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

FORM 10-Q

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

For the quarterly period ended June 30, 2023

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 FINANCIAL, 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, 23,275,655 shares, as of July 17, 2023.

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	TFIN	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	TFINP	NASDAQ Global Select Market

TRIUMPH FINANCIAL, INC.

FORM 10-Q

June 30, 2023

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PART I – FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

TRIUMPH FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
June 30, 2023 and December 31, 2022
(Dollar amounts in thousands)

	June 30, 2023 (Unaudited)	December 31, 2022
ASSETS		
Cash and due from banks	$ 78,270	$ 133,889
Interest bearing deposits with other banks	339,105	274,293
Total cash and cash equivalents	417,375	408,182
Securities - equity investments with readily determinable fair values	4,426	5,191
Securities - available for sale	303,779	254,504
Securities - held to maturity, net of allowance for credit losses of $2,876 and $2,444, respectively, fair value of $4,750 and $5,476, respectively	3,380	4,077
Loans held for sale	95	5,641
Loans, net of allowance for credit losses of $34,970 and $42,807, respectively	4,289,788	4,077,484
Federal Home Loan Bank and other restricted stock	20,099	6,252
Premises and equipment, net	114,673	103,339
Goodwill	233,709	233,709
Intangible assets, net	29,249	32,058
Bank-owned life insurance	41,702	41,493
Deferred tax asset, net	7,306	16,473
Other assets	187,140	145,380
Total assets	$ 5,652,721	$ 5,333,783
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest bearing	$ 1,608,411	$ 1,756,680
Interest bearing	2,685,055	2,414,656
Total deposits	4,293,466	4,171,336
Customer repurchase agreements	—	340
Federal Home Loan Bank advances	280,000	30,000
Subordinated notes	108,234	107,800
Junior subordinated debentures	41,444	41,158
Other liabilities	96,111	94,178
Total liabilities	4,819,255	4,444,812
Commitments and contingencies - See Note 8 and Note 9		
Stockholders' equity - See Note 12		
Preferred stock	45,000	45,000
Common stock, 23,269,885 and 24,053,585 shares outstanding, respectively	289	283
Additional paid-in-capital	542,565	534,790
Treasury stock, at cost	(264,916)	(182,658)
Retained earnings	515,513	498,456
Accumulated other comprehensive income (loss)	(4,985)	(6,900)
Total stockholders’ equity	833,466	888,971
Total liabilities and stockholders' equity	$ 5,652,721	$ 5,333,783

See accompanying condensed notes to consolidated financial statements.

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TRIUMPH FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the Three and Six Months Ended June 30, 2023 and 2022
(Dollar amounts in thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Interest and dividend income:				
Loans, including fees	$ 57,258	$ 44,131	$ 109,796	$ 84,978
Factored receivables, including fees	39,819	60,026	80,723	121,232
Securities	5,234	1,329	9,347	2,507
FHLB and other restricted stock	219	34	344	110
Cash deposits	2,956	787	5,950	915
Total interest income	105,486	106,307	206,160	209,742
Interest expense:				
Deposits	6,877	2,706	10,079	4,267
Subordinated notes	1,312	1,302	2,621	2,601
Junior subordinated debentures	1,090	556	2,124	1,010
Other borrowings	4,756	315	6,503	357
Total interest expense	14,035	4,879	21,327	8,235
Net interest income	91,451	101,428	184,833	201,507
Credit loss expense (benefit)	2,643	2,901	5,256	3,402
Net interest income after credit loss expense (benefit)	88,808	98,527	179,577	198,105
Noninterest income:				
Service charges on deposits	1,769	1,664	3,482	3,627
Card income	2,119	2,080	4,087	4,091
Net OREO gains (losses) and valuation adjustments	—	18	—	(114)
Net gains (losses) on sale or call of securities	—	2,514	—	2,514
Net gains (losses) on sale of loans	87	17,269	3	17,203
Fee income	7,462	6,273	13,612	11,976
Insurance commissions	1,303	1,346	2,896	3,018
Other	(1,229)	16,996	(1,547)	16,966
Total noninterest income	11,511	48,160	22,533	59,281
Noninterest expense:				
Salaries and employee benefits	54,219	54,257	108,905	100,541
Occupancy, furniture and equipment	7,292	6,507	13,995	12,943
FDIC insurance and other regulatory assessments	796	382	1,141	793
Professional fees	3,035	3,607	6,120	7,266
Amortization of intangible assets	3,001	3,064	5,851	6,172
Advertising and promotion	1,577	1,785	2,921	2,987
Communications and technology	11,397	9,820	22,249	18,932
Other	9,079	9,185	18,495	17,537
Total noninterest expense	90,396	88,607	179,677	167,171
Net income before income tax expense	9,923	58,080	22,433	90,215
Income tax expense	2,273	13,888	3,773	21,694
Net income	$ 7,650	$ 44,192	$ 18,660	$ 68,521
Dividends on preferred stock	(802)	(802)	(1,603)	(1,603)
Net income available to common stockholders	$ 6,848	$ 43,390	$ 17,057	$ 66,918
Earnings per common share				
Basic	$ 0.30	$ 1.78	$ 0.73	$ 2.72
Diluted	$ 0.29	$ 1.74	$ 0.72	$ 2.66

See accompanying condensed notes to consolidated financial statements.

TRIUMPH FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three and Six Months Ended June 30, 2023 and 2022
(Dollar amounts in thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net income	$ 7,650	$ 44,192	$ 18,660	$ 68,521
Other comprehensive income:				
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) arising during the period	608	(5,457)	2,354	(8,358)
Tax effect	(69)	1,251	(439)	1,941
Unrealized holding gains (losses) arising during the period, net of taxes	539	(4,206)	1,915	(6,417)
Reclassification of amount realized through sale or call of securities	—	(2,514)	—	(2,514)
Tax effect	—	619	—	619
Reclassification of amount realized through sale or call of securities, net of taxes	—	(1,895)	—	(1,895)
Change in unrealized gains (losses) on securities, net of tax	539	(6,101)	1,915	(8,312)
Unrealized gains (losses) on derivative financial instruments:				
Unrealized holding gains (losses) arising during the period	—	—	—	3,152
Tax effect	—	—	—	(754)
Unrealized holding gains (losses) arising during the period, net of taxes	—	—	—	2,398
Reclassification of amount of (gains) losses recognized into income	—	(9,083)	—	(9,316)
Tax effect	—	2,144	—	2,213
Reclassification of amount of (gains) losses recognized into income, net of taxes	—	(6,939)	—	(7,103)
Change in unrealized gains (losses) on derivative financial instruments	—	(6,939)	—	(4,705)
Total other comprehensive income (loss)	539	(13,040)	1,915	(13,017)
Comprehensive income	$ 8,189	$ 31,152	$ 20,575	$ 55,504

See accompanying condensed notes to consolidated financial statements.

TRIUMPH FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Three and Six Months Ended June 30, 2023 and 2022
(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, 2023	$ 45,000	24,053,585	$ 283	$ 534,790	4,268,131	$ (182,658)	$ 498,456	$ (6,900)	$ 888,971
Issuance of restricted stock awards	—	6,852	—	—	—	—	—	—	—
Vesting of restricted stock and performance stock units	—	366,892	4	(4)	—	—	—	—	—
Stock option exercises, net	—	758	—	(33)	—	—	—	—	(33)
Issuance of common stock pursuant to the Employee Stock Purchase Plan	—	21,057	—	997	—	—	—	—	997
Stock based compensation	—	—	—	2,881	—	—	—	—	2,881
Forfeiture of restricted stock awards	—	(10,961)	—	610	10,961	(610)	—	—	—
Purchase of treasury stock, net	—	(1,067,668)	—	—	1,067,668	(77,185)	—	—	(77,185)
Dividends on preferred stock	—	—	—	—	—	—	(801)	—	(801)
Net income	—	—	—	—	—	—	11,010	—	11,010
Other comprehensive income (loss)	—	—	—	—	—	—	—	1,376	1,376
Balance, March 31, 2023	$ 45,000	23,370,515	$ 287	$ 539,241	5,346,760	$ (260,453)	$ 508,665	$ (5,524)	$ 827,216
Vesting of restricted stock and performance stock units	—	233,728	2	(2)	—	—	—	—	—
Stock option exercises, net	—	829	—	(19)	—	—	—	—	(19)
Stock based compensation	—	—	—	3,320	—	—	—	—	3,320
Forfeiture of restricted stock awards	—	(451)	—	25	451	(25)	—	—	—
Purchase of treasury stock, net	—	(334,736)	—	—	334,736	(4,438)	—	—	(4,438)
Dividends on preferred stock	—	—	—	—	—	—	(802)	—	(802)
Net income	—	—	—	—	—	—	7,650	—	7,650
Other comprehensive income (loss)	—	—	—	—	—	—	—	539	539
Balance, June 30, 2023	$ 45,000	23,269,885	$ 289	$ 542,565	5,681,947	$ (264,916)	$ 515,513	$ (4,985)	833,466

	Preferred Stock	Common Stock		Additional Paid-in-Capital	Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Liquidation Preference Amount	Shares Outstanding	Par Amount		Shares Outstanding	Cost			
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)
Stock based compensation	—	—	—	4,952	—	—	—	—	4,952
Forfeiture of restricted stock awards	—	(487)	—	46	487	(46)	—	—	—
Issuance of common stock pursuant to the Employee Stock Purchase Plan	—	10,585	—	688	—	—	—	—	688
Purchase of treasury stock, net	—	(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 restricted stock and 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, net	—	(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

See accompanying condensed notes to consolidated financial statements.

TRIUMPH FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2023 and 2022
(Dollar amounts in thousands)
(Unaudited)

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Cash flows from operating activities:		
Net income	$ 18,660	$ 68,521
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	6,567	6,044
Net accretion on loans	(2,800)	(5,092)
Amortization of subordinated notes issuance costs	434	420
Amortization of junior subordinated debentures	286	274
Net (accretion) amortization on securities	(435)	(398)
Amortization of intangible assets	5,851	6,172
Deferred taxes	8,727	943
Credit loss expense (benefit)	5,256	3,402
Stock based compensation	6,201	12,832
Net (gains) losses on sale or call of debt securities	—	(2,514)
Net (gains) losses on equity securities	(18)	(9,709)
Net OREO (gains) losses and valuation adjustments	—	114
Origination of loans held for sale	(1,392)	(6,873)
Purchases of loans held for sale	—	(6,913)
Proceeds from sale of loans originated or purchased for sale	1,320	14,145
Net (gains) losses on sale of loans	(3)	(17,203)
Net change in operating leases	(154)	555
(Increase) decrease in other assets	(41,010)	(38,471)
Increase (decrease) in other liabilities	1,472	(12,122)
Net cash provided by (used in) operating activities	8,962	14,127
Cash flows from investing activities:		
Proceeds from sales of equity securities	783	—
Purchases of securities available for sale	(69,484)	(79,119)
Proceeds from sales of securities available for sale	4,000	40,163
Proceeds from maturities, calls, and pay downs of securities available for sale	18,911	20,798
Proceeds from maturities, calls, and pay downs of securities held to maturity	352	424
Purchases of loans held for investment	(18,842)	(68,908)
Proceeds from sale of loans	43,950	207,405
Net change in loans	(234,158)	215,676
Purchases of premises and equipment, net	(17,901)	(5,608)
Net proceeds from sale of OREO	—	289
(Purchases) redemptions of FHLB and other restricted stock, net	(13,847)	3,977
Acquired intangible assets	(3,042)	—
Proceeds from sale of disposal group	—	66,918
Net cash provided by (used in) investing activities	(289,278)	402,015
Cash flows from financing activities:		
Net increase (decrease) in deposits	122,130	145,337
Increase (decrease) in customer repurchase agreements	(340)	9,643
Increase (decrease) in Federal Home Loan Bank advances	250,000	(150,000)
Repayment of other borrowings	—	(27,144)
Preferred dividends	(1,603)	(1,603)
Stock option exercises, net	(52)	(74)
Proceeds from employee stock purchase plan common stock issuance	997	688
Purchase of treasury stock, net	(81,623)	(51,930)
Net cash provided by (used in) financing activities	289,509	(75,083)
Net increase (decrease) in cash and cash equivalents	9,193	341,059
Cash and cash equivalents at beginning of period	408,182	383,178
Cash and cash equivalents at end of period	417,375	724,237

See accompanying condensed notes to consolidated financial statements.

TRIUMPH FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2023 and 2022
(Dollar amounts in thousands)
(Unaudited)

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Supplemental cash flow information:		
Interest paid	$ 18,924	$ 7,296
Income taxes paid, net	$ 13,979	$ 45,035
Cash paid for operating lease liabilities	$ 2,763	$ 1,903
Supplemental noncash disclosures:		
Loans transferred to OREO	$ —	$ 47
Loans held for investment transferred to loans held for sale	$ 38,389	$ 197,899
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	$ 3,228	$ 5,267
Securities available for sale purchased, not settled	$ —	$ 23,370
Non-cash consideration received from sale of loan portfolio or disposal group	$ —	$ 4,502

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Triumph Financial, Inc. (collectively with its subsidiaries, “Triumph Financial”, 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 factoring subsidiary Triumph Financial Services LLC ("Triumph Financial Services"), 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, 2022. Operating results for the three and six months ended June 30, 2023 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023.

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 considers 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 Financial, 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 Triumph Financial Services 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 (i) 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, (ii) 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, and (iii) factoring transactions where we purchase receivables payable to such freight brokers from their shipper clients.

The Corporate segment includes holding company financing and investment activities as well as management and administrative expenses that support the overall operations of the Company such as human resources, accounting, finance, risk management and information technology expense.

For further discussion of management's operating segments and allocation methodology, see Note 16 – Business Segment Information.

Adoption of New 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".

The Company adopted ASU 2022-02 effective January 1, 2023 on a prospective basis. Adoption of ASU 2022-02 did not have a material impact on the Company's consolidated financial statements.

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. For further discussion of changes in the fair value of the return of premium liability and the period end balance, see Note 10 – Fair Value Disclosures.

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

The June 30, 2022 and September 6, 2022 agreements contain revenue share provisions that entitle the Company to amounts equal to fifteen percent and a range of fifteen to twenty percent, depending on client, respectively, of the future gross monthly revenue of the clients associated with the sold factored receivable portfolios. As these transactions qualified as sales of a group of entire financial assets, management recognized, as proceeds, the assets obtained and liabilities incurred. Thus, management recorded revenue share assets for the contractual right to receive future cash flows from a third party measured at fair value as of the date of close for the June 30, 2022 and September 6, 2022 agreements totaling $5,210,000 and $1,027,000, respectively. These are financial assets for which management elected the fair value option. They are recorded in other assets in the Company's Consolidated Balance Sheet and are marked to fair value through earnings at each reporting period.

For further discussion of changes in the fair value of the revenue share provisions and the period end balance, see Note 10 – Fair Value Disclosures.

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 during the three months ended June 30, 2022 and September 30, 2022, respectively, and were allocated to the Factoring segment.

NOTE 3 — SECURITIES

Equity Securities With Readily Determinable Fair Values

The Company held equity securities with readily determinable fair values of $4,426,000 and $5,191,000 at June 30, 2023 and December 31, 2022, respectively. The gross realized and unrealized gains and 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 June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2023	2022	2023	2022
Unrealized gains (losses) on equity securities held at the reporting date	$ (72)	$ (35)	$ —	$ (454)
Realized gains (losses) on equity securities sold during the period	—	—	18	—
	$ (72)	$ (35)	$ 18	$ (454)

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)	June 30, 2023	December 31, 2022
Equity Securities without readily determinable fair value, at cost	$ 64,282	$ 39,019
Upward adjustments based on observable price changes, cumulative	10,163	10,163
Equity Securities without readily determinable fair value, carrying value	$ 74,445	$ 49,182

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. Equity securities without readily determinable fair values also include the Company's investments in the common stock of Trax Group, Inc. and Warehouse Solutions Inc., discussed below, 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 June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2023	2022	2023	2022
Unrealized gains (losses) on equity securities still held at the reporting date	$ —	$ 10,163	$ —	$ 10,163
Realized gains (losses) on equity securities sold during the period	—	—	—	—
	$ —	$ 10,163	$ —	$ 10,163

Trax Group, Inc.

On June 22, 2023, the Company made a $9,700,000 minority investment in Trax Group, Inc. ("Trax"), a leader in transportation spend management solutions. The investment in Trax is accounted for as an equity investment without a readily determinable fair value measured under the measurement alternative and is included in other assets in the Company's consolidated balance sheets.

Warehouse Solutions Inc.

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 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 Company's investment in WSI totaled $38,088,000 at June 30, 2023 and December 31, 2022 and has been allocated to the Payments segment.

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) June 30, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
Available for sale securities:					
Mortgage-backed securities, residential	$ 51,069	$ —	$ (5,240)	$ —	$ 45,829
Asset-backed securities	1,286	—	(34)	—	1,252
State and municipal	5,283	—	(88)	—	5,195
CLO securities	250,260	481	(1,662)	—	249,079
Corporate bonds	769	—	(9)	—	760
SBA pooled securities	1,773	5	(114)	—	1,664
Total available for sale securities	$ 310,440	$ 486	$ (7,147)	$ —	$ 303,779

(Dollars in thousands) June 30, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrecognized Losses	Fair Value
Held to maturity securities:				
CLO securities	$ 6,256	$ 284	$ (1,790)	$ 4,750
Allowance for credit losses	(2,876)			
Total held to maturity securities, net of ACL	$ 3,380			

(Dollars in thousands) December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
Available for sale securities:					
Mortgage-backed securities, residential	$ 55,329	$ 235	$ (4,931)	$ —	$ 50,633
Asset-backed securities	6,389	—	(58)	—	6,331
State and municipal	13,553	1	(116)	—	13,438
CLO Securities	185,068	161	(4,218)	—	181,011
Corporate bonds	1,270	1	(8)	—	1,263
SBA pooled securities	1,910	29	(111)	—	1,828
Total available for sale securities	$ 263,519	$ 427	$ (9,442)	$ —	$ 254,504

(Dollars in thousands) December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrecognized Losses	Fair Value
Held to maturity securities:				
CLO securities	$ 6,521	$ 458	$ (1,503)	$ 5,476
Allowance for credit losses	(2,444)			
Total held to maturity securities, net of ACL	$ 4,077			

The amortized cost and estimated fair value of securities at June 30, 2023, 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	$ 1,224	$ 1,220	$ —	$ —
Due from one year to five years	2,213	2,175	1,913	2,106
Due from five years to ten years	73,022	72,397	4,343	2,644
Due after ten years	179,853	179,242	—	—
	256,312	255,034	6,256	4,750
Mortgage-backed securities, residential	51,069	45,829	—	—
Asset-backed securities	1,286	1,252	—	—
SBA pooled securities	1,773	1,664	—	—
	$ 310,440	$ 303,779	$ 6,256	$ 4,750

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 June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2023	2022	2023	2022
Proceeds	$ 4,000	$ 40,163	$ 4,000	$ 40,163
Gross gains	—	2,512	—	2,512
Gross losses	—	—	—	—
Net gains and losses from calls of securities	—	2	—	2

Debt securities with a carrying amount of approximately $35,749,000 and $93,813,000 at June 30, 2023 and December 31, 2022, 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 $4,299,000 and $2,593,000 at June 30, 2023 and December 31, 2022, 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 six months ended June 30, 2023 and 2022.

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) June 30, 2023	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale securities:						
Mortgage-backed securities, residential	$ 18,822	$ (574)	$ 26,886	$ (4,666)	$ 45,708	$ (5,240)
Asset-backed securities	—	—	1,252	(34)	1,252	(34)
State and municipal	4,134	(57)	471	(31)	4,605	(88)
CLO securities	23,028	(49)	107,197	(1,613)	130,225	(1,662)
Corporate bonds	759	(9)	—	—	759	(9)
SBA pooled securities	223	(3)	1,133	(111)	1,356	(114)
	$ 46,966	$ (692)	$ 136,939	$ (6,455)	$ 183,905	$ (7,147)

(Dollars in thousands) December 31, 2022	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale securities:						
Mortgage-backed securities, residential	$ 26,030	$ (1,507)	$ 15,828	$ (3,424)	$ 41,858	$ (4,931)
Asset-backed securities	1,337	(52)	4,994	(6)	6,331	(58)
State and municipal	12,680	(116)	—	—	12,680	(116)
CLO Securities	151,572	(3,407)	19,439	(811)	171,011	(4,218)
Corporate bonds	261	(8)	—	—	261	(8)
SBA pooled securities	1,262	(111)	—	—	1,262	(111)
	$ 193,142	$ (5,201)	$ 40,261	$ (4,241)	$ 233,403	$ (9,442)

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 June 30, 2023, the Company had 137 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 June 30, 2023, 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 the Company carried no allowance for credit losses on available for sale debt securities at June 30, 2023.

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 June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Allowance for credit losses:				
Beginning balance	$ 2,585	$ 2,455	$ 2,444	$ 2,082
Credit loss expense	291	(100)	432	273
Allowance for credit losses ending balance	$ 2,876	$ 2,355	$ 2,876	$ 2,355

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 June 30, 2023 and December 31, 2022, 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 June 30, 2023, $4,778,000 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)	June 30, 2023	December 31, 2022
1-4 family residential	$ 89	$ —
Commercial	6	5,641
Total loans held for sale	$ 95	$ 5,641

Loans Held for Investment

Loans

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

	June 30, 2023			December 31, 2022		
(Dollars in thousands)	Amortized Cost	Unpaid Principal	Difference	Amortized Cost	Unpaid Principal	Difference
Commercial real estate	$ 768,711	$ 769,682	$ (971)	$ 678,144	$ 679,239	$ (1,095)
Construction, land development, land	110,071	110,456	(385)	90,976	91,147	(171)
1-4 family residential	130,628	130,830	(202)	125,981	126,185	(204)
Farmland	67,913	68,090	(177)	68,934	69,185	(251)
Commercial	1,218,892	1,227,039	(8,147)	1,251,110	1,262,493	(11,383)
Factored receivables	1,173,794	1,177,702	(3,908)	1,237,449	1,241,032	(3,583)
Consumer	8,409	8,411	(2)	8,868	8,871	(3)
Mortgage warehouse	846,340	846,340	—	658,829	658,829	—
Total loans held for investment	4,324,758	$ 4,338,550	$ (13,792)	4,120,291	$ 4,136,981	$ (16,690)
Allowance for credit losses	(34,970)			(42,807)		
	$ 4,289,788			$ 4,077,484		

The difference between the amortized cost and the unpaid principal is due to (1) premiums and discounts associated with acquired loans totaling $9,848,000 and $13,383,000 at June 30, 2023 and December 31, 2022, respectively, and (2) net deferred origination and factoring fees totaling $3,944,000 and $3,307,000 at June 30, 2023 and December 31, 2022, respectively.

Accrued interest on loans, which is excluded from the amortized cost of loans held for investment, totaled $23,230,000 and $19,279,000 at June 30, 2023 and December 31, 2022, respectively, and was included in other assets on the Company's consolidated balance sheets.

At June 30, 2023 and December 31, 2022, the Company had $198,960,000 and $249,288,000, 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 June 30, 2023 and December 31, 2022 the balance of the Over-Formula Advance Portfolio, acquired from Transport Financial Solutions during 2020, included in factored receivables was $4,011,000 and $8,202,000, respectively. These balances were fully reserved as of those respective dates. During the six months ended June 30, 2023, new adverse developments with one of the two remaining 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 $3,330,000; however, this net charge-off had no impact on credit loss expense as the entire amount had been reserved in a prior period. In accordance with the Agreement reached with Covenant, Covenant will reimburse us for $1,665,000 of this charge-off which is reflected as a receivable in other assets on our June 30, 2023 Consolidated Balance Sheet.

At June 30, 2023 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 June 30, 2023.

Loans with carrying amounts of $1,598,726,000 and $1,356,922,000 at June 30, 2023 and December 31, 2022, 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 June 30, 2023	Beginning Balance	Credit Loss Expense	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 4,292	$ 491	$ —	$ —	$ 4,783
Construction, land development, land	1,139	95	—	1	1,235
1-4 family residential	1,004	34	—	8	1,046
Farmland	472	4	—	—	476
Commercial	16,683	1,368	(5,124)	50	12,977
Factored receivables	17,581	1,521	(5,820)	159	13,441
Consumer	185	44	(133)	70	166
Mortgage warehouse	889	(43)	—	—	846
	$ 42,245	$ 3,514	$ (11,077)	$ 288	$ 34,970

(Dollars in thousands) Three months ended June 30, 2022	Beginning Balance	Credit Loss Expense	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 3,527	$ 1,594	$ —	$ 46	$ 5,167
Construction, land development, land	901	290	—	1	1,192
1-4 family residential	450	305	—	2	757
Farmland	121	369	—	—	490
Commercial	13,215	(407)	(260)	190	12,738
Factored receivables	22,471	(120)	(712)	573	22,212
Consumer	175	77	(96)	41	197
Mortgage warehouse	693	(39)	—	—	654
	$ 41,553	$ 2,069	$ (1,068)	$ 853	$ 43,407

(Dollars in thousands) Six Months Ended June 30, 2023	Beginning Balance	Credit Loss Expense	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 4,459	$ 254	$ —	$ 70	$ 4,783
Construction, land development, land	1,155	78	—	2	1,235
1-4 family residential	838	203	(5)	10	1,046
Farmland	483	(7)	—	—	476
Commercial	15,918	2,315	(5,346)	90	12,977
Factored receivables	19,121	2,071	(8,113)	362	13,441
Consumer	175	65	(271)	197	166
Mortgage warehouse	658	188	—	—	846
	$ 42,807	$ 5,167	$ (13,735)	$ 731	$ 34,970

(Dollars in thousands) Six months ended June 30, 2022	Beginning Balance	Credit Loss Expense	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 3,961	$ 1,254	$ (108)	$ 60	$ 5,167
Construction, land development, land	827	363	—	2	1,192
1-4 family residential	468	284	—	5	757
Farmland	562	(72)	—	—	490
Commercial	14,485	(1,014)	(984)	251	12,738
Factored receivables	20,915	2,115	(1,420)	602	22,212
Consumer	226	118	(207)	60	197
Mortgage warehouse	769	(115)	—	—	654
	$ 42,213	$ 2,933	$ (2,719)	$ 980	$ 43,407

The decrease in required ACL during the three months ended June 30, 2023 is a function of net charge-offs of $10,789,000 and credit loss expense of $3,514,000.

The decrease in required ACL during the six months ended June 30, 2023 is a function of net charge-offs of $13,004,000 and credit loss expense of $5,167,000.

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 future interest rate environment. The impact of these assumed prepayment speeds is lesser in magnitude than the aforementioned loss driver assumptions.

For all DCF models at June 30, 2023, 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 June 30, 2023 as compared to December 31, 2022, the Company forecasted a slight decrease national unemployment, a steeper decrease in one-year percentage change in national retail sales, a decrease in one-year percentage change in the national home price index, and a minimal change in one-year percentage change in national gross domestic product. At June 30, 2023 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 near-zero level in the first projected quarter followed by a decline to negative levels over the last three projected quarters to a level below recent actual periods. For percentage change in national home price index, the Company projected a negative levels for all four quarters with such negative levels peaking in the third projected quarter. For percentage change in national gross domestic product, management projected near-zero growth for each projected quarter. At June 30, 2023, the Company slowed its historical prepayment speeds in response to the expected 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 June 30, 2023, changes in projected loss drivers and prepayment assumptions over the reasonable and supportable forecast period did not have a meaningful impact on the required ACL. Likewise, changes in loan volume and mix did not have a meaningful impact on the ACL during the period. Decreases in required specific reserves decreased the required ACL by $7,108,000. Net charge-offs during the period were $10,789,000.

For the three months ended June 30, 2022, changes in projected loss drivers and prepayment assumptions over the reasonable and supportable forecast period increased the required ACL by $2,558,000. Changes in loan volume and mix decreased the required ACL by $1,624,000. Increases in required specific reserves increased the required ACL by $919,000. Net charge-offs during the period were $215,000.

For the six months ended June 30, 2023, changes in projected loss drivers and prepayment assumptions over the reasonable and supportable forecast period did not have a meaningful impact on the required ACL. Likewise, changes in loan volume and mix did not have a meaningful impact on the ACL during the period. Decreases in required specific reserves decreased the required ACL by $8,019,000. Net charge-offs during the period were $13,004,000.

For the six months ended June 30, 2022, changes in projected loss drivers and prepayment assumptions over the reasonable and supportable forecast period increased the required ACL by $1,541,000. Changes in loan volume and mix decreased the required ACL by $2,146,000. Increases in required specific reserves increased the required ACL by $1,798,000. Net charge-offs during the period were $1,739,000.

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) June 30, 2023	Real Estate	Accounts Receivable	Equipment	Other	Total	ACL Allocation
Commercial real estate	$ 1,209	$ —	$ 179	$ 803	$ 2,191	$ 32
Construction, land development, land	—	—	—	—	—	—
1-4 family residential	1,059	—	—	26	1,085	126
Farmland	303	—	—	92	395	—
Commercial	1,045	—	2,652	2,383	6,080	1,990
Factored receivables	—	36,951	—	—	36,951	8,004
Consumer	—	—	—	180	180	—
Mortgage warehouse	—	—	—	—	—	—
Total	$ 3,616	$ 36,951	$ 2,831	$ 3,484	$ 46,882	$ 10,152

At June 30, 2023 the balance of the Over-Formula Advance Portfolio included in factored receivables was $4,011,000 and was fully reserved. At June 30, 2023 the balance of Misdirected Payments included in factored receivables was $19,361,000 and carried no ACL allocation.

(Dollars in thousands) December 31, 2022	Real Estate	Accounts Receivable	Equipment	Other	Total	ACL Allocation
Commercial real estate	$ 1,003	$ —	$ —	$ 140	$ 1,143	$ 283
Construction, land development, land	150	—	—	—	150	—
1-4 family residential	1,342	—	—	49	1,391	108
Farmland	196	—	108	96	400	—
Commercial	193	—	5,334	10,370	15,897	4,737
Factored receivables	—	42,409	—	—	42,409	13,042
Consumer	—	—	—	91	91	—
Mortgage warehouse	—	—	—	—	—	—
Total	$ 2,884	$ 42,409	$ 5,442	$ 10,746	$ 61,481	$ 18,170

At December 31, 2022 the balance of the Over-Formula Advance Portfolio included in factored receivables was $8,202,000 and carried an ACL allocation of $8,202,000. At December 31, 2022 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) June 30, 2023	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	$ —	$ 42	$ 16	$ 58	$ 768,653	$ 768,711	$ —
Construction, land development, land	—	—	—	—	110,071	110,071	—
1-4 family residential	783	157	431	1,371	129,257	130,628	—
Farmland	3,848	231	—	4,079	63,834	67,913	—
Commercial	4,277	5,242	3,773	13,292	1,205,600	1,218,892	—
Factored receivables	17,787	3,543	26,819	48,149	1,125,645	1,173,794	26,819
Consumer	13	91	108	212	8,197	8,409	—
Mortgage warehouse	—	—	—	—	846,340	846,340	—
Total	$ 26,708	$ 9,306	$ 31,147	$ 67,161	$ 4,257,597	$ 4,324,758	$ 26,819

(Dollars in thousands) December 31, 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	$ 1,301	$ —	$ 455	$ 1,756	$ 676,388	$ 678,144	$ —
Construction, land development, land	—	—	145	145	90,831	90,976	—
1-4 family residential	936	531	776	2,243	123,738	125,981	—
Farmland	—	—	—	—	68,934	68,934	—
Commercial	1,630	3,139	2,847	7,616	1,243,494	1,251,110	—
Factored receivables	42,797	12,651	37,142	92,590	1,144,859	1,237,449	37,142
Consumer	52	41	2	95	8,773	8,868	—
Mortgage warehouse	—	—	—	—	658,829	658,829	—
Total	$ 46,716	$ 16,362	$ 41,367	$ 104,445	$ 4,015,846	$ 4,120,291	$ 37,142

At June 30, 2023 and December 31, 2022, total past due Over-Formula Advances recorded in factored receivables was $4,011,000 and $8,202,000, respectively, all of which was considered past due 90 days or more. At June 30, 2023 and December 31, 2022, 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:

	June 30, 2023		December 31, 2022	
(Dollars in thousands)	Total Nonaccrual	Nonaccrual With No ACL	Total Nonaccrual	Nonaccrual With No ACL
Commercial real estate	$ 1,933	$ 1,818	$ 871	$ 319
Construction, land development, land	—	—	150	150
1-4 family residential	1,085	881	1,391	1,238
Farmland	394	394	400	400
Commercial	5,501	1,813	15,393	3,662
Factored receivables	—	—	—	—
Consumer	180	180	91	91
Mortgage warehouse	—	—	—	—
	$ 9,093	$ 5,086	$ 18,296	$ 5,860

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2023	2022	2023	2022
Commercial real estate	$ —	$ —	$ 16	$ —
Construction, land development, land	—	—	—	—
1-4 family residential	6	—	6	—
Farmland	—	—	22	—
Commercial	1	2	8	6
Factored receivables	—	—	—	—
Consumer	1	—	1	—
Mortgage warehouse	—	—	—	—
	$ 8	$ 2	$ 53	$ 6

There was no interest earned on nonaccrual loans during the three and six months ended June 30, 2023 and 2022.

The following table presents information regarding nonperforming loans:

(Dollars in thousands)	June 30, 2023	December 31, 2022
Nonaccrual loans	$ 9,093	$ 18,296
Factored receivables greater than 90 days past due	22,808	28,940
Other nonperforming factored receivables[(1)]	61	491
Troubled debt restructurings accruing interest	—	503
	$ 31,962	$ 48,230

(1) 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 June 30, 2023 and December 31, 2022, based on the most recent analysis performed, the risk category of loans is as follows:

(Dollars in thousands) June 30, 2023	Year of Origination 2023	2022	2021	2020	2019	Prior	Revolving Loans	Revolving Loans Converted To Term Loans	Total
Commercial real estate									
Pass	$ 81,407	$ 189,531	$ 155,250	$ 188,216	$ 24,049	$ 41,734	$ 80,562	$ 174	$ 760,923
Classified	872	3,177	732	2,953	38	16	—	—	7,788
Total commercial real estate	$ 82,279	$ 192,708	$ 155,982	$ 191,169	$ 24,087	$ 41,750	$ 80,562	$ 174	$ 768,711
YTD gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Construction, land development, land									
Pass	$ 39,791	$ 54,122	$ 6,494	$ 3,361	$ 3,006	$ 392	$ 2,905	$ —	$ 110,071
Classified	—	—	—	—	—	—	—	—	—
Total construction, land development, land	$ 39,791	$ 54,122	$ 6,494	$ 3,361	$ 3,006	$ 392	$ 2,905	$ —	$ 110,071
YTD gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
1-4 family residential									
Pass	$ 14,577	$ 23,352	$ 20,376	$ 8,345	$ 2,639	$ 22,464	$ 37,263	$ 182	$ 129,198
Classified	317	23	127	5	53	789	116	—	1,430
Total 1-4 family residential	$ 14,894	$ 23,375	$ 20,503	$ 8,350	$ 2,692	$ 23,253	$ 37,379	$ 182	$ 130,628
YTD gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ 5	$ —	$ —	$ 5
Farmland									
Pass	$ 6,801	$ 14,731	$ 6,437	$ 8,275	$ 2,541	$ 21,301	$ 1,640	$ 172	$ 61,898
Classified	4,702	895	—	21	99	298	—	—	6,015
Total farmland	$ 11,503	$ 15,626	$ 6,437	$ 8,296	$ 2,640	$ 21,599	$ 1,640	$ 172	$ 67,913
YTD gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial									
Pass	$ 191,873	$ 273,932	$ 112,284	$ 102,327	$ 35,368	$ 14,440	$ 467,359	$ 816	$ 1,198,399
Classified	1,069	9,873	6,490	1,977	33	168	883	—	20,493
Total commercial	$ 192,942	$ 283,805	$ 118,774	$ 104,304	$ 35,401	$ 14,608	$ 468,242	$ 816	$ 1,218,892
YTD gross charge-offs	$ 1	$ 598	$ 4,395	$ 342	$ 10	$ —	$ —	$ —	$ 5,346
Factored receivables									
Pass	$ 1,138,485	$ —	$ —	$ 3,950	$ —	$ —	$ —	$ —	$ 1,142,435
Classified	11,937	—	—	19,422	—	—	—	—	31,359
Total factored receivables	$ 1,150,422	$ —	$ —	$ 23,372	$ —	$ —	$ —	$ —	$ 1,173,794
YTD gross charge-offs	$ 2,490	$ 2,293	$ —	$ 3,330	$ —	$ —	$ —	$ —	$ 8,113
Consumer									
Pass	$ 2,277	$ 2,064	$ 920	$ 599	$ 209	$ 2,109	$ 61	$ —	$ 8,239
Classified	—	—	99	—	—	71	—	—	170
Total consumer	$ 2,277	$ 2,064	$ 1,019	$ 599	$ 209	$ 2,180	$ 61	$ —	$ 8,409
YTD gross charge-offs	$ 242	$ 13	$ 11	$ 3	$ —	$ 2	$ —	$ —	$ 271
Mortgage warehouse									
Pass	$ 846,340	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 846,340
Classified	—	—	—	—	—	—	—	—	—
Total mortgage warehouse	$ 846,340	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 846,340
YTD gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Total loans									
Pass	$ 2,321,551	$ 557,732	$ 301,761	$ 315,073	$ 67,812	$ 102,440	$ 589,790	$ 1,344	$ 4,257,503
Classified	18,897	13,968	7,448	24,378	223	1,342	999	—	67,255
Total loans	$ 2,340,448	$ 571,700	$ 309,209	$ 339,451	$ 68,035	$ 103,782	$ 590,789	$ 1,344	$ 4,324,758
YTD gross charge-offs	$ 2,733	$ 2,904	$ 4,406	$ 3,675	$ 10	$ 7	$ —	$ —	$ 13,735

(Dollars in thousands)	Year of Origination								
December 31, 2022	2022	2021	2020	2019	2018	Prior	Revolving Loans	Revolving Loans Converted To Term Loans	Total
Commercial real estate									
Pass	$ 231,427	$ 156,895	$ 198,541	$ 28,033	$ 17,786	$ 35,658	$ 3,675	$ —	$ 672,015
Classified	3,668	551	1,855	39	—	16	—	—	6,129
Total commercial real estate	$ 235,095	$ 157,446	$ 200,396	$ 28,072	$ 17,786	$ 35,674	$ 3,675	$ —	$ 678,144
Construction, land development, land									
Pass	$ 71,236	$ 11,328	$ 4,535	$ 3,186	$ 35	$ 506	$ —	$ —	$ 90,826
Classified	—	—	5	—	—	145	—	—	150
Total construction, land development, land	$ 71,236	$ 11,328	$ 4,540	$ 3,186	$ 35	$ 651	$ —	$ —	$ 90,976
1-4 family residential									
Pass	$ 26,306	$ 22,639	$ 9,536	$ 2,929	$ 3,528	$ 20,910	$ 38,361	$ 300	$ 124,509
Classified	137	199	7	53	1	1,006	69	—	1,472
Total 1-4 family residential	$ 26,443	$ 22,838	$ 9,543	$ 2,982	$ 3,529	$ 21,916	$ 38,430	$ 300	$ 125,981
Farmland									
Pass	$ 18,190	$ 7,291	$ 10,027	$ 2,699	$ 6,742	$ 18,569	$ 1,016	$ 204	$ 64,738
Classified	1,062	2,796	120	108	—	110	—	—	4,196
Total farmland	$ 19,252	$ 10,087	$ 10,147	$ 2,807	$ 6,742	$ 18,679	$ 1,016	$ 204	$ 68,934
Commercial									
Pass	$ 358,983	$ 181,933	$ 136,635	$ 41,912	$ 5,842	$ 12,145	$ 486,889	$ 161	$ 1,224,500
Classified	10,721	10,579	3,767	1,038	96	116	293	—	26,610
Total commercial	$ 369,704	$ 192,512	$ 140,402	$ 42,950	$ 5,938	$ 12,261	$ 487,182	$ 161	$ 1,251,110
Factored receivables									
Pass	$ 1,196,912	$ —	$ 7,710	$ —	$ —	$ —	$ —	$ —	$ 1,204,622
Classified	12,974	—	19,853	—	—	—	—	—	32,827
Total factored receivables	$ 1,209,886	$ —	$ 27,563	$ —	$ —	$ —	$ —	$ —	$ 1,237,449
Consumer									
Pass	$ 2,768	$ 1,981	$ 894	$ 304	$ 266	$ 2,418	$ 147	$ —	$ 8,778
Classified	—	1	2	—	8	79	—	—	90
Total consumer	$ 2,768	$ 1,982	$ 896	$ 304	$ 274	$ 2,497	$ 147	$ —	$ 8,868
Mortgage warehouse									
Pass	$ 658,829	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 658,829
Classified	—	—	—	—	—	—	—	—	—
Total mortgage warehouse	$ 658,829	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 658,829
Total loans									
Pass	$ 2,564,651	$ 382,067	$ 367,878	$ 79,063	$ 34,199	$ 90,206	$ 530,088	$ 665	$ 4,048,817
Classified	28,562	14,126	25,609	1,238	105	1,472	362	—	71,474
Total loans	$ 2,593,213	$ 396,193	$ 393,487	$ 80,301	$ 34,304	$ 91,678	$ 530,450	$ 665	$ 4,120,291

Loan Modifications to Borrowers Experiencing Financial Difficulty

The following table presents the amortized cost basis at the end of the reporting period of the loans modifications to borrowers experiencing financial difficulty:

	Term Extension			
	Three Months Ended June 30, 2023		Six Months Ended June 30, 2023	
(Dollars in thousands)	Amortized Cost	% of Portfolio	Amortized Cost	% of Portfolio
Commercial real estate	$ 116	— %	$ 116	— %
Commercial	—	— %	1,218	0.1 %

The following table describes the financial effect of the modifications made to borrowers experiencing financial difficulty:

	Term Extension	
	Three Months Ended June 30, 2023	Six Months Ended June 30, 2023
Commercial real estate	Modification added a weighted average 0.3 years to the life of the modified loans, which did not have a material impact on cash flows.	Modification added a weighted average 0.3 years to the life of the modified loans, which did not have a material impact on cash flows.
Commercial	N/A	Modification added a weighted average 0.3 years to the life of the modified loans, which did not have a material impact on cash flows.

	Payment Delay			
	Three Months Ended June 30, 2023		Six Months Ended June 30, 2023	
(Dollars in thousands)	Amortized Cost	% of Portfolio	Amortized Cost	% of Portfolio
Commercial real estate	$ —	— %	$ 756	0.1 %

The following table describes the financial effect of the modifications made to borrowers experiencing financial difficulty:

	Payment Delay
	Six Months Ended June 30, 2023
Commercial real estate	Modification allowed for a weighted average 0.5 years of interest only payments with remaining balances due at maturity.

The following table presents the performance of loans that have been modified in the last twelve months:

	June 30, 2023		
(Dollars in thousands)	Current	Past Due 30-89 Days	Past Due 90 Days or More
Commercial real estate	$ 872	$ —	$ —
Commercial	1,218	—	—
	$ 2,090	$ —	$ —

At June 30, 2023, the Company had no commitments to lend additional funds to borrowers experiencing financial difficulty for which the Company modified the terms of the loans in the form of principal forgiveness, an interest rate reduction, an other-than-insignificant payment delay, or a term extension during the current period.

There were no loans to borrowers experiencing financial difficulty that had a payment default during the three and six months ended June 30, 2023 and were modified in the twelve months prior to that default. Default is determined at 90 or more days past due, upon charge-off, or upon foreclosure. Modified loans in default are individually evaluated for the allowance for credit losses or if the modified loan is deemed uncollectible, the loan, or a portion of the loan, is written off and the allowance for credit losses is adjusted accordingly.

Residential Real Estate Loans In Process of Foreclosure

At June 30, 2023 and December 31, 2022, the Company had $0 and $129,000, 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)	June 30, 2023	December 31, 2022
Goodwill	$ 233,709	$ 233,709

	June 30, 2023			December 31, 2022		
(Dollars in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit intangibles	$ 43,578	$ (36,802)	$ 6,776	$ 43,578	$ (35,347)	$ 8,231
Software intangible assets	16,932	(8,819)	8,113	16,932	(6,702)	10,230
Other intangible assets	33,452	(19,092)	14,360	30,410	(16,813)	13,597
	$ 93,962	$ (64,713)	$ 29,249	$ 90,920	$ (58,862)	$ 32,058

The changes in goodwill and intangible assets during the three and six months ended June 30, 2023 and 2022 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2023	2022	2023	2022
Beginning balance	$ 265,959	$ 269,119	$ 265,767	$ 276,856
Acquired intangible assets	—	—	3,042	—
Acquired goodwill - measurement period adjustment	—	—	—	(18)
Goodwill transferred to assets held for sale	—	3,217	—	(3,217)
Intangible assets transferred to assets held for sale	—	1,394	—	(1,394)
Goodwill transferred from assets held for sale	—	—	—	3,217
Intangible assets transferred from assets held for sale	—	—	—	1,394
Amortization of intangibles	(3,001)	(3,064)	(5,851)	(6,172)
Ending balance	$ 262,958	$ 270,666	$ 262,958	$ 270,666

NOTE 6 — 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 three months ended March 31, 2022 and June 30, 2022, the Company reclassified $233,000 and $232,000, respectively, into earnings through interest expense in the consolidated statements of income. During the three months ended June 30, 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2023	2022	2023	2022
Unrealized gains on terminated hedges				
Beginning Balance	$ —	$ 9,083	$ —	$ —
Unrealized gains arising during the period	—	—	—	9,316
Reclassification adjustments for amortization of unrealized (gains) into net income	—	(9,083)	—	(9,316)
Ending Balance	$ —	$ —	$ —	$ —

The Company did not have any derivative financial instruments at June 30, 2023 and December 31, 2022.

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 June 30, 2022					
Derivatives in cash flow hedging relationships:					
Interest rate swaps	$ —	$ —	Interest Expense	$ (6,939)	$ (6,939)
Six Months Ended June 30, 2022					
Derivatives in cash flow hedging relationships:					
Interest rate swaps	$ 2,398	$ 2,398	Interest Expense	$ 7,103	$ 7,103

NOTE 7 — 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 $3,380,000 and $4,077,000 at June 30, 2023 and December 31, 2022, 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 8 — 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 June 30, 2023, will have no material effect on the Company's consolidated financial statements.

NOTE 9 — 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:

	June 30, 2023			December 31, 2022		
(Dollars in thousands)	Fixed Rate	Variable Rate	Total	Fixed Rate	Variable Rate	Total
Unused lines of credit	$ 6,064	$ 577,064	$ 583,128	$ 1,417	$ 487,965	$ 489,382
Standby letters of credit	$ 17,649	$ 8,398	$ 26,047	$ 12,309	$ 4,897	$ 17,206
Commitments to purchase loans	$ —	$ 37,321	$ 37,321	$ —	$ 53,572	$ 53,572
Mortgage warehouse commitments	$ —	$ 758,651	$ 758,651	$ —	$ 1,055,117	$ 1,055,117

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 June 30, 2023 and December 31, 2022, the allowance for credit losses on off-balance sheet credit exposures totaled $3,265,000 and $3,606,000, 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 June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2023	2022	2023	2022
Credit loss expense (benefit)	$ (1,162)	$ 932	$ (343)	$ 196

NOTE 10 — 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 2022 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			
June 30, 2023	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	$ —	$ 45,829	$ —	$ 45,829
Asset-backed securities	—	1,252	—	1,252
State and municipal	—	5,195	—	5,195
CLO securities	—	249,079	—	249,079
Corporate bonds	—	760	—	760
SBA pooled securities	—	1,664	—	1,664
	$ —	$ 303,779	$ —	$ 303,779
Equity securities with readily determinable fair values				
Mutual fund	$ 4,426	$ —	$ —	$ 4,426
Loans held for sale	$ —	$ 95	$ —	$ 95
Indemnification asset	$ —	$ —	$ 1,905	$ 1,905
Revenue share asset	$ —	$ —	$ 3,053	$ 3,053
Liabilities measured at fair value on a recurring basis				
Return of premium liability	$ —	$ —	$ 376	$ 376

(Dollars in thousands) December 31, 2022	Fair Value Measurements Using Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value on a recurring basis				
Securities available for sale				
Mortgage-backed securities, residential	$ —	$ 50,633	$ —	$ 50,633
Asset-backed securities	—	6,331	—	6,331
State and municipal	—	13,438	—	13,438
CLO Securities	—	181,011	—	181,011
Corporate bonds	—	1,263	—	1,263
SBA pooled securities	—	1,828	—	1,828
	$ —	$ 254,504	$ —	$ 254,504
Equity securities with readily determinable fair values				
Mutual fund	$ 5,191	$ —	$ —	$ 5,191
Loans held for sale	$ —	$ 5,641	$ —	$ 5,641
Indemnification asset	$ —	$ —	$ 3,896	$ 3,896
Revenue share asset	$ —	$ —	$ 5,515	$ 5,515
Liabilities measured at fair value on a recurring basis				
Return of premium liability	$ —	$ —	$ 575	$ 575

There were no transfers between levels during 2023 or 2022.

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 acquired during 2020. 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 June 30, 2023 and December 31, 2022, the estimated cash payments expected to be received from Covenant for probable losses on the covered Over-Formula Advance Portfolio were approximately $2,006,000 and $4,101,000, 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 June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2023	2022	2023	2022
Beginning balance	$ 3,691	$ 4,582	$ 3,896	$ 4,786
Indemnification asset recognized in business combination	—	—	—	—
Change in fair value of indemnification asset recognized in earnings	(121)	(205)	(326)	(409)
Indemnification reduction	(1,665)	—	(1,665)	—
Ending balance	$ 1,905	$ 4,377	$ 1,905	$ 4,377

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 June 30, 2023 and December 31, 2022, the estimated cash payments expected to be received from the purchaser for the Company's share of future gross monthly revenue as $4,060,000 and $7,613,000, respectively, 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2023	2022	2023	2022
Beginning balance	$ 4,532	$ —	$ 5,515	$ —
Revenue share asset recognized	—	5,210	—	5,210
Change in fair value of revenue share asset recognized in earnings	(1,169)	—	(1,789)	—
Revenue share payments received	(310)	—	(673)	—
Ending balance	$ 3,053	$ 5,210	$ 3,053	$ 5,210

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 June 30, 2023 and December 31, 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% and 11.0% prepayment speed, respectively; 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2023	2022	2023	2022
Beginning balance	$ 476	$ —	$ 575	$ —
Return of premium liability recognized	—	708	—	708
Change in fair value of return of premium liability recognized in earnings	(100)	—	(199)	—
Return of premium payments made	—	—	—	—
Ending balance	$ 376	$ 708	$ 376	$ 708

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 June 30, 2023 and December 31, 2022.

(Dollars in thousands) June 30, 2023	Fair Value Measurements Using Level 1	Level 2	Level 3	Total Fair Value
Collateral dependent loans				
Commercial real estate	$ —	$ —	$ 84	$ 84
1-4 family residential	—	—	79	79
Commercial	—	—	2,227	2,227
Factored receivables	—	—	28,947	28,947
	$ —	$ —	$ 31,337	$ 31,337

(Dollars in thousands) December 31, 2022	Fair Value Measurements Using Level 1	Level 2	Level 3	Total Fair Value
Collateral dependent loans				
Commercial real estate	$ —	$ —	$ 269	$ 269
1-4 family residential	—	—	46	46
Commercial	—	—	6,994	6,994
Factored receivables	—	—	29,367	29,367
Equity investment without readily determinable fair value	38,088	—	—	38,088
	$ 38,088	$ —	$ 36,676	$ 74,764

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.

The estimated fair values of the Company’s financial instruments not measured at fair value on a recurring or non-recurring basis at June 30, 2023 and December 31, 2022 were as follows:

(Dollars in thousands) June 30, 2023	Carrying Amount	Fair Value Measurements Using Level 1	Level 2	Level 3	Total Fair Value
Financial assets:					
Cash and cash equivalents	$ 417,375	$ 417,375	$ —	$ —	$ 417,375
Securities - held to maturity	3,380	—	—	4,750	4,750
Loans not previously presented, gross	4,293,421	146,940	—	4,069,012	4,215,952
FHLB and other restricted stock	20,099	N/A	N/A	N/A	N/A
Accrued interest receivable	27,619	27,619	—	—	27,619
Financial liabilities:					
Deposits	4,293,466	—	4,283,892	—	4,283,892
Federal Home Loan Bank advances	280,000	—	280,000	—	280,000
Subordinated notes	108,234	—	91,355	—	91,355
Junior subordinated debentures	41,444	—	43,151	—	43,151
Accrued interest payable	4,514	4,514	—	—	4,514

(Dollars in thousands) December 31, 2022	Carrying Amount	Fair Value Measurements Using Level 1	Level 2	Level 3	Total Fair Value
Financial assets:					
Cash and cash equivalents	$ 408,182	$ 408,182	$ —	$ —	$ 408,182
Securities - held to maturity	4,077	—	—	5,476	5,476
Loans not previously presented, gross	4,088,411	187,729	—	3,805,701	3,993,430
FHLB and other restricted stock	6,252	N/A	N/A	N/A	N/A
Accrued interest receivable	21,977	21,977	—	—	21,977
Financial liabilities:					
Deposits	4,171,336	—	4,159,695	—	4,159,695
Customer repurchase agreements	340	—	340	—	340
Federal Home Loan Bank advances	30,000	—	30,000	—	30,000
Subordinated notes	107,800	—	104,400	—	104,400
Junior subordinated debentures	41,158	—	42,721	—	42,721
Accrued interest payable	2,830	2,830	—	—	2,830

NOTE 11 — 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 June 30, 2023 and December 31, 2022, the Company and TBK Bank meet all capital adequacy requirements to which they are subject.

As of June 30, 2023 and December 31, 2022, 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 June 30, 2023 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	
June 30, 2023	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)						
Triumph Financial, Inc.	$ 769,846	15.6%	$ 394,793	8.0%	N/A	N/A
TBK Bank, SSB	$ 744,838	15.2%	$ 392,020	8.0%	$ 490,025	10.0%
Tier 1 capital (to risk weighted assets)						
Triumph Financial, Inc.	$ 626,451	12.7%	$ 295,961	6.0%	N/A	N/A
TBK Bank, SSB	$ 712,246	14.5%	$ 294,722	6.0%	$ 392,963	8.0%
Common equity Tier 1 capital (to risk weighted assets)						
Triumph Financial, Inc.	$ 540,007	10.9%	$ 222,939	4.5%	N/A	N/A
TBK Bank, SSB	$ 712,246	14.5%	$ 221,042	4.5%	$ 319,283	6.5%
Tier 1 capital (to average assets)						
Triumph Financial, Inc.	$ 626,451	12.0%	$ 208,817	4.0%	N/A	N/A
TBK Bank, SSB	$ 712,246	13.7%	$ 207,955	4.0%	$ 259,944	5.0%
As of December 31, 2022						
Total capital (to risk weighted assets)						
Triumph Financial, Inc.	$ 829,928	17.7%	$ 375,109	8.0%	N/A	N/A
TBK Bank, SSB	$ 732,785	15.8%	$ 371,030	8.0%	$ 463,788	10.0%
Tier 1 capital (to risk weighted assets)						
Triumph Financial, Inc.	$ 684,381	14.6%	$ 281,252	6.0%	N/A	N/A
TBK Bank, SSB	$ 697,022	15.0%	$ 278,809	6.0%	$ 371,745	8.0%
Common equity Tier 1 capital (to risk weighted assets)						
Triumph Financial, Inc.	$ 598,223	12.7%	$ 211,969	4.5%	N/A	N/A
TBK Bank, SSB	$ 697,022	15.0%	$ 209,107	4.5%	$ 302,043	6.5%
Tier 1 capital (to average assets)						
Triumph Financial, Inc.	$ 684,381	13.0%	$ 210,579	4.0%	N/A	N/A
TBK Bank, SSB	$ 697,022	13.2%	$ 211,219	4.0%	$ 264,023	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 June 30, 2023 and December 31, 2022. 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 June 30, 2023 and December 31, 2022, the Company’s and TBK Bank’s risk based capital exceeded the required capital conservation buffer.

NOTE 12 — STOCKHOLDERS' EQUITY

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

Preferred Stock Series C

(Dollars in thousands, except per share amounts)	June 30, 2023	December 31, 2022
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

	June 30, 2023	December 31, 2022
Shares authorized	50,000,000	50,000,000
Shares issued	28,951,832	28,321,716
Treasury shares	(5,681,947)	(4,268,131)
Shares outstanding	23,269,885	24,053,585
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. During the three months ended March 31, 2022, the Company repurchased 14,810 shares into treasury stock under the Company's stock repurchase program at an average price of $88.81, for a total of $1,316,000. During the three months ended June 30, 2022, the Company repurchased 694,985 shares into treasury stock under the Company's stock repurchase program at an average price of $70.02, for a total of $48,684,000, effectively completing the repurchase program.

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. On November 7, 2022, the repurchase authorization was increased to $100,000,000 in connection with the commencement of a modified "Dutch auction" tender offer (the "Tender Offer").

During the three months ended December 31, 2022, the Company repurchased 408,615 shares of its common stock in the Tender Offer at a price of $58.00 per share, for an aggregate cost of $24,772,000, including fees and expenses related to the tender offer of $1,072,000.

On February 1, 2023, the Company entered into an accelerated share repurchase (“ASR”) agreement to repurchase $70,000,000 of the Company’s common stock. The ASR is part of the Company’s previously announced plan to repurchase up to $100,000,000 of the Company’s common stock and is within the remaining amount authorized by the Company’s Board of Directors pursuant to such plan. Under the terms of the ASR agreement, the Company received an initial delivery of 961,373 common shares representing approximately 80% of the expected total to be repurchased. On April 28, 2023, the ASR was completed and the Company received an additional delivery of 247,954 common shares.

In connection with the completion of the ASR, on May 4, 2023, the Company announced that its board of directors had authorized the Company to repurchase up to an additional $50,000,000 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. The Company has not repurchased any shares under the new share repurchase program.

NOTE 13 — STOCK BASED COMPENSATION

Stock based compensation expense that has been charged against income was $3,320,000 and $7,880,000 for the three months ended June 30, 2023 and 2022, respectively, and $6,201,000 and $12,832,000 for the six months ended June 30, 2023 and 2022, 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 2,900,000 shares.

Restricted Stock Awards

A summary of changes in the Company’s nonvested Restricted Stock Awards (“RSAs”) under the Omnibus Incentive Plan for the six months ended June 30, 2023 were as follows:

Nonvested RSAs	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2023	230,486	70.34
Granted	6,852	58.25
Vested	(101,101)	60.28
Forfeited	(11,412)	76.06
Nonvested at June 30, 2023	124,825	77.00

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 June 30, 2023, there was $3,177,000 of unrecognized compensation cost related to the nonvested RSAs. The cost is expected to be recognized over a remaining period of 1.80 years.

Restricted Stock Units

A summary of changes in the Company’s nonvested Restricted Stock Units (“RSUs”) under the Omnibus Incentive Plan for the six months ended June 30, 2023 were as follows:

Nonvested RSUs	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2023	211,300	59.45
Granted	121,050	51.25
Vested	(114,509)	43.19
Forfeited	(2,551)	67.58
Nonvested at June 30, 2023	215,290	63.39

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 June 30, 2023, there was $9,930,000 of unrecognized compensation cost related to the nonvested RSUs. The cost is expected to be recognized over a remaining period of 3.18 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 six months ended June 30, 2023 were as follows:

Nonvested Market Based PSUs	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2023	112,486	$ 55.57
Granted	78,872	78.15
Incremental shares earned	52,694	N/A
Vested	(122,969)	36.10
Forfeited	(155)	38.57
Nonvested at June 30, 2023	120,928	$ 81.63

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 specified groups of peer banks and financial technology companies, and with respect to the Company's 2023 awards may include an additional multiplier of up to 200% of the otherwise earned award based on the Company's absolute TSR. 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:

	Six Months Ended June 30,	
	2023	2022
Grant date	May 1, 2023	May 1, 2022
Performance period	3.00 years	3.00 years
Stock price	$ 51.25	$ 69.44
Triumph Financial stock price volatility	49.33 %	55.17 %
Risk-free rate	3.76 %	2.84 %

As of June 30, 2023, there was $7,691,000 of unrecognized compensation cost related to the nonvested Market Based PSUs. The cost is expected to be recognized over a remaining period of 2.55 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 six months ended June 30, 2023 were as follows:

Nonvested Performance Based PSUs	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2023	255,738	$ 39.57
Granted	—	—
Incremental shares earned	107,404	N/A
Vested	(363,142)	40
Forfeited	—	—
Nonvested at June 30, 2023	—	$ —

The Performance Based PSUs granted to employees under the Omnibus Incentive Plan vested after a three year performance period. Under the terms of the award agreements, the number of shares issued upon vesting could range from 0% to 200% of the shares granted based on the Company’s cumulative diluted earnings per share over the performance period. The performance period for the outstanding Performance Based PSUs ended on December 31, 2022, and the awards subsequently vested at 142% of the target shares granted.

Compensation expense for the Performance Based PSUs was estimated during the performance period based on the fair value of the stock at the grant date and the most probable outcome of the performance condition at each period end, adjusted for the passage of time within the vesting period of the awards. There was no stock based compensation cost related to Performance Based PSUs during the three and six months ended June 30, 2023 and there is no remaining unrecognized compensation cost related to these awards. During the three and six months ended June 30, 2022, the Company recognized $4,328,000 and $5,135,000, respectively, of stock based compensation cost related to Performance Based PSUs.

Stock Options

A summary of the changes in the Company’s stock options under the Omnibus Incentive Plan for the six months ended June 30, 2023 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, 2023	195,398	$ 39.48		
Granted	57,930	51.25		
Exercised	(6,023)	31.61		
Forfeited or expired	—	—		
Outstanding at June 30, 2023	247,305	$ 42.43	6.59	$ 5,280
Fully vested shares and shares expected to vest at June 30, 2023	247,305	$ 42.43	6.59	$ 5,280
Shares exercisable at June 30, 2023	148,332	$ 32.81	4.86	$ 4,447

Information related to the stock options for the six months ended June 30, 2023 and 2022 was as follows:

	Six Months Ended June 30,	
(Dollars in thousands, except per share amounts)	2023	2022
Aggregate intrinsic value of options exercised	$ 140	$ 280
Cash received from option exercises, net	(52)	(74)
Tax benefit realized from option exercises	29	59
Weighted average fair value per share of options granted	$ 25.20	$ 32.15

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. Expected volatilities are determined based on the Company's historical volatility. 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:

	Six Months Ended June 30,	
	2023	2022
Risk-free interest rate	3.38 %	2.77 %
Expected term	6.25 years	6.25 years
Expected stock price volatility	45.65 %	43.33 %
Dividend yield	—	—

As of June 30, 2023, there was $1,828,000 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 3.30 years.

Employee Stock Purchase Plan

During the year ended December 31, 2019, the Company's Board of Directors adopted, and the Company's stockholders approved, the Company's 2019 Employee Stock Purchase Plan ("ESPP"). Under the ESPP, 2,500,000 shares of common stock were reserved for issuance. The ESPP enables eligible employees to purchase the Company's common stock at a price per share equal to 85% of the lower of the fair market value of the common stock at the beginning or end of each six month offering period. During the six months ended June 30, 2023 and 2022, 21,057 shares and 10,585 shares, respectively, were issued under the plan.

NOTE 14 — EARNINGS PER SHARE

The factors used in the earnings per share computation follow:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2023	2022	2023	2022
Basic				
Net income to common stockholders	$ 6,848	$ 43,390	$ 17,057	$ 66,918
Weighted average common shares outstanding	23,138,835	24,427,270	23,249,668	24,612,988
Basic earnings per common share	$ 0.30	$ 1.78	$ 0.73	$ 2.72
Diluted				
Net income to common stockholders	$ 6,848	$ 43,390	$ 17,057	$ 66,918
Weighted average common shares outstanding	23,138,835	24,427,270	23,249,668	24,612,988
Dilutive effects of:				
Assumed exercises of stock options	71,658	89,443	73,884	99,402
Restricted stock awards	90,645	144,526	113,930	189,492
Restricted stock units	65,909	85,934	91,878	91,236
Performance stock units - market based	87,360	115,825	104,203	127,694
Performance stock units - performance based	—	—	—	—
Employee stock purchase program	1,064	3,575	780	2,173
Average shares and dilutive potential common shares	23,455,471	24,866,573	23,634,343	25,122,985
Diluted earnings per common share	$ 0.29	$ 1.74	$ 0.72	$ 2.66

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Stock options	107,309	52,878	107,309	52,878
Restricted stock awards	4,232	6,348	4,232	6,348
Restricted stock units	11,250	15,000	11,250	15,000
Performance stock units - market based	42,056	45,296	42,056	45,296
Performance stock units - performance based	—	254,832	—	254,832
Employee stock purchase program	—	—	—	—

NOTE 15 — 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. TriumphPay fees included in the Consolidated Statements of Income totaled $4,089,000 and $3,381,000 for the three months ended June 30, 2023 and 2022, respectively, and $7,787,000 and $6,610,000 for the six months ended June 30, 2023 and 2022, respectively. These fees are generally 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 16 — BUSINESS SEGMENT INFORMATION

The Company's 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. 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 Triumph Financial Services with revenue derived from factoring services. The Payments segment includes the operations of 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 Carriers are offered 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 the Company and from offering Brokers the ability to settle their invoices with the Company on an extended term following the Company's payment to their Carriers as an additional liquidity option for such Brokers.

Prior to March 31, 2023, the majority of salaries and benefits expense for the Company's executive leadership team, as well as other selling, general, and administrative shared services costs including human resources, accounting, finance, risk management and a significant amount of information technology expense, were allocated to the Banking segment. During the quarter ended March 31, 2023 management began allocating such shared service costs to its Corporate segment. The Company continues to make considerable investments in shared services that benefit the entire organization and by moving such expenses to the Corporate segment, the Company's chief operating decision maker and investors now have greater visibility into the operating performance of each reportable segment. Prior periods were revised to reflect such allocations and achieve appropriate comparability.

Separately, prior to March 31, 2023, intersegment interest expense was allocated to the Factoring and Payments segments (when the Payments segment is not self-funded) based on a rolling average of Federal Home Loan Bank advance rates. When the Payments segment was self-funded with funding in excess of its factored receivables, intersegment interest income was allocated based on the Federal Funds effective rate. During the quarter ended March 31, 2023, the Company began allocating intersegment interest expense to the Factoring and Payments segments based on one-month term SOFR for their funding needs. When the Payments segment is self-funded, with funding in excess of its factored receivables, intersegment interest income will continue to be allocated based on the Federal Funds effective rate. Management believes that such intersegment interest allocations are more intuitive in the current interest rate environment. Prior periods were revised to reflect such allocations and achieve appropriate comparability.

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. Other than the changes to allocations discussed above, 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 2022 Form 10-K.

Transactions between segments consist primarily of borrowed funds, payment network fees, and servicing fees. Intersegment interest expense is allocated to the Factoring and Payments segments as described above. Beginning January 1, 2023, payment network fees are paid by the Factoring segment to the Payments segment for use of the payments network. Beginning prospectively on June 1, 2023, factoring transactions with freight broker clients were transferred from our Factoring segment to our Payments segment to align with TriumphPay's supply chain finance product offerings. 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 with various shared service costs such as human resources, accounting, finance, risk management and information technology expense assigned to the Corporate segment. Taxes are paid on a consolidated basis and are not allocated for segment purposes. The Factoring segment includes only factoring originated by Triumph Financial Services.

(Dollars in thousands)

Three months ended June 30, 2023	Banking	Factoring	Payments	Corporate	Consolidated
Total interest income	$ 65,624	$ 36,367	$ 3,451	$ 44	$ 105,486
Intersegment interest allocations	7,478	(9,358)	1,880	—	—
Total interest expense	11,634	—	—	2,401	14,035
Net interest income (expense)	61,468	27,009	5,331	(2,357)	91,451
Credit loss expense (benefit)	831	1,481	41	290	2,643
Net interest income after credit loss expense	60,637	25,528	5,290	(2,647)	88,808
Noninterest income	6,347	980	4,119	65	11,511
Intersegment noninterest income (expense)[1]	—	(97)	97	—	—
Noninterest expense	31,934	20,218	16,939	21,305	90,396
Net income (loss) before income tax expense	$ 35,050	$ 6,193	$ (7,433)	$ (23,887)	$ 9,923

(Dollars in thousands)

Three months ended June 30, 2022	Banking	Factoring	Payments	Corporate	Consolidated
Total interest income	$ 46,239	$ 55,854	$ 4,172	$ 42	$ 106,307
Intersegment interest allocations	4,246	(3,878)	(368)	—	—
Total interest expense	3,021	—	—	1,858	4,879
Net interest income (expense)	47,464	51,976	3,804	(1,816)	101,428
Credit loss expense (benefit)	3,120	64	(184)	(99)	2,901
Net interest income after credit loss expense	44,344	51,912	3,988	(1,717)	98,527
Noninterest income	22,282	15,521	10,309	48	48,160
Intersegment noninterest income (expense)[1]	—	—	—	—	—
Noninterest expense	31,205	23,512	17,663	16,227	88,607
Net income (loss) before income tax expense	$ 35,421	$ 43,921	$ (3,366)	$ (17,896)	$ 58,080

(Dollars in thousands)

Six months ended June 30, 2023	Banking	Factoring	Payments	Corporate	Consolidated
Total interest income	$ 125,350	$ 74,524	$ 6,198	$ 88	$ 206,160
Intersegment interest allocations	15,090	(18,512)	3,422	—	—
Total interest expense	16,582	—	—	4,745	21,327
Net interest income (expense)	123,858	56,012	9,620	(4,657)	184,833
Credit loss expense (benefit)	2,754	2,030	41	431	5,256
Net interest income after credit loss expense	121,104	53,982	9,579	(5,088)	179,577
Noninterest income	12,020	2,558	7,826	129	22,533
Intersegment noninterest income (expense)[1]	—	(362)	362	—	—
Noninterest expense	64,174	41,987	32,356	41,160	179,677
Net income (loss) before income tax expense	$ 68,950	$ 14,191	$ (14,589)	$ (46,119)	$ 22,433

(Dollars in thousands)

Six months ended June 30, 2022	Banking	Factoring	Payments	Corporate	Consolidated
Total interest income	$ 88,422	$ 112,228	$ 9,004	$ 88	$ 209,742
Intersegment interest allocations	4,851	(4,430)	(421)	—	—
Total interest expense	4,624	—	—	3,611	8,235
Net interest income (expense)	88,649	107,798	8,583	(3,523)	201,507
Credit loss expense (benefit)	250	2,013	170	969	3,402
Net interest income after credit loss expense	88,399	105,785	8,413	(4,492)	198,105
Noninterest income	28,253	17,392	13,551	85	59,281
Intersegment noninterest income (expense)[1]	—	—	—	—	—
Noninterest expense	59,817	45,643	31,996	29,715	167,171
Net income (loss) before income tax expense	$ 56,835	$ 77,534	$ (10,032)	$ (34,122)	$ 90,215

[(1)] Intersegment noninterest income (expense) includes:

(Dollars in thousands)	Factoring	Payments
Three Months Ended June 30, 2023		
Factoring revenue received from Payments	$ 170	$ (170)
Payments revenue received from Factoring	(267)	267
Intersegment noninterest income (expense)	$ (97)	$ 97
Three Months Ended June 30, 2022		
Factoring revenue received from Payments	$ —	$ —
Payments revenue received from Factoring	—	—
Intersegment noninterest income (expense)	$ —	$ —
Six months ended June 30, 2023		
Factoring revenue received from Payments	$ 170	$ (170)
Payments revenue received from Factoring	(532)	532
Intersegment noninterest income (expense)	$ (362)	$ 362
Six months ended June 30, 2022		
Factoring revenue received from Payments	$ —	$ —
Payments revenue received from Factoring	—	—
Intersegment noninterest income (expense)	$ —	$ —

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

(Dollars in thousands) June 30, 2023	Banking	Factoring	Payments	Corporate	Eliminations	Consolidated
Total assets	$ 5,161,837	$ 1,084,139	$ 447,935	$ 1,021,259	$ (2,062,449)	$ 5,652,721
Gross loans	$ 3,688,130	$ 997,842	$ 175,952	$ —	$ (537,166)	$ 4,324,758

(Dollars in thousands) December 31, 2022	Banking	Factoring	Payments	Corporate	Eliminations	Consolidated
Total assets	$ 4,910,628	$ 1,260,209	$ 371,948	$ 1,061,662	$ (2,270,664)	$ 5,333,783
Gross loans	$ 3,572,716	$ 1,151,727	$ 85,722	$ —	$ (689,874)	$ 4,120,291

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, 2022. 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 June 30, 2023, we had consolidated total assets of $5.653 billion, total loans held for investment of $4.325 billion, total deposits of $4.293 billion and total stockholders' equity of $833.5 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 Financial Services. Triumph Financial Services 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 June 30, 2023, 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 Financial Services. 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 six months ended June 30, 2023, our Banking segment generated 60% of our total revenue (comprised of interest and noninterest income), our Factoring segment generated 34% of our total revenue, our Payments segment generated 6% of our total revenue, and our Corporate segment generated less than 1% of our total revenue.

Second Quarter 2023 Overview

Net income available to common stockholders for the three months ended June 30, 2023 was $6.8 million, or $0.29 per diluted share, compared to net income to common stockholders for the three months ended June 30, 2022 of $43.4 million, or $1.74 per diluted share. For the three months ended June 30, 2023, our return on average common equity was 3.45% and our return on average assets was 0.56%.

Net income available to common stockholders for the six months ended June 30, 2023 was $17.1 million, or $0.72 per diluted share, compared to net income available to common stockholders for the six months ended June 30, 2022 of $66.9 million, or $2.66 per diluted share. For the six months ended June 30, 2023, our return on average common equity was 4.27% and our return on average assets was 0.70%.

At June 30, 2023, we had total assets of $5.653 billion, including gross loans held for investment of $4.325 billion, compared to $5.334 billion of total assets and $4.120 billion of gross loans held for investment at December 31, 2022. Total loans held for investment increased $204.5 million during the six months ended June 30, 2023. Our Banking loans, which constitute 73% of our total loan portfolio at June 30, 2023, increased from $2.883 billion in aggregate as of December 31, 2022 to $3.151 billion as of June 30, 2023, an increase of 9.3%. Our Factoring factored receivables, which constitute 23% of our total loan portfolio at June 30, 2023, decreased from $1.152 billion in aggregate as of December 31, 2022 to $0.998 billion as of June 30, 2023, a decrease of 13.4%. Our Payments factored receivables, which constitute 4% of our total loan portfolio at June 30, 2023, increased from $85.7 million in aggregate as of December 31, 2022 to $176.0 million as of June 30, 2023, an increase of 105.3%. Approximately $93.7 million of the increase in TriumphPay factored receivables was the result of transferring factoring transactions with freight broker clients from our Factoring segment to our Payments segment, thus aligning such services with TriumphPay's strength; serving freight brokers in the transportation industry.

At June 30, 2023, we had total liabilities of $4.819 billion, including total deposits of $4.293 billion, compared to $4.445 billion of total liabilities and $4.171 billion of total deposits at December 31, 2022. Deposits increased $122.1 million during the six months ended June 30, 2023.

At June 30, 2023, we had total stockholders' equity of $833.5 million. During the six months ended June 30, 2023, total stockholders’ equity decreased $55.5 million, primarily due to treasury stock purchases made under our accelerated share repurchase program, offset in part by our net income during the period. Capital ratios remained strong with Tier 1 capital and total capital to risk weighted assets ratios of 12.68% and 15.59%, respectively, at June 30, 2023.

The total dollar value of invoices purchased by Triumph Financial Services during the three months ended June 30, 2023 was $2.733 billion with an average invoice size of $1,828. The average transportation invoice size for the three months ended June 30, 2023 was $1,773. This compares to invoice purchase volume of $4.024 billion with an average invoice size of $2,332 and average transportation invoice size of $2,176 during the same period a year ago.

TriumphPay processed 4.5 million invoices paying Carriers a total of $4.940 billion during the three months ended June 30, 2023. This compares to processed volume of 4.4 million invoices for a total of $6.034 billion during the same period a year ago.

2023 Items of Note

Equity Investment

On June 22, 2023 we made a $9.7 million minority investment in Trax Group, Inc. ("Trax"), a leader in transportation spend management solutions. The investment in Trax is accounted for as an equity investment without a readily determinable fair value measured under the measurement alternative and is included in other assets on our consolidated balance sheet.

Accelerated Share Repurchase and Stock Repurchase Program

On February 1, 2023, we entered into an accelerated share repurchase ("ASR") agreement to repurchase $70.0 million of our common stock. The ASR is part of our previously announced plan to repurchase up to $100.0 million of our common stock and is within the remaining amount authorized by our Board of Directors pursuant to such plan. During the three months ended March 31, 2023, we received an initial delivery of 961,373 common shares representing approximately 80% of the expected total to be repurchased. On April 28, 2023, the ASR was completed and we received an additional delivery of 247,954 common shares.

In connection with the completion of the ASR, on May 4, 2023, we announced that our board of directors had authorized us to repurchase up to an additional $50.0 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. We have not repurchased any shares under the new share repurchase program.

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 June 30, 2023.

During the second quarter, new adverse developments with one of the two remaining 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 $3.3 million; however, this net charge-off had no impact on credit loss expense as the entire amount had been reserved in a prior period. In accordance with the Agreement reached with Covenant, Covenant will reimburse us for $1.7 million of this charge-off which is reflected as a receivable in other assets on our June 30,2023 Consolidated Balance Sheet. At June 30, 2023, the carrying value of the acquired over-formula advances was $4.0 million, the total reserve on acquired over-formula advances was $4.0 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 $1.9 million.

As of June 30, 2023 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 June 30, 2023. The full amount of such receivable is reflected in non-performing and past due factored receivables as of June 30, 2023 in accordance with our policy. As of June 30, 2023, the entire $19.4 million Misdirected Payments amount was greater than 90 days past due.

2022 Items of Note

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 months ended March 31, 2022, we repurchased 14,810 shares into treasury stock under our repurchase program at an average price of $88.81, for a total of $1.3 million. During the three months ended June 30, 2022, we repurchased 694,985 shares into treasury stock under our repurchase program at an average price of $70.02, for a total of $48.7 million, effectively completing the 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.

On November 7, 2022, the repurchase authorization was increased to $100.0 million in connection with the commencement of a modified "Dutch auction" tender offer (the "Tender Offer"). During the three months ended December 31, 2022, we repurchased 408,615 shares of our common stock in the Tender Offer at a price of $58.00 per share, for an aggregate cost of $24.8 million, including fees and expenses related to the tender offer of $1.1 million.

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 6 – 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 months ended June 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 3 – Securities 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 fluctuation in the freight markets, particularly in brokered freight, which is priced largely off the spot market (a reflection of real-time balance of carrier supply and shipper demand in the market) and subject to variability in diesel prices. The softness in freight is a combination of falling volumes and excess capacity. By the end of the first quarter of 2023, spot rates had fallen below the cost per mile to operate for many carriers. During the second quarter, average rates per mile began to level off, but spot rates remained at low levels last seen in 2019. As a result, we have observed a number of small and medium-sized trucking companies either leave the market by signing on with larger carriers or electing to sell their fleets or companies and move on to other endeavors.

Financial Highlights

(Dollars in thousands, except per share amounts)	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Income Statement Data:				
Interest income	$ 105,486	$ 106,307	$ 206,160	$ 209,742
Interest expense	14,035	4,879	21,327	8,235
Net interest income	91,451	101,428	184,833	201,507
Credit loss expense (benefit)	2,643	2,901	5,256	3,402
Net interest income after credit loss expense (benefit)	88,808	98,527	179,577	198,105
Noninterest income	11,511	48,160	22,533	59,281
Noninterest expense	90,396	88,607	179,677	167,171
Net income (loss) before income taxes	9,923	58,080	22,433	90,215
Income tax expense (benefit)	2,273	13,888	3,773	21,694
Net income (loss)	$ 7,650	$ 44,192	$ 18,660	$ 68,521
Dividends on preferred stock	(802)	(802)	(1,603)	(1,603)
Net income available (loss) to common stockholders	$ 6,848	$ 43,390	$ 17,057	$ 66,918
Per Share Data:				
Basic earnings (loss) per common share	$ 0.30	$ 1.78	$ 0.73	$ 2.72
Diluted earnings (loss) per common share	$ 0.29	$ 1.74	$ 0.72	$ 2.66
Weighted average shares outstanding - basic	23,138,835	24,427,270	23,249,668	24,612,988
Weighted average shares outstanding - diluted	23,455,471	24,866,573	23,634,343	25,122,985
Performance ratios - Annualized:				
Return on average assets	0.56 %	3.02 %	0.70 %	2.36 %
Return on average total equity	3.64 %	20.08 %	4.43 %	15.67 %
Return on average common equity	3.45 %	20.78 %	4.27 %	16.13 %
Return on average tangible common equity [1]	5.16 %	30.63 %	6.37 %	23.91 %
Yield on loans[2]	9.14 %	8.79 %	9.18 %	8.69 %
Cost of interest bearing deposits	1.13 %	0.41 %	0.85 %	0.32 %
Cost of total deposits	0.68 %	0.23 %	0.50 %	0.19 %
Cost of total funds	1.23 %	0.40 %	0.97 %	0.34 %
Net interest margin[2]	7.57 %	7.68 %	7.82 %	7.68 %
Efficiency ratio	87.80 %	59.23 %	86.65 %	64.10 %
Net noninterest expense to average assets	5.79 %	2.76 %	5.88 %	3.71 %

(Dollars in thousands, except per share amounts)	June 30, 2023	December 31, 2022
Balance Sheet Data:		
Total assets	$ 5,652,721	$ 5,333,783
Cash and cash equivalents	417,375	408,182
Investment securities	311,585	263,772
Loans held for investment, net	4,289,788	4,077,484
Total liabilities	4,819,255	4,444,812
Noninterest bearing deposits	1,608,411	1,756,680
Interest bearing deposits	2,685,055	2,414,656
FHLB advances	280,000	30,000
Subordinated notes	108,234	107,800
Junior subordinated debentures	41,444	41,158
Total stockholders’ equity	833,466	888,971
Preferred stockholders' equity	45,000	45,000
Common stockholders' equity	788,466	843,971
Per Share Data:		
Book value per share	$ 33.88	$ 35.09
Tangible book value per share (1)	$ 22.58	$ 24.04
Shares outstanding end of period	23,269,885	24,053,585
Asset Quality ratios(3):		
Past due to total loans	1.55 %	2.53 %
Nonperforming loans to total loans	0.74 %	1.17 %
Nonperforming assets to total assets	0.68 %	1.02 %
ACL to nonperforming loans	109.41 %	88.76 %
ACL to total loans	0.81 %	1.04 %
Net charge-offs to average loans(4)	0.31 %	0.14 %
Capital ratios:		
Tier 1 capital to average assets	12.01 %	13.00 %
Tier 1 capital to risk-weighted assets	12.68 %	14.57 %
Common equity Tier 1 capital to risk-weighted assets	10.93 %	12.73 %
Total capital to risk-weighted assets	15.59 %	17.66 %
Total stockholders' equity to total assets	14.74 %	16.67 %
Tangible common stockholders' equity ratio (1)	9.75 %	11.41 %

(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:

- "*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.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands, except per share amounts)	2023	2022	2023	2022
Loan discount accretion	$ 990	$ 3,556	$ 2,800	$ 5,092

(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 six months ended June 30, 2023 and the year ended December 31, 2022.

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 June 30,		Six Months Ended June 30,	
(Dollars in thousands, except per share amounts)	2023	2022	2023	2022
Average total stockholders' equity	$ 841,979	$ 882,505	$ 850,002	$ 881,732
Average preferred stock liquidation preference	(45,000)	(45,000)	(45,000)	(45,000)
Average total common stockholders' equity	796,979	837,505	805,002	836,732
Average goodwill and other intangibles	(264,544)	(269,319)	(264,930)	(272,332)
Average tangible common equity	$ 532,435	$ 568,186	$ 540,072	$ 564,400
Net income available to common stockholders	$ 6,848	$ 43,390	$ 17,057	$ 66,918
Average tangible common equity	532,435	568,186	540,072	564,400
Return on average tangible common equity	5.16 %	30.63 %	6.37 %	23.91 %
Efficiency ratio:				
Net interest income	$ 91,451	$ 101,428	$ 184,833	$ 201,507
Noninterest income	11,511	48,160	22,533	59,281
Operating revenue	102,962	149,588	207,366	260,788
Total noninterest expense	$ 90,396	$ 88,607	$ 179,677	$ 167,171
Efficiency ratio	87.80 %	59.23 %	86.65 %	64.10 %
Net noninterest expense to average assets ratio:				
Total noninterest expense	$ 90,396	$ 88,607	$ 179,677	$ 167,171
Total noninterest income	11,511	48,160	22,533	59,281
Net noninterest expenses	$ 78,885	$ 40,447	$ 157,144	$ 107,890
Average total assets	$ 5,461,946	$ 5,878,320	$ 5,386,429	$ 5,860,916
Net noninterest expense to average assets ratio	5.79 %	2.76 %	5.88 %	3.71 %

(Dollars in thousands, except per share amounts)	June 30, 2023	December 31, 2022
Total stockholders' equity	$ 833,466	$ 888,971
Preferred stock	(45,000)	(45,000)
Total common stockholders' equity	788,466	843,971
Goodwill and other intangibles	(262,958)	(265,767)
Tangible common stockholders' equity	$ 525,508	$ 578,204
Common shares outstanding	23,269,885	24,053,585
Tangible book value per share	$ 22.58	$ 24.04
Total assets at end of period	$ 5,652,721	$ 5,333,783
Goodwill and other intangibles	(262,958)	(265,767)
Tangible assets at period end	$ 5,389,763	$ 5,068,016
Tangible common stockholders' equity ratio	9.75 %	11.41 %

Results of Operations

Three months ended June 30, 2023 compared with three months ended June 30, 2022.

Net Income

We earned net income of $7.7 million for the three months ended June 30, 2023 compared to net income of $44.2 million for the three months ended June 30, 2022, a decrease of $36.5 million. The decrease in net income was driven by a $36.6 million decrease in noninterest income, a $10.0 million decrease in net interest income, and a $1.8 million increase in noninterest expense partially offset by an $11.6 million decrease in income tax expense and a $0.3 million decrease in credit loss 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 June 30,					
	2023			2022		
(Dollars in thousands)	Average Balance	Interest	Average Rate[4]	Average Balance	Interest	Average Rate[4]
Interest earning assets:						
Cash and cash equivalents	227,696	2,956	5.21 %	343,210	787	0.92 %
Taxable securities	318,285	5,167	6.51 %	174,489	1,237	2.84 %
Tax-exempt securities	10,399	67	2.58 %	14,378	92	2.57 %
FHLB and other restricted stock	27,071	219	3.24 %	12,526	34	1.09 %
Loans [1]	4,262,170	97,077	9.14 %	4,753,893	104,157	8.79 %
Total interest earning assets	4,845,621	105,486	8.73 %	5,298,496	106,307	8.05 %
Noninterest earning assets:						
Cash and cash equivalents	73,176			91,882		
Other noninterest earning assets	543,149			487,942		
Total assets	5,461,946			5,878,320		
Interest bearing liabilities:						
Deposits:						
Interest bearing demand	804,799	715	0.36 %	876,536	536	0.25 %
Individual retirement accounts	60,171	104	0.69 %	81,678	106	0.52 %
Money market	506,782	1,685	1.33 %	545,508	280	0.21 %
Savings	529,952	475	0.36 %	528,450	201	0.15 %
Certificates of deposit	286,253	902	1.26 %	461,280	550	0.48 %
Brokered time deposits	244,721	2,823	4.63 %	101,270	302	1.20 %
Other brokered deposits	13,188	173	5.26 %	76,155	731	3.85 %
Total interest bearing deposits	2,445,866	6,877	1.13 %	2,670,877	2,706	0.41 %
Federal Home Loan Bank advances	363,901	4,756	5.24 %	155,549	316	0.81 %
Subordinated notes	108,115	1,312	4.87 %	107,263	1,302	4.87 %
Junior subordinated debentures	41,378	1,090	10.57 %	40,802	556	5.47 %
Other borrowings	308	—	— %	5,844	(1)	(0.07)%
Total interest bearing liabilities	2,959,568	14,035	1.90 %	2,980,335	4,879	0.66 %
Noninterest bearing liabilities and equity:						
Noninterest bearing demand deposits	1,598,733			1,951,725		
Other liabilities	61,666			63,755		
Total equity	841,979			882,505		
Total liabilities and equity	5,461,946			5,878,320		
Net interest income		91,451			101,428	
Interest spread [2]			6.83 %			7.39 %
Net interest margin [3]			7.57 %			7.68 %

(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 June 30,					
	2023			2022		
(Dollars in thousands)	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Banking loans	$ 3,120,594	$ 57,258	7.36 %	$ 3,014,573	$ 44,131	5.87 %
Factoring receivables	1,036,922	36,368	14.07 %	1,576,208	55,854	14.21 %
Payments receivables	104,654	3,451	13.23 %	163,112	4,172	10.26 %
Total loans	$ 4,262,170	$ 97,077	9.14 %	$ 4,753,893	$ 104,157	8.79 %

We earned net interest income of $91.5 million for the three months ended June 30, 2023 compared to $101.4 million for the three months ended June 30, 2022, a decrease of $9.9 million, or 9.8%, primarily driven by the following factors.

Interest income decreased $0.8 million, or 0.8%, due to a decrease in average interest earning assets of $452.9 million, or 8.5%, and a decrease in average total loans of $491.7 million, or 10.3%. The average balance of our higher yielding Factoring factored receivables decreased $539.3 million, or 34.2%, driving the decrease in interest income along with a decrease in average Payments factored receivables. Average Banking loans increased $106.0 million, or 3.5% due to increases in the average balances of commercial real estate, residential real estate, general commercial and mortgage warehouse loans. The decrease in average loans was partially offset by higher average balances among other types interest earning assets and higher 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 $848.0 million for the three months ended June 30, 2023 compared to $651.4 million for the three months ended June 30, 2022. 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 $1.0 million and $3.6 million for the three months ended June 30, 2023 and 2022, respectively.

Interest expense increased $9.2 million, or 187.7%, despite a decrease in average interest-bearing liabilities. More specifically, average total interest bearing deposits decreased $225.0 million, or 8.4%. Average noninterest bearing demand deposits decreased $353.0 million. The change in interest expense period over period was also driven by higher average rates discussed below.

Net interest margin decreased to 7.57% for the three months ended June 30, 2023 from 7.68% for the three months ended June 30, 2022, a decrease of 11 basis points or 1.4%.

The decrease in our net interest margin was most impacted by an increase in our average cost of interest bearing liabilities of 124 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 decrease in our net interest margin was partially offset by an increase in our yield on interest earning assets of 68 basis points to 8.73% for the three months ended June 30, 2023. This increase was primarily driven by higher yields on loans which increased 35 basis points to 9.14% for the same period. That being said, further growth in loan yield was halted by a decrease in Factoring yield period over period, as well as a decrease in average Factoring factored receivables as a percentage of the total loan portfolio. Our transportation factoring balances, which generally generate a higher yield than our non-transportation factoring balances, were 95% and 94% of our Factoring portfolio at June 30, 2023 and 2022, respectively. Banking and Payments yields increased period over period. Non-loan yields were higher across the board period over period.

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 June 30, 2023 vs. 2022		
	Increase (Decrease) Due to:		
(Dollars in thousands)	Rate	Volume	Net Increase
Interest earning assets:			
Cash and cash equivalents	$ 3,669	$ (1,500)	$ 2,169
Taxable securities	1,596	2,334	3,930
Tax-exempt securities	1	(26)	(25)
FHLB and other restricted stock	67	118	185
Loans	4,120	(11,200)	(7,080)
Total interest income	9,453	(10,274)	(821)
Interest bearing liabilities:			
Interest bearing demand	243	(64)	179
Individual retirement accounts	35	(37)	(2)
Money market	1,534	(129)	1,405
Savings	273	1	274
Certificates of deposit	904	(552)	352
Brokered time deposits	866	1,655	2,521
Other brokered deposits	268	(826)	(558)
Total interest bearing deposits	4,123	48	4,171
Federal Home Loan Bank advances	1,717	2,723	4,440
Subordinated notes	—	10	10
Junior subordinated debentures	519	15	534
Other borrowings	1	—	1
Total interest expense	6,360	2,796	9,156
Change in net interest income	$ 3,093	$ (13,070)	$ (9,977)

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 2022 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 June 30,			
(Dollars in thousands)	2023	2022	$ Change	% Change
Credit loss expense (benefit) on loans	$ 3,514	$ 2,069	$ 1,445	69.8 %
Credit loss expense (benefit) on off balance sheet credit exposures	(1,162)	932	(2,094)	(224.7)%
Credit loss expense (benefit) on held to maturity securities	291	(100)	391	391.0 %
Credit loss expense on available for sale securities	—	—	—	—
Total credit loss expense (benefit)	$ 2,643	$ 2,901	$ (258)	(8.9)%

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 June 30, 2023 and March 31, 2023, 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 June 30, 2023. 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 June 30, 2023 and December 31, 2022, 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 June 30, 2023 and March 31, 2023, the Company carried $6.3 million and $6.5 million, respectively, of these HTM securities at amortized cost. The required ACL on these balances was $2.9 million at June 30, 2023 and $2.6 million at March 31, 2023, resulting in $0.3 million of credit loss expense during the current quarter. Credit loss expense during the three months ended June 30, 2022 was a benefit of $0.1 million. None of the overcollateralization triggers tied to the CLO securities were tripped as of June 30, 2023. 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 $35.0 million as of June 30, 2023, compared to $42.8 million as of December 31, 2022, representing an ACL to total loans ratio of 0.81% and 1.04%, respectively.

Our credit loss expense on loans increased $1.4 million, or 69.8%, for the three months ended June 30, 2023 compared to the three months ended June 30, 2022.

During the three months ended June 30, 2023, new adverse developments with one of the two remaining 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 $3.3 million; however, this net charge-off had no impact on credit loss expense as the entire amount had been reserved in a prior period. In accordance with the Agreement reached with Covenant, Covenant will reimburse us for $1.7 million of this charge-off which is reflected as a receivable on our June 30, 2023 Consolidated Balance Sheet. We continue to reserve the full balance of the Over-Formula Advance clients at June 30, 2023 which totals $4.0 million.

The increase in credit loss expense was primarily driven by increased net charge-offs during the period. Including the $3.3 million over-formula advance net charge-off previously discussed, net charge-offs during the three months ended June 30, 2023 were $10.8 million compared to $0.2 million during the same period a year ago. Approximately $8.1 million of the $10.8 million net charge-offs for the three months ended June 30, 2023 were reserved in a prior period while charge-offs during the three months ended June 30, 2022 were fully reserved in a prior period. Such prior period reserves are included in the discussion of changes in specific reserves below.

Changes in volume and mix of the loan portfolio also increased credit loss expense. Such changes created a benefit to credit loss expense of $0.2 million during the three months ended June 30, 2023 compared to a benefit to credit loss expense of $1.6 million during the same period a year ago.

The increased credit loss expense was partially offset by changes in new specific reserves. Such specific reserves decreased $7.1 million during the three months ended June 30, 2023 compared to an increase of $0.9 million during the same period a year ago.

The increase in credit loss expense was also partially offset by changes to projected loss drivers and prepayment speeds that the Company forecasted over the reasonable and supportable forecast period to calculate expected losses. The result of such changes had an insignificant impact to credit loss expense for the three months ended June 30, 2023 compared to credit loss expense of $2.6 million during the same period a year ago.

Credit loss expense for off balance sheet credit exposures decreased $2.1 million, primarily due to decreased underlying outstanding commitments to fund period over period.

Noninterest Income

The following table presents our major categories of noninterest income:

	Three Months Ended June 30,			
(Dollars in thousands)	2023	2022	$ Change	% Change
Service charges on deposits	$ 1,769	$ 1,664	$ 105	6.3 %
Card income	2,119	2,080	39	1.9 %
Net OREO gains (losses) and valuation adjustments	—	18	(18)	(100.0)%
Net gains (losses) on sale or call of securities	—	2,514	(2,514)	(100.0)%
Net gains (losses) on sale of loans	87	17,269	(17,182)	(99.5)%
Fee income	7,462	6,273	1,189	19.0 %
Insurance commissions	1,303	1,346	(43)	(3.2)%
Other	(1,229)	16,996	(18,225)	(107.2)%
Total noninterest income	$ 11,511	$ 48,160	$ (36,649)	(76.1)%

Noninterest income decreased $36.6 million, or 76.1%. 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 decreased $2.5 million as no securities we sold or called during the three months ended June 30, 2023.
- *Net gains (losses) on sale of loans.* Net gains (losses) on sale of loans decreased $17.2 million due to the aforementioned $13.2 million gain on sale of factored receivables and the aforementioned $3.9 million gain on sale of equipment loans during the three months ended June 30, 2022. Sales of such magnitude did not repeat during the three months ended June 30, 2023.
- *Fee income*. Fee income increased $1.2 million, or 19.0%, due to a $0.7 million increase in fees earned by TriumphPay Audit during the three months ended June 30, 2023 compared to the same period a year ago.
- *Other.* Other noninterest income decreased $18.2 million primarily due to a gain of $8.9 million on the aforementioned termination of an interest rate swap recognized during the three months ended June 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. The decrease was also driven by a write down of our revenue share asset, which is carried at fair value, of $1.2 million during the three months ended June 30, 2023.

Noninterest Expense

The following table presents our major categories of noninterest expense:

	Three Months Ended June 30,			
(Dollars in thousands)	2023	2022	$ Change	% Change
Salaries and employee benefits	$ 54,219	$ 54,257	$ (38)	(0.1)%
Occupancy, furniture and equipment	7,292	6,507	785	12.1 %
FDIC insurance and other regulatory assessments	796	382	414	108.4 %
Professional fees	3,035	3,607	(572)	(15.9)%
Amortization of intangible assets	3,001	3,064	(63)	(2.1)%
Advertising and promotion	1,577	1,785	(208)	(11.7)%
Communications and technology	11,397	9,820	1,577	16.1 %
Travel and entertainment	1,555	1,423	132	9.3 %
Other	7,524	7,762	(238)	(3.1)%
Total noninterest expense	$ 90,396	$ 88,607	$ 1,789	2.0 %

Noninterest expense increased $1.8 million, or 2.0%. 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 were relatively flat period over period. Employee salaries and payroll taxes increased $3.2 million and $0.4 million, respectively, which is primarily due to merit increases for existing employees and growth in our workforce. The size of our workforce increased period over period due to organic growth within the Company. Our average full-time equivalent employees were 1,480.7 and 1,365.3 for the three months ended June 30, 2023 and 2022, respectively. Further, compensation for temporary and/or contract labor increased $0.3 million and sales commissions, primarily related to our operations at Triumph Financial Services and TriumphPay, increased $0.5 million period over period. Accruals for bonus expense were $1.0 million lower period over period and stock based compensation expense included in salaries and employee benefits expense decreased $4.2 million period over period.
- *Occupancy, Furniture and Equipment.* Occupancy, furniture and equipment expenses increased $0.8 million, or 12.1%, primarily due to growth in our operations period over period.
- *Professional Fees*. Professional fees decreased $0.6 million, or 15.9%, primarily due to a $0.6 million decrease in legal and consulting fees period over period.
- *Communication and Technology.* Communication and technology increased $1.6 million, or 16.1%, primarily as a result of increased spending on IT information security and IT license and software maintenance to develop efficiency in our operations and improve the functionality and security 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 decreased $0.2 million, or 3.1%. There were no notable variances in 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 $11.6 million, from $13.9 million for the three months ended June 30, 2022 to $2.3 million for the three months ended June 30, 2023. The effective tax rate was 23% for the three months ended June 30, 2023, compared to 24% for the three months ended June 30, 2022. There were no notable income tax events in either period.

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 Financial Services 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.

Prior to March 31, 2023, the majority of salaries and benefits expense for our executive leadership team, as well as other selling, general, and administrative shared services costs including human resources, accounting, finance, risk management and a significant amount of information technology expense, were allocated to the Banking segment. During the quarter ended March 31, 2023 management began allocating such shared service costs to its Corporate segment. We continue to make considerable investments in shared services that benefit the entire organization and by moving such expenses to the Corporate segment, our chief operating decision maker and investors now have greater visibility into the operating performance of each reportable segment. Prior periods were revised to reflect such allocations and achieve appropriate comparability.

Separately, prior to March 31, 2023, intersegment interest expense was allocated to the Factoring and Payments segments (when the Payments segment is not self-funded) based on a rolling average of Federal Home Loan Bank advance rates. When the Payments segment was self-funded with funding in excess of its factored receivables, intersegment interest income was allocated based on the Federal Funds effective rate. During the quarter ended March 31, 2023, we began allocating intersegment interest expense to the Factoring and Payments segments based on one-month term SOFR for their funding needs. When the Payments segment is self-funded, with funding in excess of its factored receivables, intersegment interest income will continue to be allocated based on the Federal Funds effective rate. Management believes that such intersegment interest allocations are more intuitive in the current interest rate environment. Prior periods were revised to reflect such allocations and achieve appropriate comparability.

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. Other than the changes to allocations discussed above, 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 2022 Form 10-K.

Transactions between segments consist primarily of borrowed funds, payment network fees, and servicing fees. Intersegment interest expense is allocated to the Factoring and Payments segments as described above. Beginning January 1, 2023, payment network fees are paid by the Factoring segment to the Payments segment for use of the payments network. Beginning prospectively on June 1, 2023, factoring transactions with freight broker clients were transferred from our Factoring segment to our Payments segment to align with TriumphPay's supply chain finance product offerings. Servicing fees are paid by the Payments segment to the Factoring segment for servicing such product. 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 with various shared service costs such as human resources, accounting, finance, risk management and information technology expense assigned to the Corporate segment. Taxes are paid on a consolidated basis and are not allocated for segment purposes. The Factoring segment includes only factoring originated by Triumph Financial Services.

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

(Dollars in thousands)

Three Months Ended June 30, 2023	Banking	Factoring	Payments	Corporate	Consolidated
Total interest income	$ 65,624	$ 36,367	$ 3,451	$ 44	$ 105,486
Intersegment interest allocations	7,478	(9,358)	1,880	—	—
Total interest expense	11,634	—	—	2,401	14,035
Net interest income (expense)	61,468	27,009	5,331	(2,357)	91,451
Credit loss expense (benefit)	831	1,481	41	290	2,643
Net interest income after credit loss expense	60,637	25,528	5,290	(2,647)	88,808
Noninterest income	6,347	980	4,119	65	11,511
Intersegment noninterest income (expense)[1]	—	(97)	97	—	—
Noninterest expense	31,934	20,218	16,939	21,305	90,396
Net income (loss) before income tax expense	$ 35,050	$ 6,193	$ (7,433)	$ (23,887)	$ 9,923

(Dollars in thousands)

Three Months Ended June 30, 2022	Banking	Factoring	Payments	Corporate	Consolidated
Total interest income	$ 46,239	$ 55,854	$ 4,172	$ 42	$ 106,307
Intersegment interest allocations	4,246	(3,878)	(368)	—	—
Total interest expense	3,021	—	—	1,858	4,879
Net interest income (expense)	47,464	51,976	3,804	(1,816)	101,428
Credit loss expense (benefit)	3,120	64	(184)	(99)	2,901
Net interest income after credit loss expense	44,344	51,912	3,988	(1,717)	98,527
Noninterest income	22,282	15,521	10,309	48	48,160
Intersegment noninterest income (expense)[1]	—	—	—	—	—
Noninterest expense	31,205	23,512	17,663	16,227	88,607
Net income (loss) before income tax expense	$ 35,421	$ 43,921	$ (3,366)	$ (17,896)	$ 58,080

(1) Intersegment noninterest income (expense) includes:

(Dollars in thousands)	Factoring	Payments
Three Months Ended June 30, 2023		
Factoring revenue received from Payments	$ 170	$ (170)
Payments revenue received from Factoring	(267)	267
Intersegment noninterest income (expense)	$ (97)	$ 97
Three Months Ended June 30, 2022		
Factoring revenue received from Payments	$ —	$ —
Payments revenue received from Factoring	—	—
Intersegment noninterest income (expense)	$ —	$ —

(Dollars in thousands) June 30, 2023	Banking	Factoring	Payments	Corporate	Eliminations	Consolidated
Total assets	$ 5,161,837	$ 1,084,139	$ 447,935	$ 1,021,259	$ (2,062,449)	$ 5,652,721
Gross loans	$ 3,688,130	$ 997,842	$ 175,952	$ —	$ (537,166)	$ 4,324,758

(Dollars in thousands) December 31, 2022	Banking	Factoring	Payments	Corporate	Eliminations	Consolidated
Total assets	$ 4,910,628	$ 1,260,209	$ 371,948	$ 1,061,662	$ (2,270,664)	$ 5,333,783
Gross loans	$ 3,572,716	$ 1,151,727	$ 85,722	$ —	$ (689,874)	$ 4,120,291

Banking

(Dollars in thousands)	Three Months Ended June 30,			
Banking	2023	2022	$ Change	% Change
Total interest income	$ 65,624	$ 46,239	$ 19,385	41.9 %
Intersegment interest allocations	7,478	4,246	3,232	76.1 %
Total interest expense	11,634	3,021	8,613	285.1 %
Net interest income (expense)	61,468	47,464	14,004	29.5 %
Credit loss expense (benefit)	831	3,120	(2,289)	(73.4)%
Net interest income after credit loss expense	60,637	44,344	16,293	36.7 %
Noninterest income	6,347	22,282	(15,935)	(71.5)%
Noninterest expense	31,934	31,205	729	2.3 %
Operating income (loss)	$ 35,050	$ 35,421	$ (371)	(1.0)%

Our Banking segment's operating income decreased $0.4 million, or 1.0%.

Total interest income increased $19.4 million, or 41.9%, at our Banking segment due to an increase in average interest earning Banking assets. Additionally, 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, increased 3.5% from $3.015 billion for the three months ended June 30, 2022 to $3.121 billion for the three months ended June 30, 2023, and average balances of other interest earning assets at our Banking segment increased period over period. Intersegment interest income allocated to our Banking segment increased period over period due to an increased interest rate charged to our Factoring segment consistent with increased interest rates experienced in the macro economy period over period.

Interest expense increased $8.6 million, or 285.1%, despite a decrease in average interest-bearing liabilities, including a decrease in average total interest bearing deposits of $225.0 million, or 8.4%, 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 $2.0 million for the three months ended June 30, 2023 compared to credit loss expense on loans of $2.2 million for the three months ended June 30, 2022. The decrease in credit loss expense was the result of changes to the projected loss drivers and prepayment speeds that the Company forecasted over the reasonable and supportable forecast period and decreased specific reserves period over period. These decreases were partially offset by an increase driven by the volume and mix of our portfolio and increased net charge-off activity period over period.

Credit loss expense for off balance sheet credit exposures decreased $2.1 million, from $0.9 million for the three months ended June 30, 2022 to a benefit of $1.2 million for the three months ended June 30, 2023, primarily due to decreased underlying outstanding commitments to fund period over period.

Noninterest income at our Banking segment decreased period over period due to the aforementioned $3.9 million gain on sale of equipment loans, the aforementioned gain of $8.9 million on the termination of an interest rate swap, and a $2.5 million gain on sale of securities during the three months ended June 30, 2022 that did not repeat during the current period.

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, and 401(k) expense. The increase in noninterest expense was also driven by increased communications and information technology spend.

Year to date, our aggregate outstanding balances for our banking products, excluding intercompany loans, has increased $268.1 million, or 9.3%, to $3.151 billion as of June 30, 2023. The following table sets forth our banking loans:

(Dollars in thousands)	June 30, 2023	December 31, 2022	$ Change	% Change
Banking				
Commercial real estate	$ 768,711	$ 678,144	$ 90,567	13.4 %
Construction, land development, land	110,071	90,976	19,095	21.0 %
1-4 family residential	130,628	125,981	4,647	3.7 %
Farmland	67,913	68,934	(1,021)	(1.5)%
Commercial - General	295,159	316,364	(21,205)	(6.7)%
Commercial - Paycheck Protection Program	45	55	(10)	(18.2)%
Commercial - Agriculture	46,839	48,494	(1,655)	(3.4)%
Commercial - Equipment	493,763	454,117	39,646	8.7 %
Commercial - Asset-based lending	231,265	229,754	1,511	0.7 %
Commercial - Liquid Credit	151,821	202,326	(50,505)	(25.0)%
Consumer	8,409	8,868	(459)	(5.2)%
Mortgage Warehouse	846,340	658,829	187,511	28.5 %
Total banking loans	$ 3,150,964	$ 2,882,842	$ 268,122	9.3 %

Factoring

(Dollars in thousands)	Three Months Ended June 30,			
Factoring	2023	2022	$ Change	% Change
Total interest income	$ 36,367	$ 55,854	$ (19,487)	(34.9)%
Intersegment interest allocations	(9,358)	(3,878)	(5,480)	(141.3)%
Total interest expense	—	—	—	—
Net interest income (expense)	27,009	51,976	(24,967)	(48.0)%
Credit loss expense (benefit)	1,481	64	1,417	2,214.1 %
Net interest income (expense) after credit loss expense	25,528	51,912	(26,384)	(50.8)%
Noninterest income	980	15,521	(14,541)	(93.7)%
Intersegment noninterest income (expense)	(97)	—	(97)	(100.0)%
Noninterest expense	20,218	23,512	(3,294)	(14.0)%
Net income (loss) before income tax expense	$ 6,193	$ 43,921	$ (37,728)	(85.9)%

	Three Months Ended June 30, 2023	2022
Factored receivable period end balance	$ 997,842,000	$ 1,474,852,000
Yield on average receivable balance	14.07 %	14.21 %
Current quarter charge-off rate[(1)]	0.54 %	— %
Factored receivables - transportation concentration	95 %	94 %
Interest income, including fees	$ 36,367,000	$ 55,854,000
Non-interest income	980,000	15,521,000
Intersegment noninterest income	170,000	—
Factored receivable total revenue	37,517,000	71,375,000
Average net funds employed	918,439,000	1,409,312,000
Yield on average net funds employed	16.38 %	20.31 %
Accounts receivable purchased	$ 2,732,976,000	$ 4,023,569,000
Number of invoices purchased	1,494,963	1,725,721
Average invoice size	$ 1,828	$ 2,332
Average invoice size - transportation	$ 1,773	$ 2,176
Average invoice size - non-transportation	$ 5,790	$ 6,469

Metrics above include assets and deposits held for sale.

(1) June 30, 2023 includes a $3.3 million charge-off of an over-formula advance balance, which contributed approximately 0.32% to the net charge-off rate for the quarter. In accordance with the agreement reached with Covenant, Covenant will reimburse us for $1.7 million of this charge-off.

Our Factoring segment's operating income decreased $37.7 million, or 85.9%.

Our average invoice size decreased 21.6% from $2,332 for the three months ended June 30, 2022 to $1,828 for the three months ended June 30, 2023. Additionally, the number of invoices purchased decreased 13.4% period over period.

Net interest income at our Factoring segment decreased period over period. Overall average net funds employed ("NFE") decreased 34.8% during the three months ended June 30, 2023 compared to the same period in 2022. The decrease in average NFE was the result of decreased invoice purchase volume and decreased average invoice sizes. 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 95% at June 30, 2023 and 94% at June 30, 2022. The aforementioned transfer of freight broker supply chain finance to the Payments segment resulted in a reduction of net interest income at our Factoring segment of $0.5 million.

Credit loss expense at our Factoring segment increased period over period, primarily due to increased net charge-offs, including the fully reserved $3.3 million charge-off of the acquired over-advance factored receivables. This increase was partially offset by a reduction in specific reserves and a reduction of period end volume of the factoring portfolio period over period. 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 decreased period over period due to the aforementioned $13.2 million gain on sale of factored receivables during the three months ended June 30, 2022. The decrease was also driven by a $1.2 million write down of our revenue share asset, which is carried at fair value, during the three months ended June 30, 2023.

Noninterest expense decreased primarily due to a decrease in salary and benefits expense including a decrease in stock compensation. Additionally, there was a decrease in communications and technology expense period over period.

Payments

(Dollars in thousands)	Three Months Ended June 30,			
Payments	2023	2022	$ Change	% Change
Total interest income	$ 3,451	$ 4,172	$ (721)	(17.3)%
Intersegment interest allocations	1,880	(368)	2,248	610.9 %
Total interest expense	—	—	—	— %
Net interest income (expense)	5,331	3,804	1,527	40.1 %
Credit loss expense (benefit)	41	(184)	225	122.3 %
Net interest income after credit loss expense	5,290	3,988	1,302	32.6 %
Noninterest income	4,119	10,309	(6,190)	(60.0)%
Intersegment noninterest income (expense)	97	—	97	100.0 %
Noninterest expense	16,939	17,663	(724)	(4.1)%
Net income (loss) before income tax expense	$ (7,433)	$ (3,366)	$ (4,067)	(120.8)%

	Three Months Ended June 30,	
	2023	2022
Supply chain financing factored receivables	$ 93,678,000	$ —
Quickpay and other factored receivables	82,274,000	145,835,000
Factored receivable period end balance	$ 175,952,000	$ 145,835,000
Interest income	$ 3,451,000	$ 4,172,000
Intersegment interest income	1,880,000	—
Noninterest income	4,119,000	10,309,000
Intersegment noninterest income	267,000	$ —
Total revenue	$ 9,717,000	$ 14,481,000
Operating income (loss)	$ (7,433,000)	$ (3,366,000)
Intersegment interest expense	—	368,000
Depreciation and software amortization expense	368,000	103,000
Intangible amortization expense	1,729,000	1,477,000
Earnings (losses) before interest, taxes, depreciation, and amortization	$ (5,336,000)	$ (1,418,000)
EBITDA margin	(55)%	(10)%
Number of invoices processed	4,526,629	4,394,351
Amount of payments processed	$ 4,940,317,000	$ 6,033,898,000
Network invoice volume	181,904	118,580
Network payment volume	$ 299,948,000	$ 253,312,000

Our Payments segment's operating loss increased $4.1 million, or 120.8%.

The number of invoices processed by our Payments segment increased 3.0% from 4,394,351 for the three months ended June 30, 2022 to 4,526,629 for the three months ended June 30, 2023, and the amount of payments processed decreased 18.1% from $6.034 billion for the three months ended June 30, 2022 to $4.940 billion for the three months ended June 30, 2023 driven by lower average invoice prices.

We began processing network 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 “network transaction.” All network 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 June 30, 2023, we processed 181,904 network invoices representing a network payment volume of $299.9 million. During the three months ended June 30, 2022, we processed 118,580 network invoices representing a network payment volume of $253.3 million.

Net interest income increased due to increased yields at our Payments segment period over period and intersegment interest allocation. The aforementioned transfer of factoring transactions with freight broker clients to the Payments segment resulted in an increase of net interest income at our Factoring segment of $0.4 million.

Noninterest income decreased due to the $7.0 million net gain on the aforementioned termination of WSI warrants and additional investment in WSI common stock during the three months ended June 30, 2023. The decrease was offset by a $0.7 million increase in payment fees earned by TriumphPay during the three months ended June 30, 2023 compared to the same period a year ago.

Noninterest expense decreased primarily due to a decrease in salaries and employee benefits expense driven by a decrease in employee salaries, temporary and/or contract labor, incentive comp, and stock based compensation at our Payments segment. The decrease was partially offset by an increase in communications and technology expense.

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. The aforementioned transfer of factoring transactions with freight broker clients to the Payments segment contributed four percentage points to the EBITDA margin at our payments segment for the three months ended June 30, 2023.

Corporate

(Dollars in thousands)	Three Months Ended June 30,			
Corporate	2023	2022	$ Change	% Change
Total interest income	$ 44	$ 42	$ 2	4.8 %
Intersegment interest allocations	—	—	—	—
Total interest expense	2,401	1,858	543	29.2 %
Net interest income (expense)	(2,357)	(1,816)	(541)	(29.8)%
Credit loss expense (benefit)	290	(99)	389	392.9 %
Net interest income (expense) after credit loss expense	(2,647)	(1,717)	(930)	(54.2)%
Other noninterest income	65	48	17	35.4 %
Noninterest expense	21,305	16,227	5,078	31.3 %
Net income (loss) before income tax expense	$ (23,887)	$ (17,896)	$ (5,991)	(33.5)%

The Corporate segment reported an operating loss of $23.9 million for the three months ended June 30, 2023 compared to an operating loss of $17.9 million for the three months ended June 30, 2022. The increased operating loss was driven by increased noninterest expense which was the result of increased salaries and benefits expense due to 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. Additionally, occupancy expense and communication and technology expense increased period over period.

Results of Operations

Six months ended June 30, 2023 compared with six months ended June 30, 2022

Net Income

We earned net income of $18.7 million for the six months ended June 30, 2023 compared to $68.5 million for the six months ended June 30, 2022, a decrease of $49.8 million. The decrease in net income was driven by a $36.7 million decrease in noninterest income, a $16.7 million decrease in net interest income, a $12.5 million increase in noninterest expense, and a $1.9 million increase in credit loss expense offset by a $18.0 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.

	Six Months Ended June 30,					
	2023			2022		
(Dollars in thousands)	Average Balance	Interest	Average Rate[4]	Average Balance	Interest	Average Rate[4]
Interest earning assets:						
Cash and cash equivalents	$ 244,012	$ 5,950	4.92 %	$ 308,668	$ 915	0.60 %
Taxable securities	306,883	9,196	6.04 %	172,282	2,320	2.72 %
Tax-exempt securities	11,763	151	2.59 %	14,582	187	2.59 %
FHLB and other restricted stock	18,558	344	3.74 %	11,267	110	1.97 %
Loans [1]	4,186,570	190,519	9.18 %	4,783,709	206,210	8.69 %
Total interest earning assets	4,767,786	206,160	8.72 %	5,290,508	209,742	7.99 %
Noninterest earning assets:						
Cash and cash equivalents	83,730			80,583		
Other noninterest earning assets	534,913			489,825		
Total assets	$ 5,386,429			$ 5,860,916		
Interest bearing liabilities:						
Deposits:						
Interest bearing demand	$ 820,467	$ 1,285	0.32 %	$ 855,756	$ 979	0.23 %
Individual retirement accounts	62,663	189	0.61 %	82,182	210	0.52 %
Money market	502,456	2,815	1.13 %	542,050	561	0.21 %
Savings	537,404	784	0.29 %	519,269	393	0.15 %
Certificates of deposit	292,665	1,457	1.00 %	489,682	1,134	0.47 %
Brokered time deposits	172,354	3,373	3.95 %	60,065	305	1.02 %
Other brokered deposits	6,768	176	5.24 %	142,710	685	0.97 %
Total interest bearing deposits	2,394,777	10,079	0.85 %	2,691,714	4,267	0.32 %
Federal Home Loan Bank advances	251,961	6,503	5.20 %	109,972	354	0.65 %
Subordinated notes	108,009	2,621	4.89 %	107,151	2,601	4.90 %
Junior subordinated debentures	41,303	2,124	10.37 %	40,732	1,010	5.00 %
Other borrowings	1,457	—	— %	5,469	3	0.11 %
Total interest bearing liabilities	2,797,507	21,327	1.54 %	2,955,038	8,235	0.56 %
Noninterest bearing liabilities and equity:						
Noninterest bearing demand deposits	1,651,463			1,944,606		
Other liabilities	87,457			79,540		
Total equity	850,002			881,732		
Total liabilities and equity	$ 5,386,429			$ 5,860,916		
Net interest income		$ 184,833			$ 201,507	
Interest spread [2]			7.18 %			7.43 %
Net interest margin [3]			7.82 %			7.68 %

(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:

	Six Months Ended June 30,					
	2023			2022		
(Dollars in thousands)	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Banking loans	$ 3,019,168	$ 109,796	7.33 %	$ 3,023,608	$ 84,978	5.67 %
Factoring receivables	1,073,434	74,525	14.00 %	1,595,230	112,228	14.19 %
Payments receivables	93,968	6,198	13.30 %	164,871	9,004	11.01 %
Total loans	$ 4,186,570	$ 190,519	9.18 %	$ 4,783,709	$ 206,210	8.69 %

We earned net interest income of $184.8 million for the six months ended June 30, 2023 compared to $201.5 million for the six months ended June 30, 2022, a decrease of $16.7 million, or 8.3%, primarily driven by the following factors.

Interest income decreased $3.6 million, or 1.7%, due to a decrease in total average interest earning assets of $522.7 million, or 9.9%, and a decrease in average total loans of $597.1 million, or 12.5%. The average balance of our higher yielding Factoring factored receivables decreased $521.8 million, or 32.7%, driving the majority of the decrease in interest income along with a decrease in average Payments factored receivables. Additionally, the decrease in interest income was the result of a decrease in average Banking loans of $4.4 million, or 0.1% due to decreases in the average balances of all Banking loan types except for commercial real estate, residential real estate, general commercial, liquid credit, and mortgage warehouse. Interest income from our Banking loans is impacted by our lower yielding mortgage warehouse lending product. The average mortgage warehouse lending balance was $794.9 million for the six months ended June 30, 2023 compared to $644.1 million for the six months ended June 30, 2022. A component of interest income consists of discount accretion on acquired loan portfolios. We recognized discount accretion on purchased loans of $2.8 million and $5.1 million for the six months ended June 30, 2023 and 2022, respectively. The decrease in interest income was partially offset by increases in rates discussed below. Further, increased average balances and yields of taxable securtities partially offset the decrease in interest income.

Interest expense increased $13.1 million, or 159.0%, due to increased average rates on interest bearing liabilities discussed below. The increase in interest expense was partially offset by a decrease in average interest bearing liabilities of $157.5 million, or 5.3%. More specifically, average total interest bearing deposits decreased $296.9 million, or 11.0%. Average noninterest bearing deposits decreased $293.1 million.

Net interest margin increased to 7.82% for the six months ended June 30, 2023 from 7.68% for the six months ended June 30, 2022, an increase of 14 basis points, or 1.8%.

Our net interest margin was impacted by an increase in yield on our interest earning assets of 73 basis points to 8.72% for the six months ended June 30, 2023. This increase was driven by higher yields on loans which increased 49 basis points to 9.18% for the same period. Factoring yield decreased period over period and average Factoring factored receivables as a percentage of the total loan portfolio also decreased which had a meaningful downward impact on total loan yield. Our transportation factoring balances, which generate a higher yield than our non-transportation factoring balances, were flat as a percentage of the overall factoring portfolio at 96% for June 30, 2023 and June 30, 2022, respectively. Banking and Payments yields increased period over period and non-loan yields also increased over the same period.

The increase in our net interest margin was partially offset by an increase in our average cost of interest bearing liabilities of 98 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:

	Six Months Ended June 30, 2023 vs. 2022		
	Increase (Decrease) Due to:		
(Dollars in thousands)	Rate	Volume	Net Increase
Interest earning assets:			
Cash and cash equivalents	$ 6,612	$ (1,577)	$ 5,035
Taxable securities	2,843	4,033	6,876
Tax-exempt securities	—	(36)	(36)
FHLB and other restricted stock	99	135	234
Loans	11,483	(27,174)	(15,691)
Total interest income	21,037	(24,619)	(3,582)
Interest bearing liabilities:			
Interest bearing demand	361	(55)	306
Individual retirement accounts	38	(59)	(21)
Money market	2,476	(222)	2,254
Savings	365	26	391
Certificates of deposit	1,304	(981)	323
Brokered time deposits	870	2,198	3,068
Other brokered deposits	3,026	(3,535)	(509)
Total interest bearing deposits	8,440	(2,628)	5,812
Federal Home Loan Bank advances	2,484	3,665	6,149
Subordinated notes	(1)	21	20
Junior subordinated debentures	1,085	29	1,114
Other borrowings	(3)	—	(3)
Total interest expense	12,005	1,087	13,092
Change in net interest income	$ 9,032	$ (25,706)	$ (16,674)

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 2022 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:

	Six Months Ended June 30,			
(Dollars in thousands)	2023	2022	$ Change	% Change
Credit loss expense on loans	$ 5,167	$ 2,933	$ 2,234	76.2 %
Credit loss expense on off balance sheet credit exposures	(343)	196	(539)	(275.0)%
Credit loss expense on held to maturity securities	432	273	159	58.2 %
Credit loss expense on available for sale securities	—	—	—	—
Total credit loss expense	$ 5,256	$ 3,402	$ 1,854	54.5 %

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, 2022 and June 30, 2023, 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 six months ended June 30, 2023. 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 June 30, 2023 and December 31, 2022, 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 June 30, 2023 and December 31, 2022, the Company carried $6.3 million and $6.5 million of these HTM securities at amortized cost, respectively. The ACL on these balances was $2.9 million at June 30, 2023 and $2.4 million at December 31, 2022 and we recognized credit loss expense of $0.4 million during the six months ended June 30, 2023. Credit loss expense during the six months ended June 30, 2022 was $0.3 million. None of the overcollateralization triggers tied to the CLO securities were tripped as of June 30, 2023. 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 $35.0 million as of June 30, 2023, compared to $42.8 million as of December 31, 2022, representing an ACL to total loans ratio of 0.81% and 1.04% respectively.

Our credit loss expense on loans increased $2.2 million, or 76.2%, for the six months ended June 30, 2023 compared to the six months ended June 30, 2022.

During the six months ended June 30, 2023, new adverse developments with one of the two remaining 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 $3.3 million; however, this net charge-off had no impact on credit loss expense as the entire amount had been reserved in a prior period. In accordance with the Agreement reached with Covenant, Covenant will reimburse us for $1.7 million of this charge-off which is reflected as a receivable on our June 30, 2023 Consolidated Balance Sheet. We continue to reserve the full balance of the Over-Formula Advance clients at June 30, 2023 which totals $4.0 million.

The increase in credit loss expense was primarily driven by increased net charge-offs during the period. Including the $3.3 million over-formula advance net charge-off previously discussed, net charge-offs during the six months ended June 30, 2023 were $13.0 million compared to $1.7 million during the same period a year ago. Approximately $8.5 million of the $13.0 million net charge-offs for the six months ended June 30, 2023 were reserved in a prior period while $0.7 million of the $1.7 million of charge-offs during the six months ended June 30, 2022 were reserved in a prior period. Such prior period reserves are included in the discussion of changes in specific reserves below.

Changes in volume and mix of the loan portfolio also increased credit loss expense. Such changes created a benefit to credit loss expense of $0.2 million during the six months ended June 30, 2023 compared to a benefit to credit loss expense of $2.1 million during the same period a year ago.

The increased credit loss expense was partially offset by changes in new specific reserves. Such specific reserves decreased $8.0 million during the six months ended June 30, 2023 compared to an increase of $1.8 million during the same period a year ago.

The increase in credit loss expense was also partially offset by changes to projected loss drivers and prepayment speeds that the Company forecasted over the reasonable and supportable forecast period to calculate expected losses. This resulted in credit loss expense of $0.4 million for the six months ended June 30, 2023 compared to credit loss expense of $1.5 million during the same period a year ago.

Credit loss expense for off balance sheet credit exposures decreased $0.5 million, primarily due to decreases to outstanding commitments to fund period over period.

Noninterest Income

The following table presents our major categories of noninterest income:

	Six Months Ended June 30,			
(Dollars in thousands)	2023	2022	$ Change	% Change
Service charges on deposits	$ 3,482	$ 3,627	$ (145)	(4.0 %)
Card income	4,087	4,091	(4)	(0.1 %)
Net OREO gains (losses) and valuation adjustments	—	(114)	114	100.0 %
Net gains (losses) on sale or call of securities	—	2,514	(2,514)	(100.0 %)
Net gains (losses) on sale of loans	3	17,203	(17,200)	(100.0 %)
Fee income	13,612	11,976	1,636	13.7 %
Insurance commissions	2,896	3,018	(122)	(4.0 %)
Other	(1,547)	16,966	(18,513)	(109.1 %)
Total noninterest income	$ 22,533	$ 59,281	$ (36,748)	(62.0 %)

Noninterest income decreased $36.7 million, or 62.0%. 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 decreased $2.5 million as no securities we sold or called during the six months ended June 30, 2023.

- *Net gains (losses) on sale of loans.* Net gains (losses) on sale of loans decreased $17.2 million, due to the aforementioned $13.2 million gain on sale of factored receivables and the $3.9 million gain on sale of equipment loans during the six months ended June 30, 2022. Sales of such magnitude did not repeat during the six months ended June 30, 2023.

- *Fee income*. Fee income increased $1.6 million, or 13.7% primarily due to a $1.2 million increase in payment fees earned by TriumphPay during the six months ended June 30, 2023 compared to the same period a year ago.

- *Other*. Other noninterest income decreased $18.5 million, or 109.1% primarily due to a gain of $8.9 million on the aforementioned termination of an interest rate swap recognized during the six months ended June 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. The decrease was also driven by a write down of our revenue share asset, which is carried at fair value, of $1.8 million during the six months ended June 30, 2023.

Noninterest Expense

The following table presents our major categories of noninterest expense:

	Six Months Ended June 30,			
(Dollars in thousands)	2023	2022	$ Change	% Change
Salaries and employee benefits	$ 108,905	$ 100,541	$ 8,364	8.3 %
Occupancy, furniture and equipment	13,995	12,943	1,052	8.1 %
FDIC insurance and other regulatory assessments	1,141	793	348	43.9 %
Professional fees	6,120	7,266	(1,146)	(15.8 %)
Amortization of intangible assets	5,851	6,172	(321)	(5.2 %)
Advertising and promotion	2,921	2,987	(66)	(2.2 %)
Communications and technology	22,249	18,932	3,317	17.5 %
Travel and entertainment	3,453	2,524	929	36.8 %
Other	15,042	15,013	29	0.2 %
Total noninterest expense	$ 179,677	$ 167,171	$ 12,506	7.5 %

Noninterest expense increased $12.5 million, or 7.5%. 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 $8.4 million, or 8.3%, which is primarily due to merit increases for existing employees, higher health insurance benefit costs, incentive compensation, and 401(k) expense. Employee salaries and payroll taxes increased $9.8 million and $1.8 million, respectively, and our average full-time equivalent employees were 1,470.3 and 1,328.2 for the six months ended June 30, 2023 and 2022, respectively. Further, compensation for temporary and/or contract labor increased $2.0 million and accruals for bonus expense increased $0.4 million period over period. Sales commissions, primarily related to our operations at Triumph Financial Services and TriumphPay, decreased $1.1 million period over period. Stock based compensation expense decreased $5.9 million period over period.

- *Occupancy, Furniture and Equipment.* Occupancy, furniture and equipment expenses increased $1.1 million, or 8.1%, primarily due to growth in our operations period over period.

- *Professional Fees*. Professional fees decreased $1.1 million, or 15.8%, primarily due to a $1.0 million decrease in legal and consulting fees period over period.

- *Communications and Technology.* Communications and technology expenses increased $3.3 million, or 17.5%, primarily as a result of increased spending on IT information security and IT license and software maintenance to develop efficiency in our operations and improve the functionality and security of our technology platforms period over period.

- *Travel and entertainment.* Travel and entertainment expenses increased $0.9 million, or 36.8%, primarily due to increased business development activity in this area period over period.

- *Other.* Other noninterest expense includes loan-related expenses, software amortization, training and recruiting, postage, insurance, and subscription services. Other noninterest expense was relatively flat period over period despite a $0.7 million decrease in correspondent bank charges. 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 $17.9 million, or 82.6%, from $21.7 million for the six months ended June 30, 2022 to $3.8 million for the six months ended June 30, 2023. The effective tax rate was 17% for the six months ended June 30, 2023 and 24% for the six months ended June 30, 2022. The decrease in the effective tax rate period over period was primarily driven by the performance based performance stock units windfall that was recorded during the six months ended June 30, 2023 as those related shares vested during the period.

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 Financial Services 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.

Prior to March 31, 2023, the majority of salaries and benefits expense for our executive leadership team, as well as other selling, general, and administrative shared services costs including human resources, accounting, finance, risk management and a significant amount of information technology expense, were allocated to the Banking segment. During the quarter ended March 31, 2023 management began allocating such shared service costs to its Corporate segment. We continue to make considerable investments in shared services that benefit the entire organization and by moving such expenses to the Corporate segment, our chief operating decision maker and investors now have greater visibility into the operating performance of each reportable segment. Prior periods were revised to reflect such allocations and achieve appropriate comparability.

Separately, prior to March 31, 2023, intersegment interest expense was allocated to the Factoring and Payments segments (when the Payments segment is not self-funded) based on a rolling average of Federal Home Loan Bank advance rates. When the Payments segment was self-funded with funding in excess of its factored receivables, intersegment interest income was allocated based on the Federal Funds effective rate. During the quarter ended March 31, 2023, we began allocating intersegment interest expense to the Factoring and Payments segments based on one-month term SOFR for their funding needs. When the Payments segment is self-funded, with funding in excess of its factored receivables, intersegment interest income will continue to be allocated based on the Federal Funds effective rate. Management believes that such intersegment interest allocations are more intuitive in the current interest rate environment. Prior periods were revised to reflect such allocations and achieve appropriate comparability.

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. Other than the changes to allocations discussed above, 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 2022 Form 10-K.

Transactions between segments consist primarily of borrowed funds, payment network fees, and servicing fees. Intersegment interest expense is allocated to the Factoring and Payments segments as described above. Beginning January 1, 2023, payment network fees are paid by the Factoring segment to the Payments segment for use of the payments network. Beginning prospectively on June 1, 2023, factoring transactions with freight broker clients were transferred from our Factoring segment to our Payments segment to align with TriumphPay's supply chain finance product offerings. Servicing fees are paid by the Payments segment to the Factoring segment for servicing such product. 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 with various shared service costs such as human resources, accounting, finance, risk management and information technology expense assigned to the Corporate segment. Taxes are paid on a consolidated basis and are not allocated for segment purposes. The Factoring segment includes only factoring originated by Triumph Financial Services.

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

(Dollars in thousands)

Six Months Ended June 30, 2023	Banking	Factoring	Payments	Corporate	Consolidated
Total interest income	$ 125,350	$ 74,524	$ 6,198	$ 88	$ 206,160
Intersegment interest allocations	15,090	(18,512)	3,422	—	—
Total interest expense	16,582	—	—	4,745	21,327
Net interest income (expense)	123,858	56,012	9,620	(4,657)	184,833
Credit loss expense (benefit)	2,754	2,030	41	431	5,256
Net interest income after credit loss expense	121,104	53,982	9,579	(5,088)	179,577
Noninterest income	12,020	2,558	7,826	129	22,533
Intersegment noninterest income (expense)[(1)]	—	(362)	362	—	—
Noninterest expense	64,174	41,987	32,356	41,160	179,677
Net income (loss) before income tax expense	$ 68,950	$ 14,191	$ (14,589)	$ (46,119)	$ 22,433

(Dollars in thousands) Six Months Ended June 30, 2022	Banking	Factoring	Payments	Corporate	Consolidated
Total interest income	$ 88,422	$ 112,228	$ 9,004	$ 88	$ 209,742
Intersegment interest allocations	4,851	(4,430)	(421)	—	—
Total interest expense	4,624	—	—	3,611	8,235
Net interest income (expense)	88,649	107,798	8,583	(3,523)	201,507
Credit loss expense (benefit)	250	2,013	170	969	3,402
Net interest income after credit loss expense	88,399	105,785	8,413	(4,492)	198,105
Noninterest income	28,253	17,392	13,551	85	59,281
Intersegment noninterest income (expense)[1]	—	—	—	—	—
Noninterest expense	59,817	45,643	31,996	29,715	167,171
Net income (loss) before income tax expense	$ 56,835	$ 77,534	$ (10,032)	$ (34,122)	$ 90,215

[1] Intersegment noninterest income (expense) includes:

(Dollars in thousands)	Factoring	Payments
Six Months Ended June 30, 2023		
Factoring revenue received from Payments	$ 170	$ (170)
Payments revenue received from Factoring	(532)	532
Intersegment noninterest income (expense)	$ (362)	$ 362
Six Months Ended June 30, 2022		
Factoring revenue received from Payments	$ —	$ —
Payments revenue received from Factoring	—	—
Intersegment noninterest income (expense)	$ —	$ —

(Dollars in thousands) June 30, 2023	Banking	Factoring	Payments	Corporate	Eliminations	Consolidated
Total assets	$ 5,161,837	$ 1,084,139	$ 447,935	$ 1,021,259	$ (2,062,449)	$ 5,652,721
Gross loans	$ 3,688,130	$ 997,842	$ 175,952	$ —	$ (537,166)	$ 4,324,758

(Dollars in thousands) December 31, 2022	Banking	Factoring	Payments	Corporate	Eliminations	Consolidated
Total assets	$ 4,910,628	$ 1,260,209	$ 371,948	$ 1,061,662	$ (2,270,664)	$ 5,333,783
Gross loans	$ 3,572,716	$ 1,151,727	$ 85,722	$ —	$ (689,874)	$ 4,120,291

Banking

(Dollars in thousands)	Six Months Ended June 30,			
Banking	2023	2022	$ Change	% Change
Total interest income	$ 125,350	$ 88,422	$ 36,928	41.8 %
Intersegment interest allocations	15,090	4,851	10,239	211.1 %
Total interest expense	16,582	4,624	11,958	258.6 %
Net interest income	123,858	88,649	35,209	39.7 %
Credit loss expense (benefit)	2,754	250	2,504	1,001.6 %
Net interest income after credit loss expense	121,104	88,399	32,705	37.0 %
Noninterest income	12,020	28,253	(16,233)	(57.5 %)
Noninterest expense	64,174	59,817	4,357	7.3 %
Net income (loss) before income tax expense	$ 68,950	$ 56,835	$ 12,115	21.3 %

Our Banking segment's operating income increased $12.1 million, or 21.3%.

Total interest income increased $36.9 million, or 41.8%, primarily as a result of increased yields on our interest earning assets at our Banking segment. The increase was also due to increases in the balances of our interest earning assets. Average loans in our Banking segment, excluding intersegment loans, decreased 0.1% from $3.024 billion for the six months ended June 30, 2022 to $3.019 billion for the six months ended June 30, 2023; however, average balances of certain other interest earning assets at our Banking segment increased period over period. Intersegment interest income allocated to our Banking segment increased period over period due to an increased interest rate charged to our Factoring segment consistent with increased interest rates experienced in the macro economy period over period.

Interest expense increased $12.0 million, or 258.6% despite a decrease in average interest-bearing liabilities as average total interest bearing deposits decreased $296.9 million, or 11.0%. The increase in interested expense 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 $3.1 million for the six months ended June 30, 2023 compared to $0.1 million for the six months ended June 30, 2022. The decrease in credit loss expense was the result of changes to the projected loss drivers and prepayment speeds that the Company forecasted over the reasonable and supportable forecast period and decreased specific reserves period over period. These decreases were partially offset by an increase driven by the volume and mix of our portfolio and increased net charge-off activity period over period.

Credit loss expense for off balance sheet credit exposures decreased $0.5 million from $0.2 million for the six months ended June 30, 2022 to a benefit of $0.3 million for the six months ended June 30, 2023, primarily due to decreased underlying outstanding commitments to fund period over period.

Noninterest income at our Banking segment decreased period over period due to the aforementioned $3.9 million gain on sale of equipment loans, the aforementioned gain of $8.9 million on the termination of an interest rate swap, and a $2.5 million gain on sale of securities during the six months ended June 30, 2022 that did not repeat during the current period.

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, and 401(k) expense. The increase in noninterest expense was also driven by increased communications and information technology spend.

During the six months ended June 30, 2023, the aggregate outstanding balances of our banking products increased $268.1 million, or 9.3%, to $3.151 billion as of June 30, 2023. See the Financial Condition section below for further discussion of changes in loan balances:

(Dollars in thousands)	June 30, 2023	December 31, 2022
Banking		
Commercial real estate	$ 768,711	$ 678,144
Construction, land development, land	110,071	90,976
1-4 family residential	130,628	125,981
Farmland	67,913	68,934
Commercial - General	295,159	316,364
Commercial - Paycheck Protection Program	45	55
Commercial - Agriculture	46,839	48,494
Commercial - Equipment	493,763	454,117
Commercial - Asset-based lending	231,265	229,754
Commercial - Liquid Credit	151,821	202,326
Consumer	8,409	8,868
Mortgage Warehouse	846,340	658,829
Total banking loans	$ 3,150,964	$ 2,882,842

Factoring

(Dollars in thousands) Factoring	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022	$ Change	% Change
Total interest income	$ 74,524	$ 112,228	$ (37,704)	(33.6 %)
Intersegment interest allocations	(18,512)	(4,430)	(14,082)	(317.9 %)
Total interest expense	—	—	—	—
Net interest income	56,012	107,798	(51,786)	(48.0 %)
Credit loss expense (benefit)	2,030	2,013	17	0.8 %
Net interest income after credit loss expense	53,982	105,785	(51,803)	(49.0 %)
Noninterest income	2,558	17,392	(14,834)	(85.3 %)
Intersegment noninterest income (expense)	(362)	—	(362)	(100.0 %)
Noninterest expense	41,987	45,643	(3,656)	(8.0 %)
Net income (loss) before income tax expense	$ 14,191	$ 77,534	$ (63,343)	(81.7 %)

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Factored receivable period end balance	$ 997,842,000	$ 1,474,852,000
Yield on average receivable balance	14.00 %	14.19 %
Year to date charge-off rate[1]	0.72 %	0.05 %
Factored receivables - transportation concentration	95 %	94 %
Interest income, including fees	$ 74,524,000	$ 112,228,000
Noninterest income[2]	2,558,000	17,392,000
Intersegment noninterest income	170,000	—
Factored receivable total revenue	77,252,000	129,620,000
Average net funds employed	947,241,000	1,430,530,000
Yield on average net funds employed	16.45 %	18.27 %
Accounts receivable purchased	$ 5,660,080,000	$ 8,065,452,000
Number of invoices purchased	2,986,726	3,329,733
Average invoice size	$ 1,895	$ 2,422
Average invoice size - transportation	$ 1,842	$ 2,284
Average invoice size - non-transportation	$ 5,480	$ 5,984

(1) June 30, 2023 includes a $3.3 million charge-off of an over-formula advance balance, which contributed approximately 0.31% to the net charge-off rate for the period. In accordance with the agreement reached with Covenant, Covenant will reimburse us for $1.7 million of this charge-off.

(2) Non-interest income for the six months ended June 30, 2022 includes a $13.2 million gain on sale of a portfolio of factored receivables, which contributed 1.86% to the yield on average net funds employed for the period.

Our Factoring segment's operating income decreased $63.3 million, or 81.7%.

Our average invoice size decreased 21.8% from $2,422 for the six months ended June 30, 2022 to $1,895 for the six months ended June 30, 2023 and the number of invoices purchased decreased 10.3% period over period.

Net interest income at our Factoring segment decreased period over period. Overall average net funds employed ("NFE") decreased 33.8% during the six months ended June 30, 2023 compared to the same period in 2022. The decrease in average NFE was the result of decreased invoice purchase volume and decreased average invoice sizes. 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, calculated based on receivables held for investment and held for sale, was at 94% at June 30, 2022 and 95% at June 30, 2023. The aforementioned transfer of freight broker supply chain finance to the Payments segment resulted in a reduction of net interest income at our Factoring segment of $0.5 million.

Credit loss expense was relatively flat period over period. Increased net charge-offs, including the fully reserved $3.3 million charge-off of the acquired over-advance factored receivables, were offset by a reduction in specific reserves and a reduction of period end volume of the factoring portfolio period over period. Changes in loss assumptions did not have a material impact on the change in credit loss expense period over period.

The decrease in noninterest income at our Factoring segment was primarily due to the aforementioned $13.2 million gain on sale of factored receivables during the six months ended June 30, 2022. The decrease was also driven by a $1.2 million write down of our revenue share asset, which is carried at fair value, during the six months ended June 30, 2023.

Noninterest expense decreased primarily due to a decrease in salary and benefits expense including a decrease in stock compensation. Additionally, there were decreases in communications and technology expense and correspondent bank charges period over period.

Payments

(Dollars in thousands)	Six Months Ended June 30,			
Payments	2023	2022	$ Change	% Change
Total interest income	$ 6,198	$ 9,004	$ (2,806)	(31.2)%
Intersegment interest allocations	3,422	(421)	3,843	912.8 %
Total interest expense	—	—	—	— %
Net interest income	9,620	8,583	1,037	12.1 %
Credit loss expense (benefit)	41	170	(129)	(75.9)%
Net interest income after credit loss expense	9,579	8,413	1,166	13.9 %
Noninterest income	7,826	13,551	(5,725)	(42.2)%
Intersegment noninterest income (expense)	362	—	362	100.0 %
Noninterest expense	32,356	31,996	360	1.1 %
Net income (loss) before income tax expense	$ (14,589)	$ (10,032)	$ (4,557)	(45.4)%

	Six Months Ended	
	2023	2022
Supply chain financing factored receivables	$ 93,678,000	$ —
Quickpay and other factored receivables	82,274,000	145,835,000
Factored receivable period end balance	$ 175,952,000	$ 145,835,000
Interest income	$ 6,198,000	$ 9,004,000
Intersegment interest income	3,422,000	—
Noninterest income	7,826,000	13,551,000
Intersegment noninterest income	$ 532,000	$ —
Total revenue	$ 17,978,000	$ 22,555,000
Operating income (loss)	$ (14,589,000)	$ (10,032,000)
Interest expense	—	421,000
Depreciation and software amortization expense	561,000	211,000
Intangible amortization expense	3,277,000	2,967,000
Earnings (losses) before interest, taxes, depreciation, and amortization	$ (10,751,000)	$ (6,433,000)
EBITDA margin	(60)%	(29)%
Number of invoices processed	8,787,283	8,366,885
Amount of payments processed	$ 9,970,865,000	$ 11,734,747,000
Network invoice volume	341,257	170,762
Network payment volume	$ 589,615,000	$ 382,881,000

Our Payments segment's operating loss increased $4.6 million, or 45.4%.

The number of invoices processed by our Payments segment increased 5.0% from 8,366,885 for the six months ended June 30, 2022 to 8,787,283 for the six months ended June 30, 2023, and the amount of payments processed decreased 15.0% from $11.735 billion for the six months ended June 30, 2022 to $9.971 billion for the six months ended June 30, 2023.

We began processing network 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 “network transaction.” All network 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 six months ended June 30, 2023, we processed 341,257 conforming invoices representing a conforming payment volume of $589.6 million. During the six months ended June 30, 2022, we processed 170,762 conforming invoices representing a conforming payment volume of $382.9 million.

Net interest income increased due to increased yields at our Payments segment period over period and intersegment interest allocation. The aforementioned transfer of factoring transactions with freight broker clients to the Payments segment resulted in an increase of net interest income at our Factoring segment of $0.4 million.

Noninterest income decreased due to the $7.0 million net gain on the aforementioned termination of WSI warrants and additional investment in WSI common stock during the six months ended June 30, 2023. The decrease was offset by a $1.2 million increase in payment fees earned by TriumphPay during the six months ended June 30, 2023 compared to the same period a year ago.

Noninterest expense increased primarily due to an increase in communication and technology expense. This increase was partially offset by smaller decreases in professional fees, correspondent bank charges, and salaries and benefits expense.

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. The aforementioned transfer of factoring transactions with freight broker clients to the Payments segment contributed two percentage points to the EBITDA margin at our payments segment for the six months ended June 30, 2023.

Corporate

(Dollars in thousands)	Six Months Ended June 30,			
Corporate	2023	2022	$ Change	% Change
Total interest income	$ 88	$ 88	$ —	— %
Intersegment interest allocations	—	—	—	—
Total interest expense	4,745	3,611	1,134	31.4 %
Net interest income (expense)	(4,657)	(3,523)	(1,134)	(32.2 %)
Credit loss expense (benefit)	431	969	(538)	(55.5 %)
Net interest income (expense) after credit loss expense	(5,088)	(4,492)	(596)	(13.3 %)
Noninterest income	129	85	44	51.8 %
Noninterest expense	41,160	29,715	11,445	38.5 %
Net income (loss) before income tax expense	$ (46,119)	$ (34,122)	$ (11,997)	(35.2 %)

The Corporate segment reported an operating loss of $46.1 million for the six months ended June 30, 2023 compared to an operating loss of $34.1 million for the six months ended June 30, 2022. The increased operating loss was driven by increased noninterest expense which was the result of increased salaries and benefits expense, occupancy expense, communication and technology expense, and travel and entertainment expense period over period.

Financial Condition

Assets

Total assets were $5.653 billion at June 30, 2023, compared to $5.334 billion at December 31, 2022, an increase of $318.9 million, the components of which are discussed below.

Loan Portfolio

Loans held for investment were $4.325 billion at June 30, 2023, compared with $4.120 billion at December 31, 2022.

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

(Dollars in thousands)	June 30, 2023	% of Total	December 31, 2022	% of Total	$ Change	% Change
Commercial real estate	$ 768,711	18 %	$ 678,144	16 %	$ 90,567	13.4 %
Construction, land development, land	110,071	3 %	90,976	2 %	19,095	21.0 %
1-4 family residential	130,628	3 %	125,981	3 %	4,647	3.7 %
Farmland	67,913	2 %	68,934	2 %	(1,021)	(1.5 %)
Commercial	1,218,892	28 %	1,251,110	30 %	(32,218)	(2.6 %)
Factored receivables	1,173,794	26 %	1,237,449	31 %	(63,655)	(5.1 %)
Consumer	8,409	— %	8,868	— %	(459)	(5.2 %)
Mortgage warehouse	846,340	20 %	658,829	16 %	187,511	28.5 %
Total Loans	$ 4,324,758	100 %	$ 4,120,291	100 %	$ 204,467	5.0 %

Commercial Real Estate Loans. Our commercial real estate loans increased $90.6 million, or 13.4%, due to new origination activity that outpaced paydowns.

Construction and Development Loans. Our construction and development loans increased $19.1 million, or 21.0%, due to origination and draw activity that outpaced paydowns and conversions to term loans.

Residential Real Estate Loans. Our one-to-four family residential loans increased $4.6 million, or 3.7%, due to new origination activity that outpaced paydowns.

Farmland Loans. Our farmland loans decreased $1.0 million, or 1.5%, due to paydowns that outpaced modest origination activity.

Commercial Loans. Our commercial loans held for investment decreased $32.2 million, or 2.6%, due to a decrease in period end liquid credit balances and other commercial lending. The decrease was partially offset by increased equipment lending. Our other commercial lending products, comprised primarily of general commercial loans originated in our community banking markets, decreased $21.2 million, or 6.7%.

The following table shows our commercial loans:

(Dollars in thousands)	June 30, 2023	December 31, 2022	$ Change	% Change
Commercial				
Equipment	$ 493,763	$ 454,117	$ 39,646	8.7 %
Asset-based lending	231,265	229,754	1,511	0.7 %
Liquid credit	151,821	202,326	(50,505)	(25.0 %)
Paycheck Protection Program loans	45	55	(10)	(18.2 %)
Agriculture	46,839	48,494	(1,655)	(3.4 %)
Other commercial lending	295,159	316,364	(21,205)	(6.7 %)
Total commercial loans	$ 1,218,892	$ 1,251,110	$ (32,218)	(2.6 %)

Factored Receivables. Our factored receivables decreased $63.7 million, or 5.1% due to a slowing freight market. At June 30, 2023, the balance of the Over-Formula Advance Portfolio included in factored receivables was $4.0 million. At June 30, 2023, 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 $0.5 million, or 5.2%, due to paydowns that outpaced modest origination activity.

Mortgage Warehouse. Our mortgage warehouse facilities increased $187.5 million, or 28.5%, due to increased utilization. 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 $848.0 million for the three months ended June 30, 2023 compared to $651.4 million for the three months ended June 30, 2022 and $794.9 million for the six months ended June 30, 2023 compared to $644.1 million for the six months ended June 30, 2022.

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:

	June 30, 2023				
(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	$ 264,867	$ 442,446	$ 59,610	$ 1,788	$ 768,711
Construction, land development, land	65,535	40,739	3,797	—	110,071
1-4 family residential	8,226	28,659	14,455	79,288	130,628
Farmland	8,802	30,258	25,211	3,642	67,913
Commercial	353,635	815,724	49,533	—	1,218,892
Factored receivables	1,173,794	—	—	—	1,173,794
Consumer	1,183	6,257	961	8	8,409
Mortgage warehouse	846,340	—	—	—	846,340
	$ 2,722,382	$ 1,364,083	$ 153,567	$ 84,726	$ 4,324,758

Sensitivity of loans to changes in interest rates:	After One but within Five Years	After Five but within Fifteen Years	After Fifteen Years
Predetermined (fixed) interest rates			
Commercial real estate	$ 264,240	$ 4,170	$ 502
Construction, land development, land	4,005	297	—
1-4 family residential	20,019	7,757	5,634
Farmland	21,490	1,011	—
Commercial	582,569	39,133	—
Factored receivables	—	—	—
Consumer	6,248	961	8
Mortgage warehouse	—	—	—
	$ 898,571	$ 53,329	$ 6,144
Floating interest rates			
Commercial real estate	$ 178,206	$ 55,440	$ 1,286
Construction, land development, land	36,734	3,500	—
1-4 family residential	8,640	6,698	73,654
Farmland	8,768	24,200	3,642
Commercial	233,155	10,400	—
Factored receivables	—	—	—
Consumer	9	—	—
Mortgage warehouse	—	—	—
	$ 465,512	$ 100,238	$ 78,582
Total	$ 1,364,083	$ 153,567	$ 84,726

As of June 30, 2023, most of the Company's non-factoring business activity is with customers located within certain states. The states of Texas (15%), Colorado (15%), Illinois (11%), and Iowa (6%) make up 47% 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, 2022, the states of Texas (23%), Illinois (11%), Colorado (11%), and Iowa (6%) made up 51% 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 26% of our total loan portfolio as of June 30, 2023, 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, 2022, 96% of our factored receivables, representing approximately 29% 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, 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)	June 30, 2023	December 31, 2022
Nonperforming loans:		
Commercial real estate	$ 1,933	$ 871
Construction, land development, land	—	150
1-4 family residential	1,085	1,391
Farmland	394	400
Commercial	5,501	15,896
Factored receivables	22,869	29,431
Consumer	180	91
Mortgage warehouse	—	—
Total nonperforming loans	31,962	48,230
Held to maturity securities	4,778	5,051
Equity investments without readily determinable fair value	1,170	—
Other repossessed assets	750	1,300
Total nonperforming assets	$ 38,660	$ 54,581
Nonperforming assets to total assets	0.68 %	1.02 %
Nonperforming loans to total loans held for investment	0.74 %	1.17 %
Total past due loans to total loans held for investment	1.55 %	2.53 %

Nonperforming loans decreased $16.3 million, or 33.7%, due to a $3.4 million nonperforming equipment loan pay-off, a $3.2 million partial charge-off and $4.4 million partial paydown of a nonperforming liquid credit loan, and an $6.6 million reduction in nonperforming factored receivables which includes the aforementioned $3.3 million net charge-off of the fully reserved over-formula advance balance. These decreases were offset by the addition of a $1.4 million equipment loan securitized by transportation equipment and a $1.1 million commercial real estate loan secured by real estate. The entire $19.4 million of Misdirected Payments is included in nonperforming loans (specifically, factored receivables) in accordance with our policy.

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 decreased to 0.74% at June 30, 2023 from 1.17% December 31, 2022.

Our ratio of nonperforming assets to total assets decreased to 0.68% at June 30, 2023 from 1.02% December 31, 2022. This is due to the aforementioned loan activity and changes in our period end total assets. During the six months ended June 30, 2023, we received $1.1 million of equity in a former borrower as part of a partial paydown of a nonperforming loan to said borrower. Such equity is considered a nonperforming asset at June 30, 2023. Additionally, the amortized cost basis of our HTM CLO securities considered to be nonaccrual decreased $0.3 million during the period.

Past due loans to total loans held for investment decreased to 1.55% at June 30, 2023 from 2.53% at December 31, 2022, as a result of the aforementioned loan activity and a decrease in past due factored receivables. Both the $4.0 million acquired factoring Over-Formula Advance balance and the $19.4 million Misdirected Payments balance are considered greater than 90 days past due at June 30, 2023.

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 2022 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:

	June 30, 2023			December 31, 2022		
(Dollars in thousands)	Allocated Allowance	% of Loan Portfolio	ACL to Loans	Allocated Allowance	% of Loan Portfolio	ACL to Loans
Commercial real estate	$ 4,783	18 %	0.62 %	$ 4,459	16 %	0.66 %
Construction, land development, land	1,235	3 %	1.12 %	1,155	2 %	1.27 %
1-4 family residential	1,046	3 %	0.80 %	838	3 %	0.67 %
Farmland	476	2 %	0.70 %	483	2 %	0.70 %
Commercial	12,977	28 %	1.06 %	15,918	30 %	1.27 %
Factored receivables	13,441	26 %	1.15 %	19,121	31 %	1.55 %
Consumer	166	— %	1.97 %	175	— %	1.97 %
Mortgage warehouse	846	20 %	0.10 %	658	16 %	0.10 %
Total Loans	$ 34,970	100 %	0.81 %	$ 42,807	100 %	1.04 %

The ACL decreased $7.8 million, or 18.3%. This decrease reflects net charge-offs of $13.0 million and credit loss expense of $5.2 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 $8.2 million at December 31, 2022 to $4.0 million at June 30, 2023 and the entire balance at June 30, 2023 was fully reserved. At June 30, 2023, 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 June 30, 2023.

A driver of the change in ACL is slight projected deterioration of the loss drivers that the Company forecasted to calculate expected losses at June 30, 2023 as compared to December 31, 2022. 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 $0.4 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 future interest rate environment. The impact of these assumed prepayment speeds is lesser in magnitude than the aforementioned loss driver assumptions.

For all DCF models at June 30, 2023, 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 June 30, 2023 as compared to December 31, 2022, the Company forecasted a slight decrease national unemployment, a steeper decrease in one-year percentage change in national retail sales, a decrease in one-year percentage change in the national home price index, and a minimal change in one-year percentage change in national gross domestic product. At June 30, 2023 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 near-zero level in the first projected quarter followed by a decline to negative levels over the last three projected quarters to a level below recent actual periods. For percentage change in national home price index, the Company projected a negative levels for all four quarters with such negative levels peaking in the third projected quarter. For percentage change in national gross domestic product, management projected near-zero growth for each projected quarter. At June 30, 2023, the Company slowed its historical prepayment speeds in response to the expected 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)	June 30, 2023	December 31, 2022
Allowance for credit losses on loans	$ 34,970	$ 42,807
Total loans held for investment	$ 4,324,758	$ 4,120,291
Allowance to total loans held for investment	0.81 %	1.04 %
Nonaccrual loans	$ 9,093	$ 18,296
Total loans held for investment	$ 4,324,758	$ 4,120,291
Nonaccrual loans to total loans held for investment	0.21 %	0.44 %
Allowance for credit losses on loans	$ 34,970	$ 42,807
Nonaccrual loans	$ 9,093	$ 18,296
Allowance for credit losses to nonaccrual loans	384.58 %	233.97 %

	Three Months Ended June 30,					
	2023			2022		
(Dollars in thousands)	Net Charge-Offs	Average Loans HFI	Net Charge-Off Ratio	Net Charge-Offs	Average Loans HFI	Net Charge-Off Ratio
Commercial real estate	$ —	$ 715,484	— %	$ (46)	$ 645,321	(0.01)%
Construction, land development, land	(1)	101,982	— %	(1)	120,633	— %
1-4 family residential	(8)	129,958	(0.01)%	(2)	128,222	— %
Farmland	—	67,797	— %	—	71,971	— %
Commercial	5,074	1,223,944	0.41 %	70	1,381,328	0.01 %
Factored receivables	5,661	1,141,580	0.50 %	139	1,739,320	0.01 %
Consumer	63	9,129	0.69 %	55	10,077	0.55 %
Mortgage warehouse	—	870,285	— %	—	651,369	— %
Total Loans	$ 10,789	$ 4,260,159	0.25 %	$ 215	$ 4,748,241	— %

Quarter to date net loans charged off increased $10.6 million reflecting the aforementioned $3.3 million net charge-off of the fully reserved over-formula advance balance. Net charge-offs of factored receivables excluding the over-formula advance were $2.4 million. The Company also charged off two liquid credit loans carrying balances of $3.2 million and a $1.6 million, respectively, at the time of charge-off.

	Six Months Ended June 30,					
	2023			2022		
(Dollars in thousands)	Net Charge-Offs	Average Loans HFI	Net Charge-Off Ratio	Net Charge-Offs	Average Loans HFI	Net Charge-Off Ratio
Commercial real estate	$ (70)	$ 700,914	(0.01)%	$ 48	$ 639,379	0.01 %
Construction, land development, land	(2)	99,818	— %	(2)	122,481	— %
1-4 family residential	(5)	129,627	— %	(5)	126,827	— %
Farmland	—	68,075	— %	—	73,562	— %
Commercial	5,256	1,210,339	0.43 %	733	1,399,872	0.05 %
Factored receivables	7,751	1,167,402	0.66 %	818	1,760,101	0.05 %
Consumer	74	9,378	0.79 %	147	10,388	1.42 %
Mortgage warehouse	—	794,941	— %	—	644,080	— %
Total Loans	$ 13,004	$ 4,180,494	0.31 %	$ 1,739	$ 4,776,690	0.04 %

Year to date net loans charged off increased $11.3 million reflecting the aforementioned $3.3 million net charge-off of the fully reserved over-formula advance balance. Net charge-offs of factored receivables excluding the over-formula advance were $4.5 million. The Company also charged off two liquid credit loans carrying balances of $3.2 million and a $1.6 million, respectively, at the time of charge-off.

Securities

As of June 30, 2023 and December 31, 2022, we held equity securities with readily determinable fair values of $4.4 million and $5.2 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 June 30, 2023, we held debt securities classified as available for sale with a fair value of $303.8 million, an increase of $49.3 million from $254.5 million at December 31, 2022. The following table illustrates the changes in our available for sale debt securities:

	Available For Sale Debt Securities:			
(Dollars in thousands)	June 30, 2023	December 31, 2022	$ Change	% Change
Mortgage-backed securities, residential	$ 45,829	$ 50,633	$ (4,804)	(9.5)%
Asset-backed securities	1,252	6,331	(5,079)	(80.2)%
State and municipal	5,195	13,438	(8,243)	(61.3)%
CLO Securities	249,079	181,011	68,068	37.6 %
Corporate bonds	760	1,263	(503)	(39.8)%
SBA pooled securities	1,664	1,828	(164)	(9.0)%
	$ 303,779	$ 254,504	$ 49,275	19.4 %

Our available for sale CLO portfolio consists of investment grade positions in high ranking tranches within their respective securitization structures. As of June 30, 2023, 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 June 30, 2023. 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 June 30, 2023, we held investments classified as held to maturity with an amortized cost, net of ACL, of $3.4 million, a decrease of $0.7 million from $4.1 million at December 31, 2022. 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 June 30, 2023.

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

	Maturity as of June 30, 2023									
	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	$ 8	3.73 %	$ 8,852	4.68 %	$ 1,406	2.63 %	$ 40,803	3.71 %	$ 51,069	3.85 %
Asset-backed securities	—	— %	—	— %	—	— %	1,286	6.43 %	1,286	6.43 %
State and municipal	723	2.55 %	2,213	3.11 %	828	2.54 %	1,519	2.40 %	5,283	2.74 %
CLO securities	—	— %	—	— %	72,194	7.22 %	178,066	7.25 %	250,260	7.24 %
Corporate bonds	501	6.06 %	—	— %	—	— %	268	5.14 %	769	5.76 %
SBA pooled securities	—	— %	—	— %	473	2.67 %	1,300	4.49 %	1,773	4.00 %
Total available for sale securities	$ 1,232	3.99 %	$ 11,065	4.37 %	$ 74,901	7.06 %	$ 223,242	6.53 %	$ 310,440	6.57 %
Held to maturity securities:	$ —	— %	$ 1,913	— %	$ 4,343	3.96 %	$ —	— %	$ 6,256	2.44 %

Liabilities

Total liabilities were $4.819 billion as of June 30, 2023, compared to $4.445 billion at December 31, 2022, an increase of $374.4 million, the components of which are discussed below.

Deposits

The following table summarizes our deposits:

(Dollars in thousands)	June 30, 2023	December 31, 2022	$ Change	% Change
Noninterest bearing demand	$ 1,608,411	$ 1,756,680	$ (148,269)	(8.4 %)
Interest bearing demand	778,972	856,512	(77,540)	(9.1 %)
Individual retirement accounts	57,575	68,125	(10,550)	(15.5 %)
Money market	569,318	508,534	60,784	12.0 %
Savings	524,210	551,780	(27,570)	(5.0 %)
Certificates of deposit	270,273	319,150	(48,877)	(15.3 %)
Brokered time deposits	484,666	110,555	374,111	338.4 %
Other brokered deposits	41	—	41	100.0 %
Total Deposits	$ 4,293,466	$ 4,171,336	$ 122,130	2.9 %

Our total deposits increased $122.1 million, or 2.9%, primarily due to an increase in brokered time deposits and money market deposits. The Company experienced decreases in interest bearing demand deposits, individual retirement accounts, savings deposits and certificates of deposit. As of June 30, 2023, interest bearing demand deposits, noninterest bearing deposits, money market deposits, other brokered deposits, and savings deposits accounted for 81% of our total deposits, while individual retirement accounts, certificates of deposit, and brokered time deposits made up 19% of total deposits.

At June 30, 2023 we held $59.1 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 June 30, 2023:

(Dollars in thousands)	Over $250,000
Maturity	
3 months or less	$ 10,712
Over 3 through 6 months	14,879
Over 6 through 12 months	15,017
Over 12 months	10,529
	$ 51,137

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

	Three Months Ended June 30, 2023			Three Months Ended June 30, 2022		
(Dollars in thousands)	Average Balance	Weighted Avg Rates	% of Total	Average Balance	Weighted Avg Rates	% of Total
Interest bearing demand	$ 804,799	0.36 %	20 %	$ 876,536	0.25 %	19 %
Individual retirement accounts	60,171	0.69 %	1 %	81,678	0.52 %	2 %
Money market	506,782	1.33 %	13 %	545,508	0.21 %	12 %
Savings	529,952	0.36 %	13 %	528,450	0.15 %	11 %
Certificates of deposit	286,253	1.26 %	7 %	461,280	0.48 %	10 %
Brokered time deposits	244,721	4.63 %	6 %	101,270	1.20 %	2 %
Other brokered deposits	13,188	5.26 %	— %	76,155	3.85 %	2 %
Total interest bearing deposits	2,445,866	1.13 %	60 %	2,670,877	0.41 %	58 %
Noninterest bearing demand	1,598,733	—	40 %	1,951,725	—	42 %
Total deposits	$ 4,044,599	0.68 %	100 %	$ 4,622,602	0.23 %	100 %

	Six Months Ended June 30, 2023			Six Months Ended June 30, 2022		
(Dollars in thousands)	Average Balance	Weighted Avg Yields	% of Total	Average Balance	Weighted Avg Yields	% of Total
Interest bearing demand	$ 820,467	0.32 %	20 %	$ 855,756	0.23 %	18 %
Individual retirement accounts	62,663	0.61 %	2 %	82,182	0.52 %	2 %
Money market	502,456	1.13 %	12 %	542,050	0.21 %	12 %
Savings	537,404	0.29 %	13 %	519,269	0.15 %	11 %
Certificates of deposit	292,665	1.00 %	7 %	489,682	0.47 %	11 %
Brokered time deposits	172,354	3.95 %	4 %	60,065	1.02 %	1 %
Other brokered deposits	6,768	5.24 %	— %	142,710	0.97 %	3 %
Total interest bearing deposits	2,394,777	0.85 %	58 %	2,691,714	0.32 %	58 %
Noninterest bearing demand	1,651,463	—	42 %	1,944,606	—	42 %
Total deposits	$ 4,046,240	0.50 %	100 %	$ 4,636,320	0.19 %	100 %

The Company's deposit base is made up of a high number of customers with accounts spread across 63 locations in six states. Our deposit base is diverse in terms of both geography and industry, comprised largely of retail as well small-to-medium sized business customers. The majority of our deposits are FDIC insured, and the runoff we have seen in the first half of the year appears to be a continuation of the trend we have seen over the past several quarters: the normalizing of pandemic-era surge balances and the movement of rate-sensitive excess balances to other investments.

Other Borrowings

Customer Repurchase Agreements

The following provides a summary of our customer repurchase agreements as of and for the six months ended June 30, 2023 and the year ended December 31, 2022:

(Dollars in thousands)	June 30, 2023	December 31, 2022
Amount outstanding at end of period	$ —	$ 340
Weighted average interest rate at end of period	0.03 %	0.03 %
Average daily balance during the period	$ 1,457	$ 6,701
Weighted average interest rate during the period	0.03 %	0.03 %
Maximum month-end balance during the period	$ 3,208	$ 13,463

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 six months ended June 30, 2023 and the year ended December 31, 2022:

(Dollars in thousands)	June 30, 2023	December 31, 2022
Amount outstanding at end of period	$ 280,000	$ 30,000
Weighted average interest rate at end of period	5.18 %	4.25 %
Average amount outstanding during the period	251,961	69,658
Weighted average interest rate during the period	5.20 %	1.19 %
Highest month end balance during the period	530,000	230,000

Our FHLB advances are collateralized by assets, including a blanket pledge of certain loans. At June 30, 2023 and December 31, 2022, we had $613.1 million and $646.3 million, respectively, in unused and available advances from the FHLB.

Subordinated Notes

The following provides a summary of our subordinated notes as of June 30, 2023:

(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	$ 39,017	2029	4.875%	11/27/2024	Three Month LIBOR plus 3.330%	$ 1,218
Subordinated Notes issued August 26, 2021	70,000	69,217	2031	3.500%	9/01/2026	Three Month SOFR[1] plus 2.860%	$ 1,776
	$ 109,500	$ 108,234					

[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 June 30, 2023:

(Dollars in thousands)	Face Value	Carrying Value	Maturity Date	Interest Rate
National Bancshares Capital Trust II	$ 15,464	$ 13,559	September 2033	LIBOR + 3.00%
National Bancshares Capital Trust III	17,526	13,522	July 2036	LIBOR + 1.64%
ColoEast Capital Trust I	5,155	3,797	September 2035	LIBOR + 1.60%
ColoEast Capital Trust II	6,700	4,913	March 2037	LIBOR + 1.79%
Valley Bancorp Statutory Trust I	3,093	2,914	September 2032	LIBOR + 3.40%
Valley Bancorp Statutory Trust II	3,093	2,739	July 2034	LIBOR + 2.75%
	$ 51,031	$ 41,444		

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 $41.4 million was allowed in the calculation of Tier I capital as of June 30, 2023.

Capital Resources and Liquidity Management

Capital Resources

Our stockholders' equity totaled $833.5 million as of June 30, 2023, compared to $889.0 million as of December 31, 2022, a decrease of $55.5 million. Stockholders' equity decreased during this period primarily due to treasury stock purchases made under our accelerated share repurchase program, offset in part by our net income of $18.7 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 June 30, 2023, TBK Bank had $549.1 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. Additionally, as of June 30, 2023, we had $613.1 million in unused and available advances from the FHLB.We routinely utilize FHLB advances to support the fluctuating and sometimes unpredictable balances in our mortgage warehouse lending portfolio, and we will continue to do so.

Contractual Obligations

The following table summarizes our contractual obligations and other commitments to make future payments as of June 30, 2023. 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 - June 30, 2023				
(Dollars in thousands)	Total	One Year or Less	After One but within Three Years	After Three but within Five Years	After Five Years
Federal Home Loan Bank advances	$ 280,000	$ 250,000	$ —	$ 30,000	$ —
Subordinated notes	109,500	—	—	—	109,500
Junior subordinated debentures	51,031	—	—	—	51,031
Operating lease agreements	39,079	6,546	12,166	9,437	10,930
Time deposits with stated maturity dates	812,514	755,293	48,525	8,145	551
Total contractual obligations	$ 1,292,124	$ 1,011,839	$ 60,691	$ 47,582	$ 172,012

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 11 – 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 9 – 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, 2022, 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 2022 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;
- 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 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;
- increases in our capital requirements and;
- the impact of COVID-19 on our business.

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 June 30, 2023 and December 31, 2022:

	June 30, 2023		December 31, 2022	
	Following 12 Months	Months 13-24	Following 12 Months	Months 13-24
+400 basis points	18.4 %	22.1 %	19.4 %	24.9 %
+300 basis points	13.7 %	16.4 %	14.5 %	18.5 %
+200 basis points	9.1 %	10.9 %	9.7 %	12.2 %
+100 basis points	4.5 %	5.4 %	4.8 %	6.1 %
Flat rates	0.0 %	0.0 %	0.0 %	0.0 %
-100 basis points	(4.7 %)	(5.7 %)	(5.0 %)	(6.2 %)
-200 basis points	(9.8 %)	(11.7 %)	(10.4 %)	(13.0 %)

The following table presents the change in our economic value of equity as of June 30, 2023 and December 31, 2022, assuming immediate parallel shifts in interest rates:

	Economic Value of Equity at Risk (%)	
	June 30, 2023	December 31, 2022
+400 basis points	19.1 %	20.0 %
+300 basis points	15.2 %	15.7 %
+200 basis points	10.7 %	10.9 %
+100 basis points	5.8 %	5.8 %
Flat rates	0.0 %	0.0 %
-100 basis points	(6.3 %)	(6.4 %)
-200 basis points	(13.4 %)	(13.7 %)

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 June 30, 2023, 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 hauled 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 to us 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, 2022.

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

On February 1, 2023, the Company entered into an accelerated share repurchase ("ASR") agreement to repurchase $70,000,000 of the Company's common stock. The ASR is part of the Company's previously announced plan to repurchase up to $100,000,000 of the Company's common stock and is within the remaining amount authorized by the Company's Board of Directors pursuant to such plan. Under the terms of the ASR agreement, the Company received an initial delivery of 961,373 common shares representing approximately 80% of the expected total to be repurchased. On April 28, 2023, the ASR was completed and we received an additional delivery of 247,954 common shares.

In connection with the completion of the ASR, on May 4, 2023, we announced that our board of directors had authorized us to repurchase up to an additional $50.0 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. We have not repurchased any shares under the new share repurchase program.

The following repurchases were made under stock repurchase programs during the three months ended June 30, 2023:

Period	(a) Total number of shares (or units) purchased		(b) Average price paid per share (or unit)	(c) Total number of shares (or units) purchased as part of publicly announced plans or programs	(d) Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs
April 1, 2023 — April 30, 2023	247,954	$	57.88	247,954	50,000,000
May 1, 2023 — May 31, 2023	—	$	—	—	50,000,000
June 1, 2023 — June 30, 2023	—	$	—	—	50,000,000
Total	247,954	$	58.25	247,954	

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Insider Trading Arrangements and Policies

On June 15, 2023, Mr. Aaron Graft, the Company's Vice Chairman and Chief Executive Officer, adopted a written plan for the sale of our common stock that is intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) under the Exchange Act (the "Trading Plan"). The Trading Plan covers the sale of up to 75,000 shares of the Company's common stock in several transactions over a period commencing after the later of (1) 90 days from the execution of the Trading Plan and (2) the second trading day following the public disclosure of the Company's financial results on Form 10-Q for the quarter ended June 30, 2023, and will cease upon the earlier of June 11, 2024 or the sale of all shares subject to the Trading Plan.

During the second quarter of 2023, none of our other directors or executive officers adopted Rule 10b5-1 trading plans and none of our directors or executive officers terminated a Rule 10b5-1 trading plan or adopted or terminated a non-Rule 10b5-1 trading arrangement (as defined in Item 408(c) of Regulation S-K).

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	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 December 1, 2022.
3.4	Second Amended and Restated Bylaws of the Registrant, effective November 7, 2014, incorporated by reference to Exhibit 3.2 to Form 8-K filed with the SEC on November 13, 2014.
3.5	Amendment No. 1 to Second Amended and Restated Bylaws of Triumph Bancorp, Inc., incorporated by reference to Exhibit 3.2 to Form 8-K filed with the SEC on May 10, 2018.
3.6	Amendment No. 2 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 December 1, 2022.
10.1†	Form of Restricted Stock Unit Award Agreement under Triumph Financial, Inc. 2014 Omnibus Incentive Plan.
10.2†	Form of Performance Restricted Stock Unit Award Agreement (Bank) under Triumph Financial, Inc. 2014 Omnibus Incentive Plan.
10.3†	Form of Performance Restricted Stock Unit Award Agreement (FinTech) under Triumph Financial, Inc. 2014 Omnibus Incentive Plan.
10.4†	Form of Nonqualified Option Agreement under Triumph Financial, Inc. 2014 Omnibus Incentive Plan.
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 FINANCIAL INC.
(Registrant)

Date:	July 20, 2023	/s/ Aaron P. Graft Aaron P. Graft President and Chief Executive Officer
Date:	July 20, 2023	/s/ W. Bradley Voss W. Bradley Voss Chief Financial Officer

Exhibit 10.1

2014 OMNIBUS INCENTIVE PLAN
RESTRICTED STOCK UNIT AWARD AGREEMENT

THIS RESTRICTED STOCK UNIT AWARD AGREEMENT (this "Agreement"), dated as of May 1, 2023 (the "Grant Date"), is made by and between Triumph Financial, Inc., a Texas corporation (the "Company"), and [[FIRSTNAME]] [[LASTNAME]] ("Participant"). Capitalized terms used herein without definition have the meanings ascribed to such terms in the Triumph Financial, Inc. 2014 Omnibus Incentive Plan (the "Plan"), pursuant to which this Award is granted.

WHEREAS, the Company has adopted the Plan to give the Company a competitive advantage in attracting, retaining and motivating officers, employees, directors and consultants and to provide the Company and its Subsidiaries and Affiliates with a means of providing incentives for future performance of services directly linked to the profitability of the Company's businesses and increases in shareholder value; and

WHEREAS, the Committee has determined that it would be in the best interests of the Company and its shareholders to grant Participant an award of Restricted Stock Units ("RSUs") on the terms and subject to the conditions set forth in this Agreement and the Plan.

NOW THEREFORE, in consideration of the premises and the covenants of the parties contained in this Agreement, and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto, for themselves, their successors and assigns, hereby agree as follows:

1. Grant of RSU Award.

(a) Grant. The Company hereby grants to Participant an award (the "RSU Award") of [[SHARESGRANTED]] RSUs, on the terms and subject to the conditions set forth in this Agreement and as otherwise provided in the Plan. Each RSU represents the right to receive one Share on the terms, and subject to the conditions, set forth in this Agreement.

(b) Incorporation by Reference, Etc. The provisions of the Plan are hereby incorporated herein by reference. Except as otherwise expressly set forth herein, this Agreement shall be construed in accordance with the provisions of the Plan.

2. Vesting; Delivery of Shares.

(a) Generally. Except as may otherwise be provided herein, (i) one fourth (rounded down to the nearest whole Share if applicable) of the RSU Award shall become earned, vested and non-forfeitable on the first anniversary of the Grant Date, (ii) one fourth (rounded down to the nearest whole Share if applicable) of the RSU Award shall become earned, vested and non-forfeitable on the second annual anniversary of the Grant Date, (iii) one fourth (rounded down to the nearest whole Share if applicable) of the RSU Award shall become earned, vested and non-forfeitable on the third annual anniversary of the Grant Date, and (iv) the remaining RSU Award shall become earned, vested and non-forfeitable on the fourth annual anniversary of the Grant Date (each such date, a "Vesting Date"), in each case, subject to Participant not having incurred a Termination of Service prior to the applicable Vesting Date; provided that if such Termination of Service is due to Participant's Retirement, except as otherwise provided in Section 2(c), the RSU Award shall continue to vest and become earned in accordance with the schedule set forth in this Section 2(a), so long as Participant does not engage in activities reasonably determined by the Committee to be competitive with the Company or any of its Affiliates (it being understood that in the event of any such engagement, the remaining portion of the RSU Award that has not vested shall be immediately forfeited). For purposes hereof, Retirement means a Termination of Service (other than a termination by the Company for Cause) on or after reaching the minimum retirement age adopted by the Company for its executives generally as in effect at the time of such Termination of Service.

(b) Vesting upon Death or Disability. If Participant dies or becomes Disabled, the remaining unvested portion of the RSU Award shall immediately become earned, vested and non-forfeitable as of the date of Termination of Service.

(c) Vesting upon post-Change in Control Severance Event. If, during the two-year period following a Change in Control, Participant incurs a Termination of Service due to a termination by the Company without Cause or due to the Participant's Retirement, the remaining portion of the RSU Award that has not theretofore vested shall immediately become earned, vested and non-forfeitable as of the date of Termination of Service. If Participant is party to an Individual Agreement or covered under any severance plan or arrangement with a "good reason" or similar provision, a Termination of Employment by Participant for good reason or similar term (as defined in the applicable Individual Agreement or severance plan or similar arrangement) during such two-year period shall be treated as a termination by the Company without Cause for purposes of this paragraph.

(d) Other Termination of Service. If Participant incurs a Termination of Service prior to any Vesting Date for any reason other than as set forth in Section 2(b) and 2(c) above, any remaining portion of the RSU Award that has not theretofore vested shall be forfeited by Participant without consideration.

3. Tax Withholding. No later than the date as of which an amount first becomes includible in the gross income of Participant for federal income tax purposes with respect to any RSUs, Participant shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, all federal, state and local income and employment taxes that are required by applicable laws and regulations to be withheld with respect to such amount. Participant may direct the Company, to the extent permitted by law and as may be authorized by the Committee or as may otherwise be permitted under Section 14(d) of the Plan, to deduct any such taxes from any payment otherwise due to Participant, including the delivery of Shares of Common Stock that gives rise to the withholding requirement. The Company's obligation to deliver the Shares underlying RSUs (or to make a book entry or other electronic notation indicating ownership of the Shares), is subject to the condition precedent that Participant either pay or provide for the amount of any such withholding.

4. Settlement of RSU Award. Vested RSUs shall be settled by the issuance of Shares within thirty (30) days following the Vesting Date, except that (a) if Participant dies or becomes Disabled or (b) if Participant incurs a Termination of Service during the two-year period following a 409A Change in Control, subject to Section 10(j), vested RSUs shall be settled by the issuance of Shares within thirty (30) days following such event. Nothing herein shall preclude the Company from settling this RSU Award upon a 409A Change in Control the Award if it is not replaced by a Replacement Award, to the extent such settlement is effectuated in accordance with Treas. Regs. § 1.409A-3(j)(ix).

5. Dividend Equivalent Units. If the Company declares a cash dividend on its Common Stock, Participant will be entitled to be credited with dividend equivalent units equal to (i) the amount of such dividend declared and paid with respect to one Share, multiplied by (ii) the total number of unvested RSUs plus the number of dividend equivalent units previously credited with respect to such unvested RSUs, that are outstanding on the applicable dividend record date with respect to such dividend payment date, divided by (iii) the Fair Market Value of a Share on the dividend payment date. Dividend equivalent units will not be credited with interest. Each dividend equivalent unit represents the right to receive one Share and will become vested to the same extent as the underlying RSUs and settled at the same time as the underlying RSUs.

6. Transferability; Rights as a Stockholder. The RSU Award may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by Participant other than by will or by the laws of descent and distribution, and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company, its Subsidiaries and its Affiliates; provided that the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance. Until the issuance of the Shares subject to this RSU Award (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a holder of Common Stock shall exist with respect to this Award.

7. Adjustment. In the event of any event described in Section 3(c) of the Plan occurring after the Grant Date and while any portion of the RSU Award remains outstanding, the adjustment provisions as provided for under Section 3(c) of the Plan shall apply to the unvested portion of such RSU Award.

8. Change in Control. The provisions of this Section 8 shall govern the treatment of the RSU Award upon a Change of Control.

(a) In the event of a Change in Control of the Company occurring after the Grant Date and prior to any Vesting Date, the remaining unvested portion of the RSU Award (if and to the extent not previously forfeited) shall vest, except to the extent that another award meeting the requirements of Section 8(b) is provided to Participant to replace the RSU Award (any award meeting the requirements of Section 8(b), a "Replacement Award").

(b) An award shall meet the conditions of this Section 8(b) (and hence qualify as a Replacement Award) if: (1) it relates to publicly traded equity securities of the Company or the surviving corporation following the Change in Control, (2) it is of the same type as the remaining unvested portion of the RSU Award, (3) it has a value at least equal to the value of the remaining unvested portion of the RSU Award as of the date of the Change in Control (other than in respect of customary fractional rounding of share amounts), (4) it contains terms relating to time-based vesting (including with respect to Termination of Service) that are substantially identical to those of this Award, and (5) its other terms and conditions are not less favorable to Participant than the terms and conditions of this RSU Award (including provisions that apply in the event of a subsequent Change in Control) as of the date of the Change in Control. Without limiting the generality of the foregoing, a Replacement Award may take the form of a continuation of this RSU Award if the requirements of the preceding sentence are satisfied. The determination of whether the conditions of this Section 8(b) are satisfied shall be made by the Committee, as constituted immediately before the Change in Control, in its sole discretion.

9. Clawback Policy. Participant agrees that, notwithstanding any other provision of this Agreement or the Plan, the RSU Award and any Shares delivered thereunder shall be subject to potential cancellation, recoupment, rescission, payback or other action in accordance with the terms of any clawback policy that the Company may adopt and that is applicable to Participant, as it may be amended from time to time, and any provision of applicable law relating to cancellation, rescission, payback or recoupment of compensation.

10. Miscellaneous.

(a) Waiver and Amendment. The Committee may unilaterally amend the terms of this Agreement and the RSU Award granted thereunder; provided that no such amendment shall, without the Participant's consent, materially impair the rights of any Participant with respect to this Agreement and the RSU Award granted thereunder, except such an amendment made to cause the Plan, this Agreement, or the RSU Award granted thereunder to comply with applicable law, Applicable Exchange listing standards, or accounting rules. No waiver of any right hereunder by any party shall operate as a waiver of any other right, or as a waiver of the same right with respect to any subsequent occasion for its exercise, or as a waiver of any right to damages. No waiver by any party of any breach of this Agreement shall be held to constitute a waiver of any other breach or a waiver of the continuation of the same breach.

(b) Notices. All notices, demands and other communications provided for or permitted hereunder shall be made in writing and shall be by registered or certified first-class mail, return receipt requested, facsimile, courier service or personal delivery:

if to the Company to:

Triumph Financial, Inc.
12700 Park Central Drive, Suite 1700
Dallas, TX 75251
Facsimile: (214) 237-3197
Attention: General Counsel

if to Participant: at the address last on the records of the Company.

All such notices, demands and other communications shall be deemed to have been duly given (i) when delivered by hand, if personally delivered; (ii) when delivered by courier, if delivered by commercial courier service; (iii) five business days after being deposited in the mail, postage prepaid, if mailed; and (iv) when receipt is mechanically acknowledged, if by facsimile.

(c) Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, and each other provision of this Agreement shall be severable and enforceable to the extent permitted by law.

(d) No Rights to Service. Nothing contained in this Agreement shall be construed as giving Participant any right to be retained, in any position, as an employee, consultant or director of the Company or its Affiliates or shall interfere with or restrict in any way the right of the Company or its Affiliates, which is hereby expressly reserved, to remove, terminate or discharge Participant at any time for any reason whatsoever.

(e) Beneficiary. Participant may file with the Company a written designation of a beneficiary on such form as may be prescribed by the Committee and may, from time to time, change or revoke such designation by filing a new designation with the Company. The last such designation received by the Company shall be controlling; provided, however, that no designation, or change or revocation thereof, shall be effective unless received by the Company prior to Participant's death, and in no event shall it be effective as of a date prior to such receipt. If no beneficiary designation is filed by Participant, the beneficiary shall be deemed to be his or her spouse or, if Participant is unmarried at the time of death, his or her estate.

(f) Successors. The terms of this Agreement shall be binding upon and inure to the benefit of the Company, its successors and assigns, and of Participant and the beneficiaries, executors, administrators, heirs and successors of Participant.

(g) Entire Agreement. This Agreement and the Plan contain the entire agreement and understanding of the parties hereto with respect to the subject matter contained herein and supersede all prior communications, representations and negotiations with respect thereto.

(h) Bound by the Plan. By signing this Agreement, Participant acknowledges that he or she has received a copy of the Plan and has had an opportunity to review the Plan and agrees to be bound by all the terms and provisions of the Plan.

(i) Governing Law. This Agreement shall be construed and interpreted in accordance with the internal laws of the State of Texas without regard to principles of conflicts of law thereof, or principles of conflicts of laws of any other jurisdiction that could cause the application of the laws of any jurisdiction other than the State of Texas.

(j) Section 409A. Section 13 of the Plan is hereby incorporated by reference herein and shall apply to this Agreement as if set forth herein, *mutatis mutandis*.

(k) Headings. The headings of the Sections of this Agreement are provided for convenience only and are not to serve as a basis for interpretation or construction, and shall not constitute a part, of this Agreement.

(l) Counterparts. This Agreement may be signed in two or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

11. Compliance with Legal Requirements. The grant of the RSU Award and any other obligations of the Company under this Agreement shall be subject to all applicable federal and state laws, rules and regulations and to such approvals by any regulatory or governmental agency as may be required. The Committee, in its sole discretion, may postpone the issuance or delivery of Shares as the Committee may consider appropriate and may require Participant to make such representations and furnish such information as it may consider appropriate in connection with the issuance or delivery of the Shares in compliance with applicable laws, rules and regulations.

[*Signature Page Follows*]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

TRIUMPH FINANCIAL, INC.

By: _______________________
Name: Adam Nelson
Title: EVP and General Counsel

PARTICIPANT

[[SIGNATURE]]
[[FIRSTNAME]] [[LASTNAME]]

[*Signature Page to 2023 RSU Award Agreement*]

TRIUMPH BANCORP, INC.
RESTRICTIVE COVENANTS AGREEMENT

As a condition of any incentive compensation that I may earn and receive under any incentive-based compensation plan maintained by Triumph Financial, Inc. (together with its subsidiaries, the "Company"), and in particular, my receipt of restricted stock units granted under the terms of the Restricted Stock Unit Award Agreement entered into between the Company and me (such agreements, the "Award Agreements"), I agree to the terms and conditions of this Restrictive Covenants Agreement ("Agreement"):

(a) **Access to Confidential Information.** Employee understands and agrees that in the course of performing work on behalf of the Company, he will continue to have access to, and will continue to be given Confidential Information relating to the business of the Company. Employee acknowledges and agrees that such Confidential Information includes, but is not limited to financial information pertinent to the Company and its customers, and investors, customer lists, customer and investor identities and their preferences, confidential banking and financial information of both the Company and its customers and investors, and information that Employee may create or prepare certain information related to his duties. Employee hereby expressly agrees to maintain in strictest confidence and not to access without proper business purposes (including repetitive unnecessary access), use (including without limitation in any future business or personal relationship of Employee), publish, disclose or in any way authorize anyone else to use, publish or disclose in any way, any Confidential Information relating in any manner to the business or affairs of the Company and its customers and investors, except for legitimate business-related reasons while performing duties on behalf of the Company. Employee agrees further not to remove or retain any figures, financial information, personnel data, calculations, letters, documents, lists, papers, or copies thereof, which embody Confidential Information of the Company, and to return any such information in Employee's possession at the conclusion of Employee's use of such information and at the conclusion of Employee's employment with the Company.

For purposes of this Agreement, "Confidential Information" includes, but is not limited to, information in the possession of, prepared by, obtained by, compiled by, or that is used by Company, its customers, investors and/or vendors, or is prepared by, obtained by, compiled by or that is used by Employee in conjunction with his duties, and (1) is proprietary to, about, or created by the Company, its customers, investors and/or vendors; (2) is information the disclosure of which might be detrimental to the interest of the Company, its investors or customers; or (3) is not typically disclosed by the Company, its customers, investors and/or vendors, or known by persons who are not associated with the Company.

(b) **Restrictive Covenants.** Employee acknowledges that, as a result of Employee's service with the Company, a special relationship of trust and confidence will develop between Employee, the Company and its clients and customers, and that this relationship will generate a substantial amount of good will between the Company and its clients and customers. Employee further acknowledges and agrees that it is fair and reasonable for the Company to take steps to protect it from the loss of its Confidential Information or its customer goodwill. Employee further acknowledges that throughout his service with the Company, Employee will be provided with access to and informed of confidential, proprietary and highly sensitive information relating to the Company's clients and customers, which is a competitive asset of the Company, and which enables Employee to benefit from the goodwill and know-how of the Company. Therefore, as a material condition to the Company's willingness to perform its obligations hereunder, Employee agrees that, for a period of twelve (12) months following the date of the termination of employment by the Company for any reason (except as specifically set forth below), Employee will not, either for himself or in conjunction with others:

(i) compete or engage anywhere in the geographic area comprised of any Metropolitan Statistical Area, as defined by the US Office of Management & Budget, in which Employee has performed duties on behalf of the Company during the preceding twelve (12) months, whether such duties were performed in person, telephonically, electronically or otherwise ("Market Area"), in any business that is the same or similar, or offers competing products and services as those offered by the Company;

(ii) take any action to invest in, own, manage, operate, control, participate in, be employed or engaged by, or be connected in any manner with any partnership, corporation or other business or entity engaging in a business the same or similar, or which offers competing products and services as those offered by the Company anywhere within the Market Area; notwithstanding the foregoing, Employee is permitted hereunder to own, directly or indirectly, up to five percent (5%) of the issued and outstanding securities of any publicly traded financial institution conducting business within the Market Area;

(iii) solicit, divert, take away, do business with, or provide information about, or attempt to solicit, divert, take away or do business with in any fashion any of the Company's customers, clients, business or patrons about whom Employee has Confidential Information, or with whom Employee has done business or attempted to do business on behalf of the Company;

(iv) (i) offer employment to, enter into a contract for the employment of, or attempt to entice away from the Company, any individual who is at the time of such offer or attempt, or has been during the twelve months prior to such offer or attempt, an employee of the Company, (ii) interfere with the material business relationships of the Company, or entice away any material suppliers or contractors, (iii) procure or facilitate the making of any such offer or attempt by any other person, or (iv) solicit, directly or through any other person, any investor of the Company for purposes of facilitating any investment, partnership or business opportunity unrelated to the Company. The restriction in subsection (iv) above shall not apply to any investor with which the Employee had a preexisting relationship prior to becoming employed by the Company.

(v) (i) enter into employment, consultancy, association or affiliation with any entity that provides Conflicting Services (as defined below) if any former employee of the Company with whom Employee had contact as part of his or her duties with the Company (a "Covered Person") has become employed by, associated or affiliated with, or a consultant of such entity during the twelve (12) month period preceding Employee's termination of employment with the Company; or (ii) continue employment, consultancy, association or affiliation with any entity that provides Conflicting Services if any Covered Person becomes employed by, associated or affiliated with, or a consultant to such entity during the twelve (12) month period subsequent to Employee's termination of employment with the Company. It is the intention of the parties to prevent the irreparable harm to the Company that would occur from the pooling of information that two or more former Covered Persons can provide to a competing entity or the misuse of Confidential Information. As used herein, "Conflicting Services" is defined as services that are the same or substantially similar to those services of Company or its affiliates and subsidiaries (x) which were provided by Employee (directly or indirectly) during the twelve (12) months preceding Employee's termination from employment by Company or (y) about which Employee acquired Confidential Information during Employee's employment by Company.

Notwithstanding anything to the contrary contained herein, the foregoing restrictions in Section (b) this Restrictive Covenants Agreement shall not apply in the event Employee is terminated by the Company without Cause (as defined in the Award Agreements) during the first twelve (12) months following Employee's execution of the Award Agreements.

(c) **Representations of Employee.**

(i) EMPLOYEE REPRESENTS AND WARRANTS THAT THE KNOWLEDGE, SKILLS AND ABILITIES HE POSSESSES AT THE TIME OF COMMENCEMENT OF EMPLOYMENT HEREUNDER ARE SUFFICIENT TO PERMIT HIM, IN THE EVENT OF TERMINATION OF HIS EMPLOYMENT HEREUNDER, TO EARN A LIVELIHOOD SATISFACTORY TO HIMSELF WITHOUT VIOLATING ANY PROVISION OF THIS POLICY HEREOF, FOR EXAMPLE, BY USING SUCH KNOWLEDGE, SKILLS AND ABILITIES, OR SOME OF THEM, IN THE SERVICE OF A NON COMPETITOR.

(ii) EMPLOYEE ACKNOWLEDGES AND RECOGNIZES THE HIGHLY COMPETITIVE NATURE OF THE COMPANY'S BUSINESS, THAT ACCESS TO CONFIDENTIAL INFORMATION RENDERS THE EMPLOYEE SPECIAL AND UNIQUE WITHIN THE COMPANY'S INDUSTRY, AND THAT THE EMPLOYEE WILL HAVE THE OPPORTUNITY TO DEVELOP SUBSTANTIAL RELATIONSHIPS WITH EXISTING AND PROSPECTIVE CLIENTS, ACCOUNTS, CUSTOMERS, CONSULTANTS, CONTRACTORS, INVESTORS, AND STRATEGIC PARTNERS OF THE COMPANY DURING THE COURSE OF AND AS A RESULT OF THE EMPLOYEE'S EMPLOYMENT WITH THE COMPANY. IN LIGHT OF THE FOREGOING, EMPLOYEE RECOGNIZES AND ACKNOWLEDGES THAT THE RESTRICTIONS AND LIMITATIONS SET FORTH IN THIS AGREEMENT ARE REASONABLE AND VALID IN GEOGRAPHICAL AND TEMPORAL SCOPE AND IN ALL OTHER RESPECTS AND ARE ESSENTIAL TO PROTECT THE VALUE OF THE BUSINESS AND ASSETS OF THE COMPANY.

(d) **Severable Provisions.** The provisions of this Agreement are severable and the invalidity of any one or more provisions shall not affect the validity of any other provision. In the event that a court of competent jurisdiction shall determine that any provision of this Agreement or the application thereof is unenforceable in whole or in part because of the duration or scope thereof, the parties hereto agree that said court in making such determination shall have the power to reduce the duration and scope of such provision to the extent necessary to make it enforceable, and that the Agreement in its reduced form shall be valid and enforceable to the full extent permitted by law.

(e) **Intellectual Property.** Employee agrees to disclose and hereby assigns to the Company any and all material of a proprietary nature, particularly including, without limitation, material subject to protection as trade secrets or as patentable ideas or copyrightable works, that Employee may conceive, invent, author or discover, either solely or jointly with another or other during Employee's employment and that relates to or is capable of use in connection with the business of the Company or any employment or products offered, manufactured, used, sold or being developed by the Company at the time said material is developed. Employee will, upon request of the Company, either during or at any time after Employee's employment ends, regardless of how or why Employee's employment ends, execute and deliver all papers, including applications for patents and registrations for copyrights, and do such other legal acts (entirely at the Company's expense) as may be necessary to obtain and maintain proprietary rights in any and all countries and to vest title thereto in the Company.

(f) **Remedy.** Employee understands and acknowledges that the Company has a legitimate business interest in preventing Employee from taking any actions in violation of this Policy and that this Policy is intended to protect the business and goodwill of the Company. Employee further acknowledges that a breach of this Policy will irreparably and continually damage the Company and that monetary damages alone will be inadequate to compensate the Company for such breach. Employee therefore agrees that in the event Employee violates any of the terms of this Policy, the Company will be entitled to, in addition to any other remedies available to it in law or in equity, seek temporary, preliminary and permanent injunctive relief and specific performance to enforce the terms of this Policy without the necessity of proving inadequacy of legal remedies or irreparable harm or posting bond. If Employee does take actions in violation of this Policy, Employee understands that the time periods set forth in in the applicable provisions herein will run from the date on which violations of those provisions, whether by injunction or otherwise, ends and not from the date that Employee's employment ends. In the event any lawsuit, claim or other proceeding is brought to enforce the terms of this Policy, or to determine the validity of its terms, then the prevailing party will be entitled to recover from the non-prevailing party its reasonable attorneys' fees and court costs incurred in obtaining enforcement of, or determining the validity of, this Policy.

(g) **Waiver.** Employee understands and agrees that in the event the Company waives or allows any breach of this Policy, such waiver or allowance will not constitute a waiver or allowance of any future breach, whether of a similar or dissimilar nature.

(h) **Tolling.** If the Company files a lawsuit in any court of competent jurisdiction alleging a breach of the non-disclosure or non-solicitation provisions of this Agreement by Employee, then any time period set forth in this Agreement relating to the post-termination restrictions on the activities of Employee will be deemed tolled as of the time the lawsuit is filed and will remain tolled until the dispute is finally resolved, either by written settlement agreement resolving all claims raised in the lawsuit, or by entry of a final judgment and final resolution of any post-judgment appellate proceedings.

* * * * * *

I, [[FIRSTNAME]] [[LASTNAME]], have executed this Agreement on the respective date set forth below:

Date:__ __

(Signature)

Exhibit 10.2

2014 OMNIBUS INCENTIVE PLAN
PERFORMANCE RESTRICTED STOCK UNIT AWARD AGREEMENT

THIS PERFORMANCE RESTRICTED STOCK UNIT AWARD AGREEMENT (this "Agreement"), dated as of May 1, 2023 (the "Grant Date"), is made by and between Triumph Financial, Inc., a Texas corporation (the "Company"), and [[FIRSTNAME]] [[LASTNAME]] ("Participant"). Capitalized terms used herein without definition have the meanings ascribed to such terms in the Triumph Financial, Inc. 2014 Omnibus Incentive Plan (the "Plan"), pursuant to which this Award is granted.

WHEREAS, the Company has adopted the Plan to give the Company a competitive advantage in attracting, retaining and motivating officers, employees, directors and consultants and to provide the Company and its Subsidiaries and Affiliates with a means of providing incentives for future performance of services directly linked to the profitability of the Company's businesses and increases in shareholder value; and

WHEREAS, the Committee has determined that it would be in the best interests of the Company and its shareholders to grant Participant an award of Performance Restricted Stock Units ("PSUs") on the terms and subject to the conditions set forth in this Agreement and the Plan.

NOW THEREFORE, in consideration of the premises and the covenants of the parties contained in this Agreement, and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto, for themselves, their successors and assigns, hereby agree as follows:

1. Grant of PSU Award.

(a) Grant. The Company hereby grants to Participant an award (the "PSU Award") of a target aggregate number of [[SHARESGRANTED]] PSUs (the "Target PSUs"), on the terms and subject to the conditions set forth in this Agreement and as otherwise provided in the Plan. Each PSU represents the right to receive one Share on the terms, and subject to the conditions, set forth in this Agreement. Subject to the Award Maximum, the total number of PSUs that may be earned pursuant to the PSU Award in accordance with this Agreement shall range from 0% to 350% of the Target PSUs.

(b) Incorporation by Reference, Etc. The provisions of the Plan are hereby incorporated herein by reference. Except as otherwise expressly set forth herein, this Agreement shall be construed in accordance with the provisions of the Plan.

2. Vesting. Except as may otherwise be provided herein, the PSU Award shall become earned, vested and nonforfeitable according to the following provisions:

(a) General Vesting. Except as may otherwise be provided herein, subject to the Award Maximum, a number of PSUs subject to the PSU Award shall be earned (such number, the "Earned PSUs") based on the achievement of the Performance Goals set forth in Exhibit A hereto and the Earned PSUs shall vest on the date on which the Committee determines the extent to which the Performance Goals have been achieved (the "Vesting Date"), which determination shall occur no later than thirty (30) days following the conclusion of the Performance Period set forth on Exhibit A, subject to Participant not having incurred a Termination of Service prior to the Vesting Date.

(b) Death, Disability, and Retirement. If Participant experiences a Termination of Service after the Grant Date due to Participant's death or Disability, or after the first anniversary of the Grant Date due to Participant's Retirement, then a portion of the PSU Award, calculated by multiplying the Target PSUs by a fraction, the numerator of which is equal to the number of days worked by Participant during the Performance Period and the denominator of which is the total number of days in the Performance Period (the "Prorated Portion"), shall remain outstanding and eligible to vest in accordance with Section 2(a) based on the actual level of achievement of the Performance Goals, so long as Participant does not breach any restrictive covenants set forth in any written agreement between Participant and the Company (it being understood that in the event of any such breach prior to the Vesting Date, the Prorated Portion shall be immediately forfeited). For purposes hereof, "Retirement" means a Termination of Service on or after reaching the minimum retirement age adopted by the Company for its executives generally as in effect at the time of such Termination of Service (or, if earlier, as in effect immediately prior to a Change in Control). For the avoidance of doubt, the Target PSUs that do not constitute the Prorated Portion shall be forfeited as of the date of Termination of Service.

(c) Termination without Cause or Resignation for Good Reason.

(i) If, after the first anniversary of the Grant Date (and other than during the two-year period immediately following a Change in Control), a Participant incurs a Termination of Service due to a termination by the Company without Cause (as defined in Exhibit B), or due to a resignation by Participant for Good Reason (as defined in Exhibit B), the Prorated Portion shall remain outstanding and eligible to vest in accordance with Section 2(a) based on the actual level of achievement of the Performance Goals, so long as Participant does not breach any restrictive covenants set forth in any written agreement between Participant and the Company (it being understood that in the event of any such breach prior to the Vesting Date, the Prorated Portion shall be immediately forfeited). For the avoidance of doubt, the Target PSUs that do not constitute the Prorated Portion shall be forfeited as of the date of Termination of Service.

(ii) If, during the two-year period immediately following a Change in Control, a Participant incurs a Termination of Service due to a termination by the Company without Cause (as defined in Exhibit B), or due to a resignation by Participant for Good Reason (as defined in Exhibit B), the Replacement Award (as defined in Section 7 below) granted in respect of the PSU Award shall vest in full.

(d) Other Termination of Service. If Participant incurs a Termination of Service prior to the Vesting Date for any reason other than as set forth in Section 2(b) and 2(c) above, the PSU Award shall be forfeited by Participant without consideration.

3. Tax Withholding. No later than the date as of which an amount first becomes includible in the gross income of Participant for federal income tax purposes with respect to any PSUs, Participant shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, all federal, state and local income and employment taxes that are required by applicable laws and regulations to be withheld with respect to such amount. Participant may direct the Company, to the extent permitted by law and as may be authorized by the Committee or as may otherwise be permitted under Section 14(d) of the Plan, to deduct any such taxes from any payment otherwise due to Participant, including the delivery of Shares of Common Stock that gives rise to the withholding requirement. The Company's obligation to deliver the Shares underlying Earned PSUs (or to make a book entry or other electronic notation indicating ownership of the Shares), is subject to the condition precedent that Participant either pay or provide for the amount of any such withholding.

4. Settlement of PSU Award. The Earned PSUs shall be settled by the issuance of Shares within thirty (30) days following the Vesting Date (except (a) as otherwise provided in Section 7(a), and (b) that Earned PSUs will be settled upon a Participant's Termination of Service following a Change in Control by the issuance of Shares within thirty (30) days following the Termination of Service; provided that if the PSU Award constitutes "nonqualified deferred compensation" subject to Section 409A of the Code, this clause (b) shall apply only if the Termination of Service occurs within two (2) years following a 409A Change in Control).

5. Transferability; Rights as a Stockholder. The PSU Award may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by Participant other than by will or by the laws of descent and distribution, and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company, its Subsidiaries and its Affiliates; provided that the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance. Until the issuance of the Shares subject to this PSU Award (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a holder of Common Stock shall exist with respect to this Award.

6. Adjustment. In the event of any event described in Section 3(c) of the Plan occurring after the Grant Date and while the PSU Award remains outstanding, the adjustment provisions as provided for under Section 3(c) of the Plan shall apply to the PSU Award.

7. Change in Control. The provisions of this Section 7 shall govern the treatment of the PSU Award upon a Change of Control.

(a) In the event of a Change in Control of the Company occurring after the Grant Date and prior to the Vesting Date, the PSU Award (if and to the extent not previously forfeited) shall vest and be deemed to be earned, with the Performance Goals deemed achieved at the level of achievement of the Performance Goals as determined by the Committee as of the latest practicable date prior to the Change in Control and in accordance with Exhibit A (treating such date as the final day of the Performance Period for purposes thereof), and shall be settled within ten (10) days following the Change in Control (provided that if the PSU Award constitutes "nonqualified deferred compensation" subject to Section 409A of the Code, settlement shall occur at such time only if (i) the Change in Control is a 409A Change in Control and (ii) such settlement would not constitute an impermissible acceleration under Section 409A of the Code, and otherwise such PSU Award will be settled in accordance with Section 4), except to the extent that another award meeting the requirements of Section 7(b) is provided to Participant to replace the PSU Award (any award meeting the requirements of Section 7(b), a "Replacement Award").

(b) An award shall meet the conditions of this Section 7(b) (and hence qualify as a Replacement Award) if: (1) it relates to publicly traded equity securities of the Company or the surviving corporation following the Change in Control, (2) it is of the same type as the PSU Award (except that the Replacement Award shall be subject solely to time-based vesting for the remainder of the applicable performance period (or such shorter period as determined by the Committee) and the Performance Goals shall be deemed to be achieved at the level of achievement of the Performance Goals as determined by the Committee as of the latest practicable date prior to the Change in Control and in accordance with Exhibit A, treating such date as the final day of the Performance Period for purposes thereof), (3) it has a value at least equal to the value of the PSU Award as of the date of the Change in Control (other than in respect of customary fractional rounding of share amounts and exercise price), (4) it contains terms relating to time-based vesting (including with respect to Termination of Service) that are substantially identical to those of this Award, and (5) its other terms and conditions are not less favorable to Participant than the terms and conditions of this Award (including provisions that apply in the event of a subsequent Change in Control) as of the date of the Change in Control. Without limiting the generality of the foregoing, a Replacement Award may take the form of a continuation of this Award if the requirements of the preceding sentence are satisfied. The determination of whether the conditions of this Section 7(b) are satisfied shall be made by the Committee, as constituted immediately before the Change in Control, in its sole discretion.

8. Clawback Policy. Participant agrees that, notwithstanding any other provision of this Agreement or the Plan, the PSU Award and any Shares delivered thereunder shall be subject to potential cancellation, recoupment, rescission, payback or other action in accordance with the terms of any clawback policy that the Company may adopt and that is applicable to Participant, as it may be amended from time to time, and any provision of applicable law relating to cancellation, rescission, payback or recoupment of compensation.

9. Miscellaneous.

(a) Waiver and Amendment. The Committee may unilaterally amend the terms of this Agreement and the PSU Award granted thereunder; provided that no such amendment shall, without the Participant's consent, materially impair the rights of any Participant with respect to this Agreement and the PSU Award granted thereunder, except such an amendment made to cause the Plan, this Agreement, or the PSU Award granted thereunder to comply with applicable law, Applicable Exchange listing standards, or accounting rules. No waiver of any right hereunder by any party shall operate as a waiver of any other right, or as a waiver of the same right with respect to any subsequent occasion for its exercise, or as a waiver of any right to damages. No waiver by any party of any breach of this Agreement shall be held to constitute a waiver of any other breach or a waiver of the continuation of the same breach.

(b) Notices. All notices, demands and other communications provided for or permitted hereunder shall be made in writing and shall be by registered or certified first-class mail, return receipt requested, facsimile, courier service or personal delivery:

if to the Company to:

Triumph Financial, Inc.
12700 Park Central Drive, Suite 1700
Dallas, TX 75251
Facsimile: (214) 237-3197
Attention: General Counsel

if to Participant: at the address last on the records of the Company.

All such notices, demands and other communications shall be deemed to have been duly given (i) when delivered by hand, if personally delivered; (ii) when delivered by courier, if delivered by commercial courier service; (iii) five business days after being deposited in the mail, postage prepaid, if mailed; and (iv) when receipt is mechanically acknowledged, if by facsimile.

(c) Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, and each other provision of this Agreement shall be severable and enforceable to the extent permitted by law.

(d) No Rights to Service. Nothing contained in this Agreement shall be construed as giving Participant any right to be retained, in any position, as an employee, consultant or director of the Company or its Affiliates or shall interfere with or restrict in any way the right of the Company or its Affiliates, which is hereby expressly reserved, to remove, terminate or discharge Participant at any time for any reason whatsoever.

(e) Beneficiary. Participant may file with the Company a written designation of a beneficiary on such form as may be prescribed by the Committee and may, from time to time, change or revoke such designation by filing a new designation with the Company. The last such designation received by the Company shall be controlling; provided, however, that no designation, or change or revocation thereof, shall be effective unless received by the Company prior to Participant's death, and in no event shall it be effective as of a date prior to such receipt. If no beneficiary designation is filed by Participant, the beneficiary shall be deemed to be his or her spouse or, if Participant is unmarried at the time of death, his or her estate.

(f) Successors. The terms of this Agreement shall be binding upon and inure to the benefit of the Company, its successors and assigns, and of Participant and the beneficiaries, executors, administrators, heirs and successors of Participant.

(g) Entire Agreement. This Agreement and the Plan contain the entire agreement and understanding of the parties hereto with respect to the subject matter contained herein and supersede all prior communications, representations and negotiations with respect thereto.

(h) Bound by the Plan. By signing this Agreement, Participant acknowledges that he or she has received a copy of the Plan and has had an opportunity to review the Plan and agrees to be bound by all the terms and provisions of the Plan.

(i) Governing Law. This Agreement shall be construed and interpreted in accordance with the internal laws of the State of Texas without regard to principles of conflicts of law thereof, or principles of conflicts of laws of any other jurisdiction that could cause the application of the laws of any jurisdiction other than the State of Texas.

(j) Headings. The headings of the Sections of this Agreement are provided for convenience only and are not to serve as a basis for interpretation or construction, and shall not constitute a part, of this Agreement.

(k) Counterparts. This Agreement may be signed in two or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

10. Compliance with Legal Requirements. The grant of the PSU Award and any other obligations of the Company under this Agreement shall be subject to all applicable federal and state laws, rules and regulations and to such approvals by any regulatory or governmental agency as may be required. The Committee, in its sole discretion, may postpone the issuance or delivery of Shares as the Committee may consider appropriate and may require Participant to make such representations and furnish such information as it may consider appropriate in connection with the issuance or delivery of the Shares in compliance with applicable laws, rules and regulations.

[*Signature Page Follows*]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

TRIUMPH FINANCIAL, INC.

By: _______________________
Name: Adam Nelson
Title: EVP and General Counsel

PARTICIPANT

[[SIGNATURE]]
[[FIRSTNAME]] [[LASTNAME]]

[*Signature Page to 2023 PSU Award Agreement*]

TRIUMPH FINANCIAL, INC.
RESTRICTIVE COVENANTS AGREEMENT

As a condition of any incentive compensation that I may earn and receive under any incentive-based compensation plan maintained by Triumph Financial, Inc. (together with its subsidiaries, the "Company"), and in particular, my receipt of restricted stock units granted under the terms of the Performance Restricted Stock Unit Award Agreement entered into between the Company and me (such agreements, the "Award Agreements"), I agree to the terms and conditions of this Restrictive Covenants Agreement ("Agreement"):

(a) **Access to Confidential Information.** Employee understands and agrees that in the course of performing work on behalf of the Company, he will continue to have access to, and will continue to be given Confidential Information relating to the business of the Company. Employee acknowledges and agrees that such Confidential Information includes, but is not limited to financial information pertinent to the Company and its customers, and investors, customer lists, customer and investor identities and their preferences, confidential banking and financial information of both the Company and its customers and investors, and information that Employee may create or prepare certain information related to his duties. Employee hereby expressly agrees to maintain in strictest confidence and not to access without proper business purposes (including repetitive unnecessary access), use (including without limitation in any future business or personal relationship of Employee), publish, disclose or in any way authorize anyone else to use, publish or disclose in any way, any Confidential Information relating in any manner to the business or affairs of the Company and its customers and investors, except for legitimate business-related reasons while performing duties on behalf of the Company. Employee agrees further not to remove or retain any figures, financial information, personnel data, calculations, letters, documents, lists, papers, or copies thereof, which embody Confidential Information of the Company, and to return any such information in Employee's possession at the conclusion of Employee's use of such information and at the conclusion of Employee's employment with the Company.

For purposes of this Agreement, "Confidential Information" includes, but is not limited to, information in the possession of, prepared by, obtained by, compiled by, or that is used by Company, its customers, investors and/or vendors, or is prepared by, obtained by, compiled by or that is used by Employee in conjunction with his duties, and (1) is proprietary to, about, or created by the Company, its customers, investors and/or vendors; (2) is information the disclosure of which might be detrimental to the interest of the Company, its investors or customers; or (3) is not typically disclosed by the Company, its customers, investors and/or vendors, or known by persons who are not associated with the Company.

(b) **Restrictive Covenants.** Employee acknowledges that, as a result of Employee's service with the Company, a special relationship of trust and confidence will develop between Employee, the Company and its clients and customers, and that this relationship will generate a substantial amount of good will between the Company and its clients and customers. Employee further acknowledges and agrees that it is fair and reasonable for the Company to take steps to protect it from the loss of its Confidential Information or its customer goodwill. Employee further acknowledges that throughout his service with the Company, Employee will be provided with access to and informed of confidential, proprietary and highly sensitive information relating to the Company's clients and customers, which is a competitive asset of the Company, and which enables Employee to benefit from the goodwill and know-how of the Company. Therefore, as a material condition to the Company's willingness to perform its obligations hereunder, Employee agrees that, for a period of twelve (12) months following the date of the termination of employment by the Company for any reason (except as specifically set forth below), Employee will not, either for himself or in conjunction with others:

(i) compete or engage anywhere in the geographic area comprised of any Metropolitan Statistical Area, as defined by the US Office of Management & Budget, in which Employee has performed duties on behalf of the Company during the preceding twelve (12) months, whether such duties were performed in person, telephonically, electronically or otherwise ("Market Area"), in any business that is the same or similar, or offers competing products and services as those offered by the Company;

(ii) take any action to invest in, own, manage, operate, control, participate in, be employed or engaged by, or be connected in any manner with any partnership, corporation or other business or entity engaging in a business the same or similar, or which offers competing products and services as those offered by the Company anywhere within the Market Area; notwithstanding the foregoing, Employee is permitted hereunder to own, directly or indirectly, up to five percent (5%) of the issued and outstanding securities of any publicly traded financial institution conducting business within the Market Area;

(iii) solicit, divert, take away, do business with, or provide information about, or attempt to solicit, divert, take away or do business with in any fashion any of the Company's customers, clients, business or patrons about whom Employee has Confidential Information, or with whom Employee has done business or attempted to do business on behalf of the Company;

(iv) (i) offer employment to, enter into a contract for the employment of, or attempt to entice away from the Company, any individual who is at the time of such offer or attempt, or has been during the twelve months prior to such offer or attempt, an employee of the Company, (ii) interfere with the material business relationships of the Company, or entice away any material suppliers or contractors, (iii) procure or facilitate the making of any such offer or attempt by any other person, or (iv) solicit, directly or through any other person, any investor of the Company for purposes of facilitating any investment, partnership or business opportunity unrelated to the Company. The restriction in subsection (iv) above shall not apply to any investor with which the Employee had a preexisting relationship prior to becoming employed by the Company.

(v) (i) enter into employment, consultancy, association or affiliation with any entity that provides Conflicting Services (as defined below) if any former employee of the Company with whom Employee had contact as part of his or her duties with the Company (a "Covered Person") has become employed by, associated or affiliated with, or a consultant of such entity during the twelve (12) month period preceding Employee's termination of employment with the Company; or (ii) continue employment, consultancy, association or affiliation with any entity that provides Conflicting Services if any Covered Person becomes employed by, associated or affiliated with, or a consultant to such entity during the twelve (12) month period subsequent to Employee's termination of employment with the Company. It is the intention of the parties to prevent the irreparable harm to the Company that would occur from the pooling of information that two or more former Covered Persons can provide to a competing entity or the misuse of Confidential Information. As used herein, "Conflicting Services" is defined as services that are the same or substantially similar to those services of Company or its affiliates and subsidiaries (x) which were provided by Employee (directly or indirectly) during the twelve (12) months preceding Employee's termination from employment by Company or (y) about which Employee acquired Confidential Information during Employee's employment by Company.

Notwithstanding anything to the contrary contained herein, the foregoing restrictions in Section (b) this Restrictive Covenants Agreement shall not apply in the event Employee is terminated by the Company without Cause (as defined in the Award Agreements) during the first twelve (12) months following Employee's execution of the Award Agreements.

(c) **Representations of Employee.**

(i) EMPLOYEE REPRESENTS AND WARRANTS THAT THE KNOWLEDGE, SKILLS AND ABILITIES HE POSSESSES AT THE TIME OF COMMENCEMENT OF EMPLOYMENT HEREUNDER ARE SUFFICIENT TO PERMIT HIM, IN THE EVENT OF TERMINATION OF HIS EMPLOYMENT HEREUNDER, TO EARN A LIVELIHOOD SATISFACTORY TO HIMSELF WITHOUT VIOLATING ANY PROVISION OF THIS POLICY HEREOF, FOR EXAMPLE, BY USING SUCH KNOWLEDGE, SKILLS AND ABILITIES, OR SOME OF THEM, IN THE SERVICE OF A NON COMPETITOR.

(ii) EMPLOYEE ACKNOWLEDGES AND RECOGNIZES THE HIGHLY COMPETITIVE NATURE OF THE COMPANY'S BUSINESS, THAT ACCESS TO CONFIDENTIAL INFORMATION RENDERS THE EMPLOYEE SPECIAL AND UNIQUE WITHIN THE COMPANY'S INDUSTRY, AND THAT THE EMPLOYEE WILL HAVE THE OPPORTUNITY TO DEVELOP SUBSTANTIAL RELATIONSHIPS WITH EXISTING AND PROSPECTIVE CLIENTS, ACCOUNTS, CUSTOMERS, CONSULTANTS, CONTRACTORS, INVESTORS, AND STRATEGIC PARTNERS OF THE COMPANY DURING THE COURSE OF AND AS A RESULT OF THE EMPLOYEE'S EMPLOYMENT WITH THE COMPANY. IN LIGHT OF THE FOREGOING, EMPLOYEE RECOGNIZES AND ACKNOWLEDGES THAT THE RESTRICTIONS AND LIMITATIONS SET FORTH IN THIS AGREEMENT ARE REASONABLE AND VALID IN GEOGRAPHICAL AND TEMPORAL SCOPE AND IN ALL OTHER RESPECTS AND ARE ESSENTIAL TO PROTECT THE VALUE OF THE BUSINESS AND ASSETS OF THE COMPANY.

(d) **Severable Provisions.** The provisions of this Agreement are severable and the invalidity of any one or more provisions shall not affect the validity of any other provision. In the event that a court of competent jurisdiction shall determine that any provision of this Agreement or the application thereof is unenforceable in whole or in part because of the duration or scope thereof, the parties hereto agree that said court in making such determination shall have the power to reduce the duration and scope of such provision to the extent necessary to make it enforceable, and that the Agreement in its reduced form shall be valid and enforceable to the full extent permitted by law.

(e) **Intellectual Property.** Employee agrees to disclose and hereby assigns to the Company any and all material of a proprietary nature, particularly including, without limitation, material subject to protection as trade secrets or as patentable ideas or copyrightable works, that Employee may conceive, invent, author or discover, either solely or jointly with another or other during Employee's employment and that relates to or is capable of use in connection with the business of the Company or any employment or products offered, manufactured, used, sold or being developed by the Company at the time said material is developed. Employee will, upon request of the Company, either during or at any time after Employee's employment ends, regardless of how or why Employee's employment ends, execute and deliver all papers, including applications for patents and registrations for copyrights, and do such other legal acts (entirely at the Company's expense) as may be necessary to obtain and maintain proprietary rights in any and all countries and to vest title thereto in the Company.

(f) **Remedy.** Employee understands and acknowledges that the Company has a legitimate business interest in preventing Employee from taking any actions in violation of this Policy and that this Policy is intended to protect the business and goodwill of the Company. Employee further acknowledges that a breach of this Policy will irreparably and continually damage the Company and that monetary damages alone will be inadequate to compensate the Company for such breach. Employee therefore agrees that in the event Employee violates any of the terms of this Policy, the Company will be entitled to, in addition to any other remedies available to it in law or in equity, seek temporary, preliminary and permanent injunctive relief and specific performance to enforce the terms of this Policy without the necessity of proving inadequacy of legal remedies or irreparable harm or posting bond. If Employee does take actions in violation of this Policy, Employee understands that the time periods set forth in in the applicable provisions herein will run from the date on which violations of those provisions, whether by injunction or otherwise, ends and not from the date that Employee's employment ends. In the event any lawsuit, claim or other proceeding is brought to enforce the terms of this Policy, or to determine the validity of its terms, then the prevailing party will be entitled to recover from the non-prevailing party its reasonable attorneys' fees and court costs incurred in obtaining enforcement of, or determining the validity of, this Policy.

(g) **Waiver.** Employee understands and agrees that in the event the Company waives or allows any breach of this Policy, such waiver or allowance will not constitute a waiver or allowance of any future breach, whether of a similar or dissimilar nature.

(h) **Tolling.** If the Company files a lawsuit in any court of competent jurisdiction alleging a breach of the non-disclosure or non-solicitation provisions of this Agreement by Employee, then any time period set forth in this Agreement relating to the post-termination restrictions on the activities of Employee will be deemed tolled as of the time the lawsuit is filed and will remain tolled until the dispute is finally resolved, either by written settlement agreement resolving all claims raised in the lawsuit, or by entry of a final judgment and final resolution of any post-judgment appellate proceedings.

* * * * * *

I, [[FIRSTNAME]] [[LASTNAME]], have executed this Agreement on the respective date set forth below:

Date:__ __

(Signature)

EXHIBIT A

Performance Goals

Performance Measure:

The performance measures for the Performance Goal are (A) the Company's relative Total Shareholder Return (as defined below) as compared to the TSR of the companies identified below as the "**Peer Group**" over the period commencing on and including May 1, 2023 and ending on and including April 30, 2026 (the "**Performance Period**"); provided, that if, on the last day of the Performance Period, one of the listed companies is no longer publicly traded, such company shall not be considered to be part of the Peer Group and shall not be replaced and (B) the Company's absolute Total Shareholder Return over the Performance Period.

Performance Goal:

Subject to the terms, definitions and provisions of this PSU Award and the Plan, Participant will be entitled to receive a number of shares of Shares equal to the number of Earned PSUs (subject to the Award Maximum). The number of Earned PSUs will be equal to the number of Target PSUs (plus the number of dividend equivalent units credited with respect thereto), multiplied by (A) the Relative TSR Vesting Percentage, multiplied by (B) the Absolute TSR Modifier.

The Relative TSR Vesting Percentage shall be correlated to the Company's Relative TSR Percentile for the Performance Period in accordance with the table below (with linear interpolation between the 25th and 75th percentiles and between the 75th and 90th percentiles, as applicable):

Relative TSR Percentile	Relative TSR Vesting Percentage
Below 25th percentile	0%
25th percentile	50%
75th percentile	150%
90th percentile or above	175%

The Absolute TSR Modifier shall be correlated to the Company's absolute Total Shareholder Return for the Performance Period in accordance with the table below (with linear interpolation between 30% and 100% absolute Total Shareholder Return):

Absolute TSR	Absolute TSR Modifier
30% or below	100%
100% or above	200%

Any PSUs that were eligible to vest with respect to the Performance Period and did not become Earned PSUs in accordance with this Exhibit A shall be forfeited and cancelled as of the Vesting Date.

Definitions

"**Award Maximum**" shall mean:
(a) in the event the Company has a negative Total Shareholder Return for the Performance Period, 100% of the Target PSUs, and

(b) in the event that clause (a) is not applicable, and the value of the Earned PSUs (computed as the product of the number of the Earned PSUs determined without regard to the Award Maximum, multiplied by the closing price of the Company's common stock on the Nasdaq Global Select Market on the Vesting Date) would exceed 8 times the initial value of the Target PSUs (computed as the product of the number of Target PSUs multiplied by the closing price of the Company's common stock on the Nasdaq Global Select Market on the Grant Date), such number of PSUs that, if multiplied by the closing price of the Company's common stock on the Nasdaq Global Select Market on the Vesting Date, would equal 8 times the initial value of the Target PSUs (computed as the product of the Target PSUs multiplied by the closing price of the Company's common stock on the Nasdaq Global Select Market on the Grant Date).

“**Beginning Stock Price**” shall mean the average of the closing prices of common shares during the twenty (20) consecutive trading days ending on the last trading day immediately preceding the first day of the Performance Period.

“**Ending Stock Price**” shall mean the average of the closing prices of common shares (as appropriately adjusted to reflect stock splits, spin-offs, and similar transactions that occurred during the Performance Period) during the twenty (20) consecutive trading days ending on the last trading day of the Performance Period. If a Change in Control occurs during the Performance Period, the Ending Stock Price of the Company shall equal (i) the value of the consideration paid for each Share in the Change in Control transaction, with the value of any non-cash consideration determined by the Committee in its discretion, or (ii) if no consideration is paid in respect of Shares in connection with the Change in Control, the volume weighted average price of a Share on the Nasdaq Global Select Market during the period of twenty (20) consecutive trading days ending on, and including, the last practicable trading day preceding the Change in Control.

“**Total Shareholder Return**” shall mean the appreciation of share price during the Performance Period, plus any Dividends Paid on the common stock during such Performance Period, calculated as follows:

[Ending Stock Price *minus* Beginning Stock Price *plus* Dividends Paid]

divided by

[Beginning Stock Price]

“**Relative TSR Percentile**” shall mean the percentile rank of the Company’s TSR relative to the TSR of the companies in the Peer Group for the Performance Period. Relative TSR Percentile will be determined by ranking the TSR of the Company and each of the companies in the Peer Group (with the company having the lowest TSR being ranked number 1, the company with the second lowest TSR being ranked number 2, and so forth) and determining the Company’s percentile rank based upon its position in the list by dividing the Company’s position by the total number of companies (including the Company) in the Peer Group and rounding the quotient to the nearest hundredth.

“**Dividends Paid**” shall mean all dividends paid with respect to an ex-dividend date that occurs during the Performance Period (whether or not the dividend payment date occurs during the Performance Period), which shall be deemed to have been reinvested in the underlying common shares and shall include dividends paid with respect to such reinvested dividends, appropriately adjusted to reflect stock splits, spin-offs, and similar transactions.

“**Peer Group**” shall mean the companies set on <u>Exhibit C</u> hereto; provided, that if, on the last day of the Performance Period, one of the foregoing companies is no longer publicly traded, such companies shall not be considered to be part of the Peer Group and shall not be replaced.

EXHIBIT B

Certain Definitions

"**Cause**" shall mean the Company's determination in good faith that Participant: (i) has misappropriated, stolen or embezzled funds or property from the Company or any of its subsidiaries or affiliates, or secured or attempted to secure personally any profit in connection with any transaction entered into on behalf of the Company or any of its subsidiaries or affiliates, (ii) has been indicted or arrested on a felony, (iii) has neglected his or her employment duties, (iv) has materially violated a restrictive covenant contained in any written agreement between Participant and the Company, (v) has willfully violated or breached any material provision of any written agreement between Participant and the Company in any material respect or violated any material law or regulation or (vi) any other misconduct by Participant that is injurious to the financial condition or business reputation of the Company or any of its Subsidiaries or Affiliates.

"**Good Reason**"

(a) In the case of a voluntary termination of employment not occurring on or after a Change in Control, "Good Reason" shall mean:

(i) a material reduction in Participant's base salary as in effect immediately prior to Participant's "Good Reason Notice of Termination" as defined below unless such reduction is made in accordance with a uniform reduction in base salaries of the Company's similarly situated employees; or

(ii) a material reduction in Participant's target annual bonus opportunity as in effect immediately prior to Participant's Good Reason Notice of Termination unless such reduction is made in accordance with a uniform reduction in target annual bonus opportunity of the Company's similarly situated employees.

(b) In the case of a voluntary termination of employment occurring on or after a Change in Control, "Good Reason" shall mean:

(i) a material reduction in Participant's position, authority, duties or responsibilities relative to such position, authority, duties or responsibilities immediately prior to the Change in Control;

(ii) a material reduction in Participant's base salary opportunity as in effect immediately prior to the Change in Control;

(iii) a material reduction in Participant's target annual bonus opportunity as in effect immediately prior to the Change in Control; or

(iv) receipt of notice by Participant with regard to the mandatory relocation of the office at which Participant is to perform the majority of his duties following the Change in Control to a location more than 50 miles from the location at which Participant performed such duties prior to the Change in Control; provided that such new location is farther from Participant's residence than the prior location.

(c) Notwithstanding anything in this Agreement to the contrary, no act, omission or event shall constitute grounds for a voluntary termination due to "Good Reason" under either paragraph (a) or (b) immediately above unless:

(i) Participant provides the Company thirty (30) day advance written notice of his or her intent to termination employment for Good Reason which notice must describe the claimed act, omission or event giving rise to Good Reason ("Good Reason Notice of Termination");

(ii) the Good Reason Notice of Termination is given within ninety (90) days of Participant's first actual knowledge of such act, omission or event;

(iii) the Company fails to cure such act, omission or event within the thirty (30) day period after receiving the Good Reason Notice of Termination; and

(iv) Participant's termination of employment for Good Reason actually occurs at the end of such 30-day cure period if the Good Reason is not cured.

EXHIBIT C – BANK PEER GROUP

Company (n=181)	Assets ($M)		Market Cap - 4/1/2023 ($M)	GICS Sub-Industry
	FY22	TTM		
United Bankshares, Inc.	$29,489	$29,489	$4,744	Regional Banks
Texas Capital Bancshares, Inc.	$28,415	$28,415	$2,364	Regional Banks
Bank OZK	$27,657	$27,657	$4,003	Regional Banks
Simmons First National Corporation	$27,461	$27,461	$2,226	Regional Banks
Fulton Financial Corporation	$26,932	$26,932	$2,307	Regional Banks
Glacier Bancorp, Inc.	$26,635	$26,635	$4,658	Regional Banks
Ameris Bancorp	$25,053	$25,053	$2,530	Regional Banks
First Hawaiian, Inc.	$24,577	$24,577	$2,631	Regional Banks
United Community Banks, Inc.	$24,009	$24,009	$3,235	Regional Banks
Bank of Hawaii Corporation	$23,607	$23,607	$2,072	Regional Banks
Home Bancshares, Inc. (Conway, AR)	$22,884	$22,884	$4,420	Regional Banks
Eastern Bankshares, Inc.	$22,647	$22,647	$2,050	Regional Banks
Cathay General Bancorp	$21,948	$21,948	$2,505	Regional Banks
Pacific Premier Bancorp, Inc.	$21,688	$21,688	$2,282	Regional Banks
Washington Federal, Inc.	$20,772	$21,654	$1,970	Regional Banks
Customers Bancorp, Inc.	$20,896	$20,896	$585	Regional Banks
Atlantic Union Bankshares Corporation	$20,461	$20,461	$2,628	Regional Banks
Heartland Financial USA, Inc.	$20,244	$20,244	$1,629	Regional Banks
WSFS Financial Corporation	$19,915	$19,915	$2,309	Regional Banks
Independent Bank Corp.	$19,294	$19,294	$2,957	Regional Banks
Hope Bancorp, Inc.	$19,164	$19,164	$1,173	Regional Banks
Axos Financial, Inc.	$17,401	$18,741	$2,215	Regional Banks
First BanCorp.	$18,634	$18,634	$2,052	Regional Banks
Independent Bank Group, Inc.	$18,258	$18,258	$1,908	Regional Banks
Trustmark Corporation	$18,015	$18,015	$1,506	Regional Banks
First Merchants Corporation	$17,938	$17,938	$1,965	Regional Banks
First Financial Bancorp.	$17,003	$17,003	$2,065	Regional Banks
Renasant Corporation	$16,988	$16,988	$1,713	Regional Banks
WesBanco, Inc.	$16,932	$16,932	$1,819	Regional Banks
CVB Financial Corp.	$16,477	$16,477	$2,327	Regional Banks
Hilltop Holdings Inc.	$16,259	$16,259	$1,920	Regional Banks
TowneBank	$15,845	$15,845	$1,967	Regional Banks
Community Bank System, Inc.	$15,836	$15,836	$2,831	Regional Banks
Banner Corporation	$15,833	$15,833	$1,859	Regional Banks
International Bancshares Corporation	$15,501	$15,501	$2,661	Regional Banks
ServisFirst Bancshares, Inc.	$14,596	$14,596	$2,972	Regional Banks
Northwest Bancshares, Inc.	$14,113	$14,113	$1,528	Regional Banks
Sandy Spring Bancorp, Inc.	$13,833	$13,833	$1,164	Regional Banks
Provident Financial Services, Inc.	$13,783	$13,783	$1,433	Regional Banks
Dime Community Bancshares, Inc.	$13,190	$13,190	$875	Regional Banks
OceanFirst Financial Corp.	$13,104	$13,104	$1,088	Regional Banks
Enterprise Financial Services Corp	$13,054	$13,054	$1,664	Regional Banks
First Foundation Inc.	$13,014	$13,014	$420	Regional Banks
First Financial Bankshares, Inc.	$12,974	$12,974	$4,523	Regional Banks
FB Financial Corporation	$12,848	$12,848	$1,449	Regional Banks
BancFirst Corporation	$12,388	$12,388	$2,733	Regional Banks
First Busey Corporation	$12,337	$12,337	$1,125	Regional Banks
Veritex Holdings, Inc.	$12,154	$12,154	$989	Regional Banks
Seacoast Banking Corporation of Florida	$12,146	$12,146	$1,979	Regional Banks
NBT Bancorp Inc.	$11,739	$11,739	$1,446	Regional Banks
Berkshire Hills Bancorp, Inc.	$11,663	$11,663	$1,097	Regional Banks
Silvergate Capital Corporation	$11,356	$11,356	$51	Regional Banks
Eagle Bancorp, Inc.	$11,151	$11,151	$1,036	Regional Banks
Stellar Bancorp, Inc.	$10,900	$10,900	$1,304	Regional Banks

Lakeland Bancorp, Inc.	$10,784	$10,784	$1,015	Regional Banks
First Bancorp	$10,625	$10,625	$1,452	Regional Banks
Columbia Financial, Inc.	$10,408	$10,408	$1,974	Regional Banks
Capitol Federal Financial, Inc.	$9,625	$9,930	$896	Regional Banks
TriCo Bancshares	$9,931	$9,931	$1,385	Regional Banks
Live Oak Bancshares, Inc.	$9,855	$9,855	$1,078	Regional Banks
Park National Corporation	$9,855	$9,855	$1,928	Regional Banks
OFG Bancorp	$9,819	$9,819	$1,190	Regional Banks
First Commonwealth Financial Corporation	$9,806	$9,806	$1,278	Regional Banks
Origin Bancorp, Inc.	$9,686	$9,686	$990	Regional Banks
ConnectOne Bancorp, Inc.	$9,645	$9,645	$691	Regional Banks
National Bank Holdings Corporation	$9,573	$9,573	$1,258	Regional Banks
HomeStreet, Inc.	$9,365	$9,365	$337	Regional Banks
Banc of California, Inc.	$9,197	$9,197	$740	Regional Banks
Brookline Bancorp, Inc.	$9,186	$9,186	$931	Regional Banks
Amerant Bancorp Inc.	$9,128	$9,128	$730	Regional Banks
S&T Bancorp, Inc.	$9,111	$9,111	$1,226	Regional Banks
Nicolet Bankshares, Inc.	$8,764	$8,764	$926	Regional Banks
Premier Financial Corp.	$8,455	$8,455	$738	Regional Banks
Flushing Financial Corporation	$8,423	$8,423	$439	Regional Banks
1st Source Corporation	$8,339	$8,339	$1,099	Regional Banks
Kearny Financial Corp.	$7,720	$8,289	$527	Regional Banks
Luther Burbank Corporation	$7,975	$7,975	$484	Regional Banks
QCR Holdings, Inc.	$7,949	$7,949	$739	Regional Banks
The Bancorp, Inc.	$7,903	$7,903	$1,548	Regional Banks
Horizon Bancorp, Inc.	$7,873	$7,873	$482	Regional Banks
Midland States Bancorp, Inc.	$7,856	$7,856	$482	Regional Banks
Amalgamated Financial Corp.	$7,843	$7,843	$544	Regional Banks
Tompkins Financial Corporation	$7,671	$7,671	$966	Regional Banks
Southside Bancshares, Inc.	$7,559	$7,559	$1,037	Regional Banks
Stock Yards Bancorp, Inc.	$7,496	$7,496	$1,615	Regional Banks
Central Pacific Financial Corp.	$7,433	$7,433	$483	Regional Banks
Hanmi Financial Corporation	$7,378	$7,378	$565	Regional Banks
Byline Bancorp, Inc.	$7,363	$7,363	$815	Regional Banks
Univest Financial Corporation	$7,222	$7,222	$695	Regional Banks
Peoples Bancorp Inc.	$7,207	$7,207	$722	Regional Banks
Heritage Financial Corporation	$6,980	$6,980	$751	Regional Banks
Westamerica Bancorporation	$6,950	$6,950	$1,192	Regional Banks
Pathward Financial, Inc.	$6,747	$6,659	$1,144	Regional Banks
First Mid Bancshares, Inc.	$6,744	$6,744	$558	Regional Banks
Washington Trust Bancorp, Inc.	$6,660	$6,660	$595	Regional Banks
CrossFirst Bankshares, Inc.	$6,601	$6,601	$509	Regional Banks
MidWestOne Financial Group, Inc.	$6,578	$6,578	$383	Regional Banks
The First Bancshares, Inc.	$6,462	$6,462	$802	Regional Banks
Lakeland Financial Corporation	$6,432	$6,432	$1,622	Regional Banks
Preferred Bank	$6,425	$6,425	$791	Regional Banks
Peapack-Gladstone Financial Corporation	$6,354	$6,354	$521	Regional Banks
Metropolitan Bank Holding Corp.	$6,267	$6,267	$371	Regional Banks
German American Bancorp, Inc.	$6,156	$6,156	$984	Regional Banks
Republic First Bancorp, Inc.	$6,049	$5,999	$87	Regional Banks
TrustCo Bank Corp NY	$6,000	$6,000	$608	Regional Banks
Business First Bancshares, Inc.	$5,990	$5,990	$430	Regional Banks
Old Second Bancorp, Inc.	$5,888	$5,888	$628	Regional Banks
City Holding Company	$5,878	$5,878	$1,402	Regional Banks
Republic Bancorp, Inc.	$5,836	$5,836	$838	Regional Banks
Financial Institutions, Inc.	$5,797	$5,797	$296	Regional Banks
Great Southern Bancorp, Inc.	$5,681	$5,681	$617	Regional Banks
Camden National Corporation	$5,672	$5,672	$527	Regional Banks

Northfield Bancorp, Inc. (Staten Island, NY)	$5,601	$5,601	$552	Regional Banks
Cambridge Bancorp	$5,560	$5,560	$508	Regional Banks
CNB Financial Corporation	$5,475	$5,475	$404	Regional Banks
Community Trust Bancorp, Inc.	$5,380	$5,380	$682	Regional Banks
HarborOne Bancorp, Inc.	$5,360	$5,360	$551	Regional Banks
Triumph Financial, Inc.	$5,334	$5,334	$1,341	Regional Banks
Heritage Commerce Corp	$5,158	$5,158	$507	Regional Banks
Independent Bank Corporation	$5,000	$5,000	$375	Regional Banks
First Financial Corporation	$4,989	$4,989	$452	Regional Banks
Equity Bancshares, Inc.	$4,982	$4,982	$385	Regional Banks
Mercantile Bank Corporation	$4,873	$4,873	$489	Regional Banks
SmartFinancial, Inc.	$4,637	$4,637	$393	Regional Banks
First Internet Bancorp	$4,543	$4,543	$149	Regional Banks
Capital City Bank Group, Inc.	$4,526	$4,526	$499	Regional Banks
Mid Penn Bancorp, Inc.	$4,498	$4,498	$407	Regional Banks
Enterprise Bancorp, Inc.	$4,438	$4,438	$379	Regional Banks
Bridgewater Bancshares, Inc.	$4,346	$4,346	$301	Regional Banks
HBT Financial, Inc.	$4,287	$4,287	$634	Regional Banks
The First of Long Island Corporation	$4,282	$4,282	$304	Regional Banks
Carter Bankshares, Inc.	$4,205	$4,205	$335	Regional Banks
Hingham Institution for Savings	$4,194	$4,194	$501	Regional Banks
Bank of Marin Bancorp	$4,147	$4,147	$350	Regional Banks
Farmers National Banc Corp.	$4,082	$4,082	$479	Regional Banks
Arrow Financial Corporation	$3,970	$3,970	$412	Regional Banks
South Plains Financial, Inc.	$3,944	$3,944	$365	Regional Banks
RBB Bancorp	$3,918	$3,919	$294	Regional Banks
Summit Financial Group, Inc.	$3,917	$3,917	$265	Regional Banks
Bar Harbor Bankshares	$3,910	$3,910	$400	Regional Banks
Third Coast Bancshares, Inc.	$3,773	$3,773	$213	Regional Banks
Southern First Bancshares, Inc.	$3,692	$3,692	$247	Regional Banks
Bank First Corporation	$3,660	$3,660	$771	Regional Banks
HomeTrust Bancshares, Inc.	$3,549	$3,647	$424	Regional Banks
West Bancorporation, Inc.	$3,613	$3,613	$304	Regional Banks
Sierra Bancorp	$3,609	$3,609	$259	Regional Banks
Primis Financial Corp.	$3,572	$3,572	$238	Regional Banks
Peoples Financial Services Corp.	$3,554	$3,554	$310	Regional Banks
BCB Bancorp, Inc.	$3,546	$3,546	$222	Regional Banks
Civista Bancshares, Inc.	$3,538	$3,538	$265	Regional Banks
Shore Bancshares, Inc.	$3,477	$3,477	$284	Regional Banks
Southern Missouri Bancorp, Inc.	$3,215	$3,451	$423	Regional Banks
MetroCity Bankshares, Inc.	$3,427	$3,427	$430	Regional Banks
Guaranty Bancshares, Inc.	$3,351	$3,351	$333	Regional Banks
Bankwell Financial Group, Inc.	$3,252	$3,252	$190	Regional Banks
Home Bancorp, Inc.	$3,228	$3,228	$274	Regional Banks
Five Star Bancorp	$3,227	$3,227	$368	Regional Banks
First Guaranty Bancshares, Inc.	$3,151	$3,151	$168	Regional Banks
Coastal Financial Corporation	$3,144	$3,144	$476	Regional Banks
Blue Ridge Bankshares, Inc.	$3,141	$3,141	$193	Regional Banks
First Community Bankshares, Inc.	$3,136	$3,136	$407	Regional Banks
CapStar Financial Holdings, Inc.	$3,117	$3,117	$327	Regional Banks
Red River Bancshares, Inc.	$3,083	$3,083	$345	Regional Banks
MVB Financial Corp.	$3,069	$3,069	$261	Regional Banks
American National Bankshares Inc.	$3,066	$3,066	$337	Regional Banks
Farmers & Merchants Bancorp, Inc.	$3,015	$3,015	$331	Regional Banks
First Business Financial Services, Inc.	$2,977	$2,977	$255	Regional Banks
Colony Bankcorp, Inc.	$2,937	$2,937	$179	Regional Banks
Orrstown Financial Services, Inc.	$2,922	$2,922	$213	Regional Banks
Macatawa Bank Corporation	$2,907	$2,907	$351	Regional Banks

First Western Financial, Inc.	$2,867	$2,867	$188	Regional Banks
Investar Holding Corporation	$2,754	$2,754	$138	Regional Banks
The First Bancorp, Inc.	$2,739	$2,739	$287	Regional Banks
First Bank	$2,733	$2,733	$196	Regional Banks
Northrim BanCorp, Inc.	$2,674	$2,674	$269	Regional Banks
Chemung Financial Corporation	$2,646	$2,646	$195	Regional Banks
FS Bancorp, Inc.	$2,633	$2,633	$229	Regional Banks
Greene County Bancorp, Inc.	$2,572	$2,616	$386	Regional Banks
Western New England Bancorp, Inc.	$2,553	$2,553	$177	Regional Banks
ACNB Corporation	$2,526	$2,526	$277	Regional Banks
BayCom Corp	$2,513	$2,513	$218	Regional Banks

Exhibit 10.3

2014 OMNIBUS INCENTIVE PLAN
PERFORMANCE RESTRICTED STOCK UNIT AWARD AGREEMENT

THIS PERFORMANCE RESTRICTED STOCK UNIT AWARD AGREEMENT (this "Agreement"), dated as of May 1, 2023 (the "Grant Date"), is made by and between Triumph Financial, Inc., a Texas corporation (the "Company"), and [[FIRSTNAME]] [[LASTNAME]] ("Participant"). Capitalized terms used herein without definition have the meanings ascribed to such terms in the Triumph Financial, Inc. 2014 Omnibus Incentive Plan (the "Plan"), pursuant to which this Award is granted.

WHEREAS, the Company has adopted the Plan to give the Company a competitive advantage in attracting, retaining and motivating officers, employees, directors and consultants and to provide the Company and its Subsidiaries and Affiliates with a means of providing incentives for future performance of services directly linked to the profitability of the Company's businesses and increases in shareholder value; and

WHEREAS, the Committee has determined that it would be in the best interests of the Company and its shareholders to grant Participant an award of Performance Restricted Stock Units ("PSUs") on the terms and subject to the conditions set forth in this Agreement and the Plan.

NOW THEREFORE, in consideration of the premises and the covenants of the parties contained in this Agreement, and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto, for themselves, their successors and assigns, hereby agree as follows:

1. Grant of PSU Award.

(a) Grant. The Company hereby grants to Participant an award (the "PSU Award") of a target aggregate number of [[SHARESGRANTED]] PSUs (the "Target PSUs"), on the terms and subject to the conditions set forth in this Agreement and as otherwise provided in the Plan. Each PSU represents the right to receive one Share on the terms, and subject to the conditions, set forth in this Agreement. Subject to the Award Maximum, the total number of PSUs that may be earned pursuant to the PSU Award in accordance with this Agreement shall range from 0% to 350% of the Target PSUs.

(b) Incorporation by Reference, Etc. The provisions of the Plan are hereby incorporated herein by reference. Except as otherwise expressly set forth herein, this Agreement shall be construed in accordance with the provisions of the Plan.

2. Vesting. Except as may otherwise be provided herein, the PSU Award shall become earned, vested and nonforfeitable according to the following provisions:

(a) General Vesting. Except as may otherwise be provided herein, subject to the Award Maximum, a number of PSUs subject to the PSU Award shall be earned (such number, the "Earned PSUs") based on the achievement of the Performance Goals set forth in Exhibit A hereto and the Earned PSUs shall vest on the date on which the Committee determines the extent to which the Performance Goals have been achieved (the "Vesting Date"), which determination shall occur no later than thirty (30) days following the conclusion of the Performance Period set forth on Exhibit A, subject to Participant not having incurred a Termination of Service prior to the Vesting Date.

(b) Death, Disability, and Retirement. If Participant experiences a Termination of Service after the Grant Date due to Participant's death or Disability, or after the first anniversary of the Grant Date due to Participant's Retirement, then a portion of the PSU Award, calculated by multiplying the Target PSUs by a fraction, the numerator of which is equal to the number of days worked by Participant during the Performance Period and the denominator of which is the total number of days in the Performance Period (the "Prorated Portion"), shall remain outstanding and eligible to vest in accordance with Section 2(a) based on the actual level of achievement of the Performance Goals, so long as Participant does not breach any restrictive covenants set forth in any written agreement between Participant and the Company (it being understood that in the event of any such breach prior to the Vesting Date, the Prorated Portion shall be immediately forfeited). For purposes hereof, "Retirement" means a Termination of Service on or after reaching the minimum retirement age adopted by the Company for its executives generally as in effect at the time of such Termination of Service (or, if earlier, as in effect immediately prior to a Change in Control). For the avoidance of doubt, the Target PSUs that do not constitute the Prorated Portion shall be forfeited as of the date of Termination of Service.

(c) Termination without Cause or Resignation for Good Reason.

(i) If, after the first anniversary of the Grant Date (and other than during the two-year period immediately following a Change in Control), a Participant incurs a Termination of Service due to a termination by the Company without Cause (as defined in Exhibit B), or due to a resignation by Participant for Good Reason (as defined in Exhibit B), the Prorated Portion shall remain outstanding and eligible to vest in accordance with Section 2(a) based on the actual level of achievement of the Performance Goals, so long as Participant does not breach any restrictive covenants set forth in any written agreement between Participant and the Company (it being understood that in the event of any such breach prior to the Vesting Date, the Prorated Portion shall be immediately forfeited). For the avoidance of doubt, the Target PSUs that do not constitute the Prorated Portion shall be forfeited as of the date of Termination of Service.

(ii) If, during the two-year period immediately following a Change in Control, a Participant incurs a Termination of Service due to a termination by the Company without Cause (as defined in Exhibit B), or due to a resignation by Participant for Good Reason (as defined in Exhibit B), the Replacement Award (as defined in Section 7 below) granted in respect of the PSU Award shall vest in full.

(d) Other Termination of Service. If Participant incurs a Termination of Service prior to the Vesting Date for any reason other than as set forth in Section 2(b) and 2(c) above, the PSU Award shall be forfeited by Participant without consideration.

3. Tax Withholding. No later than the date as of which an amount first becomes includible in the gross income of Participant for federal income tax purposes with respect to any PSUs, Participant shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, all federal, state and local income and employment taxes that are required by applicable laws and regulations to be withheld with respect to such amount. Participant may direct the Company, to the extent permitted by law and as may be authorized by the Committee or as may otherwise be permitted under Section 14(d) of the Plan, to deduct any such taxes from any payment otherwise due to Participant, including the delivery of Shares of Common Stock that gives rise to the withholding requirement. The Company's obligation to deliver the Shares underlying Earned PSUs (or to make a book entry or other electronic notation indicating ownership of the Shares), is subject to the condition precedent that Participant either pay or provide for the amount of any such withholding.

4. Settlement of PSU Award. The Earned PSUs shall be settled by the issuance of Shares within thirty (30) days following the Vesting Date (except (a) as otherwise provided in Section 7(a), and (b) that Earned PSUs will be settled upon a Participant's Termination of Service following a Change in Control by the issuance of Shares within thirty (30) days following the Termination of Service; provided that if the PSU Award constitutes "nonqualified deferred compensation" subject to Section 409A of the Code, this clause (b) shall apply only if the Termination of Service occurs within two (2) years following a 409A Change in Control).

5. Transferability; Rights as a Stockholder. The PSU Award may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by Participant other than by will or by the laws of descent and distribution, and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company, its Subsidiaries and its Affiliates; provided that the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance. Until the issuance of the Shares subject to this PSU Award (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a holder of Common Stock shall exist with respect to this Award.

6. Adjustment. In the event of any event described in Section 3(c) of the Plan occurring after the Grant Date and while the PSU Award remains outstanding, the adjustment provisions as provided for under Section 3(c) of the Plan shall apply to the PSU Award.

7. Change in Control. The provisions of this Section 7 shall govern the treatment of the PSU Award upon a Change of Control.

(a) In the event of a Change in Control of the Company occurring after the Grant Date and prior to the Vesting Date, the PSU Award (if and to the extent not previously forfeited) shall vest and be deemed to be earned, with the Performance Goals deemed achieved at the level of achievement of the Performance Goals as determined by the Committee as of the latest practicable date prior to the Change in Control and in accordance with Exhibit A (treating such date as the final day of the Performance Period for purposes thereof), and shall be settled within ten (10) days following the Change in Control (provided that if the PSU Award constitutes "nonqualified deferred compensation" subject to Section 409A of the Code, settlement shall occur at such time only if (i) the Change in Control is a 409A Change in Control and (ii) such settlement would not constitute an impermissible acceleration under Section 409A of the Code, and otherwise such PSU Award will be settled in accordance with Section 4), except to the extent that another award meeting the requirements of Section 7(b) is provided to Participant to replace the PSU Award (any award meeting the requirements of Section 7(b), a "Replacement Award").

(b) An award shall meet the conditions of this Section 7(b) (and hence qualify as a Replacement Award) if: (1) it relates to publicly traded equity securities of the Company or the surviving corporation following the Change in Control, (2) it is of the same type as the PSU Award (except that the Replacement Award shall be subject solely to time-based vesting for the remainder of the applicable performance period (or such shorter period as determined by the Committee) and the Performance Goals shall be deemed to be achieved at the level of achievement of the Performance Goals as determined by the Committee as of the latest practicable date prior to the Change in Control and in accordance with Exhibit A, treating such date as the final day of the Performance Period for purposes thereof), (3) it has a value at least equal to the value of the PSU Award as of the date of the Change in Control (other than in respect of customary fractional rounding of share amounts and exercise price), (4) it contains terms relating to time-based vesting (including with respect to Termination of Service) that are substantially identical to those of this Award, and (5) its other terms and conditions are not less favorable to Participant than the terms and conditions of this Award (including provisions that apply in the event of a subsequent Change in Control) as of the date of the Change in Control. Without limiting the generality of the foregoing, a Replacement Award may take the form of a continuation of this Award if the requirements of the preceding sentence are satisfied. The determination of whether the conditions of this Section 7(b) are satisfied shall be made by the Committee, as constituted immediately before the Change in Control, in its sole discretion.

8. Clawback Policy. Participant agrees that, notwithstanding any other provision of this Agreement or the Plan, the PSU Award and any Shares delivered thereunder shall be subject to potential cancellation, recoupment, rescission, payback or other action in accordance with the terms of any clawback policy that the Company may adopt and that is applicable to Participant, as it may be amended from time to time, and any provision of applicable law relating to cancellation, rescission, payback or recoupment of compensation.

9. Miscellaneous.

(a) Waiver and Amendment. The Committee may unilaterally amend the terms of this Agreement and the PSU Award granted thereunder; provided that no such amendment shall, without the Participant's consent, materially impair the rights of any Participant with respect to this Agreement and the PSU Award granted thereunder, except such an amendment made to cause the Plan, this Agreement, or the PSU Award granted thereunder to comply with applicable law, Applicable Exchange listing standards, or accounting rules. No waiver of any right hereunder by any party shall operate as a waiver of any other right, or as a waiver of the same right with respect to any subsequent occasion for its exercise, or as a waiver of any right to damages. No waiver by any party of any breach of this Agreement shall be held to constitute a waiver of any other breach or a waiver of the continuation of the same breach.

(b) Notices. All notices, demands and other communications provided for or permitted hereunder shall be made in writing and shall be by registered or certified first-class mail, return receipt requested, facsimile, courier service or personal delivery:

if to the Company to:

Triumph Financial, Inc.
12700 Park Central Drive, Suite 1700
Dallas, TX 75251
Facsimile: (214) 237-3197
Attention: General Counsel

if to Participant: at the address last on the records of the Company.

All such notices, demands and other communications shall be deemed to have been duly given (i) when delivered by hand, if personally delivered; (ii) when delivered by courier, if delivered by commercial courier service; (iii) five business days after being deposited in the mail, postage prepaid, if mailed; and (iv) when receipt is mechanically acknowledged, if by facsimile.

(c) Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, and each other provision of this Agreement shall be severable and enforceable to the extent permitted by law.

(d) No Rights to Service. Nothing contained in this Agreement shall be construed as giving Participant any right to be retained, in any position, as an employee, consultant or director of the Company or its Affiliates or shall interfere with or restrict in any way the right of the Company or its Affiliates, which is hereby expressly reserved, to remove, terminate or discharge Participant at any time for any reason whatsoever.

(e) Beneficiary. Participant may file with the Company a written designation of a beneficiary on such form as may be prescribed by the Committee and may, from time to time, change or revoke such designation by filing a new designation with the Company. The last such designation received by the Company shall be controlling; provided, however, that no designation, or change or revocation thereof, shall be effective unless received by the Company prior to Participant's death, and in no event shall it be effective as of a date prior to such receipt. If no beneficiary designation is filed by Participant, the beneficiary shall be deemed to be his or her spouse or, if Participant is unmarried at the time of death, his or her estate.

(f) Successors. The terms of this Agreement shall be binding upon and inure to the benefit of the Company, its successors and assigns, and of Participant and the beneficiaries, executors, administrators, heirs and successors of Participant.

(g) Entire Agreement. This Agreement and the Plan contain the entire agreement and understanding of the parties hereto with respect to the subject matter contained herein and supersede all prior communications, representations and negotiations with respect thereto.

(h) Bound by the Plan. By signing this Agreement, Participant acknowledges that he or she has received a copy of the Plan and has had an opportunity to review the Plan and agrees to be bound by all the terms and provisions of the Plan.

(i) Governing Law. This Agreement shall be construed and interpreted in accordance with the internal laws of the State of Texas without regard to principles of conflicts of law thereof, or principles of conflicts of laws of any other jurisdiction that could cause the application of the laws of any jurisdiction other than the State of Texas.

(j) Headings. The headings of the Sections of this Agreement are provided for convenience only and are not to serve as a basis for interpretation or construction, and shall not constitute a part, of this Agreement.

(k) Counterparts. This Agreement may be signed in two or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

10. Compliance with Legal Requirements. The grant of the PSU Award and any other obligations of the Company under this Agreement shall be subject to all applicable federal and state laws, rules and regulations and to such approvals by any regulatory or governmental agency as may be required. The Committee, in its sole discretion, may postpone the issuance or delivery of Shares as the Committee may consider appropriate and may require Participant to make such representations and furnish such information as it may consider appropriate in connection with the issuance or delivery of the Shares in compliance with applicable laws, rules and regulations.

[*Signature Page Follows*]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

TRIUMPH FINANCIAL, INC.

By: _______________________
Name: Adam Nelson
Title: EVP and General Counsel

PARTICIPANT

[[SIGNATURE]]
[[FIRSTNAME]] [[LASTNAME]]

[*Signature Page to 2023 PSU Award Agreement*]

TRIUMPH FINANCIAL, INC.
RESTRICTIVE COVENANTS AGREEMENT

As a condition of any incentive compensation that I may earn and receive under any incentive-based compensation plan maintained by Triumph Financial, Inc. (together with its subsidiaries, the "Company"), and in particular, my receipt of restricted stock units granted under the terms of the Performance Restricted Stock Unit Award Agreement entered into between the Company and me (such agreements, the "Award Agreements"), I agree to the terms and conditions of this Restrictive Covenants Agreement ("Agreement"):

(a) **Access to Confidential Information.** Employee understands and agrees that in the course of performing work on behalf of the Company, he will continue to have access to, and will continue to be given Confidential Information relating to the business of the Company. Employee acknowledges and agrees that such Confidential Information includes, but is not limited to financial information pertinent to the Company and its customers, and investors, customer lists, customer and investor identities and their preferences, confidential banking and financial information of both the Company and its customers and investors, and information that Employee may create or prepare certain information related to his duties. Employee hereby expressly agrees to maintain in strictest confidence and not to access without proper business purposes (including repetitive unnecessary access), use (including without limitation in any future business or personal relationship of Employee), publish, disclose or in any way authorize anyone else to use, publish or disclose in any way, any Confidential Information relating in any manner to the business or affairs of the Company and its customers and investors, except for legitimate business-related reasons while performing duties on behalf of the Company. Employee agrees further not to remove or retain any figures, financial information, personnel data, calculations, letters, documents, lists, papers, or copies thereof, which embody Confidential Information of the Company, and to return any such information in Employee's possession at the conclusion of Employee's use of such information and at the conclusion of Employee's employment with the Company.

For purposes of this Agreement, "Confidential Information" includes, but is not limited to, information in the possession of, prepared by, obtained by, compiled by, or that is used by Company, its customers, investors and/or vendors, or is prepared by, obtained by, compiled by or that is used by Employee in conjunction with his duties, and (1) is proprietary to, about, or created by the Company, its customers, investors and/or vendors; (2) is information the disclosure of which might be detrimental to the interest of the Company, its investors or customers; or (3) is not typically disclosed by the Company, its customers, investors and/or vendors, or known by persons who are not associated with the Company.

(b) **Restrictive Covenants.** Employee acknowledges that, as a result of Employee's service with the Company, a special relationship of trust and confidence will develop between Employee, the Company and its clients and customers, and that this relationship will generate a substantial amount of good will between the Company and its clients and customers. Employee further acknowledges and agrees that it is fair and reasonable for the Company to take steps to protect it from the loss of its Confidential Information or its customer goodwill. Employee further acknowledges that throughout his service with the Company, Employee will be provided with access to and informed of confidential, proprietary and highly sensitive information relating to the Company's clients and customers, which is a competitive asset of the Company, and which enables Employee to benefit from the goodwill and know-how of the Company. Therefore, as a material condition to the Company's willingness to perform its obligations hereunder, Employee agrees that, for a period of twelve (12) months following the date of the termination of employment by the Company for any reason (except as specifically set forth below), Employee will not, either for himself or in conjunction with others:

(i) compete or engage anywhere in the geographic area comprised of any Metropolitan Statistical Area, as defined by the US Office of Management & Budget, in which Employee has performed duties on behalf of the Company during the preceding twelve (12) months, whether such duties were performed in person, telephonically, electronically or otherwise ("Market Area"), in any business that is the same or similar, or offers competing products and services as those offered by the Company;

(ii) take any action to invest in, own, manage, operate, control, participate in, be employed or engaged by, or be connected in any manner with any partnership, corporation or other business or entity engaging in a business the same or similar, or which offers competing products and services as those offered by the Company anywhere within the Market Area; notwithstanding the foregoing, Employee is permitted hereunder to own, directly or indirectly, up to five percent (5%) of the issued and outstanding securities of any publicly traded financial institution conducting business within the Market Area;

(iii) solicit, divert, take away, do business with, or provide information about, or attempt to solicit, divert, take away or do business with in any fashion any of the Company's customers, clients, business or patrons about whom Employee has Confidential Information, or with whom Employee has done business or attempted to do business on behalf of the Company;

(iv) (i) offer employment to, enter into a contract for the employment of, or attempt to entice away from the Company, any individual who is at the time of such offer or attempt, or has been during the twelve months prior to such offer or attempt, an employee of the Company, (ii) interfere with the material business relationships of the Company, or entice away any material suppliers or contractors, (iii) procure or facilitate the making of any such offer or attempt by any other person, or (iv) solicit, directly or through any other person, any investor of the Company for purposes of facilitating any investment, partnership or business opportunity unrelated to the Company. The restriction in subsection (iv) above shall not apply to any investor with which the Employee had a preexisting relationship prior to becoming employed by the Company.

(v) (i) enter into employment, consultancy, association or affiliation with any entity that provides Conflicting Services (as defined below) if any former employee of the Company with whom Employee had contact as part of his or her duties with the Company (a "Covered Person") has become employed by, associated or affiliated with, or a consultant of such entity during the twelve (12) month period preceding Employee's termination of employment with the Company; or (ii) continue employment, consultancy, association or affiliation with any entity that provides Conflicting Services if any Covered Person becomes employed by, associated or affiliated with, or a consultant to such entity during the twelve (12) month period subsequent to Employee's termination of employment with the Company. It is the intention of the parties to prevent the irreparable harm to the Company that would occur from the pooling of information that two or more former Covered Persons can provide to a competing entity or the misuse of Confidential Information. As used herein, "Conflicting Services" is defined as services that are the same or substantially similar to those services of Company or its affiliates and subsidiaries (x) which were provided by Employee (directly or indirectly) during the twelve (12) months preceding Employee's termination from employment by Company or (y) about which Employee acquired Confidential Information during Employee's employment by Company.

Notwithstanding anything to the contrary contained herein, the foregoing restrictions in Section (b) this Restrictive Covenants Agreement shall not apply in the event Employee is terminated by the Company without Cause (as defined in the Award Agreements) during the first twelve (12) months following Employee's execution of the Award Agreements.

(c) **Representations of Employee.**

(i) EMPLOYEE REPRESENTS AND WARRANTS THAT THE KNOWLEDGE, SKILLS AND ABILITIES HE POSSESSES AT THE TIME OF COMMENCEMENT OF EMPLOYMENT HEREUNDER ARE SUFFICIENT TO PERMIT HIM, IN THE EVENT OF TERMINATION OF HIS EMPLOYMENT HEREUNDER, TO EARN A LIVELIHOOD SATISFACTORY TO HIMSELF WITHOUT VIOLATING ANY PROVISION OF THIS POLICY HEREOF, FOR EXAMPLE, BY USING SUCH KNOWLEDGE, SKILLS AND ABILITIES, OR SOME OF THEM, IN THE SERVICE OF A NON COMPETITOR.

(ii) EMPLOYEE ACKNOWLEDGES AND RECOGNIZES THE HIGHLY COMPETITIVE NATURE OF THE COMPANY'S BUSINESS, THAT ACCESS TO CONFIDENTIAL INFORMATION RENDERS THE EMPLOYEE SPECIAL AND UNIQUE WITHIN THE COMPANY'S INDUSTRY, AND THAT THE EMPLOYEE WILL HAVE THE OPPORTUNITY TO DEVELOP SUBSTANTIAL RELATIONSHIPS WITH EXISTING AND PROSPECTIVE CLIENTS, ACCOUNTS, CUSTOMERS, CONSULTANTS, CONTRACTORS, INVESTORS, AND STRATEGIC PARTNERS OF THE COMPANY DURING THE COURSE OF AND AS A RESULT OF THE EMPLOYEE'S EMPLOYMENT WITH THE COMPANY. IN LIGHT OF THE FOREGOING, EMPLOYEE RECOGNIZES AND ACKNOWLEDGES THAT THE RESTRICTIONS AND LIMITATIONS SET FORTH IN THIS AGREEMENT ARE REASONABLE AND VALID IN GEOGRAPHICAL AND TEMPORAL SCOPE AND IN ALL OTHER RESPECTS AND ARE ESSENTIAL TO PROTECT THE VALUE OF THE BUSINESS AND ASSETS OF THE COMPANY.

(d) **Severable Provisions.** The provisions of this Agreement are severable and the invalidity of any one or more provisions shall not affect the validity of any other provision. In the event that a court of competent jurisdiction shall determine that any provision of this Agreement or the application thereof is unenforceable in whole or in part because of the duration or scope thereof, the parties hereto agree that said court in making such determination shall have the power to reduce the duration and scope of such provision to the extent necessary to make it enforceable, and that the Agreement in its reduced form shall be valid and enforceable to the full extent permitted by law.

(e) **Intellectual Property.** Employee agrees to disclose and hereby assigns to the Company any and all material of a proprietary nature, particularly including, without limitation, material subject to protection as trade secrets or as patentable ideas or copyrightable works, that Employee may conceive, invent, author or discover, either solely or jointly with another or other during Employee's employment and that relates to or is capable of use in connection with the business of the Company or any employment or products offered, manufactured, used, sold or being developed by the Company at the time said material is developed. Employee will, upon request of the Company, either during or at any time after Employee's employment ends, regardless of how or why Employee's employment ends, execute and deliver all papers, including applications for patents and registrations for copyrights, and do such other legal acts (entirely at the Company's expense) as may be necessary to obtain and maintain proprietary rights in any and all countries and to vest title thereto in the Company.

(f) **Remedy.** Employee understands and acknowledges that the Company has a legitimate business interest in preventing Employee from taking any actions in violation of this Policy and that this Policy is intended to protect the business and goodwill of the Company. Employee further acknowledges that a breach of this Policy will irreparably and continually damage the Company and that monetary damages alone will be inadequate to compensate the Company for such breach. Employee therefore agrees that in the event Employee violates any of the terms of this Policy, the Company will be entitled to, in addition to any other remedies available to it in law or in equity, seek temporary, preliminary and permanent injunctive relief and specific performance to enforce the terms of this Policy without the necessity of proving inadequacy of legal remedies or irreparable harm or posting bond. If Employee does take actions in violation of this Policy, Employee understands that the time periods set forth in in the applicable provisions herein will run from the date on which violations of those provisions, whether by injunction or otherwise, ends and not from the date that Employee's employment ends. In the event any lawsuit, claim or other proceeding is brought to enforce the terms of this Policy, or to determine the validity of its terms, then the prevailing party will be entitled to recover from the non-prevailing party its reasonable attorneys' fees and court costs incurred in obtaining enforcement of, or determining the validity of, this Policy.

(g) **Waiver.** Employee understands and agrees that in the event the Company waives or allows any breach of this Policy, such waiver or allowance will not constitute a waiver or allowance of any future breach, whether of a similar or dissimilar nature.

(h) **Tolling.** If the Company files a lawsuit in any court of competent jurisdiction alleging a breach of the non-disclosure or non-solicitation provisions of this Agreement by Employee, then any time period set forth in this Agreement relating to the post-termination restrictions on the activities of Employee will be deemed tolled as of the time the lawsuit is filed and will remain tolled until the dispute is finally resolved, either by written settlement agreement resolving all claims raised in the lawsuit, or by entry of a final judgment and final resolution of any post-judgment appellate proceedings.

* * * * * *

I, [[FIRSTNAME]] [[LASTNAME]], have executed this Agreement on the respective date set forth below:

Date:__ __

(Signature)

<u>**EXHIBIT A**</u>

Performance Goals

Performance Measure:

The performance measures for the Performance Goal are (A) the Company's relative Total Shareholder Return (as defined below) as compared to the TSR of the companies identified below as the "**Peer Group**" over the period commencing on and including May 1, 2023 and ending on and including April 30, 2026 (the "**Performance Period**"); provided, that if, on the last day of the Performance Period, one of the listed companies is no longer publicly traded, such company shall not be considered to be part of the Peer Group and shall not be replaced and (B) the Company's absolute Total Shareholder Return over the Performance Period.

Performance Goal:

Subject to the terms, definitions and provisions of this PSU Award and the Plan, Participant will be entitled to receive a number of shares of Shares equal to the number of Earned PSUs (subject to the Award Maximum). The number of Earned PSUs will be equal to the number of Target PSUs (plus the number of dividend equivalent units credited with respect thereto), multiplied by (A) the Relative TSR Vesting Percentage, multiplied by (B) the Absolute TSR Modifier.

The Relative TSR Vesting Percentage shall be correlated to the Company's Relative TSR Percentile for the Performance Period in accordance with the table below (with linear interpolation between the 25th and 75th percentiles and between the 75th and 90th percentiles, as applicable):

Relative TSR Percentile	**Relative TSR Vesting Percentage**
Below 25th percentile	0%
25th percentile	50%
75th percentile	150%
90th percentile or above	175%

The Absolute TSR Modifier shall be correlated to the Company's absolute Total Shareholder Return for the Performance Period in accordance with the table below (with linear interpolation between 30% and 100% absolute Total Shareholder Return):

Absolute TSR	**Absolute TSR Modifier**
30% or below	100%
100% or above	200%

Any PSUs that were eligible to vest with respect to the Performance Period and did not become Earned PSUs in accordance with this Exhibit A shall be forfeited and cancelled as of the Vesting Date.

Definitions

"**Award Maximum**" shall mean:
(a) in the event the Company has a negative Total Shareholder Return for the Performance Period, 100% of the Target PSUs, and

(b) in the event that clause (a) is not applicable, and the value of the Earned PSUs (computed as the product of the number of the Earned PSUs determined without regard to the Award Maximum, multiplied by the closing price of the Company's common stock on the Nasdaq Global Select Market on the Vesting Date) would exceed 8 times the initial value of the Target PSUs (computed as the product of the number of Target PSUs multiplied by the closing price of the Company's common stock on the Nasdaq Global Select Market on the Grant Date), such number of PSUs that, if multiplied by the closing price of the Company's common stock on the Nasdaq Global Select Market on the Vesting Date, would equal 8 times the initial value of the Target PSUs (computed as the product of the Target PSUs multiplied by the closing price of the Company's common stock on the Nasdaq Global Select Market on the Grant Date).

“**Beginning Stock Price**” shall mean the average of the closing prices of common shares during the twenty (20) consecutive trading days ending on the last trading day immediately preceding the first day of the Performance Period.

“**Ending Stock Price**” shall mean the average of the closing prices of common shares (as appropriately adjusted to reflect stock splits, spin-offs, and similar transactions that occurred during the Performance Period) during the twenty (20) consecutive trading days ending on the last trading day of the Performance Period. If a Change in Control occurs during the Performance Period, the Ending Stock Price of the Company shall equal (i) the value of the consideration paid for each Share in the Change in Control transaction, with the value of any non-cash consideration determined by the Committee in its discretion, or (ii) if no consideration is paid in respect of Shares in connection with the Change in Control, the volume weighted average price of a Share on the Nasdaq Global Select Market during the period of twenty (20) consecutive trading days ending on, and including, the last practicable trading day preceding the Change in Control.

“**Total Shareholder Return**” shall mean the appreciation of share price during the Performance Period, plus any Dividends Paid on the common stock during such Performance Period, calculated as follows:

[Ending Stock Price *minus* Beginning Stock Price *plus* Dividends Paid]

divided by

[Beginning Stock Price]

“**Relative TSR Percentile**” shall mean the percentile rank of the Company’s TSR relative to the TSR of the companies in the Peer Group for the Performance Period. Relative TSR Percentile will be determined by ranking the TSR of the Company and each of the companies in the Peer Group (with the company having the lowest TSR being ranked number 1, the company with the second lowest TSR being ranked number 2, and so forth) and determining the Company’s percentile rank based upon its position in the list by dividing the Company’s position by the total number of companies (including the Company) in the Peer Group and rounding the quotient to the nearest hundredth.

“**Dividends Paid**” shall mean all dividends paid with respect to an ex-dividend date that occurs during the Performance Period (whether or not the dividend payment date occurs during the Performance Period), which shall be deemed to have been reinvested in the underlying common shares and shall include dividends paid with respect to such reinvested dividends, appropriately adjusted to reflect stock splits, spin-offs, and similar transactions.

“**Peer Group**” shall mean the companies set on <u>Exhibit C</u> hereto; provided, that if, on the last day of the Performance Period, one of the foregoing companies is no longer publicly traded, such companies shall not be considered to be part of the Peer Group and shall not be replaced.

EXHIBIT B

Certain Definitions

“**Cause**” shall mean the Company’s determination in good faith that Participant: (i) has misappropriated, stolen or embezzled funds or property from the Company or any of its subsidiaries or affiliates, or secured or attempted to secure personally any profit in connection with any transaction entered into on behalf of the Company or any of its subsidiaries or affiliates, (ii) has been indicted or arrested on a felony, (iii) has neglected his or her employment duties, (iv) has materially violated a restrictive covenant contained in any written agreement between Participant and the Company, (v) has willfully violated or breached any material provision of any written agreement between Participant and the Company in any material respect or violated any material law or regulation or (vi) any other misconduct by Participant that is injurious to the financial condition or business reputation of the Company or any of its Subsidiaries or Affiliates.

“**Good Reason**”

(a) In the case of a voluntary termination of employment not occurring on or after a Change in Control, “Good Reason” shall mean:

(i) a material reduction in Participant’s base salary as in effect immediately prior to Participant’s “Good Reason Notice of Termination” as defined below unless such reduction is made in accordance with a uniform reduction in base salaries of the Company’s similarly situated employees; or

(ii) a material reduction in Participant’s target annual bonus opportunity as in effect immediately prior to Participant’s Good Reason Notice of Termination unless such reduction is made in accordance with a uniform reduction in target annual bonus opportunity of the Company’s similarly situated employees.

(b) In the case of a voluntary termination of employment occurring on or after a Change in Control, “Good Reason” shall mean:

(i) a material reduction in Participant’s position, authority, duties or responsibilities relative to such position, authority, duties or responsibilities immediately prior to the Change in Control;

(ii) a material reduction in Participant’s base salary opportunity as in effect immediately prior to the Change in Control;

(iii) a material reduction in Participant’s target annual bonus opportunity as in effect immediately prior to the Change in Control; or

(iv) receipt of notice by Participant with regard to the mandatory relocation of the office at which Participant is to perform the majority of his duties following the Change in Control to a location more than 50 miles from the location at which Participant performed such duties prior to the Change in Control; provided that such new location is farther from Participant’s residence than the prior location.

(c) Notwithstanding anything in this Agreement to the contrary, no act, omission or event shall constitute grounds for a voluntary termination due to “Good Reason” under either paragraph (a) or (b) immediately above unless:

(i) Participant provides the Company thirty (30) day advance written notice of his or her intent to termination employment for Good Reason which notice must describe the claimed act, omission or event giving rise to Good Reason (“Good Reason Notice of Termination”);

(ii) the Good Reason Notice of Termination is given within ninety (90) days of Participant’s first actual knowledge of such act, omission or event;

(iii) the Company fails to cure such act, omission or event within the thirty (30) day period after receiving the Good Reason Notice of Termination; and

(iv) Participant’s termination of employment for Good Reason actually occurs at the end of such 30-day cure period if the Good Reason is not cured.

EXHIBIT C – FINTECH PEER GROUP

Company (n=30)	Revenue ($M)		Market Cap - 4/1/2023 ($M)	GICS Sub-Industry
	FY22	TTM		
Affirm Holdings, Inc.	$1,349	$1,480	$3,313	Transaction and Payment Processing Services
AvidXchange Holdings, Inc.	$316	$316	$1,556	Transaction and Payment Processing Services
Block, Inc.	$17,532	$17,532	$41,378	Transaction and Payment Processing Services
Cantaloupe, Inc.	$205	$227	$413	Transaction and Payment Processing Services
Cass Information Systems, Inc.	$187	$187	$594	Transaction and Payment Processing Services
Euronet Worldwide, Inc.	$3,359	$3,359	$5,576	Transaction and Payment Processing Services
EVERTEC, Inc.	$618	$618	$2,193	Transaction and Payment Processing Services
Fidelity National Information Services, Inc.	$14,528	$14,528	$32,160	Transaction and Payment Processing Services
Fiserv, Inc.	$17,737	$17,737	$70,997	Transaction and Payment Processing Services
FLEETCOR Technologies, Inc.	$3,427	$3,427	$15,496	Transaction and Payment Processing Services
Flywire Corporation	$289	$289	$3,230	Transaction and Payment Processing Services
Global Payments Inc.	$8,976	$8,976	$27,761	Transaction and Payment Processing Services
i3 Verticals, Inc.	$318	$330	$567	Transaction and Payment Processing Services
International Money Express, Inc.	$547	$547	$940	Transaction and Payment Processing Services
Jack Henry & Associates, Inc.	$1,943	$1,995	$11,001	Transaction and Payment Processing Services
Marqeta, Inc.	$748	$748	$2,461	Transaction and Payment Processing Services
Mastercard Incorporated	$22,237	$22,237	$346,418	Transaction and Payment Processing Services
MoneyGram International, Inc.	$1,310	$1,310	$1,007	Transaction and Payment Processing Services
Payoneer Global Inc.	$628	$628	$2,225	Transaction and Payment Processing Services
PayPal Holdings, Inc.	$27,518	$27,518	$85,916	Transaction and Payment Processing Services
Paysafe Limited	$1,496	$1,496	$1,050	Transaction and Payment Processing Services
Priority Technology Holdings, Inc.	$664	$664	$283	Transaction and Payment Processing Services
Remitly Global, Inc.	$654	$654	$2,953	Transaction and Payment Processing Services
Repay Holdings Corporation	$279	$279	$581	Transaction and Payment Processing Services
Shift4 Payments, Inc.	$1,994	$1,994	$4,326	Transaction and Payment Processing Services
StoneCo Ltd.	$1,767	$9,343	$2,983	Transaction and Payment Processing Services
The Western Union Company	$4,476	$4,476	$4,175	Transaction and Payment Processing Services
Toast, Inc.	$2,731	$2,731	$9,351	Transaction and Payment Processing Services
Visa Inc.	$29,310	$30,187	$463,666	Transaction and Payment Processing Services
WEX Inc.	$2,351	$2,351	$7,932	Transaction and Payment Processing Services

Exhibit 10.4

2014 OMNIBUS INCENTIVE PLAN
NONQUALIFIED STOCK OPTION AGREEMENT

THIS OPTION AGREEMENT (this "Agreement"), dated as of May 1, 2023 (the "Grant Date"), is made by and between Triumph Financial, Inc., a Texas corporation (the "Company"), and [[FIRSTNAME]] [[LASTNAME]] ("Participant"). Capitalized terms used herein without definition have the meanings ascribed to such terms in the Triumph Financial, Inc., 2014 Omnibus Incentive Plan (the "Plan").

WHEREAS, the Company has adopted the Plan, pursuant to which Nonqualified Stock Options may be granted to purchase shares of Common Stock; and

WHEREAS, the Committee has determined that it would be in the best interests of the Company and its shareholders to grant Participant Nonqualified Stock Options on the terms and subject to the conditions set forth in this Agreement and the Plan.

NOW, THEREFORE, in consideration of the premises and the covenants of the parties contained in this Agreement, and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto, for themselves, their successors and assigns, hereby agree as follows:

1. Grant of Option.

(a) Grant. The Company hereby grants to Participant a Nonqualified Stock Option (the "Option" and any portion thereof, the "Options") to purchase [[OPTIONS]] shares of Common Stock (such shares of Common Stock, the "Shares"), on the terms and subject to the conditions set forth in this Agreement and as otherwise provided in the Plan. The Option is not intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(b) Incorporation by Reference, Etc. The provisions of the Plan are hereby incorporated herein by reference. Except as otherwise expressly set forth herein, this Agreement shall be construed in accordance with the provisions of the Plan.

2. Exercise Price.

(a) Exercise Price. The option price, being the price at which Participant shall be entitled to purchase the Shares upon the exercise of all or any of the Options, shall be [[EXERCISE PRICE]] per Share (the "Exercise Price").

(b) Payment of the Exercise Price. The Option may be exercised only by written notice, substantially in the form provided by the Company, delivered in person or by mail in accordance with Section 10(b) and accompanied by payment of the Exercise Price. The aggregate Exercise Price shall be payable in cash, or, to the extent permitted by the Committee, by any of the other methods permitted under Section 5(g) of the Plan.

3. Vesting. Except as may otherwise be provided herein, the Option shall become vested and nonforfeitable (any Options that shall have become vested and nonforfeitable pursuant to this Section 3, the "Vested Options") and shall become exercisable according to the following provisions:

(a) General Vesting. The Options (rounded down to the nearest whole Share, if applicable) shall become Vested Options and exercisable per schedule below, in each case, subject to Participant not having incurred a Termination of Service as of the applicable vesting date; provided that if such Termination of Service is due to Participant's Retirement, the Options shall continue to become Vested Options in accordance with the schedule set forth in this Section 3(a), so long as Participant does not engage in activities reasonably determined by the Committee to be competitive with the Company or any of its Affiliates (it being understood that in the event of any such engagement, any Options that have not become Vested Options shall be immediately forfeited). For purposes hereof, Retirement means a Termination of Service on or after reaching the minimum retirement age adopted by the Company for its executives generally as in effect at the time of such Termination of Service.

Date	Option Shares Vested
5/1/2024	[[___]]
5/1/2025	[[___]]
5/1/2026	[[___]]
5/1/2027	[[___]]

(b) Vesting upon Death or Disability. If Participant incurs a Termination of Service due to death or Disability, all Options that have not theretofore become Vested Options shall become Vested Options and be exercisable in accordance with Section 4.

(c) Vesting upon post-Change in Control Severance Event. If, during the 24-month period following a Change in Control, Participant incurs a Termination of Service due to a termination by the Company without Cause, all Options that have not theretofore become Vested Options shall become Vested Options and be exercisable in accordance with Section 4. If Participant is party to an Individual Agreement or covered under any severance plan or arrangement with a “good reason” or similar provision, a Termination of Employment by Participant for good reason or similar term during such 24-month period shall be treated as a termination by the Company without Cause for purposes of this paragraph.

(d) Other Termination of Service. If Participant incurs a Termination of Service for any reason other than as set forth in Section 3(b) or 3(c), any Options that have not theretofore become Vested Options shall be forfeited by Participant without consideration.

4. Termination.

(a) The Options (to the extent not otherwise forfeited) shall automatically terminate and shall become null and void, be unexercisable and be of no further force and effect upon the earliest of:

(i) the tenth anniversary of the Grant Date;

(ii) the first anniversary of Participant’s Termination of Service in the case of a Termination of Service due to death or Disability;

(iii) the 90th day following Participant’s Termination of Service in the case of a Termination of Service by the Company without Cause or a Termination of Service due to Participant’s resignation for any reason; and

(iv) the day of Participant’s Termination of Service in the case of a Termination of Service for Cause.

(b) Notwithstanding the provisions of Section 4(a) to the contrary, in the event of a Termination of Service under the circumstances described in Section 3(c), the Option shall remain outstanding and exercisable until the earlier of (i) the tenth anniversary of the Grant Date and (ii) the third anniversary of such Termination of Service.

5. Transferability. The Option may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by Participant other than by will or by the laws of descent and distribution, and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company, its Subsidiaries and its Affiliates; provided that the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance. The Option shall be subject to the restrictions on transfer set forth in the Plan and this Agreement.

6. Adjustment. In the event of any event described in Section 3(c) of the Plan occurring after the Grant Date, the adjustment provisions as provided for under Section 3(c) of the Plan shall apply to the Option.

7. Change in Control. The provisions of this Section 7 shall govern vesting of the Option upon a Change of Control.

(a) In the event of a Change in Control of the Company occurring after the Grant Date, any unvested Options (if not previously forfeited) shall become Vested Options, except to the extent that another award meeting the requirements of Section 7(b) is provided to Participant to replace this Option (any award meeting the requirements of Section 7(b), a "Replacement Award").

(b) An award shall meet the conditions of this Section 7(b) (and hence qualify as a Replacement Award) if: (1) it is a stock option or stock appreciation right in respect of publicly traded equity securities of the Company or the surviving corporation following the Change in Control, (2) it has a value at least equal to the value of this Option as of the date of the Change in Control (other than in respect of customary fractional rounding of share amounts and exercise price), (3) it contains terms relating to vesting and exercisability (including with respect to Termination of Service) that are substantially identical to those of this Option, and (4) its other terms and conditions are not less favorable to Participant than the terms and conditions of this Option (including provisions that apply in the event of a subsequent Change in Control) as of the date of the Change in Control. Without limiting the generality of the foregoing, a Replacement Award may take the form of a continuation of this Option if the requirements of the preceding sentence are satisfied. The determination of whether the conditions of this Section 7(b) are satisfied shall be made by the Committee, as constituted immediately before the Change in Control, in its sole discretion.

8. Tax Withholding. As a condition to exercising the Option, in whole or in part, Participant will pay to the Company, or, to the extent permitted by the Committee, make provisions satisfactory to the Company for payment of, any federal, state and local and employment taxes in respect of the exercise or the transfer of the Shares upon the exercise of the Option that are required by applicable laws and regulations to be withheld. Participant may direct the Company, to the extent permitted by law and as may be authorized by the Committee or as may otherwise be permitted under Section 14(d) of the Plan, to deduct any such taxes from any payment otherwise due to Participant, including the delivery of Shares upon the exercise of the Option that gives rise to the withholding requirement. The Company's obligation to deliver the Shares upon exercise of the Option (or to make a book entry or other electronic notation indicating ownership of the Shares) is subject to the condition precedent that Participant either pay or provide for the amount of any such withholding.

9. Clawback Policy. Participant agrees that, notwithstanding any other provision of this Agreement or the Plan, the Option awarded under this Agreement shall be subject to potential cancellation, recoupment, rescission, payback or other action in accordance with the terms of any clawback policy that the Company may adopt and that is applicable to Participant, as it may be amended from time to time, and any provision of applicable law relating to cancellation, rescission, payback or recoupment of compensation.

10. Miscellaneous.

(a) Waiver and Amendment. The Committee may unilaterally amend the terms of this Agreement and the Option granted thereunder; provided that no such amendment shall, without the Participant's consent, materially impair the rights of any Participant with respect to this Agreement and the Option granted thereunder, except such an amendment made to cause the Plan, this Agreement, or the Option Stock granted thereunder to comply with applicable law, Applicable Exchange listing standards, or accounting rules. No waiver of any right hereunder by any party shall operate as a waiver of any other right, or as a waiver of the same right with respect to any subsequent occasion for its exercise, or as a waiver of any right to damages. No waiver by any party of any breach of this Agreement shall be held to constitute a waiver of any other breach or a waiver of the continuation of the same breach.

(b) Notices. All notices, demands and other communications provided for or permitted hereunder shall be made in writing and shall be by registered or certified first-class mail, return receipt requested, facsimile, courier service or personal delivery:

if to the Company to:

Triumph Financial, Inc.
12700 Park Central Drive, Suite 1700
Dallas, TX 75251
Facsimile: (214) 237-3197
Attention: General Counsel

if to Participant: at the address last on the records of the Company.

All such notices, demands and other communications shall be deemed to have been duly given (i) when delivered by hand, if personally delivered; (ii) when delivered by courier, if delivered by commercial courier service; (iii) five business days after being deposited in the mail, postage prepaid, if mailed; and (iv) when receipt is mechanically acknowledged, if by facsimile.

(c) Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, and each other provision of this Agreement shall be severable and enforceable to the extent permitted by law.

(d) No Rights to Service. Nothing contained in this Agreement shall be construed as giving Participant any right to be retained, in any position, as an employee, consultant or director of the Company or its Affiliates or shall interfere with or restrict in any way the right of the Company or its Affiliates, which is hereby expressly reserved, to remove, terminate or discharge Participant at any time for any reason whatsoever.

(e) Beneficiary. Participant may file with the Company a written designation of a beneficiary on such form as may be prescribed by the Committee and may, from time to time, change or revoke such designation by filing a new designation with the Company. The last such designation received by the Company shall be controlling; provided, however, that no designation, or change or revocation thereof, shall be effective unless received by the Company prior to Participant's death, and in no event shall it be effective as of a date prior to such receipt. If no beneficiary designation is filed by Participant, the beneficiary shall be deemed to be his or her spouse or, if Participant is unmarried at the time of death, his or her estate.

(f) Successors. The terms of this Agreement shall be binding upon and inure to the benefit of the Company, its successors and assigns, and of Participant and the beneficiaries, executors, administrators, heirs and successors of Participant.

(g) Entire Agreement. This Agreement and the Plan contain the entire agreement and understanding of the parties hereto with respect to the subject matter contained herein and supersede all prior communications, representations and negotiations with respect thereto.

(h) Bound by the Plan. By signing this Agreement, Participant acknowledges that he or she has received a copy of the Plan and has had an opportunity to review the Plan and agrees to be bound by all the terms and provisions of the Plan.

(i) Governing Law. This Agreement shall be construed and interpreted in accordance with the internal laws of the State of Texas without regard to principles of conflicts of law thereof, or principles of conflicts of laws of any other jurisdiction that could cause the application of the laws of any jurisdiction other than the State of Texas.

(j) Headings. The headings of the Sections of this Agreement are provided for convenience only and are not to serve as a basis for interpretation or construction and shall not constitute a part, of this Agreement.

(k) Counterparts. This Agreement may be signed in two or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

11. Compliance with Legal Requirements. The grant of the Option and any other obligations of the Company under this Agreement shall be subject to all applicable federal and state laws, rules and regulations and to such approvals by any regulatory or governmental agency as may be required. The Committee, in its sole discretion, may postpone the issuance or delivery of Shares as the Committee may consider appropriate and may require Participant to make such representations and furnish such information as it may consider appropriate in connection with the issuance or delivery of the Shares in compliance with applicable laws, rules and regulations

[*Signature Page Follows*]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

TRIUMPH FINANCIAL, INC.

By: ______________________
Name: Adam Nelson
Title: EVP and General Counsel

PARTICIPANT

[[SIGNATURE]]
[[FIRSTNAME]] [[LASTNAME]]

[*Signature Page to 2023 Nonqualified Stock Option Agreement*]

TRIUMPH BANCORP, INC.

RESTRICTIVE COVENANTS AGREEMENT

As a condition of any incentive compensation that I may earn and receive under any incentive-based compensation plan maintained by Triumph Financial, Inc. (together with its subsidiaries, the "Company"), and in particular, my receipt of non-qualified stock options granted under the terms of the Nonqualified Stock Option Agreement entered into between the Company and me (such agreements, the "Award Agreements"), I agree to the terms and conditions of this Restrictive Covenants Agreement ("Agreement"):

(a) **Access to Confidential Information.** Employee understands and agrees that in the course of performing work on behalf of the Company, he will continue to have access to, and will continue to be given Confidential Information relating to the business of the Company. Employee acknowledges and agrees that such Confidential Information includes, but is not limited to financial information pertinent to the Company and its customers, and investors, customer lists, customer and investor identities and their preferences, confidential banking and financial information of both the Company and its customers and investors, and information that Employee may create or prepare certain information related to his duties. Employee hereby expressly agrees to maintain in strictest confidence and not to access without proper business purposes (including repetitive unnecessary access), use (including without limitation in any future business or personal relationship of Employee), publish, disclose or in any way authorize anyone else to use, publish or disclose in any way, any Confidential Information relating in any manner to the business or affairs of the Company and its customers and investors, except for legitimate business-related reasons while performing duties on behalf of the Company. Employee agrees further not to remove or retain any figures, financial information, personnel data, calculations, letters, documents, lists, papers, or copies thereof, which embody Confidential Information of the Company, and to return any such information in Employee's possession at the conclusion of Employee's use of such information and at the conclusion of Employee's employment with the Company.

For purposes of this Agreement, "Confidential Information" includes, but is not limited to, information in the possession of, prepared by, obtained by, compiled by, or that is used by Company, its customers, investors and/or vendors, or is prepared by, obtained by, compiled by or that is used by Employee in conjunction with his duties, and (1) is proprietary to, about, or created by the Company, its customers, investors and/or vendors; (2) is information the disclosure of which might be detrimental to the interest of the Company, its investors or customers; or (3) is not typically disclosed by the Company, its customers, investors and/or vendors, or known by persons who are not associated with the Company.

(b) **Restrictive Covenants.** Employee acknowledges that, as a result of Employee's service with the Company, a special relationship of trust and confidence will develop between Employee, the Company and its clients and customers, and that this relationship will generate a substantial amount of good will between the Company and its clients and customers. Employee further acknowledges and agrees that it is fair and reasonable for the Company to take steps to protect it from the loss of its Confidential Information or its customer goodwill. Employee further acknowledges that throughout his service with the Company, Employee will be provided with access to and informed of confidential, proprietary and highly sensitive information relating to the Company's clients and customers, which is a competitive asset of the Company, and which enables Employee to benefit from the goodwill and know-how of the Company. Therefore, as a material condition to the Company's willingness to perform its obligations hereunder, Employee agrees that, for a period of twelve (12) months following the date of the termination of employment by the Company for any reason (except as specifically set forth below), Employee will not, either for himself or in conjunction with others:

(i) compete or engage anywhere in the geographic area comprised of any Metropolitan Statistical Area, as defined by the US Office of Management & Budget, in which Employee has performed duties on behalf of the Company during the preceding twelve (12) months, whether such duties were performed in person, telephonically, electronically or otherwise ("Market Area"), in any business that is the same or similar, or offers competing products and services as those offered by the Company;

(ii) take any action to invest in, own, manage, operate, control, participate in, be employed or engaged by, or be connected in any manner with any partnership, corporation or other business or entity engaging in a business the same or similar, or which offers competing products and services as those offered by the Company anywhere within the Market Area; notwithstanding the foregoing, Employee is permitted hereunder to own, directly or indirectly, up to five percent (5%) of the issued and outstanding securities of any publicly traded financial institution conducting business within the Market Area;

(iii) solicit, divert, take away, do business with, or provide information about, or attempt to solicit, divert, take away or do business with in any fashion any of the Company's customers, clients, business or patrons about whom Employee has Confidential Information, or with whom Employee has done business or attempted to do business on behalf of the Company;

(iv) (i) offer employment to, enter into a contract for the employment of, or attempt to entice away from the Company, any individual who is at the time of such offer or attempt, or has been during the twelve months prior to such offer or attempt, an employee of the Company, (ii) interfere with the material business relationships of the Company, or entice away any material suppliers or contractors, (iii) procure or facilitate the making of any such offer or attempt by any other person, or (iv) solicit, directly or through any other person, any investor of the Company for purposes of facilitating any investment, partnership or business opportunity unrelated to the Company. The restriction in subsection (iv) above shall not apply to any investor with which the Employee had a preexisting relationship prior to becoming employed by the Company.

(v) (i) enter into employment, consultancy, association or affiliation with any entity that provides Conflicting Services (as defined below) if any former employee of the Company with whom Employee had contact as part of his or her duties with the Company (a "Covered Person") has become employed by, associated or affiliated with, or a consultant of such entity during the twelve (12) month period preceding Employee's termination of employment with the Company; or (ii) continue employment, consultancy, association or affiliation with any entity that provides Conflicting Services if any Covered Person becomes employed by, associated or affiliated with, or a consultant to such entity during the twelve (12) month period subsequent to Employee's termination of employment with the Company. It is the intention of the parties to prevent the irreparable harm to the Company that would occur from the pooling of information that two or more former Covered Persons can provide to a competing entity or the misuse of Confidential Information. As used herein, "Conflicting Services" is defined as services that are the same or substantially similar to those services of Company or its affiliates and subsidiaries (x) which were provided by Employee (directly or indirectly) during the twelve (12) months preceding Employee's termination from employment by Company or (y) about which Employee acquired Confidential Information during Employee's employment by Company.

Notwithstanding anything to the contrary contained herein, the foregoing restrictions in Section (b) this Restrictive Covenants Agreement shall not apply in the event Employee is terminated by the Company without Cause (as defined in the Award Agreements) during the first twelve (12) months following Employee's execution of the Award Agreements.

(c) **Representations of Employee.**

(i) EMPLOYEE REPRESENTS AND WARRANTS THAT THE KNOWLEDGE, SKILLS AND ABILITIES HE POSSESSES AT THE TIME OF COMMENCEMENT OF EMPLOYMENT HEREUNDER ARE SUFFICIENT TO PERMIT HIM, IN THE EVENT OF TERMINATION OF HIS EMPLOYMENT HEREUNDER, TO EARN A LIVELIHOOD SATISFACTORY TO HIMSELF WITHOUT VIOLATING ANY PROVISION OF THIS POLICY HEREOF, FOR EXAMPLE, BY USING SUCH KNOWLEDGE, SKILLS AND ABILITIES, OR SOME OF THEM, IN THE SERVICE OF A NON COMPETITOR.

(ii) EMPLOYEE ACKNOWLEDGES AND RECOGNIZES THE HIGHLY COMPETITIVE NATURE OF THE COMPANY'S BUSINESS, THAT ACCESS TO CONFIDENTIAL INFORMATION RENDERS THE EMPLOYEE SPECIAL AND UNIQUE WITHIN THE COMPANY'S INDUSTRY, AND THAT THE EMPLOYEE WILL HAVE THE OPPORTUNITY TO DEVELOP SUBSTANTIAL RELATIONSHIPS WITH EXISTING AND PROSPECTIVE CLIENTS, ACCOUNTS, CUSTOMERS, CONSULTANTS, CONTRACTORS, INVESTORS, AND STRATEGIC PARTNERS OF THE COMPANY DURING THE COURSE OF AND AS A RESULT OF THE EMPLOYEE'S EMPLOYMENT WITH THE COMPANY. IN LIGHT OF THE FOREGOING, EMPLOYEE RECOGNIZES AND ACKNOWLEDGES THAT THE RESTRICTIONS AND LIMITATIONS SET FORTH IN THIS AGREEMENT ARE REASONABLE AND VALID IN GEOGRAPHICAL AND TEMPORAL SCOPE AND IN ALL OTHER RESPECTS AND ARE ESSENTIAL TO PROTECT THE VALUE OF THE BUSINESS AND ASSETS OF THE COMPANY.

(d) **Severable Provisions.** The provisions of this Agreement are severable and the invalidity of any one or more provisions shall not affect the validity of any other provision. In the event that a court of competent jurisdiction shall determine that any provision of this Agreement or the application thereof is unenforceable in whole or in part because of the duration or scope thereof, the parties hereto agree that said court in making such determination shall have the power to reduce the duration and scope of such provision to the extent necessary to make it enforceable, and that the Agreement in its reduced form shall be valid and enforceable to the full extent permitted by law.

(e) **Intellectual Property.** Employee agrees to disclose and hereby assigns to the Company any and all material of a proprietary nature, particularly including, without limitation, material subject to protection as trade secrets or as patentable ideas or copyrightable works, that Employee may conceive, invent, author or discover, either solely or jointly with another or other during Employee's employment and that relates to or is capable of use in connection with the business of the Company or any employment or products offered, manufactured, used, sold or being developed by the Company at the time said material is developed. Employee will, upon request of the Company, either during or at any time after Employee's employment ends, regardless of how or why Employee's employment ends, execute and deliver all papers, including applications for patents and registrations for copyrights, and do such other legal acts (entirely at the Company's expense) as may be necessary to obtain and maintain proprietary rights in any and all countries and to vest title thereto in the Company.

(f) **Remedy.** Employee understands and acknowledges that the Company has a legitimate business interest in preventing Employee from taking any actions in violation of this Policy and that this Policy is intended to protect the business and goodwill of the Company. Employee further acknowledges that a breach of this Policy will irreparably and continually damage the Company and that monetary damages alone will be inadequate to compensate the Company for such breach. Employee therefore agrees that in the event Employee violates any of the terms of this Policy, the Company will be entitled to, in addition to any other remedies available to it in law or in equity, seek temporary, preliminary and permanent injunctive relief and specific performance to enforce the terms of this Policy without the necessity of proving inadequacy of legal remedies or irreparable harm or posting bond. If Employee does take actions in violation of this Policy, Employee understands that the time periods set forth in in the applicable provisions herein will run from the date on which violations of those provisions, whether by injunction or otherwise, ends and not from the date that Employee's employment ends. In the event any lawsuit, claim or other proceeding is brought to enforce the terms of this Policy, or to determine the validity of its terms, then the prevailing party will be entitled to recover from the non-prevailing party its reasonable attorneys' fees and court costs incurred in obtaining enforcement of, or determining the validity of, this Policy.

(g) **Waiver.** Employee understands and agrees that in the event the Company waives or allows any breach of this Policy, such waiver or allowance will not constitute a waiver or allowance of any future breach, whether of a similar or dissimilar nature.

(h) **Tolling.** If the Company files a lawsuit in any court of competent jurisdiction alleging a breach of the non-disclosure or non-solicitation provisions of this Agreement by Employee, then any time period set forth in this Agreement relating to the post-termination restrictions on the activities of Employee will be deemed tolled as of the time the lawsuit is filed and will remain tolled until the dispute is finally resolved, either by written settlement agreement resolving all claims raised in the lawsuit, or by entry of a final judgment and final resolution of any post-judgment appellate proceedings.

* * * * * *

I, [[FIRSTNAME]] [[LASTNAME]], have executed this Agreement on the respective date set forth below:

Date:__ __

(Signature)

Exhibit 31.1

CERTIFICATION

I, Aaron P. Graft, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Triumph Financial, 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.

July 20, 2023

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 Financial, 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.

July 20, 2023

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 Financial, 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 June 30, 2023, as filed with the Securities and Exchange Commission on July 20, 2023, (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: July 20, 2023

By: /s/ W. Bradley Voss

Name: W. Bradley Voss
Title: Executive Vice President and Chief Financial Officer
Date: July 20, 2023

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.