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

FORM 10-Q

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

For the quarterly period ended September 30, 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 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, 23,291,711 shares, as of October 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

September 30, 2023

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PART I – FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

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

	September 30, 2023	December 31, 2022
	(Unaudited)	
ASSETS		
Cash and due from banks	$ 84,641	$ 133,889
Interest bearing deposits with other banks	252,942	274,293
Total cash and cash equivalents	337,583	408,182
Securities - equity investments with readily determinable fair values	4,289	5,191
Securities - available for sale	292,324	254,504
Securities - held to maturity, net of allowance for credit losses of $2,890 and $2,444, respectively, fair value of $4,756 and $5,476, respectively	3,311	4,077
Loans held for sale	6,416	5,641
Loans, net of allowance for credit losses of $34,815 and $42,807, respectively	4,336,713	4,077,484
Federal Home Loan Bank and other restricted stock	10,101	6,252
Premises and equipment, net	113,062	103,339
Goodwill	233,709	233,709
Intangible assets, net	26,400	32,058
Bank-owned life insurance	41,822	41,493
Deferred tax asset, net	9,594	16,473
Other assets	184,470	145,380
Total assets	$ 5,599,794	$ 5,333,783
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest bearing	$ 1,632,559	$ 1,756,680
Interest bearing	2,854,492	2,414,656
Total deposits	4,487,051	4,171,336
Customer repurchase agreements	—	340
Federal Home Loan Bank advances	30,000	30,000
Subordinated notes	108,454	107,800
Junior subordinated debentures	41,592	41,158
Other liabilities	82,315	94,178
Total liabilities	4,749,412	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, 23,291,693 and 24,053,585 shares outstanding, respectively	290	283
Additional paid-in-capital	547,212	534,790
Treasury stock, at cost	(265,016)	(182,658)
Retained earnings	527,506	498,456
Accumulated other comprehensive income (loss)	(4,610)	(6,900)
Total stockholders’ equity	850,382	888,971
Total liabilities and stockholders' equity	$ 5,599,794	$ 5,333,783

See accompanying condensed notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Interest and dividend income:				
Loans, including fees	$ 59,669	$ 44,928	$ 169,465	$ 129,906
Factored receivables, including fees	39,161	53,317	119,884	174,549
Securities	5,205	2,308	14,552	4,815
FHLB and other restricted stock	397	65	741	175
Cash deposits	3,101	2,607	9,051	3,522
Total interest income	107,533	103,225	313,693	312,967
Interest expense:				
Deposits	12,474	2,743	22,553	7,010
Subordinated notes	1,315	1,304	3,936	3,905
Junior subordinated debentures	1,169	726	3,293	1,736
Other borrowings	1,248	182	7,751	539
Total interest expense	16,206	4,955	37,533	13,190
Net interest income	91,327	98,270	276,160	299,777
Credit loss expense (benefit)	812	2,646	6,068	6,048
Net interest income after credit loss expense (benefit)	90,515	95,624	270,092	293,729
Noninterest income:				
Service charges on deposits	1,728	1,558	5,210	5,185
Card income	2,065	2,034	6,152	6,125
Net OREO gains (losses) and valuation adjustments	—	(19)	—	(133)
Net gains (losses) on sale or call of securities	5	—	5	2,514
Net gains (losses) on sale of loans	203	1,107	206	18,310
Fee income	8,108	6,120	21,720	18,096
Insurance commissions	1,074	1,191	3,970	4,209
Other	227	677	(1,320)	17,643
Total noninterest income	13,410	12,668	35,943	71,949
Noninterest expense:				
Salaries and employee benefits	50,884	49,307	159,789	149,848
Occupancy, furniture and equipment	7,542	6,826	21,537	19,769
FDIC insurance and other regulatory assessments	682	454	1,968	1,376
Professional fees	3,941	4,263	10,061	11,529
Amortization of intangible assets	2,849	2,913	8,700	9,085
Advertising and promotion	1,839	1,995	4,839	5,029
Communications and technology	10,784	12,410	34,034	32,197
Other	7,738	8,521	25,008	25,027
Total noninterest expense	86,259	86,689	265,936	253,860
Net income before income tax expense	17,666	21,603	40,099	111,818
Income tax expense	4,872	5,374	8,645	27,068
Net income	$ 12,794	$ 16,229	$ 31,454	$ 84,750
Dividends on preferred stock	(801)	(801)	(2,404)	(2,404)
Net income available to common stockholders	$ 11,993	$ 15,428	$ 29,050	$ 82,346
Earnings per common share				
Basic	$ 0.52	$ 0.64	$ 1.25	$ 3.36
Diluted	$ 0.51	$ 0.62	$ 1.23	$ 3.28

See accompanying condensed notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income	$ 12,794	$ 16,229	$ 31,454	$ 84,750
Other comprehensive income:				
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) arising during the period	506	(4,806)	2,862	(13,164)
Tax effect	(127)	1,127	(568)	3,067
Unrealized holding gains (losses) arising during the period, net of taxes	379	(3,679)	2,294	(10,097)
Reclassification of amount realized through sale or call of securities	(5)	—	(5)	(2,514)
Tax effect	1	—	1	620
Reclassification of amount realized through sale or call of securities, net of taxes	(4)	—	(4)	(1,894)
Change in unrealized gains (losses) on securities, net of tax	375	(3,679)	2,290	(11,991)
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	—	—	—	(9,316)
Tax effect	—	—	—	2,213
Reclassification of amount of (gains) losses recognized into income, net of taxes	—	—	—	(7,103)
Change in unrealized gains (losses) on derivative financial instruments	—	—	—	(4,705)
Total other comprehensive income (loss)	375	(3,679)	2,290	(16,696)
Comprehensive income	$ 13,169	$ 12,550	$ 33,744	$ 68,054

See accompanying condensed notes to consolidated financial statements.

TRIUMPH FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Three and Nine Months Ended September 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
Issuance of restricted stock awards	—	6,522	1	(1)	—	—	—	—	—
Stock based compensation	—	—	—	3,714	—	—	—	—	3,714
Forfeiture of restricted stock awards	—	(1,566)	—	100	1,566	(100)	—	—	—
Issuance of common stock pursuant to the employee stock purchase plan	—	16,852	—	834	—	—	—	—	834
Dividends declared	—	—	—	—	—	—	(801)	—	(801)
Net income	—	—	—	—	—	—	12,794	—	12,794
Other comprehensive income (loss)	—	—	—	—	—	—	—	375	375
Balance, September 30, 2023	$ 45,000	23,291,693	$ 290	$ 547,212	5,683,513	$ (265,016)	$ 527,506	$ (4,610)	$ 850,382

	Preferred Stock	Common Stock			Treasury Stock				
	Liquidation Preference Amount	Shares Outstanding	Par Amount	Additional Paid-in-Capital	Shares Outstanding	Cost	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, January 1, 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
Issuance of restricted stock awards	—	6,969	—	—	—	—	—	—	—
Stock based compensation	—	—	—	4,296	—	—	—	—	4,296
Forfeiture of restricted stock awards	—	(194)	—	12	194	(12)	—	—	—
Purchase of treasury stock	—	(195)	—	—	195	(13)	—	—	(13)
Issuance of common stock pursuant to the ESPP	—	13,931	—	860	—	—	—	—	860
Dividends declared	—	—	—	—	—	—	(801)	—	(801)
Net income	—	—	—	—	—	—	16,229	—	16,229
Other comprehensive income (loss)	—	—	—	—	—	—	—	(3,679)	(3,679)
Balance, September 30, 2022	$ 45,000	24,478,288	$ 283	$ 529,804	3,843,428	$ (156,949)	$ 481,697	$ (8,662)	$ 891,173

See accompanying condensed notes to consolidated financial statements.

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

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Cash flows from operating activities:		
Net income	$ 31,454	$ 84,750
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	10,212	9,979
Net accretion on loans	(4,203)	(6,631)
Amortization of subordinated notes issuance costs	654	630
Amortization of junior subordinated debentures	434	414
Net (accretion) amortization on securities	(665)	(609)
Amortization of intangible assets	8,700	9,085
Deferred taxes	6,313	524
Credit loss expense (benefit)	6,068	6,048
Stock based compensation	9,915	17,128
Net (gains) losses on sale or call of debt securities	(5)	(2,514)
Net (gains) losses on equity securities	119	(9,575)
Net OREO (gains) losses and valuation adjustments	—	133
Origination of loans held for sale	(3,584)	(10,402)
Purchases of loans held for sale	—	(6,913)
Proceeds from sale of loans originated or purchased for sale	3,435	17,673
Net (gains) losses on sale of loans	(206)	(18,310)
Net change in operating leases	(199)	272
(Increase) decrease in other assets	(39,816)	(37,308)
Increase (decrease) in other liabilities	(10,672)	9,107
Net cash provided by (used in) operating activities	17,954	63,481
Cash flows from investing activities:		
Proceeds from sales of equity securities	783	—
Purchases of securities available for sale	(69,483)	(117,440)
Proceeds from sales of securities available for sale	14,005	40,163
Proceeds from maturities, calls, and pay downs of securities available for sale	21,054	23,562
Proceeds from maturities, calls, and pay downs of securities held to maturity	451	578
Purchases of loans held for investment	(18,842)	(133,674)
Proceeds from sale of loans	45,940	207,406
Net change in loans	(288,762)	285,854
Purchases of premises and equipment, net	(19,935)	(8,522)
Net proceeds from sale of OREO	—	438
(Purchases) redemptions of FHLB and other restricted stock, net	(3,849)	3,933
Acquired intangible assets	(3,042)	—
Proceeds from sale of disposal group	—	85,923
Net cash provided by (used in) investing activities	(321,680)	388,221
Cash flows from financing activities:		
Net increase (decrease) in deposits	315,715	(194,494)
Increase (decrease) in customer repurchase agreements	(340)	11,360
Increase (decrease) in Federal Home Loan Bank advances	—	(150,000)
Repayment of other borrowings	—	(27,144)
Preferred dividends	(2,404)	(2,404)
Stock option exercises, net	(52)	(74)
Proceeds from employee stock purchase plan common stock issuance	1,831	1,548
Purchase of treasury stock, net	(81,623)	(51,943)
Net cash provided by (used in) financing activities	233,127	(413,151)
Net increase (decrease) in cash and cash equivalents	(70,599)	38,551
Cash and cash equivalents at beginning of period	408,182	383,178
Cash and cash equivalents at end of period	337,583	421,729

See accompanying condensed notes to consolidated financial statements.

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

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Supplemental cash flow information:		
Interest paid	$ 30,893	$ 11,416
Income taxes paid, net	$ 14,019	$ 45,035
Cash paid for operating lease liabilities	$ 4,149	$ 2,691
Supplemental noncash disclosures:		
Loans transferred to OREO	$ —	$ 47
Loans held for investment transferred to loans held for sale	$ 46,625	$ 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	$ —	$ 14,976
Non-cash consideration received from sale of loan portfolio or disposal group	$ —	$ 5,529

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Triumph 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. Certain prior period amounts have been reclassified to conform to the current period presentation. 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 nine months ended September 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 $4,289,000 and $5,191,000 at September 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 September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2023	2022	2023	2022
Unrealized gains (losses) on equity securities held at the reporting date	$ (137)	$ (134)	$ (137)	$ (588)
Realized gains (losses) on equity securities sold during the period	—	—	18	—
	$ (137)	$ (134)	$ (119)	$ (588)

Equity Securities Without Readily Determinable Fair Values

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

(Dollars in thousands)	September 30, 2023	December 31, 2022
Equity Securities without readily determinable fair value, at cost	$ 55,812	$ 39,019
Upward adjustments based on observable price changes, cumulative	10,163	10,163
Equity Securities without readily determinable fair value, carrying value	$ 65,975	$ 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 September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2023	2022	2023	2022
Unrealized gains (losses) on equity securities still held at the reporting date	$ —	$ —	$ —	$ 10,163
Realized gains (losses) on equity securities sold during the period	—	—	—	—
	$ —	$ —	$ —	$ 10,163

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 September 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) September 30, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
Available for sale securities:					
Mortgage-backed securities, residential	$ 49,346	$ 9	$ (6,173)	$ —	$ 43,182
Asset-backed securities	1,243	10	—	—	1,253
State and municipal	5,217	—	(189)	—	5,028
CLO securities	240,162	1,047	(734)	—	240,475
Corporate bonds	768	—	(19)	—	749
SBA pooled securities	1,746	7	(116)	—	1,637
Total available for sale securities	$ 298,482	$ 1,073	$ (7,231)	$ —	$ 292,324

(Dollars in thousands) September 30, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrecognized Losses	Fair Value
Held to maturity securities:				
CLO securities	$ 6,201	$ 339	$ (1,784)	$ 4,756
Allowance for credit losses	(2,890)			
Total held to maturity securities, net of ACL	$ 3,311			

(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 September 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	$ 1,167	$ 1,165	$ —	$ —
Due from one year to five years	2,212	2,122	1,913	2,085
Due from five years to ten years	72,866	72,665	4,288	2,671
Due after ten years	169,902	170,300	—	—
	246,147	246,252	6,201	4,756
Mortgage-backed securities, residential	49,346	43,182	—	—
Asset-backed securities	1,243	1,253	—	—
SBA pooled securities	1,746	1,637	—	—
	$ 298,482	$ 292,324	$ 6,201	$ 4,756

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2023	2022	2023	2022
Proceeds	$ 10,005	$ —	$ 14,005	$ 40,163
Gross gains	5	—	5	2,512
Gross losses	—	—	—	—
Net gains and losses from calls of securities	—	—	—	2

Debt securities with a carrying amount of approximately $41,520,000 and $93,813,000 at September 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 $5,036,000 and $2,593,000 at September 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 nine months ended September 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) September 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	$ 1,429	$ (100)	$ 35,045	$ (6,073)	$ 36,474	$ (6,173)
Asset-backed securities	—	—	—	—	—	—
State and municipal	1,537	(64)	2,986	(125)	4,523	(189)
CLO securities	14,966	(34)	78,211	(700)	93,177	(734)
Corporate bonds	749	(19)	—	—	749	(19)
SBA pooled securities	220	(6)	1,111	(110)	1,331	(116)
	$ 18,901	$ (223)	$ 117,353	$ (7,008)	$ 136,254	$ (7,231)

(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 September 30, 2023, the Company had 116 available for sale debt securities in an unrealized loss position without an allowance for credit losses. Management does not have the intent to sell any of these securities and believes that it is more likely than not that the Company will not have to sell any such securities before a recovery of cost. The fair value is expected to recover as the securities approach their maturity date or repricing date or if market yields for such investments decline. Accordingly, as of September 30, 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 September 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 September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Allowance for credit losses:				
Beginning balance	$ 2,876	$ 2,355	$ 2,444	$ 2,082
Credit loss expense	14	75	446	348
Allowance for credit losses ending balance	$ 2,890	$ 2,430	$ 2,890	$ 2,430

The Company's held to maturity securities are investments in the unrated subordinated notes of collateralized loan obligation funds. These securities are the junior-most in securitization capital structures, and are subject to suspension of distributions if the credit of the underlying loan portfolios deteriorates materially. The ACL on held to maturity securities is estimated at each measurement date on a collective basis by major security type. At September 30, 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 September 30, 2023, $4,772,000 of the Company's held to maturity securities were classified as nonaccrual.

NOTE 4 — LOANS AND ALLOWANCE FOR CREDIT LOSSES

Loans Held for Sale

The following table presents loans held for sale:

(Dollars in thousands)	September 30, 2023	December 31, 2022
Commercial	6,416	5,641
Total loans held for sale	$ 6,416	$ 5,641

Loans Held for Investment

Loans

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

	September 30, 2023			December 31, 2022		
(Dollars in thousands)	Amortized Cost	Unpaid Principal	Difference	Amortized Cost	Unpaid Principal	Difference
Commercial real estate	$ 817,064	$ 818,140	$ (1,076)	$ 678,144	$ 679,239	$ (1,095)
Construction, land development, land	131,862	132,413	(551)	90,976	91,147	(171)
1-4 family residential	129,588	129,768	(180)	125,981	126,185	(204)
Farmland	62,698	62,871	(173)	68,934	69,185	(251)
Commercial	1,251,939	1,258,981	(7,042)	1,251,110	1,262,493	(11,383)
Factored receivables	1,213,702	1,217,129	(3,427)	1,237,449	1,241,032	(3,583)
Consumer	8,166	8,168	(2)	8,868	8,871	(3)
Mortgage warehouse	756,509	756,509	—	658,829	658,829	—
Total loans held for investment	4,371,528	$ 4,383,979	$ (12,451)	4,120,291	$ 4,136,981	$ (16,690)
Allowance for credit losses	(34,815)			(42,807)		
	$ 4,336,713			$ 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 $8,127,000 and $13,383,000 at September 30, 2023 and December 31, 2022, respectively, and (2) net deferred origination and factoring fees totaling $4,324,000 and $3,307,000 at September 30, 2023 and December 31, 2022, respectively.

Accrued interest on loans, which is excluded from the amortized cost of loans held for investment, totaled $28,552,000 and $19,279,000 at September 30, 2023 and December 31, 2022, respectively, and was included in other assets on the Company's consolidated balance sheets.

At September 30, 2023 and December 31, 2022, the Company had $219,649,000 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 September 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 $3,581,000 and $8,202,000, respectively. These balances were fully reserved as of those respective dates. 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 $3,330,000; 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 reimbursed us for $1,665,000 of this charge-off.

At September 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 September 30, 2023.

Loans with carrying amounts of $1,610,699,000 and $1,356,922,000 at September 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. The activity in the allowance for credit losses ("ACL") related to loans held for investment is as follows:

(Dollars in thousands) Three months ended September 30, 2023	Beginning Balance	Credit Loss Expense	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 4,783	$ 1,008	$ (16)	$ —	$ 5,775
Construction, land development, land	1,235	(5)	—	2	1,232
1-4 family residential	1,046	(8)	—	1	1,039
Farmland	476	(42)	—	—	434
Commercial	12,977	(44)	(213)	69	12,789
Factored receivables	13,441	389	(1,453)	247	12,624
Consumer	166	(157)	(143)	300	166
Mortgage warehouse	846	(90)	—	—	756
	$ 34,970	$ 1,051	$ (1,825)	$ 619	$ 34,815

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

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

(Dollars in thousands) Nine Months Ended September 30, 2023	Beginning Balance	Credit Loss Expense	Charge-offs	Recoveries	Ending Balance
Commercial real estate	$ 4,459	$ 1,262	$ (16)	$ 70	$ 5,775
Construction, land development, land	1,155	73	—	4	1,232
1-4 family residential	838	195	(5)	11	1,039
Farmland	483	(49)	—	—	434
Commercial	15,918	2,271	(5,559)	159	12,789
Factored receivables	19,121	2,460	(9,566)	609	12,624
Consumer	175	(92)	(414)	497	166
Mortgage warehouse	658	98	—	—	756
	$ 42,807	$ 6,218	$ (15,560)	$ 1,350	$ 34,815

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

The decrease in required ACL during the three months ended September 30, 2023 is a function of net charge-offs of $1,206,000 and credit loss expense of $1,051,000.

The decrease in required ACL during the nine months ended September 30, 2023 is a function of net charge-offs of $14,210,000 and credit loss expense of $6,218,000.

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 September 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 September 30, 2023 as compared to December 31, 2022, the Company forecasted a minimal decrease national unemployment, a steeper decrease in one-year percentage change in national retail sales, an increase in one-year percentage change in the national home price index, and a slight increase in one-year percentage change in national gross domestic product. At September 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 small increase 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 positive increase in the first projected quarter followed by a steep drop to negative levels for the remaining three quarters with such negative levels peaking in the fourth projected quarter. For percentage change in national gross domestic product, management projected low-to-near-zero growth for each projected quarter. At September 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 September 30, 2023, changes in projected loss drivers and prepayment assumptions over the reasonable and supportable forecast period increased the required ACL by $164,000. Changes in loan volume and mix increased the required ACL by $395,000. Decreases in required specific reserves decreased the required ACL by $714,000. Net charge-offs during the period were $1,206,000.

For the three months ended September 30, 2022, changes in projected loss drivers and prepayment assumptions did not have a meaningful impact on the required ACL. Changes in loan volume and mix decreased the required ACL by $520,000. Increases in required specific reserves increased the required ACL by $1,278,000. Net charge-offs during the period were $2,465,000.

For the nine months ended September 30, 2023, changes in projected loss drivers and prepayment assumptions over the reasonable and supportable forecast period increased the required ACL by $561,000. Changes in loan volume and mix increased the required ACL by $179,000. Decreases in required specific reserves decreased the required ACL by $8,732,000. Net charge-offs during the period were $14,210,000.

For the nine months ended September 30, 2022, changes in projected loss drivers and prepayment assumptions over the reasonable and supportable forecast period increased the required ACL by $1,487,000. Changes in loan volume and mix decreased the required ACL by $2,665,000. Increases in required specific reserves increased the required ACL by $3,077,000. Net charge-offs during the period were $4,204,000.

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) September 30, 2023	Real Estate	Accounts Receivable	Equipment	Other	Total	ACL Allocation
Commercial real estate	$ 1,998	$ —	$ 174	$ 1,703	$ 3,875	$ 327
Construction, land development, land	—	—	—	—	—	—
1-4 family residential	1,120	—	—	26	1,146	126
Farmland	298	—	—	930	1,228	—
Commercial	939	—	2,929	20,315	24,183	2,080
Factored receivables	—	39,404	—	—	39,404	6,904
Consumer	—	—	—	171	171	—
Mortgage warehouse	—	—	—	—	—	—
Total	$ 4,355	$ 39,404	$ 3,103	$ 23,145	$ 70,007	$ 9,437

Commercial loans secured by Other collateral primarily consist of large liquid credit loans secured by the underlying enterprise values of the borrowers.

At September 30, 2023 the balance of the Over-Formula Advance Portfolio included in factored receivables was $3,581,000 and was fully reserved. At September 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) September 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	$ 100	$ 306	$ 1,362	$ 1,768	$ 815,296	$ 817,064	$ —
Construction, land development, land	—	—	—	—	131,862	131,862	—
1-4 family residential	540	306	245	1,091	128,497	129,588	—
Farmland	147	—	—	147	62,551	62,698	—
Commercial	16,445	2,173	3,650	22,268	1,229,671	1,251,939	—
Factored receivables	26,772	6,234	26,346	59,352	1,154,350	1,213,702	26,346
Consumer	17	19	20	56	8,110	8,166	—
Mortgage warehouse	—	—	—	—	756,509	756,509	—
Total	$ 44,021	$ 9,038	$ 31,623	$ 84,682	$ 4,286,846	$ 4,371,528	$ 26,346

(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 September 30, 2023 and December 31, 2022, total past due Over-Formula Advances recorded in factored receivables was $3,581,000 and $8,202,000, respectively, all of which was considered past due 90 days or more. At September 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.

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

	September 30, 2023		December 31, 2022	
(Dollars in thousands)	Total Nonaccrual	Nonaccrual With No ACL	Total Nonaccrual	Nonaccrual With No ACL
Commercial real estate	$ 3,801	$ 2,099	$ 871	$ 319
Construction, land development, land	—	—	150	150
1-4 family residential	1,146	958	1,391	1,238
Farmland	1,228	1,228	400	400
Commercial	24,182	20,671	15,393	3,662
Factored receivables	—	—	—	—
Consumer	171	171	91	91
Mortgage warehouse	—	—	—	—
	$ 30,528	$ 25,127	$ 18,296	$ 5,860

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2023	2022	2023	2022
Commercial real estate	$ 1	$ —	$ 17	$ —
Construction, land development, land	—	—	—	2
1-4 family residential	2	1	8	1
Farmland	35	—	57	—
Commercial	47	—	55	4
Factored receivables	—	—	—	—
Consumer	1	—	2	—
Mortgage warehouse	—	—	—	—
	$ 86	$ 1	$ 139	$ 7

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

The following table presents information regarding nonperforming loans:

(Dollars in thousands)	September 30, 2023	December 31, 2022
Nonaccrual loans	$ 30,528	$ 18,296
Factored receivables greater than 90 days past due	22,765	28,940
Other nonperforming factored receivables(1)	—	491
Troubled debt restructurings accruing interest	—	503
	$ 53,293	$ 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 September 30, 2023 and December 31, 2022, based on the most recent analysis performed, the risk category of loans is as follows:

TRIUMPH FINANCIAL, INC. AND SUBSIDIARIES
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(Dollars in thousands)	Year of Origination								
September 30, 2023	2023	2022	2021	2020	2019	Prior	Revolving Loans	Revolving Loans Converted To Term Loans	Total
Commercial real estate									
Pass	$ 140,428	$ 189,753	$ 122,245	$ 55,488	$ 24,826	$ 106,522	$ 87,141	$ 122	$ 726,525
Classified	—	38,008	3,100	46,587	747	2,097	—	—	90,539
Total commercial real estate	$ 140,428	$ 227,761	$ 125,345	$ 102,075	$ 25,573	$ 108,619	$ 87,141	$ 122	$ 817,064
YTD gross charge-offs	$ —	$ —	$ —	$ —	$ 16	$ —	$ —	$ —	$ 16
Construction, land development, land									
Pass	$ 35,355	$ 50,828	$ 30,928	$ 5,798	$ 349	$ 6,007	$ 2,597	$ —	$ 131,862
Classified	—	—	—	—	—	—	—	—	—
Total construction, land development, land	$ 35,355	$ 50,828	$ 30,928	$ 5,798	$ 349	$ 6,007	$ 2,597	$ —	$ 131,862
YTD gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
1-4 family residential									
Pass	$ 7,705	$ 10,460	$ 6,003	$ 10,253	$ 4,441	$ 50,464	$ 37,909	$ 1,173	$ 128,408
Classified	167	16	15	175	72	608	127	—	1,180
Total 1-4 family residential	$ 7,872	$ 10,476	$ 6,018	$ 10,428	$ 4,513	$ 51,072	$ 38,036	$ 1,173	$ 129,588
YTD gross charge-offs	$ 5	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 5
Farmland									
Pass	$ 16,003	$ 13,463	$ 5,658	$ 7,913	$ 4,582	$ 11,085	$ 1,778	$ 73	$ 60,555
Classified	190	—	19	—	—	1,934	—	—	2,143
Total farmland	$ 16,193	$ 13,463	$ 5,677	$ 7,913	$ 4,582	$ 13,019	$ 1,778	$ 73	$ 62,698
YTD gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial									
Pass	$ 138,634	$ 306,209	$ 110,662	$ 95,731	$ 33,386	$ 23,715	$ 507,606	$ 1,253	$ 1,217,196
Classified	127	18,341	4,958	9,340	649	641	687	—	34,743
Total commercial	$ 138,761	$ 324,550	$ 115,620	$ 105,071	$ 34,035	$ 24,356	$ 508,293	$ 1,253	$ 1,251,939
YTD gross charge-offs	$ 2	$ 516	$ 4,496	$ 368	$ 9	$ 133	$ 35	$ —	$ 5,559
Factored receivables									
Pass	$ 1,175,928	$ —	$ —	$ 3,581	$ —	$ —	$ —	$ —	$ 1,179,509
Classified	14,832	—	—	19,361	—	—	—	—	34,193
Total factored receivables	$ 1,190,760	$ —	$ —	$ 22,942	$ —	$ —	$ —	$ —	$ 1,213,702
YTD gross charge-offs	$ 3,943	$ 2,293	$ —	$ 3,330	$ —	$ —	$ —	$ —	$ 9,566
Consumer									
Pass	$ 2,226	$ 2,273	$ 877	$ 577	$ 135	$ 1,862	$ 46	$ —	$ 7,996
Classified	—	—	87	—	—	83	—	—	170
Total consumer	$ 2,226	$ 2,273	$ 964	$ 577	$ 135	$ 1,945	$ 46	$ —	$ 8,166
YTD gross charge-offs	$ 374	$ 9	$ 16	$ 8	$ 2	$ 5	$ —	$ —	$ 414
Mortgage warehouse									
Pass	$ 756,509	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 756,509
Classified	—	—	—	—	—	—	—	—	—
Total mortgage warehouse	$ 756,509	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 756,509
YTD gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Total loans									
Pass	$ 2,272,788	$ 572,986	$ 276,373	$ 179,341	$ 67,719	$ 199,655	$ 637,077	$ 2,621	$ 4,208,560
Classified	15,316	56,365	8,179	75,463	1,468	5,363	814	—	162,968
Total loans	$ 2,288,104	$ 629,351	$ 284,552	$ 254,804	$ 69,187	$ 205,018	$ 637,891	$ 2,621	$ 4,371,528
YTD gross charge-offs	$ 4,324	$ 2,818	$ 4,512	$ 3,706	$ 27	$ 138	$ 35	$ —	$ 15,560

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(Dollars in thousands)	Year of Origination							Revolving Loans Converted To Term Loans	
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 tables present 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 September 30, 2023		Nine Months Ended September 30, 2023	
(Dollars in thousands)	Amortized Cost	% of Portfolio	Amortized Cost	% of Portfolio
Commercial real estate	$ 111	— %	$ 111	— %
1-4 family residential	271	0.2 %	271	0.2 %
Farmland	762	1.2 %	762	1.2 %
Commercial	1,913	0.2 %	1,913	0.2 %
	$ 3,057	0.1 %	$ 3,057	0.1 %

	Term Extension and Rate Reduction			
	Three Months Ended September 30, 2023		Nine Months Ended September 30, 2023	
(Dollars in thousands)	Amortized Cost	% of Portfolio	Amortized Cost	% of Portfolio
Commercial real estate	$ 83,344	10.2 %	$ 83,344	10.2 %
Commercial	549	— %	549	— %
	$ 83,893	1.9 %	$ 83,893	1.9 %

The following tables describe the financial effect of the modifications made to borrowers experiencing financial difficulty:

	Term Extension	
	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2023
Commercial real estate	Modification added a weighted average 0.3 years to the life of the modified loans.	Modification added a weighted average 0.9 years to the life of the modified loans.
1-4 family residential	Modification added a weighted average 0.5 years to the life of the modified loans.	Modification added a weighted average 0.5 years to the life of the modified loans.
Farmland	Modification added a weighted average 0.5 years to the life of the modified loans.	Modification added a weighted average 0.5 years to the life of the modified loans.
Commercial	Modification added a weighted average 0.5 years to the life of the modified loans.	Modification added a weighted average 0.6 years to the life of the modified loans.

	Term Extension and rate Reduction	
	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2023
Commercial real estate	Modification added a weighted average 0.5 years to the life of the modified loans and reduced the weighted average contractual interest rate from 10.1% to 5.1%.	Modification added a weighted average 0.5 years to the life of the modified loans and reduced the weighted average contractual interest rate from 10.1% to 5.1%.
Commercial	Modification added a weighted average 0.3 years to the life of the modified loans and reduced the weighted average contractual interest rate from 9.5% to 8.6%.	Modification added a weighted average 0.3 years to the life of the modified loans and reduced the weighted average contractual interest rate from 9.5% to 8.6%.

Generally, if a loan to a borrower experiencing financial difficulty is modified, the Company will seek to obtain credit enhancements when possible.

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

	September 30, 2023		
(Dollars in thousands)	Current	Past Due 30-89 Days	Past Due 90 Days or More
Commercial real estate	$ 83,455	$ —	$ —
1-4 family residential	271	—	—
Farmland	762	—	—
Commercial	2,462	—	—
	$ 86,950	$ —	$ —

At September 30, 2023, the Company had $325,000 of 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 nine months ended September 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 September 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)	September 30, 2023	December 31, 2022
Goodwill	$ 233,709	$ 233,709

	September 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	$ (37,490)	$ 6,088	$ 43,578	$ (35,347)	$ 8,231
Software intangible assets	16,932	(9,877)	7,055	16,932	(6,702)	10,230
Other intangible assets	33,452	(20,195)	13,257	30,410	(16,813)	13,597
	$ 93,962	$ (67,562)	$ 26,400	$ 90,920	$ (58,862)	$ 32,058

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2023	2022	2023	2022
Beginning balance	$ 262,958	$ 270,666	$ 265,767	$ 276,856
Acquired intangible assets	—	851	3,042	851
Acquired goodwill - measurement period adjustment	—	—	—	(18)
Goodwill transferred to assets held for sale	—	—	—	(3,217)
Intangible assets transferred to assets held for sale	—	—	—	(1,394)
Goodwill transferred from assets held for sale	—	—	—	3,217
Intangible assets transferred from assets held for sale	—	—	—	1,394
Amortization of intangibles	(2,849)	(2,913)	(8,700)	(9,085)
Ending balance	$ 260,109	$ 268,604	$ 260,109	$ 268,604

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:

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

The Company did not have any derivative financial instruments at September 30, 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
Nine Months Ended September 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 $3,311,000 and $4,077,000 at September 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

The Company, through its direct and indirect wholly owned subsidiaries, has purchased and received payments on accounts receivable payable to Surge Transportation, Inc. ('Surge'), a licensed freight broker, as part of factoring services provided to such entity. On July 24, 2023, Surge filed for Chapter 11 Bankruptcy in the US Bankruptcy Court in the Middle District of Florida. In connection with the bankruptcy proceedings, certain claimants comprised of motor carriers, contingency collection agents, and factoring companies have filed complaints alleging that such entities have an ownership interest in, or other rights to, amounts paid to the Company in respect of such purchased accounts receivable. The Court has not yet ruled on such complaints. In the event of an adverse ruling with respect to such complaints, Triumph may be required to disgorge or pay to such claimants all or a portion of the amounts it has collected on such receivables. Due to the uncertainty of the existence of or extent of any loss exposure, Triumph is unable to calculate any reserve loss at this time.

Additionally, other various legal claims have arisen from time to time in the normal course of business which, in the opinion of management as of September 30, 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:

	September 30, 2023			December 31, 2022		
(Dollars in thousands)	Fixed Rate	Variable Rate	Total	Fixed Rate	Variable Rate	Total
Unused lines of credit	$ 15,441	$ 563,103	$ 578,544	$ 1,417	$ 487,965	$ 489,382
Standby letters of credit	$ 15,725	$ 9,809	$ 25,534	$ 12,309	$ 4,897	$ 17,206
Commitments to purchase loans	$ —	$ 17,321	$ 17,321	$ —	$ 53,572	$ 53,572
Mortgage warehouse commitments	$ —	$ 851,564	$ 851,564	$ —	$ 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 September 30, 2023 and December 31, 2022, the allowance for credit losses on off-balance sheet credit exposures totaled $3,010,000 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 September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2023	2022	2023	2022
Credit loss expense (benefit)	$ (253)	$ (598)	$ (596)	$ (402)

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			
September 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	$ —	$ 43,182	$ —	$ 43,182
Asset-backed securities	—	1,253	—	1,253
State and municipal	—	5,028	—	5,028
CLO securities	—	240,475	—	240,475
Corporate bonds	—	749	—	749
SBA pooled securities	—	1,637	—	1,637
	$ —	$ 292,324	$ —	$ 292,324
Equity securities with readily determinable fair values				
Mutual fund	$ 4,289	$ —	$ —	$ 4,289
Loans held for sale	$ —	$ 6,416	$ —	$ 6,416
Indemnification asset	$ —	$ —	$ 1,701	$ 1,701
Revenue share asset	$ —	$ —	$ 2,696	$ 2,696
Liabilities measured at fair value on a recurring basis				
Return of premium liability	$ —	$ —	$ 272	$ 272

(Dollars in thousands)	Fair Value Measurements Using			Total
December 31, 2022	Level 1	Level 2	Level 3	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 September 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 $1,791,000 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 September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2023	2022	2023	2022
Beginning balance	$ 1,905	$ 4,377	$ 3,896	$ 4,786
Indemnification asset recognized in business combination	—	—	—	—
Change in fair value of indemnification asset recognized in earnings	(204)	(204)	(530)	(613)
Indemnification reduction	—	—	(1,665)	—
Ending balance	$ 1,701	$ 4,173	$ 1,701	$ 4,173

Revenue Share Asset

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

At September 30, 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 $3,546,000 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 September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2023	2022	2023	2022
Beginning balance	$ 3,053	$ 5,210	$ 5,515	$ —
Revenue share asset recognized	—	1,027	—	6,237
Change in fair value of revenue share asset recognized in earnings	(78)	171	(1,867)	171
Revenue share payments received	(279)	(230)	(952)	(230)
Ending balance	$ 2,696	$ 6,178	$ 2,696	$ 6,178

Return of Premium Liability

On June 23, 2022, the Company made the decision to sell and closed on the sale of a portfolio of equipment loans for cash consideration. The associated agreement contains a provision that in the event that a sold loan is prepaid in full prior to the due date of the final scheduled contractual payment, the Company will return a pro-rata portion of the premium calculated as of the date of such prepayment in full. The fair value of the return of premium liability is calculated each reporting period, and changes in the fair value of the return of premium liability are recorded in noninterest income in the consolidated statements of income. The return of premium liability is considered a Level 3 classification. At September 30, 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 September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2023	2022	2023	2022
Beginning balance	$ 376	$ 708	$ 575	$ —
Return of premium liability recognized	—	—	—	708
Change in fair value of return of premium liability recognized in earnings	(104)	(104)	(303)	(104)
Return of premium payments made	—	(34)	—	(34)
Ending balance	$ 272	$ 570	$ 272	$ 570

Assets measured at fair value on a non-recurring basis are summarized in the table below. There were no liabilities measured at fair value on a non-recurring basis at September 30, 2023 and December 31, 2022.

(Dollars in thousands)	Fair Value Measurements Using			
September 30, 2023	Level 1	Level 2	Level 3	Total Fair Value
Collateral dependent loans				
Commercial real estate	$ —	$ —	$ 1,374	$ 1,374
1-4 family residential	—	—	63	63
Commercial	—	—	1,431	1,431
Factored receivables	—	—	32,500	32,500
	$ —	$ —	$ 35,368	$ 35,368

(Dollars in thousands)	Fair Value Measurements Using			
December 31, 2022	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 September 30, 2023 and December 31, 2022 were as follows:

(Dollars in thousands) September 30, 2023	Carrying Amount	Fair Value Measurements Using Level 1	Level 2	Level 3	Total Fair Value
Financial assets:					
Cash and cash equivalents	$ 337,583	$ 337,583	$ —	$ —	$ 337,583
Securities - held to maturity	3,311	—	—	4,756	4,756
Loans not previously presented, gross	4,336,160	129,815	—	4,111,712	4,241,527
FHLB and other restricted stock	10,101	N/A	N/A	N/A	N/A
Accrued interest receivable	33,930	33,930	—	—	33,930
Financial liabilities:					
Deposits	4,487,051	—	4,478,382	—	4,478,382
Federal Home Loan Bank advances	30,000	—	30,000	—	30,000
Subordinated notes	108,454	—	88,057	—	88,057
Junior subordinated debentures	41,592	—	43,392	—	43,392
Accrued interest payable	8,382	8,382	—	—	8,382

(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 September 30, 2023 and December 31, 2022, the Company and TBK Bank meet all capital adequacy requirements to which they are subject.

As of September 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 September 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	
September 30, 2023	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)						
Triumph Financial, Inc.	$ 790,082	15.8%	$ 400,042	8.0%	N/A	N/A
TBK Bank, SSB	$ 746,239	15.0%	$ 397,994	8.0%	$ 497,493	10.0%
Tier 1 capital (to risk weighted assets)						
Triumph Financial, Inc.	$ 646,435	12.9%	$ 300,667	6.0%	N/A	N/A
TBK Bank, SSB	$ 713,628	14.4%	$ 297,345	6.0%	$ 396,460	8.0%
Common equity Tier 1 capital (to risk weighted assets)						
Triumph Financial, Inc.	$ 559,843	11.2%	$ 224,937	4.5%	N/A	N/A
TBK Bank, SSB	$ 713,628	14.4%	$ 223,009	4.5%	$ 322,124	6.5%
Tier 1 capital (to average assets)						
Triumph Financial, Inc.	$ 646,435	12.4%	$ 208,527	4.0%	N/A	N/A
TBK Bank, SSB	$ 713,628	13.7%	$ 208,359	4.0%	$ 260,448	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 September 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 September 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)	September 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

	September 30, 2023	December 31, 2022
Shares authorized	50,000,000	50,000,000
Shares issued	28,975,206	28,321,716
Treasury shares	(5,683,513)	(4,268,131)
Shares outstanding	23,291,693	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 $3,714,000 and $4,296,000 for the three months ended September 30, 2023 and 2022, respectively, and $9,915,000 and $17,128,000 for the nine months ended September 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 nine months ended September 30, 2023 were as follows:

Nonvested RSAs	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2023	230,486	70.34
Granted	13,374	59.69
Vested	(107,623)	60.34
Forfeited	(12,978)	75.48
Nonvested at September 30, 2023	123,259	77.07

RSAs granted to employees under the Omnibus Incentive Plan typically vest immediately or over four years. Compensation expense for the RSAs will be recognized over the vesting period of the awards based on the fair value of the stock at the issue date. As of September 30, 2023, there was $2,500,000 of unrecognized compensation cost related to the nonvested RSAs. The cost is expected to be recognized over a remaining period of 1.56 years.

Restricted Stock Units

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

Nonvested RSUs	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2023	211,300	59.45
Granted	139,836	52.59
Vested	(114,509)	43.19
Forfeited	(5,112)	63.87
Nonvested at September 30, 2023	231,515	63.25

RSUs granted to employees under the Omnibus Incentive Plan typically vest over four to five years. Compensation expense for the RSUs will be recognized over the vesting period of the awards based on the fair value of the stock at the issue date. As of September 30, 2023, there was $9,308,000 of unrecognized compensation cost related to the nonvested RSUs. The cost is expected to be recognized over a remaining period of 3.03 years.

Market Based Performance Stock Units

A summary of changes in the Company’s nonvested Market Based Performance Stock Units (“Market Based PSUs”) under the Omnibus Incentive Plan for the nine months ended September 30, 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	(3,537)	78.45
Nonvested at September 30, 2023	117,546	$ 87.55

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:

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 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 September 30, 2023, there was $6,665,000 of unrecognized compensation cost related to the nonvested Market Based PSUs. The cost is expected to be recognized over a remaining period of 2.33 years.

Performance Based Performance Stock Units

A summary of changes in the Company's nonvested Performance Based Performance Stock Units ("Performance Based PSUs") under the Omnibus Incentive Plan for the nine months ended September 30, 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 September 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 nine months ended September 30, 2023 and there is no remaining unrecognized compensation cost related to these awards. During the three and nine months ended September 30, 2022, the Company recognized $298,000 and $5,433,000, respectively, of stock based compensation 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 nine months ended September 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	(3,195)	56.73		
Outstanding at September 30, 2023	244,110	$ 42.24	6.29	$ 6,055
Fully vested shares and shares expected to vest at September 30, 2023	244,110	$ 42.24	6.29	$ 6,055
Shares exercisable at September 30, 2023	148,332	$ 32.81	4.59	$ 4,984

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

	Nine Months Ended September 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:

	Nine Months Ended September 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 September 30, 2023, there was $1,462,000 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 3.11 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 nine months ended September 30, 2023 and 2022, 37,909 shares and 24,516 shares, respectively, were issued under the plan.

NOTE 14 — EARNINGS PER SHARE

The factors used in the earnings per share computation follow:

(Dollars in thousands)	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Basic				
Net income to common stockholders	$ 11,993	$ 15,428	$ 29,050	$ 82,346
Weighted average common shares outstanding	23,162,614	24,227,020	23,220,331	24,483,054
Basic earnings per common share	$ 0.52	$ 0.64	$ 1.25	$ 3.36
Diluted				
Net income to common stockholders	$ 11,993	$ 15,428	$ 29,050	$ 82,346
Weighted average common shares outstanding	23,162,614	24,227,020	23,220,331	24,483,054
Dilutive effects of:				
Assumed exercises of stock options	82,909	85,239	77,286	95,252
Restricted stock awards	80,841	122,723	101,842	162,883
Restricted stock units	84,137	97,512	86,844	96,174
Performance stock units - market based	47,248	117,358	85,218	122,526
Performance stock units - performance based	—	327,016	—	163,508
Employee stock purchase program	1,165	2,389	908	2,245
Average shares and dilutive potential common shares	23,458,914	24,979,257	23,572,429	25,125,642
Diluted earnings per common share	$ 0.51	$ 0.62	$ 1.23	$ 3.28

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

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Stock options	101,138	52,878	104,114	52,878
Restricted stock awards	—	6,348	—	6,348
Restricted stock units	11,250	15,000	11,250	15,000
Performance stock units - market based	14,424	45,296	14,424	45,296
Performance stock units - performance based	—	—	—	—
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 $4,780,000 and $3,545,000 for the three months ended September 30, 2023 and 2022, respectively, and $12,570,000 and $10,156,000 for the nine months ended September 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 September 30, 2023	Banking	Factoring	Payments	Corporate	Consolidated
Total interest income	$ 68,328	$ 34,244	$ 4,917	$ 44	$ 107,533
Intersegment interest allocations	8,330	(9,664)	1,334	—	—
Total interest expense	13,723	—	—	2,483	16,206
Net interest income (expense)	62,935	24,580	6,251	(2,439)	91,327
Credit loss expense (benefit)	410	375	14	13	812
Net interest income after credit loss expense	62,525	24,205	6,237	(2,452)	90,515
Noninterest income	5,978	2,546	4,817	69	13,410
Noninterest expense	31,503	18,371	14,556	21,829	86,259
Net intersegment noninterest income (expense)[1]	—	242	(242)	—	—
Net income (loss) before income tax expense	$ 37,000	$ 8,622	$ (3,744)	$ (24,212)	$ 17,666

(Dollars in thousands)

Three months ended September 30, 2022	Banking	Factoring	Payments	Corporate	Consolidated
Total interest income	$ 49,864	$ 49,561	$ 3,756	$ 44	$ 103,225
Intersegment interest allocations	5,890	(5,470)	(420)	—	—
Total interest expense	2,925	—	—	2,030	4,955
Net interest income (expense)	52,829	44,091	3,336	(1,986)	98,270
Credit loss expense (benefit)	2,388	(52)	235	75	2,646
Net interest income after credit loss expense	50,441	44,143	3,101	(2,061)	95,624
Noninterest income	6,166	2,941	3,518	43	12,668
Noninterest expense	31,496	24,811	14,066	16,316	86,689
Net intersegment noninterest income (expense)[1]	—	—	—	—	—
Net income (loss) before income tax expense	$ 25,111	$ 22,273	$ (7,447)	$ (18,334)	$ 21,603

(Dollars in thousands)

Nine months ended September 30, 2023	Banking	Factoring	Payments	Corporate	Consolidated
Total interest income	$ 193,678	$ 108,769	$ 11,115	$ 131	$ 313,693
Intersegment interest allocations	23,420	(28,176)	4,756	—	—
Total interest expense	30,305	—	—	7,228	37,533
Net interest income (expense)	186,793	80,593	15,871	(7,097)	276,160
Credit loss expense (benefit)	3,164	2,405	55	444	6,068
Net interest income after credit loss expense	183,629	78,188	15,816	(7,541)	270,092
Noninterest income	17,998	5,104	12,643	198	35,943
Noninterest expense	95,677	60,358	46,912	62,989	265,936
Net intersegment noninterest income (expense)[1]	—	(120)	120	—	—
Net income (loss) before income tax expense	$ 105,950	$ 22,814	$ (18,333)	$ (70,332)	$ 40,099

(Dollars in thousands)

Nine months ended September 30, 2022	Banking	Factoring	Payments	Corporate	Consolidated
Total interest income	$ 138,286	$ 161,789	$ 12,760	$ 132	$ 312,967
Intersegment interest allocations	10,741	(9,900)	(841)	—	—
Total interest expense	7,549	—	—	5,641	13,190
Net interest income (expense)	141,478	151,889	11,919	(5,509)	299,777
Credit loss expense (benefit)	2,638	1,961	405	1,044	6,048
Net interest income after credit loss expense	138,840	149,928	11,514	(6,553)	293,729
Noninterest income	34,419	20,333	17,069	128	71,949
Noninterest expense	91,313	70,454	46,062	46,031	253,860
Net intersegment noninterest income (expense)[1]	—	—	—	—	—
Net income (loss) before income tax expense	$ 81,946	$ 99,807	$ (17,479)	$ (52,456)	$ 111,818

(1) Net intersegment noninterest income (expense) includes:

(Dollars in thousands)	Factoring	Payments
Three Months Ended September 30, 2023		
Factoring revenue received from Payments	$ 510	$ (510)
Payments revenue received from Factoring	(268)	268
Net intersegment noninterest income (expense)	$ 242	$ (242)
Three Months Ended September 30, 2022		
Factoring revenue received from Payments	$ —	$ —
Payments revenue received from Factoring	—	—
Net intersegment noninterest income (expense)	$ —	$ —
Nine months ended September 30, 2023		
Factoring revenue received from Payments	$ 680	$ (680)
Payments revenue received from Factoring	(800)	800
Net intersegment noninterest income (expense)	$ (120)	$ 120
Nine months ended September 30, 2022		
Factoring revenue received from Payments	$ —	$ —
Payments revenue received from Factoring	—	—
Net intersegment noninterest income (expense)	$ —	$ —

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

(Dollars in thousands) September 30, 2023	Banking	Factoring	Payments	Corporate	Eliminations	Consolidated
Total assets	$ 5,136,313	$ 1,139,922	$ 484,895	$ 1,039,766	$ (2,201,102)	$ 5,599,794
Gross loans	$ 3,766,692	$ 1,041,448	$ 172,254	$ —	$ (608,866)	$ 4,371,528

(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 September 30, 2023, we had consolidated total assets of $5.600 billion, total loans held for investment of $4.372 billion, total deposits of $4.487 billion and total stockholders’ equity of $850.4 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 September 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 nine months ended September 30, 2023, our Banking segment generated 60% of our total revenue (comprised of interest and noninterest income), our Factoring segment generated 33% of our total revenue, our Payments segment generated 7% of our total revenue, and our Corporate segment generated less than 1% of our total revenue.

Third Quarter 2023 Overview

Net income available to common stockholders for the three months ended September 30, 2023 was $12.0 million, or $0.51 per diluted share, compared to net income to common stockholders for the three months ended September 30, 2022 of $15.4 million, or $0.62 per diluted share. For the three months ended September 30, 2023, our return on average common equity was 5.89% and our return on average assets was 0.93%.

Net income available to common stockholders for the nine months ended September 30, 2023 was $29.1 million, or $1.23 per diluted share, compared to net income available to common stockholders for the nine months ended September 30, 2022 of $82.3 million, or $3.28 per diluted share. For the nine months ended September 30, 2023, our return on average common equity was 4.82% and our return on average assets was 0.78%.

At September 30, 2023, we had total assets of $5.600 billion, including gross loans held for investment of $4.372 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 $251.2 million during the nine months ended September 30, 2023. Our Banking loans, which constitute 72% of our total loan portfolio at September 30, 2023, increased from $2.883 billion in aggregate as of December 31, 2022 to $3.158 billion as of September 30, 2023, an increase of 9.5%. Our Factoring factored receivables, which constitute 24% of our total loan portfolio at September 30, 2023, decreased from $1.152 billion in aggregate as of December 31, 2022 to $1.041 billion as of September 30, 2023, a decrease of 9.6%. Our Payments factored receivables, which constitute 4% of our total loan portfolio at September 30, 2023, increased from $85.7 million in aggregate as of December 31, 2022 to $172.3 million as of September 30, 2023, an increase of 100.9%. Approximately $87.6 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 September 30, 2023, we had total liabilities of $4.749 billion, including total deposits of $4.487 billion, compared to $4.445 billion of total liabilities and $4.171 billion of total deposits at December 31, 2022. Deposits increased $315.7 million during the nine months ended September 30, 2023.

At September 30, 2023, we had total stockholders' equity of $850.4 million. During the nine months ended September 30, 2023, total stockholders’ equity decreased $38.6 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 12.90% and 15.77%, respectively, at September 30, 2023.

The total dollar value of invoices purchased by Triumph Financial Services during the three months ended September 30, 2023 was $2.606 billion with an average invoice size of $1,825. The average transportation invoice size for the three months ended September 30, 2023 was $1,772. This compares to invoice purchase volume of $3.600 billion with an average invoice size of $2,141 and average transportation invoice size of $2,073 during the same period a year ago.

TriumphPay processed 5.0 million invoices paying Carriers a total of $5.330 billion during the three months ended September 30, 2023. This compares to processed volume of 4.7 million invoices for a total of $5.952 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 September 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 reimbursed us for $1.7 million of this charge-off. At September 30, 2023, the carrying value of the acquired over-formula advances was $3.6 million, the total reserve on acquired over-formula advances was $3.6 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 $1.7 million.

As of September 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 September 30, 2023. The full amount of such receivable is reflected in non-performing and past due factored receivables as of September 30, 2023 in accordance with our policy. As of September 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 current 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 and third quarters, 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. Should the interest rate environment remain higher for longer, carriers could see higher operating costs and spot rates may not keep pace. Without an increase in spot rates, more trucking companies could fail or leave the system. For our Factoring segment, this could put pressure on revenue.

Financial Highlights

(Dollars in thousands, except per share amounts)	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Income Statement Data:				
Interest income	$ 107,533	$ 103,225	$ 313,693	$ 312,967
Interest expense	16,206	4,955	37,533	13,190
Net interest income	91,327	98,270	276,160	299,777
Credit loss expense (benefit)	812	2,646	6,068	6,048
Net interest income after credit loss expense (benefit)	90,515	95,624	270,092	293,729
Noninterest income	13,410	12,668	35,943	71,949
Noninterest expense	86,259	86,689	265,936	253,860
Net income (loss) before income taxes	17,666	21,603	40,099	111,818
Income tax expense (benefit)	4,872	5,374	8,645	27,068
Net income (loss)	$ 12,794	$ 16,229	$ 31,454	$ 84,750
Dividends on preferred stock	(801)	(801)	(2,404)	(2,404)
Net income available (loss) to common stockholders	$ 11,993	$ 15,428	$ 29,050	$ 82,346
Per Share Data:				
Basic earnings (loss) per common share	$ 0.52	$ 0.64	$ 1.25	$ 3.36
Diluted earnings (loss) per common share	$ 0.51	$ 0.62	$ 1.23	$ 3.28
Weighted average shares outstanding - basic	23,162,614	24,227,020	23,220,331	24,483,054
Weighted average shares outstanding - diluted	23,458,914	24,979,257	23,572,429	25,125,642
Performance ratios - Annualized:				
Return on average assets	0.93 %	1.13 %	0.78 %	1.95 %
Return on average total equity	5.95 %	7.16 %	4.94 %	12.77 %
Return on average common equity	5.89 %	7.17 %	4.82 %	13.07 %
Return on average tangible common equity [1]	8.70 %	10.47 %	7.16 %	19.28 %
Yield on loans[2]	9.16 %	8.95 %	9.17 %	8.77 %
Cost of interest bearing deposits	1.83 %	0.41 %	1.21 %	0.35 %
Cost of total deposits	1.15 %	0.24 %	0.73 %	0.20 %
Cost of total funds	1.41 %	0.42 %	1.12 %	0.36 %
Net interest margin[2]	7.48 %	7.71 %	7.70 %	7.69 %
Efficiency ratio	82.36 %	78.14 %	85.21 %	68.29 %
Net noninterest expense to average assets	5.28 %	5.15 %	5.68 %	4.19 %

(Dollars in thousands, except per share amounts)	September 30, 2023	December 31, 2022
Balance Sheet Data:		
Total assets	$ 5,599,794	$ 5,333,783
Cash and cash equivalents	337,583	408,182
Investment securities	299,924	263,772
Loans held for investment, net	4,336,713	4,077,484
Total liabilities	4,749,412	4,444,812
Noninterest bearing deposits	1,632,559	1,756,680
Interest bearing deposits	2,854,492	2,414,656
FHLB advances	30,000	30,000
Subordinated notes	108,454	107,800
Junior subordinated debentures	41,592	41,158
Total stockholders’ equity	850,382	888,971
Preferred stockholders' equity	45,000	45,000
Common stockholders' equity	805,382	843,971
Per Share Data:		
Book value per share	$ 34.58	$ 35.09
Tangible book value per share [1]	$ 23.41	$ 24.04
Shares outstanding end of period	23,291,693	24,053,585
Asset Quality ratios[3]:		
Past due to total loans	1.94 %	2.53 %
Nonperforming loans to total loans	1.22 %	1.17 %
Nonperforming assets to total assets	1.07 %	1.02 %
ACL to nonperforming loans	65.33 %	88.76 %
ACL to total loans	0.80 %	1.04 %
Net charge-offs to average loans[4]	0.34 %	0.14 %
Capital ratios:		
Tier 1 capital to average assets	12.36 %	13.00 %
Tier 1 capital to risk-weighted assets	12.90 %	14.57 %
Common equity Tier 1 capital to risk-weighted assets	11.18 %	12.73 %
Total capital to risk-weighted assets	15.77 %	17.66 %
Total stockholders' equity to total assets	15.19 %	16.67 %
Tangible common stockholders' equity ratio [1]	10.21 %	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 September 30,		Nine Months Ended September 30,	
(Dollars in thousands, except per share amounts)	2023	2022	2023	2022
Loan discount accretion	$ 1,403	$ 1,539	$ 4,203	$ 6,631

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

(4) Net charge-offs to average loans ratios are for the nine months ended September 30, 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 September 30,		Nine Months Ended September 30,	
(Dollars in thousands, except per share amounts)	2023	2022	2023	2022
Average total stockholders' equity	$ 853,375	$ 898,845	$ 851,139	$ 887,497
Average preferred stock liquidation preference	(45,000)	(45,000)	(45,000)	(45,000)
Average total common stockholders' equity	808,375	853,845	806,139	842,497
Average goodwill and other intangibles	(261,619)	(269,417)	(263,814)	(271,350)
Average tangible common equity	$ 546,756	$ 584,428	$ 542,325	$ 571,147
Net income available to common stockholders	$ 11,993	$ 15,428	$ 29,050	$ 82,346
Average tangible common equity	546,756	584,428	542,325	571,147
Return on average tangible common equity	8.70 %	10.47 %	7.16 %	19.28 %
Efficiency ratio:				
Net interest income	$ 91,327	$ 98,270	$ 276,160	$ 299,777
Noninterest income	13,410	12,668	35,943	71,949
Operating revenue	104,737	110,938	312,103	371,726
Total noninterest expense	$ 86,259	$ 86,689	$ 265,936	$ 253,860
Efficiency ratio	82.36 %	78.14 %	85.21 %	68.29 %
Net noninterest expense to average assets ratio:				
Total noninterest expense	$ 86,259	$ 86,689	$ 265,936	$ 253,860
Total noninterest income	13,410	12,668	35,943	71,949
Net noninterest expenses	$ 72,849	$ 74,021	$ 229,993	$ 181,911
Average total assets	$ 5,472,000	$ 5,700,547	$ 5,415,269	$ 5,806,933
Net noninterest expense to average assets ratio	5.28 %	5.15 %	5.68 %	4.19 %

(Dollars in thousands, except per share amounts)	September 30, 2023	December 31, 2022
Total stockholders' equity	$ 850,382	$ 888,971
Preferred stock	(45,000)	(45,000)
Total common stockholders' equity	805,382	843,971
Goodwill and other intangibles	(260,109)	(265,767)
Tangible common stockholders' equity	$ 545,273	$ 578,204
Common shares outstanding	23,291,693	24,053,585
Tangible book value per share	$ 23.41	$ 24.04
Total assets at end of period	$ 5,599,794	$ 5,333,783
Goodwill and other intangibles	(260,109)	(265,767)
Tangible assets at period end	$ 5,339,685	$ 5,068,016
Tangible common stockholders' equity ratio	10.21 %	11.41 %

Results of Operations

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

Net Income

We earned net income of $12.8 million for the three months ended September 30, 2023 compared to net income of $16.2 million for the three months ended September 30, 2022, a decrease of $3.4 million or 21.2%.

	Three Months Ended September 30, 2023			
(Dollars in thousands, except per share amounts)	2023	2022	$ Change	% Change
Interest income	$ 107,533	$ 103,225	$ 4,308	4.2 %
Interest expense	16,206	4,955	11,251	227.1 %
Net interest income	91,327	98,270	(6,943)	(7.1)%
Credit loss expense (benefit)	812	2,646	(1,834)	(69.3)%
Net interest income after credit loss expense (benefit)	90,515	95,624	(5,109)	(5.3)%
Noninterest income	13,410	12,668	742	5.9 %
Noninterest expense	86,259	86,689	(430)	(0.5)%
Net income (loss) before income taxes	17,666	21,603	(3,937)	(18.2)%
Income tax expense (benefit)	4,872	5,374	(502)	(9.3)%
Net income (loss)	$ 12,794	$ 16,229	$ (3,435)	(21.2)%

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

Net Interest Income

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

The following table presents the distribution of average assets, liabilities and equity, as well as interest income and fees earned on average interest earning assets and interest expense paid on average interest bearing liabilities. Average balances and interest are inclusive of assets and deposits classified as held for sale.

	Three Months Ended September 30,					
	2023			2022		
(Dollars in thousands)	Average Balance	Interest	Average Rate[4]	Average Balance	Interest	Average Rate[4]
Interest earning assets:						
Cash and cash equivalents	228,019	3,101	5.40 %	452,136	2,607	2.29 %
Taxable securities	305,665	5,173	6.71 %	231,759	2,217	3.80 %
Tax-exempt securities	4,901	32	2.59 %	14,197	91	2.54 %
FHLB and other restricted stock	19,552	397	8.06 %	6,171	65	4.18 %
Loans [1]	4,282,822	98,830	9.16 %	4,355,132	98,245	8.95 %
Total interest earning assets	4,840,959	107,533	8.81 %	5,059,395	103,225	8.09 %
Noninterest earning assets:						
Cash and cash equivalents	78,655			108,323		
Other noninterest earning assets	552,386			532,829		
Total assets	5,472,000			5,700,547		
Interest bearing liabilities:						
Deposits:						
Interest bearing demand	776,812	769	0.39 %	886,311	812	0.36 %
Individual retirement accounts	56,265	134	0.94 %	77,004	97	0.50 %
Money market	542,243	2,706	1.98 %	524,483	313	0.24 %
Savings	537,980	723	0.53 %	544,404	209	0.15 %
Certificates of deposit	270,535	1,256	1.84 %	407,130	564	0.55 %
Brokered time deposits	501,221	6,717	5.32 %	186,856	748	1.59 %
Other brokered deposits	12,231	169	5.48 %	—	—	— %
Total interest bearing deposits	2,697,287	12,474	1.83 %	2,626,188	2,743	0.41 %
Federal Home Loan Bank advances	91,957	1,248	5.38 %	30,000	182	2.41 %
Subordinated notes	108,336	1,315	4.82 %	107,477	1,304	4.81 %
Junior subordinated debentures	41,520	1,169	11.17 %	40,948	726	7.03 %
Other borrowings	—	—	— %	13,180	—	— %
Total interest bearing liabilities	2,939,100	16,206	2.19 %	2,817,793	4,955	0.70 %
Noninterest bearing liabilities and equity:						
Noninterest bearing demand deposits	1,615,697			1,885,111		
Other liabilities	63,828			98,798		
Total equity	853,375			898,845		
Total liabilities and equity	5,472,000			5,700,547		
Net interest income		91,327			98,270	
Interest spread [2]			6.62 %			7.39 %
Net interest margin [3]			7.48 %			7.71 %

(1) Balance totals include respective nonaccrual assets.

(2) Net interest spread is the yield on average interest earning assets less the rate on interest bearing liabilities.

(3) Net interest margin is the ratio of net interest income to average interest earning assets.

(4) Ratios have been annualized.

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

	Three Months Ended September 30,					
	2023			2022		
(Dollars in thousands)	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Banking loans	$ 3,109,630	$ 59,669	7.61 %	$ 2,830,507	$ 44,928	6.30 %
Factoring receivables	999,345	34,244	13.59 %	1,393,141	49,561	14.11 %
Payments receivables	173,847	4,917	11.22 %	131,484	3,756	11.33 %
Total loans	$ 4,282,822	$ 98,830	9.16 %	$ 4,355,132	$ 98,245	8.95 %

We earned net interest income of $91.3 million for the three months ended September 30, 2023 compared to $98.3 million for the three months ended September 30, 2022, a decrease of $7.0 million, or 7.1%, primarily driven by the following factors.

Interest income increased $4.3 million, or 4.2%, due to increased yields across all of our broad interest earning asset categories discussed below. This increase is in spite of a decrease in average interest earning assets of $218.4 million, or 4.3%, and a decrease in average total loans of $72.3 million, or 1.7%. The average balance of our higher yielding Factoring factored receivables decreased $393.8 million, or 28.3%, while we experienced an increase in average Payments factored receivables. Average Banking loans increased $279.1 million, or 9.9% due to increases in the average balances of commercial real estate, construction and development, residential real estate, equipment, asset-based lending, and mortgage warehouse loans. Interest income from our Banking loans is impacted by our lower yielding mortgage warehouse lending product. The average mortgage warehouse lending balance was $757.6 million for the three months ended September 30, 2023 compared to $610.8 million for the three months ended September 30, 2022. A component of interest income consists of discount accretion on acquired loan portfolios and acquired liquid credit loans. We recognized discount accretion on purchased loans of $1.4 million and $1.5 million for the three months ended September 30, 2023 and 2022, respectively.

Interest expense increased $11.3 million, or 227.1%, primarily driven by higher average rates discussed below. Additionally, average interest-bearing liabilities increased period over period. More specifically, average total interest bearing deposits increased $71.1 million, or 2.7%. Average noninterest bearing demand deposits decreased $269.4 million.

Net interest margin decreased to 7.48% for the three months ended September 30, 2023 from 7.71% for the three months ended September 30, 2022, a decrease of 23 basis points or 3.0%.

The decrease in our net interest margin was most impacted by an increase in our average cost of interest bearing liabilities of 149 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 72 basis points to 8.81% for the three months ended September 30, 2023. This increase was primarily driven by higher yields on loans which increased 21 basis points to 9.16% 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 average loan portfolio. Our transportation factoring balances, which generally generate a higher yield than our non-transportation factoring balances, were 96% and 96% of our Factoring portfolio at September 30, 2023 and 2022, respectively. Banking yields increased period over period. Payments yields were generally flat. 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 September 30, 2023 vs. 2022		
	Increase (Decrease) Due to:		
(Dollars in thousands)	Rate	Volume	Net Increase
Interest earning assets:			
Cash and cash equivalents	$ 3,542	$ (3,048)	$ 494
Taxable securities	1,705	1,251	2,956
Tax-exempt securities	2	(61)	(59)
FHLB and other restricted stock	60	272	332
Loans	2,254	(1,669)	585
Total interest income	7,563	(3,255)	4,308
Interest bearing liabilities:			
Interest bearing demand	65	(108)	(43)
Individual retirement accounts	86	(49)	37
Money market	2,304	89	2,393
Savings	523	(9)	514
Certificates of deposit	1,326	(634)	692
Brokered time deposits	1,756	4,213	5,969
Other brokered deposits	—	169	169
Total interest bearing deposits	6,060	3,671	9,731
Federal Home Loan Bank advances	225	841	1,066
Subordinated notes	1	10	11
Junior subordinated debentures	427	16	443
Other borrowings	—	—	—
Total interest expense	6,713	4,538	11,251
Change in net interest income	$ 850	$ (7,793)	$ (6,943)

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 September 30,			
(Dollars in thousands)	2023	2022	$ Change	% Change
Credit loss expense (benefit) on loans	$ 1,051	$ 3,169	$ (2,118)	(66.8)%
Credit loss expense (benefit) on off balance sheet credit exposures	(253)	(598)	345	57.7 %
Credit loss expense (benefit) on held to maturity securities	14	75	(61)	(81.3)%
Credit loss expense on available for sale securities	—	—	—	—
Total credit loss expense (benefit)	$ 812	$ 2,646	$ (1,834)	(69.3)%

For available for sale debt securities in an unrealized loss position, the Company evaluates the securities at each measurement date to determine whether the decline in the fair value below the amortized cost basis (impairment) is due to credit-related factors or noncredit-related factors. Any impairment that is not credit related is recognized in other comprehensive income, net of applicable taxes. Credit-related impairment is recognized as an ACL on the balance sheet, limited to the amount by which the amortized cost basis exceeds the fair value, with a corresponding adjustment to earnings via credit loss expense. At September 30, 2023 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 three months ended September 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 September 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 September 30, 2023 and June 30, 2023, the Company carried $6.2 million and $6.3 million, respectively, of these HTM securities at amortized cost. The required ACL on these balances was $2.9 million at September 30, 2023 and $2.9 million at June 30, 2023, resulting in $14 thousand of credit loss expense during the current quarter. Credit loss expense during the three months ended September 30, 2022 was $0.1 million. None of the overcollateralization triggers tied to the CLO securities were tripped as of September 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 $34.8 million as of September 30, 2023, compared to $42.8 million as of December 31, 2022, representing an ACL to total loans ratio of 0.80% and 1.04%, respectively.

Our credit loss expense on loans decreased $2.1 million, or 66.8%, for the three months ended September 30, 2023 compared to the three months ended September 30, 2022.

The increase in credit loss expense was primarily driven by changes in required specific reserves. Such specific reserves decreased $0.7 million during the three months ended September 30, 2023 compared to an increase of $1.3 million during the same period a year ago.

Additionally, the increase in credit loss expense was driven by net charge-offs during the period. Net charge-offs during the three months ended September 30, 2023 were $1.2 million compared to $2.5 million during the same period a year ago. Approximately $1.4 million of the $1.2 million net charge-offs for the three months ended September 30, 2023 were reserved in a prior period while $2.4 million of the $2.5 million charge-offs during the three months ended September 30, 2022 were fully reserved in a prior period. Such prior period reserves are included in the discussion of changes in specific reserves above.

Changes in volume and mix of the loan portfolio partially offset the decrease in credit loss expense period over period. Such changes resulted in credit loss expense of $0.4 million during the three months ended September 30, 2023 compared to a benefit to credit loss expense of $0.5 million during the same period a year ago. Changes to projected loss drivers and prepayment speeds that the Company forecasted over the reasonable and supportable forecast periods to calculate expected losses had an insignificant impact to the change in credit loss expense period over period.

Credit loss expense for off balance sheet credit exposures increased $0.3 million, primarily due to changes to outstanding commitments to fund and changes to assumed loss rates period over period.

Noninterest Income

The following table presents our major categories of noninterest income:

(Dollars in thousands)	Three Months Ended September 30, 2023	2022	$ Change	% Change
Service charges on deposits	$ 1,728	$ 1,558	$ 170	10.9 %
Card income	2,065	2,034	31	1.5 %
Net OREO gains (losses) and valuation adjustments	—	(19)	19	100.0 %
Net gains (losses) on sale or call of securities	5	—	5	100.0 %
Net gains (losses) on sale of loans	203	1,107	(904)	(81.7)%
Fee income	8,108	6,120	1,988	32.5 %
Insurance commissions	1,074	1,191	(117)	(9.8)%
Other	227	677	(450)	(66.5)%
Total noninterest income	$ 13,410	$ 12,668	$ 742	5.9 %

Noninterest income increased $0.7 million, or 5.9%. Changes in selected components of noninterest income in the above table are discussed below.

- *Net gains (losses) on sale of loans.* Net gains (losses) on sale of loans decreased $0.9 million due to decreased sale activity of liquid credit loans during the three months ended September 30, 2023 compared to the same period a year ago.
- *Fee income*. Fee income increased $2.0 million, or 32.5%, due to a $1.2 million increase in fees earned by our Payments segment during the three months ended September 30, 2023 compared to the same period a year ago. Additionally, early termination fees at our Factoring segment increased $0.6 million period over period.
- *Other.* Other noninterest income decreased $0.5 million. There were no significant changes in the components of other noninterest income during the period.

Noninterest Expense

The following table presents our major categories of noninterest expense:

(Dollars in thousands)	Three Months Ended September 30, 2023	2022	$ Change	% Change
Salaries and employee benefits	$ 50,884	$ 49,307	$ 1,577	3.2 %
Occupancy, furniture and equipment	7,542	6,826	716	10.5 %
FDIC insurance and other regulatory assessments	682	454	228	50.2 %
Professional fees	3,941	4,263	(322)	(7.6)%
Amortization of intangible assets	2,849	2,913	(64)	(2.2)%
Advertising and promotion	1,839	1,995	(156)	(7.8)%
Communications and technology	10,784	12,410	(1,626)	(13.1)%
Travel and entertainment	1,074	1,340	(266)	(19.9)%
Other	6,664	7,181	(517)	(7.2)%
Total noninterest expense	$ 86,259	$ 86,689	$ (430)	(0.5)%

Noninterest expense decreased $0.4 million, or 0.5%. 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 $1.6 million, or 3.2%. Employee salaries and payroll taxes increased $1.5 million and $0.5 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 1,470.0 and 1,410.3 for the three months ended September 30, 2023 and 2022, respectively. Further, sales commissions, primarily related to our operations at Triumph Financial Services and TriumphPay, increased $0.7 million period over period. Accruals for bonus expense increased $0.3 million period over period. These increases were partially offset by a $1.6 million decrease in compensation for temporary and/or contract labor and stock based compensation expense included in salaries and employee benefits expense decreased $0.4 million period over period.
- *Occupancy, Furniture and Equipment.* Occupancy, furniture and equipment expenses increased $0.7 million, or 10.5%, primarily due to growth in our operations period over period.
- *Communication and Technology.* Communication and technology decreased $1.6 million, or 13.1%, primarily as a result of decreased spending on IT professional services and IT license and software maintenance 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 $0.5 million, or 7.2% due to decreased spending on recruiting and placement. There were no other 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 $0.5 million, from $5.4 million for the three months ended September 30, 2022 to $4.9 million for the three months ended September 30, 2023. The effective tax rate was 28% for the three months ended September 30, 2023, compared to 25% for the three months ended September 30, 2022. The increase in our effective tax rate was driven by an increase in disallowance of compensation cost to highly compensated individuals as well as increased state taxes period over 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 September 30, 2023	Banking	Factoring	Payments	Corporate	Consolidated
Total interest income	$ 68,328	$ 34,244	$ 4,917	$ 44	$ 107,533
Intersegment interest allocations	8,330	(9,664)	1,334	—	—
Total interest expense	13,723	—	—	2,483	16,206
Net interest income (expense)	62,935	24,580	6,251	(2,439)	91,327
Credit loss expense (benefit)	410	375	14	13	812
Net interest income after credit loss expense	62,525	24,205	6,237	(2,452)	90,515
Noninterest income	5,978	2,546	4,817	69	13,410
Noninterest expense	31,503	18,371	14,556	21,829	86,259
Net intersegment noninterest income (expense)[(1)]	—	242	(242)	—	—
Net income (loss) before income tax expense	$ 37,000	$ 8,622	$ (3,744)	$ (24,212)	$ 17,666

(Dollars in thousands)

Three Months Ended September 30, 2022	Banking	Factoring	Payments	Corporate	Consolidated
Total interest income	$ 49,864	$ 49,561	$ 3,756	$ 44	$ 103,225
Intersegment interest allocations	5,890	(5,470)	(420)	—	—
Total interest expense	2,925	—	—	2,030	4,955
Net interest income (expense)	52,829	44,091	3,336	(1,986)	98,270
Credit loss expense (benefit)	2,388	(52)	235	75	2,646
Net interest income after credit loss expense	50,441	44,143	3,101	(2,061)	95,624
Noninterest income	6,166	2,941	3,518	43	12,668
Noninterest expense	31,496	24,811	14,066	16,316	86,689
Net intersegment noninterest income (expense)[(1)]	—	—	—	—	—
Net income (loss) before income tax expense	$ 25,111	$ 22,273	$ (7,447)	$ (18,334)	$ 21,603

[(1)] Net intersegment noninterest income (expense) includes:

(Dollars in thousands)	Factoring	Payments
Three Months Ended September 30, 2023		
Factoring revenue received from Payments	$ 510	$ (510)
Payments revenue received from Factoring	(268)	268
Net intersegment noninterest income (expense)	$ 242	$ (242)
Three Months Ended September 30, 2022		
Factoring revenue received from Payments	$ —	$ —
Payments revenue received from Factoring	—	—
Net intersegment noninterest income (expense)	$ —	$ —

(Dollars in thousands) September 30, 2023	Banking	Factoring	Payments	Corporate	Eliminations	Consolidated
Total assets	$ 5,136,313	$ 1,139,922	$ 484,895	$ 1,039,766	$ (2,201,102)	$ 5,599,794
Gross loans	$ 3,766,692	$ 1,041,448	$ 172,254	$ —	$ (608,866)	$ 4,371,528

(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 September 30,			
Banking	2023	2022	$ Change	% Change
Total interest income	$ 68,328	$ 49,864	$ 18,464	37.0 %
Intersegment interest allocations	8,330	5,890	2,440	41.4 %
Total interest expense	13,723	2,925	10,798	369.2 %
Net interest income (expense)	62,935	52,829	10,106	19.1 %
Credit loss expense (benefit)	410	2,388	(1,978)	(82.8)%
Net interest income after credit loss expense	62,525	50,441	12,084	24.0 %
Noninterest income	5,978	6,166	(188)	(3.0)%
Noninterest expense	31,503	31,496	7	— %
Operating income (loss)	$ 37,000	$ 25,111	$ 11,889	47.3 %

Our Banking segment's operating income increased $11.9 million, or 47.3%.

Total interest income increased $18.5 million, or 37.0%, 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 9.9% from $2.831 billion for the three months ended September 30, 2022 to $3.110 billion for the three months ended September 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 $10.8 million, or 369.2%, due to an increase in average interest-bearing liabilities, including an increase in average total interest bearing deposits of $71.1 million, or 2.7%, period over period. This increase was also 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 $0.7 million for the three months ended September 30, 2023 compared to credit loss expense on loans of $3.0 million for the three months ended September 30, 2022. The decrease in credit loss expense was the result of decreased specific reserves and net charge-offs at our Banking segment period over period. Changes to the projected loss drivers and prepayment speeds that the Company forecasted over the reasonable and supportable forecast periods and changes in the volume and mix of our portfolio did not have a significant impact on the change in credit loss expense at our Banking segment period over period.

Credit loss expense for off balance sheet credit exposures increased $0.3 million, from a benefit of $0.6 million for the three months ended September 30, 2022 to a benefit of $0.3 million for the three months ended September 30, 2023, primarily due to changes to outstanding commitments to fund and changes to assumed loss rates period over period.

There were no significant changes in the components of noninterest income or noninterest expense at our Banking segment period over period.

Year to date, our aggregate outstanding balances for our banking products, excluding intercompany loans, has increased $275.0 million, or 9.5%, to $3.158 billion as of September 30, 2023. The following table sets forth our banking loans:

(Dollars in thousands)	September 30, 2023	December 31, 2022	$ Change	% Change
Banking				
Commercial real estate	$ 817,064	$ 678,144	$ 138,920	20.5 %
Construction, land development, land	131,862	90,976	40,886	44.9 %
1-4 family residential	129,588	125,981	3,607	2.9 %
Farmland	62,698	68,934	(6,236)	(9.0)%
Commercial - General	306,389	316,364	(9,975)	(3.2)%
Commercial - Paycheck Protection Program	41	55	(14)	(25.5)%
Commercial - Agriculture	49,479	48,494	985	2.0 %
Commercial - Equipment	486,110	454,117	31,993	7.0 %
Commercial - Asset-based lending	271,623	229,754	41,869	18.2 %
Commercial - Liquid Credit	138,297	202,326	(64,029)	(31.6)%
Consumer	8,166	8,868	(702)	(7.9)%
Mortgage Warehouse	756,509	658,829	97,680	14.8 %
Total banking loans	$ 3,157,826	$ 2,882,842	$ 274,984	9.5 %

Factoring

(Dollars in thousands)	Three Months Ended September 30,			
Factoring	2023	2022	$ Change	% Change
Total interest income	$ 34,244	$ 49,561	$ (15,317)	(30.9)%
Intersegment interest allocations	(9,664)	(5,470)	(4,194)	(76.7)%
Total interest expense	—	—	—	—
Net interest income (expense)	24,580	44,091	(19,511)	(44.3)%
Credit loss expense (benefit)	375	(52)	427	821.2 %
Net interest income (expense) after credit loss expense	24,205	44,143	(19,938)	(45.2)%
Noninterest income	2,546	2,941	(395)	(13.4)%
Noninterest expense	18,371	24,811	(6,440)	(26.0)%
Net intersegment noninterest income (expense)	242	—	242	100.0 %
Net income (loss) before income tax expense	$ 8,622	$ 22,273	$ (13,651)	(61.3)%

	Three Months Ended September 30, 2023	2022
Factored receivable period end balance	$ 1,041,448,000	$ 1,330,122,000
Yield on average receivable balance	13.59 %	14.11 %
Current quarter charge-off rate	0.12 %	0.16 %
Factored receivables - transportation concentration	96 %	96 %
Interest income, including fees	$ 34,244,000	$ 49,561,000
Non-interest income[(1)]	2,546,000	2,941,000
Intersegment noninterest income	510,000	—
Factored receivable total revenue	37,300,000	52,502,000
Average net funds employed	898,989,000	1,242,133,000
Yield on average net funds employed	16.46 %	16.77 %
Accounts receivable purchased	$ 2,606,323,000	$ 3,599,771,000
Number of invoices purchased	1,428,463	1,681,489
Average invoice size	$ 1,825	$ 2,141
Average invoice size - transportation	$ 1,772	$ 2,073
Average invoice size - non-transportation	$ 5,631	$ 5,701

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

Our Factoring segment’s operating income decreased $13.7 million, or 61.3%.

Our average invoice size decreased 14.8% from $2,141 for the three months ended September 30, 2022 to $1,825 for the three months ended September 30, 2023. Additionally, the number of invoices purchased decreased 15.0% period over period.

Net interest income at our Factoring segment decreased period over period. Overall average net funds employed (“NFE”) decreased 27.6% during the three months ended September 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 a high concentration in transportation factoring balances, which typically generate a higher yield than our non-transportation factoring balances. This concentration was at 96% at September 30, 2023 and 96% at September 30, 2022.

Credit loss expense at our Factoring segment increased period over period, primarily due to changes in the volume of the factoring portfolio period over period. This was offset by a decrease in net charge-offs period over period. Changes in loss assumptions and specific reserve 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 $1.0 million gain on sale of factored receivables during the three months ended September 30, 2022. The increase was offset by a $0.8 million increase in termination fees at our Factoring segment period over period.

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 September 30,			
Payments	2023	2022	$ Change	% Change
Total interest income	$ 4,917	$ 3,756	$ 1,161	30.9 %
Intersegment interest allocations	1,334	(420)	1,754	417.6 %
Total interest expense	—	—	—	— %
Net interest income (expense)	6,251	3,336	2,915	87.4 %
Credit loss expense (benefit)	14	235	(221)	(94.0)%
Net interest income after credit loss expense	6,237	3,101	3,136	101.1 %
Noninterest income	4,817	3,518	1,299	36.9 %
Noninterest expense	14,556	14,066	490	3.5 %
Net intersegment noninterest income (expense)	(242)	—	(242)	(100.0)%
Net income (loss) before income tax expense	$ (3,744)	$ (7,447)	$ 3,703	49.7 %

	Three Months Ended September 30,	
	2023	2022
Supply chain financing factored receivables	$ 87,590,000	$ 12,834,000
Quickpay factored receivables	84,664,000	106,124,000
Factored receivable period end balance	$ 172,254,000	$ 118,958,000
Supply chain finance interest income	$ 2,316,000	$ 567,000
Quickpay interest income	2,601,000	3,189,000
Intersegment interest income	1,334,000	—
Total interest income	6,251,000	3,756,000
Broker noninterest income	3,372,000	2,247,000
Factor noninterest income	1,312,000	1,269,000
Other noninterest income	133,000	2,000
Intersegment noninterest income	268,000	—
Total noninterest income	5,085,000	3,518,000
Total revenue	$ 11,336,000	$ 7,274,000
Intersegment interest expense allocation	$ —	$ 420,000
Credit loss expense (benefit)	14,000	235,000
Noninterest expense	14,556,000	14,066,000
Intersegment noninterest expense	510,000	—
Total expense	$ 15,080,000	$ 14,721,000
Operating income (loss)	$ (3,744,000)	$ (7,447,000)
Intersegment interest expense	—	420,000
Depreciation and software amortization expense	358,000	120,000
Intangible amortization expense	1,703,000	1,450,000
Earnings (losses) before interest, taxes, depreciation, and amortization	$ (1,683,000)	$ (5,457,000)
EBITDA margin	(15)%	(75)%
Number of invoices processed	5,037,841	4,676,249
Amount of payments processed	$ 5,329,580,000	$ 5,951,706,000
Network invoice volume	303,300	144,253
Network payment volume	$ 510,298,000	$ 288,410,000

Our Payments segment's operating loss decreased $3.7 million, or 49.7%.

The number of invoices processed by our Payments segment increased 7.7% from 4,676,249 for the three months ended September 30, 2022 to 5,037,841 for the three months ended September 30, 2023, and the amount of payments processed decreased 10.5% from $5.952 billion for the three months ended September 30, 2022 to $5.330 billion for the three months ended September 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 September 30, 2023, we processed 303,300 network invoices representing a network payment volume of $510.3 million. During the three months ended September 30, 2022, we processed 144,253 network invoices representing a network payment volume of $288.4 million.

Net interest income increased due to increased average balances Payments segment period over period and intersegment interest allocation. Yields at our Payments segment were relatively flat.

Noninterest income increased due to a $1.5 million increase in payment and audit fees, including intersegment fees, earned by TriumphPay during the three months ended September 30, 2023 compared to the same period a year ago.

Noninterest expense was relatively flat with no material changes in its components period over period.

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 third party logistics companies (i.e., freight brokers) and their carriers, and factors. The acquisition of HubTran was a meaningful inflection point in the operations of TriumphPay as the TriumphPay strategy has shifted from a capital-intensive on-balance sheet product with a focus on interest income to an open-loop payments network for the trucking industry with a focus on fee revenue. It is for this reason that management believes that earnings before interest, taxes, depreciation, and amortization and the adjustment to that metric enhance investors' overall understanding of the financial performance of the Payments segment. Further, as a result of the HubTran acquisition, management recorded $27.3 million of intangible assets that will lead to meaningful amounts of amortization going forward.

Corporate

(Dollars in thousands)	Three Months Ended September 30,			
Corporate	2023	2022	$ Change	% Change
Total interest income	$ 44	$ 44	$ —	— %
Intersegment interest allocations	—	—	—	—
Total interest expense	2,483	2,030	453	22.3 %
Net interest income (expense)	(2,439)	(1,986)	(453)	(22.8)%
Credit loss expense (benefit)	13	75	(62)	(82.7)%
Net interest income (expense) after credit loss expense	(2,452)	(2,061)	(391)	(19.0)%
Other noninterest income	69	43	26	60.5 %
Noninterest expense	21,829	16,316	5,513	33.8 %
Net income (loss) before income tax expense	$ (24,212)	$ (18,334)	$ (5,878)	(32.1)%

The Corporate segment reported an operating loss of $24.2 million for the three months ended September 30, 2023 compared to an operating loss of $18.3 million for the three months ended September 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 in our Coporate segment increased at a faster rate period over period when compared to the Company as a whole. Additionally, occupancy expense increased period over period.

Results of Operations

Nine months ended September 30, 2023 compared with nine months ended September 30, 2022

Net Income

We earned net income of $31.5 million for the nine months ended September 30, 2023 compared to $84.8 million for the nine months ended September 30, 2022, a decrease of $53.3 million or 62.9%.

(Dollars in thousands, except per share amounts)	Nine Months Ended September 30, 2023 2023	2022	$ Change	% Change
Interest income	$ 313,693	$ 312,967	$ 726	0.2 %
Interest expense	37,533	13,190	24,343	184.6 %
Net interest income	276,160	299,777	(23,617)	(7.9)%
Credit loss expense (benefit)	6,068	6,048	20	0.3 %
Net interest income after credit loss expense (benefit)	270,092	293,729	(23,637)	(8.0)%
Noninterest income	35,943	71,949	(36,006)	(50.0)%
Noninterest expense	265,936	253,860	12,076	4.8 %
Net income (loss) before income taxes	40,099	111,818	(71,719)	(64.1)%
Income tax expense (benefit)	8,645	27,068	(18,423)	(68.1)%
Net income (loss)	$ 31,454	$ 84,750	$ (53,296)	(62.9)%

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

Net Interest Income

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

The following table presents the distribution of average assets, liabilities and equity, as well as interest income and fees earned on average interest earning assets and interest expense paid on average interest bearing liabilities. Average balances and interest are inclusive of assets and deposits classified as held for sale.

	Nine Months Ended September 30,					
	2023			2022		
(Dollars in thousands)	Average Balance	Interest	Average Rate[4]	Average Balance	Interest	Average Rate[4]
Interest earning assets:						
Cash and cash equivalents	$ 238,622	$ 9,051	5.07 %	$ 357,016	$ 3,522	1.32 %
Taxable securities	306,472	14,369	6.27 %	192,325	4,537	3.15 %
Tax-exempt securities	9,451	183	2.59 %	14,452	278	2.57 %
FHLB and other restricted stock	18,893	741	5.24 %	9,549	175	2.45 %
Loans [1]	4,219,009	289,349	9.17 %	4,639,280	304,455	8.77 %
Total interest earning assets	4,792,447	313,693	8.75 %	5,212,622	312,967	8.03 %
Noninterest earning assets:						
Cash and cash equivalents	82,020			89,932		
Other noninterest earning assets	540,802			504,379		
Total assets	$ 5,415,269			$ 5,806,933		
Interest bearing liabilities:						
Deposits:						
Interest bearing demand	$ 805,756	$ 2,054	0.34 %	$ 866,053	$ 1,791	0.28 %
Individual retirement accounts	60,507	323	0.71 %	80,437	308	0.51 %
Money market	515,864	5,521	1.43 %	536,130	875	0.22 %
Savings	537,598	1,506	0.37 %	527,739	602	0.15 %
Certificates of deposit	285,207	2,714	1.27 %	461,862	1,697	0.49 %
Brokered time deposits	283,181	10,090	4.76 %	102,793	1,052	1.37 %
Other brokered deposits	8,609	345	5.36 %	94,617	685	0.97 %
Total interest bearing deposits	2,496,722	22,553	1.21 %	2,669,631	7,010	0.35 %
Federal Home Loan Bank advances	198,040	7,751	5.23 %	83,022	535	0.86 %
Subordinated notes	108,119	3,936	4.87 %	107,261	3,905	4.87 %
Junior subordinated debentures	41,376	3,293	10.64 %	40,805	1,736	5.69 %
Other borrowings	966	—	— %	8,068	4	0.07 %
Total interest bearing liabilities	2,845,223	37,533	1.76 %	2,908,787	13,190	0.61 %
Noninterest bearing liabilities and equity:						
Noninterest bearing demand deposits	1,639,413			1,924,556		
Other liabilities	79,494			86,093		
Total equity	851,139			887,497		
Total liabilities and equity	$ 5,415,269			$ 5,806,933		
Net interest income		$ 276,160			$ 299,777	
Interest spread [2]			6.99 %			7.42 %
Net interest margin [3]			7.70 %			7.69 %

(1) Balance totals include respective nonaccrual assets.

(2) Net interest spread is the yield on average interest earning assets less the rate on interest bearing liabilities.

(3) Net interest margin is the ratio of net interest income to average interest earning assets.

(4) Ratios have been annualized.

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

	Nine Months Ended September 30,					
	2023			2022		
(Dollars in thousands)	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Banking loans	$ 3,049,656	$ 169,465	7.43 %	$ 2,958,534	$ 129,906	5.87 %
Factoring receivables	1,047,557	108,769	13.88 %	1,527,126	161,789	14.16 %
Payments receivables	121,796	11,115	12.20 %	153,620	12,760	11.11 %
Total loans	$ 4,219,009	$ 289,349	9.17 %	$ 4,639,280	$ 304,455	8.77 %

We earned net interest income of $276.2 million for the nine months ended September 30, 2023 compared to $299.8 million for the nine months ended September 30, 2022, a decrease of $23.6 million, or 7.9%, primarily driven by the following factors.

Interest income increased $0.7 million, or 0.2%, due to increased yields across all of our broad interest earning asset categories discussed below. This increase is in spite of a decrease in total average interest earning assets of $420.2 million, or 8.1%, and a decrease in average total loans of $420.3 million, or 9.1%. The average balance of our higher yielding Factoring factored receivables decreased $479.6 million, or 31.4%, and we experienced a decrease in average Payments factored receivables. We experienced an increase in average Banking loans of $91.1 million, or 3.1% due to increases in the average balances of all commercial real estate, residential real estate, and mortgage warehouse loans. Interest income from our Banking loans is impacted by our lower yielding mortgage warehouse lending product. The average mortgage warehouse lending balance was $782.4 million for the nine months ended September 30, 2023 compared to $632.9 million for the nine months ended September 30, 2022. A component of interest income consists of discount accretion on acquired loan portfolios and acquired liquid credit loans. We recognized discount accretion on purchased loans of $4.2 million and $6.6 million for the nine months ended September 30, 2023 and 2022, respectively.

Interest expense increased $24.3 million, or 184.6%, due to increased average rates on interest bearing liabilities discussed below. The increase in interest expense was partially offset by a a decrease in average interest bearing liabilities of $63.6 million, or 2.2%. More specifically, average total interest bearing deposits decreased $172.9 million, or 6.5%. Average noninterest bearing deposits decreased $285.1 million.

Net interest margin increased to 7.70% for the nine months ended September 30, 2023 from 7.69% for the nine months ended September 30, 2022, an increase of 1 basis point, or 0.1%.

Our net interest margin was impacted by an increase in yield on our interest earning assets of 72 basis points to 8.75% for the nine months ended September 30, 2023. This increase was driven by higher yields on loans which increased 40 basis points to 9.17% 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 our Factoring portfolio at 96% for September 30, 2023 and September 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 115 basis points. This increase in average cost was caused by generally higher interest rates paid on our interest-bearing liabilities driven by changes in interest rates in the macro economy.

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

	Nine Months Ended September 30, 2023 vs. 2022		
	Increase (Decrease) Due to:		
(Dollars in thousands)	Rate	Volume	Net Increase
Interest earning assets:			
Cash and cash equivalents	$ 10,020	$ (4,491)	$ 5,529
Taxable securities	4,480	5,352	9,832
Tax-exempt securities	2	(97)	(95)
FHLB and other restricted stock	200	366	566
Loans	13,717	(28,823)	(15,106)
Total interest income	28,419	(27,693)	726
Interest bearing liabilities:			
Interest bearing demand	417	(154)	263
Individual retirement accounts	121	(106)	15
Money market	4,863	(217)	4,646
Savings	876	28	904
Certificates of deposit	2,698	(1,681)	1,017
Brokered time deposits	2,611	6,427	9,038
Other brokered deposits	3,107	(3,447)	(340)
Total interest bearing deposits	14,693	850	15,543
Federal Home Loan Bank advances	2,714	4,502	7,216
Subordinated notes	—	31	31
Junior subordinated debentures	1,512	45	1,557
Other borrowings	(4)	—	(4)
Total interest expense	18,915	5,428	24,343
Change in net interest income	$ 9,504	$ (33,121)	$ (23,617)

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:

	Nine Months Ended September 30,			
(Dollars in thousands)	2023	2022	$ Change	% Change
Credit loss expense on loans	$ 6,218	$ 6,102	$ 116	1.9 %
Credit loss expense on off balance sheet credit exposures	(596)	(402)	(194)	(48.3)%
Credit loss expense on held to maturity securities	446	348	98	28.2 %
Credit loss expense on available for sale securities	—	—	—	—
Total credit loss expense	$ 6,068	$ 6,048	$ 20	0.3 %

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 September 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 nine months ended September 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 September 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 September 30, 2023 and December 31, 2022, the Company carried $6.2 million and $6.5 million of these HTM securities at amortized cost, respectively. The ACL on these balances was $2.9 million at September 30, 2023 and $2.4 million at December 31, 2022 and we recognized credit loss expense of $0.4 million during the nine months ended September 30, 2023. Credit loss expense during the nine months ended September 30, 2022 was $0.3 million. None of the overcollateralization triggers tied to the CLO securities were tripped as of September 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 $34.8 million as of September 30, 2023, compared to $42.8 million as of December 31, 2022, representing an ACL to total loans ratio of 0.80% and 1.04% respectively.

Our credit loss expense on loans increased $0.1 million, or 1.9%, for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022.

During the nine months ended September 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 reimbursed us for $1.7 million of this charge-off. We continue to reserve the full balance of the Over-Formula Advance clients at September 30, 2023 which totals $3.6 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 nine months ended September 30, 2023 were $14.2 million compared to $4.2 million during the same period a year ago. Approximately $8.5 million and $1.7 million of the charge-offs for the nine months ended September 30, 2023 and 2022, respectively, 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 resulted in credit loss expense of $0.2 million during the nine months ended September 30, 2023 compared to a benefit to credit loss expense of $2.7 million during the same period a year ago.

The increased credit loss expense was partially offset by changes in specific reserves. Such specific reserves decreased $8.7 million during the nine months ended September 30, 2023 compared to an increase of $3.1 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 $0.6 million for the nine months ended September 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 $0.2 million, primarily due to changes to outstanding commitments to fund and assumed loss rates period over period.

Noninterest Income

The following table presents our major categories of noninterest income:

	Nine Months Ended September 30,			
(Dollars in thousands)	2023	2022	$ Change	% Change
Service charges on deposits	$ 5,210	$ 5,185	$ 25	0.5 %
Card income	6,152	6,125	27	0.4 %
Net OREO gains (losses) and valuation adjustments	—	(133)	133	100.0 %
Net gains (losses) on sale or call of securities	5	2,514	(2,509)	(99.8 %)
Net gains (losses) on sale of loans	206	18,310	(18,104)	(98.9 %)
Fee income	21,720	18,096	3,624	20.0 %
Insurance commissions	3,970	4,209	(239)	(5.7 %)
Other	(1,320)	17,643	(18,963)	(107.5 %)
Total noninterest income	$ 35,943	$ 71,949	$ (36,006)	(50.0 %)

Noninterest income decreased $36.0 million, or 50.0%. 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 fewer securities were sold or called during the nine months ended September 30, 2023 as compared to the same period a year ago.

- *Net gains (losses) on sale of loans.* Net gains (losses) on sale of loans decreased $18.1 million, due to the aforementioned $14.2 million gain on sale of factored receivables and the $3.9 million gain on sale of equipment loans during the nine months ended September 30, 2022. Sales of such magnitude did not repeat during the nine months ended September 30, 2023.

- *Fee income*. Fee income increased $3.6 million, or 20.0% primarily due to a $2.4 million increase in payment fees earned by TriumphPay during the nine months ended September 30, 2023 compared to the same period a year ago. Additionally, early termination fees at our Factoring segment increased $1.3 million period over period.

- *Other*. Other noninterest income decreased $19.0 million, or 107.5% primarily due to a gain of $8.9 million on the aforementioned termination of an interest rate swap recognized during the nine months ended September 30, 2022. During that same period, we recognized a net gain of $7.0 million on the aforementioned termination of WSI warrants and additional investment in WSI common stock. The decrease was also driven by a write down of our revenue share asset, which is carried at fair value, of $1.9 million during the nine months ended September 30, 2023.

Noninterest Expense

The following table presents our major categories of noninterest expense:

	Nine Months Ended September 30,			
(Dollars in thousands)	2023	2022	$ Change	% Change
Salaries and employee benefits	$ 159,789	$ 149,848	$ 9,941	6.6 %
Occupancy, furniture and equipment	21,537	19,769	1,768	8.9 %
FDIC insurance and other regulatory assessments	1,968	1,376	592	43.0 %
Professional fees	10,061	11,529	(1,468)	(12.7 %)
Amortization of intangible assets	8,700	9,085	(385)	(4.2 %)
Advertising and promotion	4,839	5,029	(190)	(3.8 %)
Communications and technology	34,034	32,197	1,837	5.7 %
Travel and entertainment	4,527	3,864	663	17.2 %
Other	20,481	21,163	(682)	(3.2 %)
Total noninterest expense	$ 265,936	$ 253,860	$ 12,076	4.8 %

Noninterest expense increased $12.1 million, or 4.8%. 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 $9.9 million, or 6.6%, 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 $11.3 million and $2.3 million, respectively, and our average full-time equivalent employees were 1,470.2 and 1,355.6 for the nine months ended September 30, 2023 and 2022, respectively. Further, compensation for temporary and/or contract labor increased $0.4 million and accruals for bonus expense increased $0.7 million period over period. Sales commissions, primarily related to our operations at Triumph Financial Services and TriumphPay, decreased $0.4 million period over period. Stock based compensation expense decreased $6.3 million period over period.

- *FDIC Insurance and Other Regulatory Assessments*. FDIC insurance and other regulatory assessments increased $0.6 million, or 43.0%, primarily due to increased assessments period over period.

- *Occupancy, Furniture and Equipment.* Occupancy, furniture and equipment expenses increased $1.8 million, or 8.9%, primarily due to growth in our operations period over period.

- *Professional Fees*. Professional fees decreased $1.5 million, or 12.7%, primarily due to a $1.5 million decrease in legal and consulting fees period over period.

- *Communications and Technology.* Communications and technology expenses increased $1.8 million, or 5.7%, primarily as a result of increased spending on IT information security and IT initiatives designed 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 $0.7 million, or 17.2%, 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 decreased $0.7 million, or 3.2% due to decreased spending on recruiting and placement. There were no other 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 $18.4 million, or 68.1%, from $27.1 million for the nine months ended September 30, 2022 to $8.6 million for the nine months ended September 30, 2023. The effective tax rate was 22% for the nine months ended September 30, 2023 and 24% for the nine months ended September 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 nine months ended September 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)

Nine Months Ended September 30, 2023	Banking	Factoring	Payments	Corporate	Consolidated
Total interest income	$ 193,678	$ 108,769	$ 11,115	$ 131	$ 313,693
Intersegment interest allocations	23,420	(28,176)	4,756	—	—
Total interest expense	30,305	—	—	7,228	37,533
Net interest income (expense)	186,793	80,593	15,871	(7,097)	276,160
Credit loss expense (benefit)	3,164	2,405	55	444	6,068
Net interest income after credit loss expense	183,629	78,188	15,816	(7,541)	270,092
Noninterest income	17,998	5,104	12,643	198	35,943
Noninterest expense	95,677	60,358	46,912	62,989	265,936
Net intersegment noninterest income (expense)[1]	—	(120)	120	—	—
Net income (loss) before income tax expense	$ 105,950	$ 22,814	$ (18,333)	$ (70,332)	$ 40,099

(Dollars in thousands) Nine Months Ended September 30, 2022	Banking	Factoring	Payments	Corporate	Consolidated
Total interest income	$ 138,286	$ 161,789	$ 12,760	$ 132	$ 312,967
Intersegment interest allocations	10,741	(9,900)	(841)	—	—
Total interest expense	7,549	—	—	5,641	13,190
Net interest income (expense)	141,478	151,889	11,919	(5,509)	299,777
Credit loss expense (benefit)	2,638	1,961	405	1,044	6,048
Net interest income after credit loss expense	138,840	149,928	11,514	(6,553)	293,729
Noninterest income	34,419	20,333	17,069	128	71,949
Noninterest expense	91,313	70,454	46,062	46,031	253,860
Net intersegment noninterest income (expense)[1]	—	—	—	—	—
Net income (loss) before income tax expense	$ 81,946	$ 99,807	$ (17,479)	$ (52,456)	$ 111,818

[1] Net intersegment noninterest income (expense) includes:

(Dollars in thousands)	Factoring	Payments
Nine Months Ended September 30, 2023		
Factoring revenue received from Payments	$ 680	$ (680)
Payments revenue received from Factoring	(800)	800
Net intersegment noninterest income (expense)	$ (120)	$ 120
Nine Months Ended September 30, 2022		
Factoring revenue received from Payments	$ —	$ —
Payments revenue received from Factoring	—	—
Net intersegment noninterest income (expense)	$ —	$ —

(Dollars in thousands) September 30, 2023	Banking	Factoring	Payments	Corporate	Eliminations	Consolidated
Total assets	$ 5,136,313	$ 1,139,922	$ 484,895	$ 1,039,766	$ (2,201,102)	$ 5,599,794
Gross loans	$ 3,766,692	$ 1,041,448	$ 172,254	$ —	$ (608,866)	$ 4,371,528

(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)	Nine Months Ended September 30,			
Banking	2023	2022	$ Change	% Change
Total interest income	$ 193,678	$ 138,286	$ 55,392	40.1 %
Intersegment interest allocations	23,420	10,741	12,679	118.0 %
Total interest expense	30,305	7,549	22,756	301.4 %
Net interest income	186,793	141,478	45,315	32.0 %
Credit loss expense (benefit)	3,164	2,638	526	19.9 %
Net interest income after credit loss expense	183,629	138,840	44,789	32.3 %
Noninterest income	17,998	34,419	(16,421)	(47.7 %)
Noninterest expense	95,677	91,313	4,364	4.8 %
Net income (loss) before income tax expense	$ 105,950	$ 81,946	$ 24,004	29.3 %

Our Banking segment’s operating income increased $24.0 million, or 29.3%.

Total interest income increased $55.4 million, or 40.1%, 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, increased 3.1% from $2.959 billion for the nine months ended September 30, 2022 to $3.050 billion for the nine months ended September 30, 2023. 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 $22.8 million, or 301.4% despite a decrease in average interest-bearing liabilities as average total interest bearing deposits decreased $172.9 million, or 6.5%. 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 $3.8 million for the nine months ended September 30, 2023 compared to $3.1 million for the nine months ended September 30, 2022. The increase in credit loss expense was the result of increased net charge-offs and changes in the volume and mix of our loan portfolio at our Banking segment period over period. This increase was partially offset by decreased specific reserves and changes to the projected loss drivers and prepayment speeds that the Company forecasted over the reasonable and supportable forecast period.

Credit loss expense for off balance sheet credit exposures decreased $0.2 million from a benefit of $0.4 million for the nine months ended September 30, 2022 to a benefit of $0.6 million for the nine months ended September 30, 2023, primarily due to changes to outstanding commitments to fund and assumed loss rates 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 nine months ended September 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 nine months ended September 30, 2023, the aggregate outstanding balances of our banking products increased $275.0 million, or 9.5%, to $3.158 billion as of September 30, 2023. See the Financial Condition section below for further discussion of changes in loan balances:

(Dollars in thousands)	September 30, 2023	December 31, 2022	$ Change	% Change
Banking				
Commercial real estate	$ 817,064	$ 678,144	$ 138,920	20.5 %
Construction, land development, land	131,862	90,976	40,886	44.9 %
1-4 family residential	129,588	125,981	3,607	2.9 %
Farmland	62,698	68,934	(6,236)	(9.0 %)
Commercial - General	306,389	316,364	(9,975)	(3.2 %)
Commercial - Paycheck Protection Program	41	55	(14)	(25.5 %)
Commercial - Agriculture	49,479	48,494	985	2.0 %
Commercial - Equipment	486,110	454,117	31,993	7.0 %
Commercial - Asset-based lending	271,623	229,754	41,869	18.2 %
Commercial - Liquid Credit	138,297	202,326	(64,029)	(31.6 %)
Consumer	8,166	8,868	(702)	(7.9 %)
Mortgage Warehouse	756,509	658,829	97,680	14.8 %
Total banking loans	$ 3,157,826	$ 2,882,842	$ 274,984	9.5 %

Factoring

(Dollars in thousands) Factoring	Nine Months Ended September 30, 2023	2022	$ Change	% Change
Total interest income	$ 108,769	$ 161,789	$ (53,020)	(32.8 %)
Intersegment interest allocations	(28,176)	(9,900)	(18,276)	(184.6 %)
Total interest expense	—	—	—	—
Net interest income	80,593	151,889	(71,296)	(46.9 %)
Credit loss expense (benefit)	2,405	1,961	444	22.6 %
Net interest income after credit loss expense	78,188	149,928	(71,740)	(47.8 %)
Noninterest income	5,104	20,333	(15,229)	(74.9 %)
Noninterest expense	60,358	70,454	(10,096)	(14.3 %)
Net intersegment noninterest income (expense)	(120)	—	(120)	(100.0 %)
Net income (loss) before income tax expense	$ 22,814	$ 99,807	$ (76,993)	(77.1 %)

	Nine Months Ended September 30, 2023	2022
Factored receivable period end balance	$ 1,041,448,000	$ 1,330,122,000
Yield on average receivable balance	13.88 %	14.16 %
Year to date charge-off rate[1]	0.85 %	0.19 %
Factored receivables - transportation concentration	96 %	96 %
Interest income, including fees	$ 108,769,000	$ 161,789,000
Noninterest income[2]	5,104,000	20,333,000
Intersegment noninterest income	680,000	—
Factored receivable total revenue	114,553,000	182,122,000
Average net funds employed	931,645,000	1,367,041,000
Yield on average net funds employed	16.44 %	17.81 %
Accounts receivable purchased	$ 8,266,403,000	$ 11,665,223,000
Number of invoices purchased	4,415,189	5,011,222
Average invoice size	$ 1,872	$ 2,328
Average invoice size - transportation	$ 1,819	$ 2,213
Average invoice size - non-transportation	$ 5,527	$ 5,927

(1) September 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 period. In accordance with the agreement reached with Covenant, Covenant has reimbursed us for $1.7 million of this charge-off.

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

Our Factoring segment's operating income decreased $77.0 million, or 77.1%.

Our average invoice size decreased 19.6% from $2,328 for the nine months ended September 30, 2022 to $1,872 for the nine months ended September 30, 2023 and the number of invoices purchased decreased 11.9% period over period.

Net interest income at our Factoring segment decreased period over period. Overall average net funds employed ("NFE") decreased 31.8% during the nine months ended September 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 96% at September 30, 2022 and 96% at September 30, 2023.

Credit loss expense increased $0.4 million driven by increased net charge-offs and changes in factoring volumes at our Factoring segment period over period. The increase period over period was partially offset by decreased specific reserves. 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 $14.2 million gain on sale of factored receivables during the nine months ended September 30, 2022. The decrease was also driven by a $1.9 million write down of our revenue share asset, which is carried at fair value, during the nine months ended September 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)	Nine Months Ended September 30,			
Payments	2023	2022	$ Change	% Change
Total interest income	$ 11,115	$ 12,760	$ (1,645)	(12.9)%
Intersegment interest allocations	4,756	(841)	5,597	665.5 %
Total interest expense	—	—	—	— %
Net interest income	15,871	11,919	3,952	33.2 %
Credit loss expense (benefit)	55	405	(350)	(86.4)%
Net interest income after credit loss expense	15,816	11,514	4,302	37.4 %
Noninterest income	12,643	17,069	(4,426)	(25.9)%
Noninterest expense	46,912	46,062	850	1.8 %
Net intersegment noninterest income (expense)	120	—	120	100.0 %
Net income (loss) before income tax expense	$ (18,333)	$ (17,479)	$ (854)	(4.9)%

	Nine Months Ended	
	2023	2022
Supply chain financing factored receivables	$ 87,590,000	$ —
Quickpay factored receivables	84,664,000	118,958,000
Factored receivable period end balance	$ 172,254,000	$ 118,958,000
Supply chain finance interest income	$ 3,137,000	$ 3,072,000
Quickpay interest income	7,978,000	9,688,000
Intersegment interest income	4,756,000	—
Total interest income	15,871,000	12,760,000
Broker noninterest income	8,335,000	6,015,000
Factor noninterest income	3,955,000	3,847,000
Other noninterest income	353,000	7,207,000
Intersegment noninterest income	800,000	—
Total noninterest income	13,443,000	17,069,000
Total revenue	$ 29,314,000	$ 29,829,000
Intersegment interest expense	$ —	$ 841,000
Credit loss expense (benefit)	55,000	405,000
Noninterest expense	46,912,000	46,062,000
Intersegment noninterest expense	680,000	—
Total expense	47,647,000	47,308,000
Operating income (loss)	$ (18,333,000)	$ (17,479,000)
Interest expense	—	841,000
Depreciation and software amortization expense	919,000	331,000
Intangible amortization expense	4,980,000	4,417,000
Earnings (losses) before interest, taxes, depreciation, and amortization	$ (12,434,000)	$ (11,890,000)
EBITDA margin	(42)%	(40)%
Number of invoices processed	13,825,124	13,043,134
Amount of payments processed	$ 15,300,445,000	$ 17,686,453,000
Network invoice volume	644,557	315,015
Network payment volume	$ 1,099,913,000	$ 671,291,000

Our Payments segment's operating loss increased $0.9 million, or 4.9%.

The number of invoices processed by our Payments segment increased 6.0% from 13,043,134 for the nine months ended September 30, 2022 to 13,825,124 for the nine months ended September 30, 2023, and the amount of payments processed decreased 13.5% from $17.686 billion for the nine months ended September 30, 2022 to $15.300 billion for the nine months ended September 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 nine months ended September 30, 2023, we processed 644,557 conforming invoices representing a conforming payment volume of $1.100 billion. During the nine months ended September 30, 2022, we processed 315,015 conforming invoices representing a conforming payment volume of $671.3 million.

Net interest income increased due to increased yields at our Payments segment period over period and intersegment interest allocation.

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 nine months ended September 30, 2023. The decrease was offset by a $3.2 million increase in payment audit fees, including intersegment fee income, earned by TriumphPay during the nine months ended September 30, 2023 compared to the same period a year ago.

Noninterest expense increased primarily due to an increase in communication and technology expense partially offset by a decrease in professional fees.

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 third party logistics companies (i.e., freight brokers) and their carriers, and factors. The acquisition of HubTran was a meaningful inflection point in the operations of TriumphPay as the TriumphPay strategy has shifted from a capital-intensive on-balance sheet product with a focus on interest income to an open-loop payments network for the trucking industry with a focus on fee revenue. It is for this reason that management believes that earnings before interest, taxes, depreciation, and amortization and the adjustment to that metric enhance investors' overall understanding of the financial performance of the Payments segment. Further, as a result of the HubTran acquisition, management recorded $27.3 million of intangible assets that will lead to meaningful amounts of amortization going forward.

Corporate

(Dollars in thousands)	Nine Months Ended September 30,			
Corporate	2023	2022	$ Change	% Change
Total interest income	$ 131	$ 132	$ (1)	(0.8 %)
Intersegment interest allocations	—	—	—	—
Total interest expense	7,228	5,641	1,587	28.1 %
Net interest income (expense)	(7,097)	(5,509)	(1,588)	(28.8 %)
Credit loss expense (benefit)	444	1,044	(600)	(57.5 %)
Net interest income (expense) after credit loss expense	(7,541)	(6,553)	(988)	(15.1 %)
Noninterest income	198	128	70	54.7 %
Noninterest expense	62,989	46,031	16,958	36.8 %
Net income (loss) before income tax expense	$ (70,332)	$ (52,456)	$ (17,876)	(34.1 %)

The Corporate segment reported an operating loss of $70.3 million for the nine months ended September 30, 2023 compared to an operating loss of $52.5 million for the nine months ended September 30, 2022. The increased operating loss was driven by increased noninterest expense which was the result of increased salaries and benefits expense, occupancy expense, and communication and technology expense period over period.

Financial Condition

Assets

Total assets were $5.600 billion at September 30, 2023, compared to $5.334 billion at December 31, 2022, an increase of $266.0 million, the components of which are discussed below.

Loan Portfolio

Loans held for investment were $4.372 billion at September 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)	September 30, 2023	% of Total	December 31, 2022	% of Total	$ Change	% Change
Commercial real estate	$ 817,064	19 %	$ 678,144	16 %	$ 138,920	20.5 %
Construction, land development, land	131,862	3 %	90,976	2 %	40,886	44.9 %
1-4 family residential	129,588	3 %	125,981	3 %	3,607	2.9 %
Farmland	62,698	1 %	68,934	2 %	(6,236)	(9.0 %)
Commercial	1,251,939	29 %	1,251,110	30 %	829	0.1 %
Factored receivables	1,213,702	28 %	1,237,449	31 %	(23,747)	(1.9 %)
Consumer	8,166	— %	8,868	— %	(702)	(7.9 %)
Mortgage warehouse	756,509	17 %	658,829	16 %	97,680	14.8 %
Total Loans	$ 4,371,528	100 %	$ 4,120,291	100 %	$ 251,237	6.1 %

Commercial Real Estate Loans. Our commercial real estate loans increased $138.9 million, or 20.5%, due to new origination activity that outpaced paydowns.

Construction and Development Loans. Our construction and development loans increased $40.9 million, or 44.9%, 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 $3.6 million, or 2.9%, due to new origination activity that outpaced paydowns.

Farmland Loans. Our farmland loans decreased $6.2 million, or 9.0%, due to paydowns that outpaced modest origination activity.

Commercial Loans. Our commercial loans held for investment increased $0.8 million, or 0.1%, due to increased equipment lending and increased asset-based lending. The increase was partially offset by decreased liquid credit balances as well as a decrease in other commercial loans. Our other commercial lending products, comprised primarily of general commercial loans originated in our community banking markets, decreased $10.0 million, or 3.2%.

The following table shows our commercial loans:

(Dollars in thousands)	September 30, 2023	December 31, 2022	$ Change	% Change
Commercial				
Equipment	$ 486,110	$ 454,117	$ 31,993	7.0 %
Asset-based lending	271,623	229,754	41,869	18.2 %
Liquid credit	138,297	202,326	(64,029)	(31.6 %)
Paycheck Protection Program loans	41	55	(14)	(25.5 %)
Agriculture	49,479	48,494	985	2.0 %
Other commercial lending	306,389	316,364	(9,975)	(3.2 %)
Total commercial loans	$ 1,251,939	$ 1,251,110	$ 829	0.1 %

Factored Receivables. Our factored receivables decreased $23.7 million, or 1.9% due to a slowing freight market. At September 30, 2023, the balance of the Over-Formula Advance Portfolio included in factored receivables was $3.6 million. At September 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 $0.7 million, or 7.9%, due to paydowns that outpaced modest origination activity.

Mortgage Warehouse. Our mortgage warehouse facilities increased $97.7 million, or 14.8%, 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 $757.6 million for the three months ended September 30, 2023 compared to $610.8 million for the three months ended September 30, 2022 and $782.4 million for the nine months ended September 30, 2023 compared to $632.9 million for the nine months ended September 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:

	September 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	$ 293,625	$ 466,810	$ 55,656	$ 973	$ 817,064
Construction, land development, land	69,081	59,783	2,998	—	131,862
1-4 family residential	8,660	26,846	14,337	79,745	129,588
Farmland	5,685	32,203	23,549	1,261	62,698
Commercial	359,530	864,705	27,704	—	1,251,939
Factored receivables	1,213,702	—	—	—	1,213,702
Consumer	1,132	5,978	1,050	6	8,166
Mortgage warehouse	756,509	—	—	—	756,509
	$ 2,707,924	$ 1,456,325	$ 125,294	$ 81,985	$ 4,371,528

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	$ 261,260	$ 4,404	$ —
Construction, land development, land	10,620	293	—
1-4 family residential	18,970	7,804	5,585
Farmland	20,951	999	—
Commercial	585,127	17,135	—
Factored receivables	—	—	—
Consumer	5,978	1,050	6
Mortgage warehouse	—	—	—
	$ 902,906	$ 31,685	$ 5,591
Floating interest rates			
Commercial real estate	$ 205,550	$ 51,252	$ 973
Construction, land development, land	49,163	2,705	—
1-4 family residential	7,876	6,533	74,160
Farmland	11,252	22,550	1,261
Commercial	279,578	10,569	—
Factored receivables	—	—	—
Consumer	—	—	—
Mortgage warehouse	—	—	—
	$ 553,419	$ 93,609	$ 76,394
Total	$ 1,456,325	$ 125,294	$ 81,985

As of September 30, 2023, most of the Company's non-factoring business activity is with customers located within certain states. The states of Texas (17%), Colorado (9%), Illinois (11%), and Iowa (6%) make up 43% 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 (97%) of our factored receivables, representing approximately 27% of our total loan portfolio as of September 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)	September 30, 2023	December 31, 2022
Nonperforming loans:		
Commercial real estate	$ 3,801	$ 871
Construction, land development, land	—	150
1-4 family residential	1,146	1,391
Farmland	1,228	400
Commercial	24,182	15,896
Factored receivables	22,765	29,431
Consumer	171	91
Mortgage warehouse	—	—
Total nonperforming loans	53,293	48,230
Held to maturity securities	4,772	5,051
Equity investments without readily determinable fair value	1,170	—
Other repossessed assets	895	1,300
Total nonperforming assets	$ 60,130	$ 54,581
Nonperforming assets to total assets	1.07 %	1.02 %
Nonperforming loans to total loans held for investment	1.22 %	1.17 %
Total past due loans to total loans held for investment	1.94 %	2.53 %

Nonperforming loans increased $5.1 million, or 10.5%, due to the addition of three liquid credit loans of $9.4 million, $4.8 million, and $2.4 million all fully secured by enterprise value. Further reflected in the increase in nonperforming loans is a $2.7 million agriculture and farmland relationship secured by agricultural real estate, a $1.4 million commercial real estate relationship secured by real estate, a $1.1 million commercial real estate loan secured by real estate, and a $1.1 million equipment lending relationship secured by equipment. These increases were partially offset by 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 $6.9 million reduction in nonperforming factored receivables. 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 increased to 1.22% at September 30, 2023 from 1.17% December 31, 2022.

Our ratio of nonperforming assets to total assets increased to 1.07% at September 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 nine months ended September 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 September 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 1.94% at September 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 $3.6 million acquired factoring Over-Formula Advance balance and the $19.4 million Misdirected Payments balance are considered greater than 90 days past due at September 30, 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:

	September 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	$ 5,775	19 %	0.71 %	$ 4,459	16 %	0.66 %
Construction, land development, land	1,232	3 %	0.93 %	1,155	2 %	1.27 %
1-4 family residential	1,039	3 %	0.80 %	838	3 %	0.67 %
Farmland	434	1 %	0.69 %	483	2 %	0.70 %
Commercial	12,789	29 %	1.02 %	15,918	30 %	1.27 %
Factored receivables	12,624	28 %	1.04 %	19,121	31 %	1.55 %
Consumer	166	— %	2.03 %	175	— %	1.97 %
Mortgage warehouse	756	17 %	0.10 %	658	16 %	0.10 %
Total Loans	$ 34,815	100 %	0.80 %	$ 42,807	100 %	1.04 %

The ACL decreased $8.0 million, or 18.7%. This decrease reflects net charge-offs of $14.2 million and credit loss expense of $6.2 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 $3.6 million at September 30, 2023 and the entire balance at September 30, 2023 was fully reserved. At September 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 September 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 September 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 $0.6 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 September 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 September 30, 2023 as compared to December 31, 2022, the Company forecasted a minimal decrease national unemployment, a steeper decrease in one-year percentage change in national retail sales, an increase in one-year percentage change in the national home price index, and a slight increase in one-year percentage change in national gross domestic product. At September 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 small increase 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 positive increase in the first projected quarter followed by a steep drop to negative levels for the remaining three quarters with such negative levels peaking in the fourth projected quarter. For percentage change in national gross domestic product, management projected low-to-near-zero growth for each projected quarter. At September 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)	September 30, 2023	December 31, 2022
Allowance for credit losses on loans	$ 34,815	$ 42,807
Total loans held for investment	$ 4,371,528	$ 4,120,291
Allowance to total loans held for investment	0.80 %	1.04 %
Nonaccrual loans	$ 30,528	$ 18,296
Total loans held for investment	$ 4,371,528	$ 4,120,291
Nonaccrual loans to total loans held for investment	0.70 %	0.44 %
Allowance for credit losses on loans	$ 34,815	$ 42,807
Nonaccrual loans	$ 30,528	$ 18,296
Allowance for credit losses to nonaccrual loans	114.04 %	233.97 %

	Three Months Ended September 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	$ 16	$ 793,566	— %	$ —	$ 670,912	— %
Construction, land development, land	(2)	119,173	— %	(1)	84,116	— %
1-4 family residential	(1)	130,501	— %	(1)	127,574	— %
Farmland	—	65,201	— %	—	67,708	— %
Commercial	144	1,232,967	0.01 %	149	1,258,735	0.01 %
Factored receivables	1,206	1,173,192	0.10 %	2,261	1,524,625	0.15 %
Consumer	(157)	8,913	(1.76)%	57	9,730	0.59 %
Mortgage warehouse	—	757,632	— %	—	610,844	— %
Total Loans	$ 1,206	$ 4,281,145	0.03 %	$ 2,465	$ 4,354,244	0.06 %

Quarter to date net loans charged off decreased $1.3 million reflecting a $1.1 million decrease in net charge-offs of factored receivables.

	Nine Months Ended September 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	$ (54)	$ 732,137	(0.01)%	$ 48	$ 650,006	0.01 %
Construction, land development, land	(4)	106,340	— %	(3)	109,552	— %
1-4 family residential	(6)	129,921	— %	(6)	127,079	— %
Farmland	—	67,106	— %	—	71,590	— %
Commercial	5,400	1,217,966	0.44 %	882	1,352,309	0.07 %
Factored receivables	8,957	1,169,353	0.77 %	3,079	1,680,746	0.18 %
Consumer	(83)	9,221	(0.90)%	204	10,166	2.01 %
Mortgage warehouse	—	782,368	— %	—	632,879	— %
Total Loans	$ 14,210	$ 4,214,412	0.34 %	$ 4,204	$ 4,634,327	0.09 %

Year to date net loans charged off increased $10.0 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 $5.7 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 September 30, 2023 and December 31, 2022, we held equity securities with readily determinable fair values of $4.3 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 September 30, 2023, we held debt securities classified as available for sale with a fair value of $292.3 million, an increase of $37.8 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)	September 30, 2023	December 31, 2022	$ Change	% Change
Mortgage-backed securities, residential	$ 43,182	$ 50,633	$ (7,451)	(14.7)%
Asset-backed securities	1,253	6,331	(5,078)	(80.2)%
State and municipal	5,028	13,438	(8,410)	(62.6)%
CLO Securities	240,475	181,011	59,464	32.9 %
Corporate bonds	749	1,263	(514)	(40.7)%
SBA pooled securities	1,637	1,828	(191)	(10.4)%
	$ 292,324	$ 254,504	$ 37,820	14.9 %

Our available for sale CLO portfolio consists of investment grade positions in high ranking tranches within their respective securitization structures. As of September 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 September 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 September 30, 2023, we held investments classified as held to maturity with an amortized cost, net of ACL, of $3.3 million, a decrease of $0.8 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 September 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 September 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	$ 6	3.50 %	$ 8,573	4.87 %	$ 1,594	2.62 %	$ 39,173	3.44 %	$ 49,346	3.66 %
Asset-backed securities	—	— %	—	— %	—	— %	1,243	6.72 %	1,243	6.72 %
State and municipal	667	2.46 %	2,212	3.11 %	825	2.57 %	1,513	2.37 %	5,217	2.73 %
CLO securities	—	— %	—	— %	72,041	7.37 %	168,121	7.44 %	240,162	7.42 %
Corporate bonds	500	6.05 %	—	— %	—	— %	268	5.07 %	768	5.72 %
SBA pooled securities	—	— %	—	— %	449	3.40 %	1,297	4.36 %	1,746	4.11 %
Total available for sale securities	$ 1,173	4.00 %	$ 10,785	4.51 %	$ 74,909	7.20 %	$ 211,615	6.62 %	$ 298,482	6.68 %
Held to maturity securities:	$ —	— %	$ 1,913	— %	$ 4,288	3.96 %	$ —	— %	$ 6,201	2.44 %

Liabilities

Total liabilities were $4.749 billion as of September 30, 2023, compared to $4.445 billion at December 31, 2022, an increase of $304.6 million, the components of which are discussed below.

Deposits

The following table summarizes our deposits:

(Dollars in thousands)	September 30, 2023	December 31, 2022	$ Change	% Change
Noninterest bearing demand	$ 1,632,559	$ 1,756,680	$ (124,121)	(7.1 %)
Interest bearing demand	795,246	856,512	(61,266)	(7.2 %)
Individual retirement accounts	55,296	68,125	(12,829)	(18.8 %)
Money market	540,235	508,534	31,701	6.2 %
Savings	542,985	551,780	(8,795)	(1.6 %)
Certificates of deposit	269,416	319,150	(49,734)	(15.6 %)
Brokered time deposits	451,273	110,555	340,718	308.2 %
Other brokered deposits	200,041	—	200,041	100.0 %
Total Deposits	$ 4,487,051	$ 4,171,336	$ 315,715	7.6 %

Our total deposits increased $315.7 million, or 7.6%, primarily due to an increase in brokered time deposits, other brokered deposits and money market deposits. The Company experienced decreases in all other deposit categories. Other brokered deposits are non-maturity deposits obtained from wholesale sources. As of September 30, 2023, interest bearing demand deposits, noninterest bearing deposits, money market deposits, other brokered deposits, and savings deposits accounted for 83% of our total deposits, while individual retirement accounts, certificates of deposit, and brokered time deposits made up 17% of total deposits. At September 30, 2023 and December 31, 2022, our estimated uninsured deposits were $1,651,578,000 and $2,009,246,000, respectively.

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At September 30, 2023 we held $67.8 million of time deposits that meet or exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limit. The following table provides information on the maturity distribution of time deposits exceeding the FDIC insurance limit as of September 30, 2023:

(Dollars in thousands)	Over $250,000
Maturity	
3 months or less	$ 21,071
Over 3 through 6 months	14,427
Over 6 through 12 months	17,856
Over 12 months	6,442
	$ 59,796

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

	Three Months Ended September 30, 2023			Three Months Ended September 30, 2022		
(Dollars in thousands)	Average Balance	Weighted Avg Rates	% of Total	Average Balance	Weighted Avg Rates	% of Total
Interest bearing demand	$ 776,812	0.39 %	18 %	$ 886,311	0.36 %	20 %
Individual retirement accounts	56,265	0.94 %	1 %	77,004	0.50 %	2 %
Money market	542,243	1.98 %	13 %	524,483	0.24 %	12 %
Savings	537,980	0.53 %	12 %	544,404	0.15 %	12 %
Certificates of deposit	270,535	1.84 %	6 %	407,130	0.55 %	9 %
Brokered time deposits	501,221	5.32 %	12 %	186,856	1.59 %	4 %
Other brokered deposits	12,231	5.48 %	— %	—	— %	— %
Total interest bearing deposits	2,697,287	1.83 %	62 %	2,626,188	0.41 %	59 %
Noninterest bearing demand	1,615,697	—	38 %	1,885,111	—	41 %
Total deposits	$ 4,312,984	1.15 %	100 %	$ 4,511,299	0.24 %	100 %

	Nine Months Ended September 30, 2023			Nine Months Ended September 30, 2022		
(Dollars in thousands)	Average Balance	Weighted Avg Yields	% of Total	Average Balance	Weighted Avg Yields	% of Total
Interest bearing demand	$ 805,756	0.34 %	19 %	$ 866,053	0.28 %	19 %
Individual retirement accounts	60,507	0.71 %	1 %	80,437	0.51 %	2 %
Money market	515,864	1.43 %	12 %	536,130	0.22 %	12 %
Savings	537,598	0.37 %	13 %	527,739	0.15 %	11 %
Certificates of deposit	285,207	1.27 %	7 %	461,862	0.49 %	10 %
Brokered time deposits	283,181	4.76 %	7 %	102,793	1.37 %	2 %
Other brokered deposits	8,609	5.36 %	— %	94,617	0.97 %	2 %
Total interest bearing deposits	2,496,722	1.21 %	59 %	2,669,631	0.35 %	58 %
Noninterest bearing demand	1,639,413	—	41 %	1,924,556	—	42 %
Total deposits	$ 4,136,135	0.73 %	100 %	$ 4,594,187	0.20 %	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 throughout 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 nine months ended September 30, 2023 and the year ended December 31, 2022:

(Dollars in thousands)	September 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	$ 996	$ 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 nine months ended September 30, 2023 and the year ended December 31, 2022:

(Dollars in thousands)	September 30, 2023	December 31, 2022
Amount outstanding at end of period	$ 30,000	$ 30,000
Weighted average interest rate at end of period	5.56 %	4.25 %
Average amount outstanding during the period	198,040	69,658
Weighted average interest rate during the period	5.23 %	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 September 30, 2023 and December 31, 2022, we had $843.4 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 September 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	$ 39,098	2029	4.875%	11/27/2024	Three Month LIBOR plus 3.330%	$ 1,218
Subordinated Notes issued August 26, 2021	70,000	69,356	2031	3.500%	9/01/2026	Three Month SOFR plus 2.860%	$ 1,776
	$ 109,500	$ 108,454					

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

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

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

Junior Subordinated Debentures

The following provides a summary of our junior subordinated debentures as of September 30, 2023:

(Dollars in thousands)	Face Value	Carrying Value	Maturity Date	Interest Rate
National Bancshares Capital Trust II	$ 15,464	$ 13,596	September 2033	Three Month SOFR + 3.26%
National Bancshares Capital Trust III	17,526	13,581	July 2036	Three Month SOFR + 1.64%
ColoEast Capital Trust I	5,155	3,818	September 2035	Three Month SOFR + 1.86%
ColoEast Capital Trust II	6,700	4,935	March 2037	Three Month SOFR + 2.05%
Valley Bancorp Statutory Trust I	3,093	2,917	September 2032	Three Month SOFR + 3.66%
Valley Bancorp Statutory Trust II	3,093	2,745	July 2034	Three Month SOFR + 3.01%
	$ 51,031	$ 41,592		

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 S plus a weighted average spread of 2.41%. 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 $41.6 million was allowed in the calculation of Tier I capital as of September 30, 2023.

Capital Resources and Liquidity Management

Capital Resources

Our stockholders’ equity totaled $850.4 million as of September 30, 2023, compared to $889.0 million as of December 31, 2022, a decrease of $38.6 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 $31.5 million.

Liquidity Management

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

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

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

In addition to the liquidity provided by the sources described above, our subsidiary bank maintains correspondent relationships with other banks in order to sell loans or purchase overnight funds should additional liquidity be needed. As of September 30, 2023, TBK Bank had $560.9 million of unused borrowing capacity from the Federal Reserve Bank discount window and unsecured federal funds lines of credit with seven unaffiliated banks totaling $227.5 million, with no amounts advanced against those lines. Additionally, as of September 30, 2023, we had $843.4 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 September 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 - September 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	$ 30,000	$ —	$ —	$ 30,000	$ —
Subordinated notes	109,500	—	—	—	109,500
Junior subordinated debentures	51,031	—	—	—	51,031
Operating lease agreements	39,077	6,544	12,166	9,437	10,930
Time deposits with stated maturity dates	775,985	729,234	39,274	7,477	—
Total contractual obligations	$ 1,005,593	$ 735,778	$ 51,440	$ 46,914	$ 171,461

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 September 30, 2023 and December 31, 2022:

	September 30, 2023		December 31, 2022	
	Following 12 Months	Months 13-24	Following 12 Months	Months 13-24
+400 basis points	15.8 %	16.9 %	19.4 %	24.9 %
+300 basis points	11.8 %	12.5 %	14.5 %	18.5 %
+200 basis points	7.8 %	8.3 %	9.7 %	12.2 %
+100 basis points	3.9 %	4.2 %	4.8 %	6.1 %
Flat rates	0.0 %	0.0 %	0.0 %	0.0 %
-100 basis points	(4.1 %)	(4.4 %)	(5.0 %)	(6.2 %)
-200 basis points	(8.3 %)	(9.2 %)	(10.4 %)	(13.0 %)

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

	Economic Value of Equity at Risk (%)	
	September 30, 2023	December 31, 2022
+400 basis points	16.5 %	20.0 %
+300 basis points	13.2 %	15.7 %
+200 basis points	9.5 %	10.9 %
+100 basis points	5.3 %	5.8 %
Flat rates	0.0 %	0.0 %
-100 basis points	(6.2 %)	(6.4 %)
-200 basis points	(12.8 %)	(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 September 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.

The Company, through its direct and indirect wholly owned subsidiaries, has purchased and received payments on accounts receivable payable to Surge Transportation, Inc. ('Surge'), a licensed freight broker, as part of factoring services provided to such entity. On July 24, 2023, Surge filed for Chapter 11 Bankruptcy in the US Bankruptcy Court in the Middle District of Florida. In connection with the bankruptcy proceedings, certain claimants comprised of motor carriers, contingency collection agents, and factoring companies have filed complaints alleging that such entities have an ownership interest in, or other rights to, amounts paid to the Company in respect of such purchased accounts receivable. The Court has not yet ruled on such complaints. In the event of an adverse ruling with respect to such complaints, Triumph may be required to disgorge or pay to such claimants all or a portion of the amounts it has collected on such receivables. Due to the uncertainty of the existence of or extent of any loss exposure, Triumph is unable to calculate any reserve loss at this time.

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

None.

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 "Graft Trading Plan"). The Graft 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 Graft 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 Graft Trading Plan.

On August 23, 2023, Mr. Edward J. Schreyer, the Company's Executive Vice President and Chief Operating 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 "Schreyer Trading Plan"). The Schreyer Trading Plan covers the sale of up to 25,282 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 Schreyer 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 September 30, 2023, and will cease upon the earlier of March 1, 2024 or the sale of all shares subject to the Schreyer Trading Plan.

On September 6, 2023, Mr. Adam D. Nelson, the Company's Executive Vice President and General Counsel, adopted a written plan for the exercise and sale of non-qualified stock options to purchase our common stock that is intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) under the Exchange Act (the "Nelson Trading Plan"). The Nelson Trading Plan covers the exercise and sale of up to 20,160 non-qualified stock options to purchase 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 Nelson 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 September 30, 2023, and will cease upon the earlier of November 29, 2024 or the sale of all shares subject to the Nelson Trading Plan.

As of the end of the third 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.
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:	October 19, 2023	/s/ Aaron P. Graft
		Aaron P. Graft President and Chief Executive Officer
Date:	October 19, 2023	/s/ W. Bradley Voss
		W. Bradley Voss Chief Financial Officer

Exhibit 31.1

CERTIFICATION

I, Aaron P. Graft, certify that:

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

October 19, 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.

October 19, 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 September 30, 2023, as filed with the Securities and Exchange Commission on October 19, 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: October 19, 2023

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