pursuant to Item 601(a)(5) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished to the Securities and Exchange Commission upon request; provided, however, that the parties may request confidential treatment pursuant to Rule 24b-2 of the Exchange Act for any document so furnished.

SIGNATURES

Pursuant to the requirements 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:	October 19, 2022	/s/ Aaron P. Graft Aaron P. Graft President and Chief Executive Officer
Date:	October 19, 2022	/s/ W. Bradley Voss W. Bradley Voss Chief Financial Officer

Exhibit 31.1

CERTIFICATION

I, Aaron P. Graft, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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.

October 19, 2022

By: /s/ Aaron P. Graft

Name: Aaron P. Graft

Title: President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, W. Bradley Voss, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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.

October 19, 2022

By: /s/ W. Bradley Voss

Name: W. Bradley Voss
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 Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2022, as filed with the Securities and Exchange Commission on October 19, 2022, (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: October 19, 2022

By: /s/ W. Bradley Voss

Name: W. Bradley Voss
Title: Executive Vice President and Chief Financial Officer
Date: October 19, 2022

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.