FIRSTENERGY CORP
Form 4
March 03, 2006

FORM 4

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

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
MARSH RICHARD H

(Last) (First) (Middle)

76 SOUTH MAIN STREET

(Street)

AKRON, OH 44308

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
FIRSTENERGY CORP [FE]

3. Date of Earliest Transaction (Month/Day/Year)
03/02/2006

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Sr. Vice Pres. & Chief Fin. Of

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock								642.732	D	
Common Stock								4,785.297	I	By Savings Plan Trust

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Stock Options (Right to buy)	$ 29.71							03/01/2004	03/01/2013	Common Stock	35,6
Stock Options (Right to buy)	$ 34.45							04/01/2003	04/01/2012	Common Stock	26,2
Stock Options (Right to buy)	$ 38.76							03/01/2005	03/01/2014	Common Stock	51,3
Phantom / Retirement	$ 1							(1)	(1)	Common Stock	13,035
Phantom 3/05D	$ 1							02/25/2005	03/01/2008	Common Stock	3,763
RSUP1	$ 1							03/01/2008	03/01/2008	Common Stock	3,951.
RSUP4	$ 1							03/01/2009	03/01/2009	Common Stock	4,50
RSUD5	$ 1							03/01/2011	03/01/2011	Common Stock	3,68
Phantom 3/06D	$ 1 (2)	03/02/2006		A		3,586 (3)		03/02/2006	03/02/2009	Common Stock	3,58

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
MARSH RICHARD H 76 SOUTH MAIN STREET			Sr. Vice Pres. & Chief Fin. Of	

AKRON, OH 44308

Signatures

David W. Whitehead, POA	03/03/2006
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) This transaction reflects the extension of the expiration date of phantom stock from 3/1/2006 to "retirement" or "other termination of employment" under arrangements approved by the Compensation Committee, and reflects the stock moving to the "Retirement" account from Phantom 3/03D.

(2) 1 for 1

(3) 2,989 shares are vested (i.e. non-forfeited) immediately. 598 shares become vested (i.e. non-forfeited) on 3/1/2009.

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$

4,261

Additions

2,997

—

2,997

—

Accretion

(439

)

(411

)

(1,177

)

(3,117

)

Reclassification from nonaccretable to accretable yield

124

56

174

2,067

Disposals

—

(2

)

—

Explanation of Responses:

(442

)

Accretable yield, ending balance

$

4,787

$

2,769

$

4,787

$

2,769

NOTE 5 - GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets consist of the following:

(Dollars in thousands)

	September 30, 2018	December 31, 2017
Goodwill	$ 158,728	$ 44,126

	September 30, 2018			December 31, 2017		
(Dollars in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit intangibles	$43,578	$ (14,666)	$ 28,912	$29,511	$ (11,335)	$ 18,176
Other intangible assets	15,700	(1,498)	14,202	1,764	(288)	1,476
	$59,278	$ (16,164)	$ 43,114	$31,275	$ (11,623)	$ 19,652

The changes in goodwill and intangible assets during the three and nine months ended September 30, 2018 and 2017 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2018	2017	2018	2017
Beginning balance	$117,777	$43,322	$63,778	$46,531
Acquired goodwill	72,060	—	115,035	152
Acquired intangibles	14,069	—	28,004	—
Divestiture	—	—	(433)	(1,339)
Amortization of intangibles	(2,064)	(870)	(4,542)	(2,892)
Ending balance	$201,842	$42,452	$201,842	$42,452

NOTE 6 – Variable Interest Entities

Collateralized Loan Obligation Funds – Closed

The Company, through its subsidiary Triumph Capital Advisors, acted as the asset manager or provided certain middle and back office staffing and services to the asset manager of various CLO funds. TCA earned asset management fees in accordance with the terms of its asset management or staffing and services agreements associated with the CLO funds. TCA earned asset management fees totaling $1,717,000 for the three months ended March 31, 2017. On March 31, 2017 the Company sold its membership interests in TCA as discussed in Note 2 – Business Combinations and Divestitures. As a result of the TCA sale, as of March 31, 2017 the Company no longer acted as asset manager or staffing and services provider for any CLO funds.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The Company holds investments in the subordinated notes of the following closed 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 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 $8,403,000 and $8,557,000 at September 30, 2018 and December 31, 2017, 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.

Collateralized Loan Obligation Fund – Warehouse Phase

From time to time, the Company may invest in the subordinated debt of entities formed to be the issuers of CLO offerings during their warehouse phases. The Company's investments in these CLO funds are repaid when the CLO funds' warehouse phases are closed and the CLO offerings are issued. The Company's maximum exposure to loss as a result of its involvement with these CLO funds is limited to the carrying amount of its investments in the subordinated debt of the CLO funds. The Company did not hold any investments in the subordinated debt of CLO funds during their warehouse phase at December 31, 2017 or during the nine months ended September 30, 2018. Income from the Company's investments in CLO warehouse entities totaled $0 and $1,954,000 during the three and nine months ended September 30, 2017, respectively, which is included in other noninterest income within the Company's consolidated statements of income.

The Company performed a consolidation analysis of CLO funds during their warehouse phases and concluded that the CLO funds were variable interest entities and that the Company held a variable interest in the entities that could potentially be significant to the entities in the form of its investments in the subordinated notes of the entities. However, the Company also concluded that the Company does not have the power to direct the activities that most significantly impact the entities' economic performance. As a result, the Company is not the primary beneficiary and therefore is not required to consolidate the assets, liabilities, equity, or operations of the entities in the Company's financial statements.

NOTE 7 - Deposits

Deposits at September 30, 2018 and December 31, 2017 are summarized as follows:

(Dollars in thousands)	September 30, 2018	December 31, 2017
Noninterest bearing demand	$ 697,903	$ 564,225
Interest bearing demand	608,775	403,244
Individual retirement accounts	118,459	108,505
Money market	413,402	283,969
Savings	373,062	235,296
Certificates of deposit	854,048	837,384
Brokered deposits	373,400	188,725
Total Deposits	$ 3,439,049	$ 2,621,348

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

At September 30, 2018, scheduled maturities of certificates of deposits, individual retirement accounts and brokered deposits are as follows:

(Dollars in thousands)	September 30, 2018
Within one year	$ 1,052,802
After one but within two years	192,942
After two but within three years	46,448
After three but within four years	38,478
After four but within five years	8,524
After five years	6,713
Total	$ 1,345,907

Time deposits, including individual retirement accounts, certificates of deposit, and brokered deposits, with individual balances of $250,000 and greater totaled $185,443,000 and $158,197,000 at September 30, 2018 and December 31, 2017, respectively.

NOTE 8 - Legal Contingencies

Various legal claims have arisen from time to time in the normal course of business which, in the opinion of management, 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, 2018			December 31, 2017		
(Dollars in thousands)	Fixed Rate	Variable Rate	Total	Fixed Rate	Variable Rate	Total
Unused lines of credit	$78,708	$418,319	$497,027	$133,634	$242,236	$375,870
Standby letters of credit	$2,148	$5,641	$7,789	$1,998	$8,169	$10,167
Mortgage warehouse commitments	$—	$305,053	$305,053	$—	$239,632	$239,632

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.

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.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The Company records a reserve for loan and lease losses on off-balance sheet lending-related commitments through a charge to other noninterest expense on the Company's consolidated statements of income. At September 30, 2018 and December 31, 2017, the reserve for loan and lease losses on off-balance sheet lending-related commitments totaled $511,000 and $501,000, respectively, and was included in other liabilities on the Company's consolidated balance sheets.

In addition to the commitments above, the Company had overdraft protection available in the amounts of $3,145,000 and $2,397,000 at September 30, 2018 and December 31, 2017, respectively.

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 our methodologies disclosed in Note 15 of the Company's 2017 Form 10-K, except for the valuation of loans held for investment which was impacted by the adoption of ASU 2016-01. In accordance with ASU 2016-01, the fair value of loans held for investment, excluding previously presented impaired loans measured at fair value on a non-recurring basis, is estimated using discounted cash flow analyses. The discount rates used to determine fair value use interest rate spreads that reflect factors such as liquidity, credit, and nonperformance risk of the loans. Loans are considered a Level 3 classification.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Assets measured at fair value on a recurring basis are summarized in the table below. There were no liabilities measured at fair value on a recurring basis at September 30, 2018 and December 31, 2017.

(Dollars in thousands)	Fair Value Measurements Using			Total
September 30, 2018	Level 1	Level 2	Level 3	Fair Value
Securities available for sale				
U.S. Government agency obligations	$—	$94,774	$ —	$94,774
U.S. Treasury notes	—	1,905	—	1,905
Mortgage-backed securities, residential	—	30,581	—	30,581
Asset backed securities	—	10,805	—	10,805
State and municipal	—	144,062	—	144,062
Corporate bonds	—	68,986	—	68,986
SBA pooled securities	—	4,868	—	4,868
	$—	$355,981	$ —	$355,981
Equity securities				
Mutual fund	$4,981	$—	$ —	$4,981
Loans held for sale	$—	$683	$ —	$683

(Dollars in thousands)	Fair Value Measurements Using			Total
December 31, 2017	Level 1	Level 2	Level 3	Fair Value
Securities available for sale				
U.S. Government agency obligations	$—	$109,890	$ —	$109,890
U.S. Treasury notes	—	1,934	—	1,934
Mortgage-backed securities, residential	—	33,663	—	33,663
Asset backed securities	—	11,845	—	11,845
State and municipal	—	74,391	—	74,391
Corporate bonds	—	15,320	—	15,320
SBA pooled securities	—	3,560	—	3,560
	$—	$250,603	$ —	$250,603
Equity securities				
Mutual fund	$5,006	$—	$ —	$5,006

There were no transfers between levels during 2018 or 2017.

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TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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, 2018 and December 31, 2017.

(Dollars in thousands) September 30, 2018	Fair Value Measurements Using Level 1	Level 2	Level 3	Total Fair Value
Impaired loans				
Commercial real estate	$—	$ —	$5,450	$5,450
Construction, land development, land	—	—	93	93
1-4 family residential properties	—	—	98	98
Farmland	—	—	842	842
Commercial	—	—	2,124	2,124
Factored receivables	—	—	4,925	4,925
Consumer	—	—	63	63
PCI	—	—	67	67
Other real estate owned [1]				
Commercial	—	—	819	819
	$—	$ —	$14,481	$14,481

(Dollars in thousands) December 31, 2017	Fair Value Measurements Using Level 1	Level 2	Level 3	Total Fair Value
Impaired loans				
Commercial real estate	$—	$ —	$42	$42
1-4 family residential properties	—	—	85	85
Commercial	—	—	7,785	7,785
Factored receivables	—	—	3,777	3,777
Consumer	—	—	191	191
Other real estate owned [1]				
Commercial	—	—	138	138
Construction, land development, land	—	—	202	202
	$—	$ —	$12,220	$12,220

[1] Represents the fair value of OREO that was adjusted during the year to date period and subsequent to its initial classification as OREO.

Impaired Loans with Specific Allocation of ALLL: A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due pursuant to the contractual terms of the loan agreement. Impairment 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 impaired 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 impaired 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.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

OREO: OREO is primarily comprised of real estate acquired in partial or full satisfaction of loans. OREO is recorded at its estimated fair value less estimated selling and closing costs at the date of transfer, with any excess of the related loan balance over the fair value less expected selling costs charged to the ALLL. Subsequent changes in fair value are reported as adjustments to the carrying amount and are recorded against earnings. The Company outsources the valuation of OREO with material balances to third party appraisers. For this asset class, the actual valuation methods (income, sales comparable, or cost) vary based on the status of the project or property. For example, land is generally based on the sales comparable method while construction is based on the income and/or sales comparable methods. The unobservable inputs may vary depending on the individual assets with no one of the three methods being the predominant approach. The Company reviews the third party appraisal for appropriateness and adjusts the value downward to consider selling and closing costs, which typically range from 5% to 8% of the appraised value.

The estimated fair values of the Company's financial instruments not measured at fair value on a recurring or non-recurring basis at September 30, 2018 and December 31, 2017 were as follows:

(Dollars in thousands)	Carrying	Fair Value Measurements Using			Total
September 30, 2018	Amount	Level 1	Level 2	Level 3	Fair Value
Financial assets:					
Cash and cash equivalents	$282,409	$282,409	$—	$—	$282,409
Securities - held to maturity	8,403	—	—	8,094	8,094
Loans not previously presented, gross	3,494,184	—	—	3,432,384	3,432,384
FHLB stock	23,109	N/A	N/A	N/A	N/A
Accrued interest receivable	20,141	20,141	—	—	20,141
Financial liabilities:					
Deposits	3,439,049	—	3,428,722	—	3,428,722
Customer repurchase agreements	13,248	—	13,248	—	13,248
Federal Home Loan Bank advances	330,000	—	330,000	—	330,000
Subordinated notes	48,903	—	51,125	—	51,125
Junior subordinated debentures	38,966	—	41,057	—	41,057
Accrued interest payable	6,072	6,072	—	—	6,072

(Dollars in thousands)	Carrying	Fair Value Measurements Using			Total
December 31, 2017	Amount	Level 1	Level 2	Level 3	Fair Value
Financial assets:					
Cash and cash equivalents	$134,129	$134,129	$—	$—	$134,129
Securities - held to maturity	8,557	—	—	7,527	7,527
Loans not previously presented, net	2,780,228	—	—	2,800,362	2,800,362
Loans included in assets held for sale, net	68,668	—	—	69,268	69,268
FHLB stock	16,006	N/A	N/A	N/A	N/A
Accrued interest receivable	15,517	15,517	—	—	15,517

Financial liabilities:					
Deposits	2,621,348	—	2,616,034	—	2,616,034
Customer repurchase agreements	11,488	—	11,488	—	11,488
Federal Home Loan Bank advances	365,000	—	365,000	—	365,000
Subordinated notes	48,828	—	52,310	—	52,310
Junior subordinated debentures	38,623	—	41,563	—	41,563
Accrued interest payable	3,323	3,323	—	—	3,323

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TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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, 2018 and December 31, 2017, the Company and TBK Bank meet all capital adequacy requirements to which they are subject.

As of September 30, 2018 and December 31, 2017, 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, 2018 that management believes have changed TBK Bank’s category.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The actual capital amounts and ratios for the Company and TBK Bank as of September 30, 2018 and December 31, 2017 are presented in the following table.

(Dollars in thousands)	Actual		Minimum for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
As of September 30, 2018	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$529,965	13.0%	$324,920	8.0%	N/A	N/A
TBK Bank, SSB	$471,802	12.0%	$314,844	8.0%	$393,555	10.0%
Tier 1 capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$453,295	11.2%	$243,690	6.0%	N/A	N/A
TBK Bank, SSB	$444,126	11.3%	$236,133	6.0%	$314,843	8.0%
Common equity Tier 1 capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$404,671	10.0%	$182,767	4.5%	N/A	N/A
TBK Bank, SSB	$444,126	11.3%	$177,099	4.5%	$255,810	6.5%
Tier 1 capital (to average assets)						
Triumph Bancorp, Inc.	$453,295	11.7%	$154,333	4.0%	N/A	N/A
TBK Bank, SSB	$444,126	11.7%	$152,037	4.0%	$190,046	5.0%
As of December 31, 2017						
Total capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$436,036	13.2%	$264,026	8.0%	N/A	N/A
TBK Bank, SSB	$361,068	11.4%	$254,139	8.0%	$317,674	10.0%
Tier 1 capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$367,958	11.1%	$198,019	6.0%	N/A	N/A
TBK Bank, SSB	$341,910	10.8%	$190,603	6.0%	$254,137	8.0%
Common equity Tier 1 capital (to risk weighted assets)						
Triumph Bancorp, Inc.	$320,265	9.7%	$148,514	4.5%	N/A	N/A
TBK Bank, SSB	$341,910	10.8%	$142,952	4.5%	$206,486	6.5%
Tier 1 capital (to average assets)						
Triumph Bancorp, Inc.	$367,958	11.8%	$124,754	4.0%	N/A	N/A

TBK Bank, SSB	$341,910	11.1%	$123,088	4.0%	$153,860	5.0%

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.

Beginning in January 2016, the implementation of the capital conservation buffer set forth by the Basel III regulatory capital framework was effective for the Company starting at 0.625% of risk weighted assets above the minimum risk based capital ratio requirements and increasing 0.625% each year thereafter, until it reaches 2.5% on January 1, 2019. The capital conservation buffer was 1.875% and 1.25% at September 30, 2018 and December 31, 2017, respectively. 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, 2018 and December 31, 2017, the Company’s and TBK Bank’s risk based capital exceeded the required capital conservation buffer.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 12 – STOCKHOLDERS' EQUITY

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

Common Stock

	September 30, 2018	December 31, 2017
Shares authorized	50,000,000	50,000,000
Shares issued	26,383,763	20,912,396
Treasury shares	(104,002)	(91,951)
Shares outstanding	26,279,761	20,820,445
Par value per share	$ 0.01	$ 0.01

Preferred Stock

(Dollars in thousands, except per share amounts)	Series A September 30, 2018	December 31, 2017	Series B September 30, 2018	December 31, 2017
Shares authorized	50,000	50,000	115,000	115,000
Shares issued	45,500	45,500	51,076	51,076
Shares outstanding	45,500	45,500	51,076	51,076
Par value per share	$ 0.01	$ 0.01	$ 0.01	$ 0.01
Liquidation preference per share	$ 100	$ 100	$ 100	$ 100
Liquidation preference amount	$ 4,550	$ 4,550	$ 5,108	$ 5,108
Dividend rate	Prime + 2%	Prime + 2%	8.00 %	8.00 %
Dividend rate - floor	8.00 %	8.00 %	N/A	N/A
Subsequent dividend payment dates	Quarterly	Quarterly	Quarterly	Quarterly
Convertible to common stock	Yes	Yes	Yes	Yes
Conversion period	Anytime	Anytime	Anytime	Anytime
Conversion ratio - preferred to common	6.94008	6.94008	6.94008	6.94008

Common Stock Offering

On April 12, 2018 the Company completed an underwritten public offering of 5,405,000 shares of the Company's common stock, including 705,000 shares sold pursuant to the underwriters' full exercise of their option to purchase additional shares, at $37.50 per share for total gross proceeds of $202,688,000. Net proceeds from the offering, after deducting the underwriting discount and offering expenses, were approximately $192,053,000.

NOTE 13 – STOCK BASED COMPENSATION

Stock based compensation expense that has been charged against income was $913,000 and $1,966,000 for the three and nine months ended September 30, 2018, respectively, and $459,000 and $1,484,000 for the three and nine months ended September 30, 2017, respectively.

2014 Omnibus Incentive Plan

The Company's 2014 Omnibus Incentive Plan ("Omnibus Incentive Plan") provides for the grant of nonqualified and incentive stock options, stock appreciation rights, restricted stock awards, restricted stock units, and other awards that may be settled in, or based upon the value of, the Company's common stock. The aggregate number of shares of common stock available for issuance under the Omnibus Incentive Plan is 1,200,000 shares.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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, 2018 were as follows:

Nonvested RSAs	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2018	102,776	$ 18.68
Granted	65,001	40.64
Vested	(63,995)	20.38
Forfeited	(2,422)	27.56
Nonvested at September 30, 2018	101,360	$ 31.48

RSAs granted to employees under the Omnibus Incentive Plan typically vest over three to 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, 2018, there was $2,166,000 of unrecognized compensation cost related to the nonvested RSAs. The cost is expected to be recognized over a remaining period of 3.17 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, 2018 were as follows:

Nonvested RSUs	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2018	—	$ —
Granted	59,658	38.75
Vested	—	—
Forfeited	—	—
Nonvested at September 30, 2018	59,658	$ 38.75

RSUs granted to employees under the Omnibus Incentive Plan vest after five years. Compensation expense for the RSUs will be recognized over the vesting period of the awards based on the fair value of the stock at the issue date. As of September 30, 2018, there was $2,118,000 of unrecognized compensation cost related to the nonvested RSUs. The cost is expected to be recognized over a remaining period of 4.59 years.

Performance Stock Units

A summary of changes in the Company's nonvested Performance Stock Units ("PSUs") under the Omnibus Incentive Plan for the nine months ended September 30, 2018 were as follows:

Nonvested PSUs	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2018	—	$ —
Granted	59,658	38.57
Vested	—	—
Forfeited	—	—
Nonvested at September 30, 2018	59,658	$ 38.57

PSUs granted to employees under the Omnibus Incentive Plan vest after five years. The number of shares issued upon vesting will range from 0% to 175% of the PSUs granted based on the Company's relative total shareholder return ("TSR") as compared to the

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TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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TSR of a specified group of peer banks. Compensation expense for the 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 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 date.

	Nine Months Ended September 30, 2018	
Grant date	May 1, 2018	
Performance period	5.00 Years	
Stock price	$ 38.85	
Triumph stock price volatility	29.13	%
Risk-free rate	2.76	%

As of September 30, 2018, there was $2,108,000 of unrecognized compensation cost related to the nonvested PSUs. The cost is expected to be recognized over a remaining period of 4.59 years.

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, 2018 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, 2018	185,328	$ 18.97		
Granted	51,952	38.75		
Exercised	(2,556)	17.16		
Forfeited or expired	(3,186)	18.98		
Outstanding at September 30, 2018	231,538	$ 23.43	8.22	$ 3,448
Fully vested shares and shares expected to vest at September 30, 2018	231,538	$ 23.43	8.22	$ 3,448

Shares exercisable at September 30, 2018	75,550	$ 17.73	7.69	$ 1,547

Information related to the stock options for the nine months ended September 30, 2018 and 2017 was as follows:

	Nine Months Ended September 30,	
(Dollars in thousands, except per share amounts)	2018	2017
Aggregate intrinsic value of options exercised	$59	$243
Cash received from option exercises	—	281
Tax benefit realized from options exercises	12	85
Weighted average fair value of options granted	$13.22	$8.71

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 were determined based on a blend of the Company’s historical volatility and historical volatilities of a peer group of companies with a similar size, industry, stage of life cycle, and capital structure. The expected term of the options granted was determined based on the SEC simplified method, which calculates the expected term as the mid-point between the weighted average time to vesting and the contractual term. The risk-free interest rate for the expected term of the options was derived from the Treasury constant maturity yield curve on the valuation date.

TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Nine Months Ended September 30, 2018	2017
Risk-free interest rate	2.85 %	2.11 %
Expected term	6.25 years	6.25 Years
Expected stock price volatility	28.07 %	29.70 %
Dividend yield	—	—

As of September 30, 2018, there was $804,000 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.

NOTE 14 – EARNINGS PER SHARE

The factors used in the earnings per share computation follow:

(Dollars in thousands)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Basic				
Net income to common stockholders	$8,975	$9,587	$33,045	$29,335
Weighted average common shares outstanding	26,178,194	19,811,577	24,159,543	18,600,009
Basic earnings per common share	$0.34	$0.48	$1.37	$1.58
Diluted				
Net income to common stockholders	$8,975	$9,587	$33,045	$29,335
Dilutive effect of preferred stock	195	195	578	580
Net income to common stockholders - diluted	$9,170	$9,782	$33,623	$29,915
Weighted average common shares outstanding	26,178,194	19,811,577	24,159,543	18,600,009
Dilutive effects of:				
Assumed conversion of Preferred A	315,773	315,773	315,773	315,773
Assumed conversion of Preferred B	354,471	354,471	354,471	354,471
Assumed exercises of stock warrants	—	54,476	—	110,089
Assumed exercises of stock options	90,320	45,788	86,728	42,084
Restricted stock awards	45,796	63,384	55,087	65,999
Restricted stock units	7,276	—	2,706	—
Performance stock units	—	—	—	—

Average shares and dilutive potential common shares	26,991,830	20,645,469	24,974,308	19,488,425
Diluted earnings per common share	$0.34	$0.47	$1.35	$1.53

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

	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Shares assumed to be converted from Preferred Stock Series A	—	—	—	—
Shares assumed to be converted from Preferred Stock Series B	—	—	—	—
Stock options	51,952	58,442	51,952	58,442
Restricted stock awards	14,513	—	14,513	—
Restricted stock units	—	—	—	—
Performance stock units	59,658	—	59,658	—

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TRIUMPH BANCORP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 15 – BUSINESS SEGMENT INFORMATION

The following table presents the Company’s operating segments. The accounting policies of the segments are substantially similar to those described in the “Summary of Significant Accounting Policies” in Note 1 of the Company’s 2017 Form 10-K. Transactions between segments consist primarily of borrowed funds. Intersegment interest expense is allocated to the Factoring segment based on the Company’s prime rate. The provision for loan loss is allocated based on the segment’s allowance for loan loss determination. Noninterest income and expense directly attributable to a segment are assigned to it. Taxes are paid on a consolidated basis but not allocated for segment purposes. The Factoring segment includes only factoring originated by TBC. General factoring services not originated through TBC are included in the Banking segment. On March 31, 2017, the Company sold its 100% membership interest in Triumph Capital Advisors, LLC (“TCA”) and discontinued fee based asset management services. TCA operations were not material during the year ended December 31, 2017 and are reflected in the Corporate segment, along with the gain on sale of the Company’s membership interest in TCA.

(Dollars in thousands)				
Three Months Ended September 30, 2018	Banking	Factoring	Corporate	Consolidated
Total interest income	$ 43,769	$ 27,420	$ 570	$ 71,759
Intersegment interest allocations	6,289	(6,289)	—	—
Total interest expense	8,426	—	1,551	9,977
Net interest income (expense)	41,632	21,131	(981)	61,782
Provision for loan losses	6,774	41	(12)	6,803
Net interest income after provision	34,858	21,090	(969)	54,979
Noninterest income	4,991	942	126	6,059
Noninterest expense	33,507	12,902	2,537	48,946
Operating income (loss)	$ 6,342	$ 9,130	$ (3,380)	$ 12,092

(Dollars in thousands)				
Three Months Ended September 30, 2017	Banking	Factoring	Corporate	Consolidated
Total interest income	$ 32,973	$ 11,736	$ 428	$ 45,137
Intersegment interest allocations	2,193	(2,193)	—	—
Total interest expense	4,294	—	1,331	5,625
Net interest income (expense)	30,872	9,543	(903)	39,512
Provision for loan losses	(69)	649	(8)	572
Net interest income after provision	30,941	8,894	(895)	38,940
Noninterest income	3,498	774	(101)	4,171
Noninterest expense	21,984	5,600	641	28,225
Operating income (loss)	$ 12,455	$ 4,068	$ (1,637)	$ 14,886

(Dollars in thousands)

Nine Months Ended September 30, 2018	Banking	Factoring	Corporate	Consolidated
Total interest income	$123,050	$62,514	$ 1,562	$ 187,126
Intersegment interest allocations	13,377	(13,377)	—	—
Total interest expense	20,421	—	4,536	24,957
Net interest income (expense)	116,006	49,137	(2,974)	162,169
Provision for loan losses	10,510	3,747	—	14,257
Net interest income after provision	105,496	45,390	(2,974)	147,912
Gain on sale of subsidiary or division	1,071	—	—	1,071
Other noninterest income	12,612	2,452	41	15,105
Noninterest expense	86,446	30,067	3,878	120,391
Operating income (loss)	$32,733	$17,775	$ (6,811)	$ 43,697

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TRIUMPH BANCORP, INC. AND SUBSIDIARIES

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(Dollars in thousands) Nine Months Ended September 30, 2017	Banking	Factoring	Corporate	Consolidated
Total interest income	$ 93,204	$ 30,828	$ 975	$ 125,007
Intersegment interest allocations	5,211	(5,211)	—	—
Total interest expense	11,177	—	3,942	15,119
Net interest income (expense)	87,238	25,617	(2,967)	109,888
Provision for loan losses	7,571	2,042	84	9,697
Net interest income after provision	79,667	23,575	(3,051)	100,191
Gain on sale of subsidiary or division	—	—	20,860	20,860
Other noninterest income	10,604	2,203	2,991	15,798
Noninterest expense	65,171	16,677	8,535	90,383
Operating income (loss)	$ 25,100	$ 9,101	$ 12,265	$ 46,466

(Dollars in thousands) September 30, 2018	Banking	Factoring	Corporate	Eliminations	Consolidated
Total assets	$ 4,433,862	$ 659,782	$ 712,971	$ (1,269,513)	$ 4,537,102
Gross loans	$ 3,411,456	$ 579,985	$ 10,952	$ (490,250)	$ 3,512,143

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

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, 2017. 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. Through our wholly owned bank subsidiary, TBK Bank, we offer traditional banking services as well as commercial finance product lines focused on businesses that require specialized financial solutions. Our banking operations include a full suite of lending and deposit products and services focused on our local market areas. These activities generate a stable source of core deposits and a diverse asset base to support our overall operations. Our commercial finance product lines include factoring, asset based lending, equipment lending, and premium finance products offered on a nationwide basis. These product offerings supplement the asset generation capacity in our community banking markets and enhance the overall yield of our loan portfolio, enabling us to earn attractive risk-adjusted net interest margins. We believe our integrated business model distinguishes us from other banks and non-bank financial services companies in the markets in which we operate. As of September 30, 2018, we had consolidated total assets of $4.537 billion, total loans held for investment of $3.512 billion, total deposits of $3.439 billion and total stockholders’ equity of $616.6 million.

A key element of our strategy is to supplement the asset generation capacity in our community banking markets with commercial finance product lines which are offered on a nationwide basis and which serve to enhance the overall yield of our portfolio. These products include our factoring services, provided principally in the transportation sector, and our asset based lending, equipment finance, and premium finance products. Our aggregate outstanding balances for these products increased $386.0 million, or 43.0%, to $1.284 billion as of September 30, 2018, primarily due to organic growth as well as increased factored receivables resulting from the acquisition of Interstate Capital Corporation as discussed below.

The following table sets forth our commercial finance product lines:

(Dollars in thousands)	September 30, 2018	December 31, 2017
Commercial finance		
Equipment	$ 323,832	$ 254,119
Asset based lending	273,096	213,471
Premium finance	75,293	55,520

Factored receivables	611,285	374,410
Total commercial finance loans	$ 1,283,506	$ 897,520

Most of our products and services share basic processes and have similar economic characteristics. However, our factoring subsidiary, Triumph Business Capital, operates in a highly specialized niche and earns substantially higher yields on its factored accounts receivable portfolio than our other lending products. This business also has a legacy and structure as a standalone company. We have determined our reportable segments are Banking, Factoring, and Corporate. For the nine months ended September 30, 2018, our Banking segment generated 67% of our total revenue (comprised of interest and noninterest income), our Factoring segment generated 32% of our total revenue, and our Corporate segment generated 1% of our total revenue. On March 31, 2017, we sold our 100% membership interest in Triumph Capital Advisors, LLC (“TCA”) and discontinued fee based asset management services. TCA operations were not material during the year ended December 31, 2017 and are reflected in our Corporate segment, along with the gain on sale of our membership interest in TCA.

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Third Quarter 2018 Overview

Net income available to common stockholders for the three months ended September 30, 2018 was $9.0 million, or $0.34 per diluted share, compared to net income available to common stockholders for the three months ended September 30, 2017 of $9.6 million, or $0.47 per diluted share. Excluding material gains and expenses related to merger and acquisition related activities, adjusted net income to common stockholders was $13.5 million, or $0.51 per diluted share, for the three months ended September 30, 2018. For the three months ended September 30, 2018, our return on average common equity was 5.85% and our return on average assets was 0.90%.

Net income available to common stockholders for the nine months ended September 30, 2018 was $33.0 million, or $1.35 per diluted share, compared to net income available to common stockholders for the nine months ended September 30, 2017 of $29.3 million, or $1.53 per diluted share. Excluding material gains and expenses related to merger and acquisition related activities, including divestitures, adjusted net income to common stockholders was $37.5 million, or $1.53 per diluted share, for the nine months ended September 30, 2018, compared to adjusted net income to common stockholders for the nine months ended September 30, 2017 of $19.4 million, or $1.02 per diluted share. For the nine months ended September 30, 2018, our return on average common equity was 8.41% and our return on average assets was 1.21%.

At September 30, 2018, we had total assets of $4.537 billion, including gross loans of $3.512 billion, compared to $3.499 billion of total assets and $2.811 billion of gross loans at December 31, 2017. Organic loan growth totaled $282.4 million during the nine months ended September 30, 2018. Our commercial finance product lines increased from $897.5 million in aggregate as of December 31, 2017 to $1.284 billion as of September 30, 2018, an increase of 43.0%, and constitute 37% of our total loan portfolio at September 30, 2018.

At September 30, 2018, we had total liabilities of $3.920 billion, including total deposits of $3.439 billion, compared to $3.107 billion of total liabilities and $2.621 billion of total deposits at December 31, 2017. Deposits increased $817.7 million during the nine months ended September 30, 2018.

At September 30, 2018, we had total stockholders' equity of $616.6 million. During the nine months ended September 30, 2018, total stockholders’ equity increased $224.9 million, primarily due to $192.1 million of net proceeds from the April 12, 2018 common stock offering discussed below and our net income for the period. Capital ratios remained strong with Tier 1 capital and total capital to risk weighted assets ratios of 11.16% and 13.05%, respectively, at September 30, 2018.

2018 Items of Note

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

Effective September 8, 2018, we acquired First Bancorp of Durango, Inc. (“FBD”) and its two community banking subsidiaries, The First National Bank of Durango and Bank of New Mexico, which were merged into TBK Bank upon closing, in an all-cash transaction for $134.7 million. On the same date, we acquired Southern Colorado Corp. (“SCC”) and its community banking subsidiary, Citizens Bank of Pagosa Springs, which was merged into TBK Bank upon closing, in an all-cash transaction for $13.3 million. As part of the FBD and SCC acquisitions, we acquired a combined $287.8 million of loans held for investment, assumed a combined $674.7 million of deposits, and recorded a combined $14.1 million of core deposit intangible assets and $72.1 million of goodwill.

Interstate Capital Corporation

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

Common Stock Offering

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

Triumph Healthcare Finance

On January 19, 2018, we entered into an agreement to sell the assets (the “Disposal Group”) of Triumph Healthcare Finance (“THF”) and exit the healthcare asset-based lending line of business. The decision to sell THF was made prior to the end of the fourth quarter of 2017, and at December 31, 2017, the fair value of the Disposal Group exceeded its carrying amount. As a result of this decision, the $71.4 million carrying amount of the Disposal Group was transferred to assets held for sale as of December 31, 2017. The sale was finalized on March 16, 2018 and resulted in a net pre-tax contribution to earnings for the nine months ended September 30, 2018 of $1.1 million, or approximately $0.8 million net of tax.

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

2017 Items of Note

Valley Bancorp, Inc.

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

Independent Bank – Colorado Branches

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

Common Stock Offering

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

Triumph Capital Advisors

On March 31, 2017, we sold our 100% membership interest in Triumph Capital Advisors, LLC (“TCA”). The TCA sale resulted in a net pre-tax contribution to earnings for the three months ended March 31, 2017 of $15.7 million, or approximately $10.0 million net of tax. Consideration received included a seller financed loan receivable in the amount of $10.5 million.

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

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Financial Highlights

(Dollars in thousands, except per share amounts)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Income Statement Data:				
Interest income	$71,759	$45,137	$187,126	$125,007
Interest expense	9,977	5,625	24,957	15,119
Net interest income	61,782	39,512	162,169	109,888
Provision for loan losses	6,803	572	14,257	9,697
Net interest income after provision	54,979	38,940	147,912	100,191
Gain on sale of subsidiary or division	—	—	1,071	20,860
Other noninterest income	6,059	4,171	15,105	15,798
Noninterest income	6,059	4,171	16,176	36,658
Noninterest expense	48,946	28,225	120,391	90,383
Net income before income taxes	12,092	14,886	43,697	46,466
Income tax expense	2,922	5,104	10,074	16,551
Net income	9,170	9,782	33,623	29,915
Dividends on preferred stock	(195)	(195)	(578)	(580)
Net income available to common stockholders	$8,975	$9,587	$33,045	$29,335
Per Share Data:				
Basic earnings per common share	$0.34	$0.48	$1.37	$1.58
Diluted earnings per common share	$0.34	$0.47	$1.35	$1.53
Weighted average shares outstanding - basic	26,178,194	19,811,577	24,159,543	18,600,009
Weighted average shares outstanding - diluted	26,991,830	20,645,469	24,974,308	19,488,425
Adjusted Per Share Data(1):				
Adjusted diluted earnings per common share	$0.51	$0.47	$1.53	$1.02
Adjusted weighted average shares outstanding - diluted	26,991,830	20,645,469	24,974,308	19,488,425
Performance ratios - Annualized:				
Return on average assets	0.90 %	1.36 %	1.21 %	1.46 %
Return on average total equity	5.88 %	10.71 %	8.40 %	12.44 %
Return on average common equity	5.85 %	10.79 %	8.41 %	12.58 %
Return on average tangible common equity (1)	7.57 %	12.28 %	10.27 %	14.65 %
Yield on loans	8.33 %	7.44 %	8.05 %	7.47 %
Adjusted yield on loans (1)	8.18 %	7.20 %	7.74 %	7.14 %
Cost of interest bearing deposits	1.08 %	0.80 %	0.96 %	0.75 %
Cost of total deposits	0.85 %	0.64 %	0.76 %	0.61 %
Cost of total funds	1.16 %	0.90 %	1.06 %	0.84 %
Net interest margin	6.59 %	5.90 %	6.35 %	5.82 %
Adjusted net interest margin (1)	6.45 %	5.69 %	6.08 %	5.54 %
Efficiency ratio	72.15 %	64.61 %	67.50 %	61.68 %
Adjusted efficiency ratio (1)	63.49 %	64.61 %	63.98 %	67.82 %
Net noninterest expense to average assets	4.19 %	3.35 %	3.76 %	2.63 %

Adjusted net noninterest expense to average assets [1]	3.62 %	3.35 %	3.55 %	3.40 %

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(Dollars in thousands, except per share amounts)	September 30, 2018		December 31, 2017	
Balance Sheet Data:				
Total assets	$ 4,537,102		$ 3,499,033	
Cash and cash equivalents	282,409		134,129	
Investment securities	369,365		264,166	
Loans held for investment, net	3,484,887		2,792,108	
Total liabilities	3,920,461		3,107,335	
Noninterest bearing deposits	697,903		564,225	
Interest bearing deposits	2,741,146		2,057,123	
FHLB advances	330,000		365,000	
Subordinated notes	48,903		48,828	
Junior subordinated debentures	38,966		38,623	
Total stockholders’ equity	616,641		391,698	
Preferred stockholders' equity	9,658		9,658	
Common stockholders' equity	606,983		382,040	
Per Share Data:				
Book value per share	$ 23.10		$ 18.35	
Tangible book value per share [(1)]	$ 15.42		$ 15.29	
Shares outstanding end of period	26,279,761		20,820,445	
Asset Quality ratios[(2)]:				
Past due to total loans	2.23	%	2.33	%
Nonperforming loans to total loans	1.13	%	1.38	%
Nonperforming assets to total assets	0.93	%	1.39	%
ALLL to nonperforming loans	68.82	%	48.41	%
ALLL to total loans	0.78	%	0.67	%
Net charge-offs to average loans[(3)]	0.19	%	0.28	%
Capital ratios:				
Tier 1 capital to average assets	11.75	%	11.80	%
Tier 1 capital to risk-weighted assets	11.16	%	11.15	%
Common equity Tier 1 capital to risk-weighted assets	9.96	%	9.70	%
Total capital to risk-weighted assets	13.05	%	13.21	%
Total stockholders' equity to total assets	13.59	%	11.19	%
Tangible common stockholders' equity ratio [(1)]	9.35	%	9.26	%

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

• “Adjusted diluted earnings per common share” is defined as adjusted net income available to common stockholders divided by adjusted weighted average diluted common shares outstanding. Excluded from net income available to common stockholders are material gains and expenses related to merger and acquisition-related activities, including divestitures, net of tax. In our judgment, the adjustments made to net income available to common stockholders allow management and investors to better assess our performance in relation to our core net income by removing the volatility associated with certain acquisition-related items and other discrete items that are unrelated to our core business. Weighted average diluted common shares outstanding are adjusted as a result of changes in their dilutive properties given the gain and expense adjustments described herein.

- "Tangible common stockholders' equity" is common stockholders' equity less goodwill and other intangible assets.
- "Total tangible assets" is defined as total assets less goodwill and other intangible assets.

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- "Tangible book value per share" is defined as tangible common stockholders' equity divided by total common shares outstanding. This measure is important to investors interested in changes from period-to-period in book value per share exclusive of changes in intangible assets.
- "Tangible common stockholders' equity ratio" is defined as the ratio of tangible common stockholders' equity divided by total tangible assets. We believe that this measure is important to many investors in the marketplace who are interested in relative changes from period-to period in common equity and total assets, each exclusive of changes in intangible assets.
- "Return on average tangible common equity" is defined as net income available to common stockholders divided by average tangible common stockholders' equity.
- "Adjusted efficiency ratio" is defined as noninterest expenses divided by our operating revenue, which is equal to net interest income plus noninterest income. Also excluded are material gains and expenses related to merger and acquisition-related activities, including divestitures. In our judgment, the adjustments made to operating revenue allow management and investors to better assess our performance in relation to our core operating revenue by removing the volatility associated with certain acquisition-related items and other discrete items that are unrelated to our core business.
- "Adjusted net noninterest expense to average total assets" is defined as noninterest expenses net of noninterest income divided by total average assets. Excluded are material gains and expenses related to merger and acquisition-related activities, including divestitures. This metric is used by our management to better assess our operating efficiency.
- "Adjusted yield on loans" is our yield on loans after excluding loan accretion from our acquired loan portfolio. Our management uses this metric to better assess the impact of purchase accounting on our yield on loans, as the effect of loan discount accretion is expected to decrease as the acquired loans roll off of our balance sheet, absent the impact, if any, of future acquisitions.
- "Adjusted net interest margin" is net interest margin after excluding loan accretion from the acquired loan portfolio. Our management uses this metric to better assess the impact of purchase accounting on net interest margin, as the effect of loan discount accretion is expected to decrease as the acquired loans mature or roll off of our balance sheet, absent the impact, if any, of future acquisitions.

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

(3) Net charge-offs to average loans ratios are for the nine months ended September 30, 2018 and the year ended December 31, 2017.

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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)	2018	2017	2018	2017
Net income available to common stockholders	$8,975	$9,587	$33,045	$29,335
Transaction costs	5,871	—	6,965	325
Gain on sale of subsidiary	—	—	(1,071)	(20,860)
Incremental bonus related to transaction	—	—	—	4,814
Tax effect of adjustments	(1,392)	—	(1,401)	5,754
Adjusted net income available to common stockholders	$13,454	$9,587	$37,538	$19,368
Dilutive effect of convertible preferred stock	195	195	578	580
Adjusted net income available to common stockholders - diluted	$13,649	$9,782	$38,116	$19,948
Weighted average shares outstanding - diluted	26,991,830	20,645,469	24,974,308	19,488,425
Adjusted effects of assumed preferred stock conversion	—	—	—	—
Adjusted weighted average shares outstanding - diluted	26,991,830	20,645,469	24,974,308	19,488,425
Adjusted diluted earnings per common share	$0.51	$0.47	$1.53	$1.02
Net income available to common stockholders	$8,975	$9,587	$33,045	$29,335
Average tangible common equity	470,553	309,624	430,080	267,633
Return on average tangible common equity	7.57%	12.28%	10.27%	14.65%
Adjusted efficiency ratio:				
Net interest income	$61,782	$39,512	$162,169	$109,888
Noninterest income	6,059	4,171	16,176	36,658
Operating revenue	67,841	43,683	178,345	146,546
Gain on sale of subsidiary	—	—	(1,071)	(20,860)
Adjusted operating revenue	$67,841	$43,683	$177,274	$125,686
Total noninterest expense	$48,946	$28,225	$120,391	$90,383
Transaction costs	(5,871)	—	(6,965)	(325)
Incremental bonus related to transaction	—	—	—	(4,814)
Adjusted noninterest expense	$43,075	$28,225	$113,426	$85,244
Adjusted efficiency ratio	63.49%	64.61%	63.98%	67.82%
Adjusted net noninterest expense to average assets ratio:				
Total noninterest expense	$48,946	$28,225	$120,391	$90,383

Transaction costs	(5,871)	—	(6,965)	(325)
Incremental bonus related to transaction	—	—	—	(4,814)
Adjusted noninterest expense	$43,075	$28,225	$113,426	$85,244
Total noninterest income	$6,059	$4,171	$16,176	$36,658
Gain on sale of subsidiary	—	—	(1,071)	(20,860)
Adjusted noninterest income	6,059	4,171	15,105	15,798
Adjusted net noninterest expenses	$37,016	$24,054	$98,321	$69,446
Average total assets	4,060,560	2,849,170	3,702,513	2,731,426
Adjusted net noninterest expense to average assets ratio	3.62 %	3.35 %	3.55 %	3.40 %
Reported yield on loans	8.33 %	7.44 %	8.05 %	7.47 %
Effect of accretion income on acquired loans	(0.15 %)	(0.24 %)	(0.31 %)	(0.33 %)
Adjusted yield on loans	8.18 %	7.20 %	7.74 %	7.14 %
Reported net interest margin	6.59 %	5.90 %	6.35 %	5.82 %
Effect of accretion income on acquired loans	(0.14 %)	(0.21 %)	(0.27 %)	(0.28 %)
Adjusted net interest margin	6.45 %	5.69 %	6.08 %	5.54 %

(Dollars in thousands, except per share amounts)	September 30, 2018	December 31, 2017
Total stockholders' equity	$ 616,641	$ 391,698
Preferred stock liquidation preference	(9,658)	(9,658)
Total common stockholders' equity	606,983	382,040
Goodwill and other intangibles	(201,842)	(63,778)
Tangible common stockholders' equity	$ 405,141	$ 318,262
Common shares outstanding	26,279,761	20,820,445
Tangible book value per share	$ 15.42	$ 15.29
Total assets at end of period	$ 4,537,102	$ 3,499,033
Goodwill and other intangibles	(201,842)	(63,778)
Tangible assets at period end	$ 4,335,260	$ 3,435,255
Tangible common stockholders' equity ratio	9.35 %	9.26 %

Results of Operations

Three months ended September 30, 2018 compared with three months ended September 30, 2017.

Net Income

We earned net income of $9.2 million for the three months ended September 30, 2018 compared to $9.8 million for the three months ended September 30, 2017, a decrease of $0.6 million.

The results for the three months ended September 30, 2018 include the results of operations of the assets acquired from FBD and SCC since the September 8, 2018 acquisition date and were impacted by $5.9 million of transaction costs associated with the acquisition. Excluding the transaction costs, net of taxes, we earned adjusted net income of $13.6 million for the three months ended September 30, 2018 compared to $9.8 million for the three months ended September 30, 2017, an increase of $3.8 million. The adjusted increase was primarily the result of a $22.3 million increase in net interest income, a $1.9 million increase in noninterest income, and a $0.7 million decrease in adjusted income tax expense, offset in part by a $6.2 million increase in the provision for loan losses and a $14.9 million increase in adjusted noninterest expense.

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

Net Interest Income

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

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Explanation of Responses:

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:

	Three Months Ended September 30,					
	2018			2017		
(Dollars in thousands)	Average Balance	Interest	Average Rate[4]	Average Balance	Interest	Average Rate[4]
Interest earning assets:						
Cash and cash equivalents	$156,876	$865	2.19 %	$111,364	$370	1.32 %
Taxable securities	183,238	1,207	2.61 %	211,354	1,570	2.95 %
Tax-exempt securities	66,208	344	2.06 %	25,174	85	1.34 %
FHLB stock	20,984	147	2.78 %	14,885	51	1.36 %
Loans [1]	3,293,719	69,196	8.33 %	2,295,356	43,061	7.44 %
Total interest earning assets	3,721,025	71,759	7.65 %	2,658,133	45,137	6.74 %
Noninterest earning assets:						
Cash and cash equivalents	69,875			36,128		
Other noninterest earning assets	269,660			154,909		
Total assets	$4,060,560			$2,849,170		
Interest bearing liabilities:						
Deposits:						
Interest bearing demand	$418,226	$200	0.19 %	$312,009	$137	0.17 %
Individual retirement accounts	105,774	339	1.27 %	98,713	309	1.24 %
Money market	303,843	594	0.78 %	201,462	118	0.23 %
Savings	272,230	60	0.09 %	167,908	20	0.05 %
Certificates of deposit	793,685	3,068	1.53 %	773,075	2,381	1.22 %
Brokered deposits	384,337	1,958	2.02 %	72,094	307	1.69 %
Total deposits	2,278,095	6,219	1.08 %	1,625,261	3,272	0.80 %
Subordinated notes	48,890	837	6.79 %	48,791	837	6.81 %
Junior subordinated debentures	38,905	714	7.28 %	32,983	495	5.95 %
Other borrowings	425,781	2,207	2.06 %	365,464	1,021	1.11 %
Total interest bearing liabilities	2,791,671	9,977	1.42 %	2,072,499	5,625	1.08 %
Noninterest bearing liabilities and equity:						
Noninterest bearing demand deposits	608,245			398,774		
Other liabilities	41,961			15,698		
Total equity	618,683			362,199		
Total liabilities and equity	$4,060,560			$2,849,170		
Net interest income		$61,782			$39,512	
Interest spread [2]			6.23 %			5.66 %
Net interest margin [3]			6.59 %			5.90 %

(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 community banking and commercial finance loan portfolios:

(Dollars in thousands)	Three Months Ended September 30, 2018		2017	
Average community banking	$2,039,624		$1,463,401	
Average commercial finance	1,254,095		831,955	
Average total loans	$3,293,719		$2,295,356	
Community banking yield	5.68	%	5.60	%
Commercial finance yield	12.66	%	10.62	%
Total loan yield	8.33	%	7.44	%

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We earned net interest income of $61.8 million for the three months ended September 30, 2018 compared to $39.5 million for the three months ended September 30, 2017, an increase of $22.3 million, or 56.5%, primarily driven by the following factors.

Interest income increased $26.6 million, or 58.9%, as a result of an increase in average interest earning assets of $1,063 million, or 40.0%, which was attributable to the impact of the FBD and SCC acquisitions which contributed $287.8 million of loans and $270.7 million of securities. The increase is also attributable to growth in our factored receivable operations as a result of the ICC acquisition and organic factored receivables growth. Additionally, interest income increased as a result of the Valley and Acquired Branch acquisitions which contributed $267.0 million of loans and $97.7 million of securities during the fourth quarter of 2017 and organic loan growth. The average balance of our higher yielding commercial finance loans increased $422.1 million, or 50.7%, from $832.0 million for the three months ended September 30, 2017 to $1.254 billion for the three months ended September 30, 2018 as a result of the ICC acquisition and the continued execution of our growth strategy for such products. Our average mortgage warehouse lending balance was $289.7 million for the three months ended September 30, 2018 compared to $177.8 million for the three months ended September 30, 2017. We also experienced increased average balances in our other community banking lending products, including commercial real estate and general commercial and industrial loans, due to organic growth period over period.

Interest expense increased $4.4 million, or 77.4%, as a result of growth in customer deposits and other borrowings as well as higher average rates. Average total interest bearing deposits increased $652.8 million 40.2%, primarily due to $674.7 million of customer deposits assumed in the FBD and SCC acquisitions and $454.1 million of customer deposits assumed in the Valley and Acquired Branches acquisitions. Excluding the acquired customer deposits, we also experienced growth in our certificates of deposit and brokered deposits as these higher cost deposit products were used to fund our growth period over period. In addition, our use of other interest bearing borrowings, consisting primarily of FHLB advances, was also increased to fund our growth however, our outstanding balance of FHLB advances at period end decreased period over period.

Net interest margin increased to 6.59% for the three months ended September 30, 2018 from 5.90% for the three months ended September 30, 2017, an increase of 69 basis points or 11.7%.

The increase in our net interest margin primarily resulted from an increase in yields on our interest earning assets. Our average yield on interest earning assets increased 91 basis points to 7.65% for the three months ended September 30, 2018 from 6.74% for the three months ended September 30, 2017, primarily due to an overall change in the mix within our loan portfolio period over period. Our higher yielding average commercial finance products as a percentage of the total loan portfolio increased from 36.2% for the three months ended September 30, 2017 to 38.1% for the three months ended September 30, 2018 and, average factored receivables as a percentage of the total commercial finance portfolio increased from 36.4% at September 30, 2017 to 47.7% at September 30, 2018 contributing to the overall increase in yield on our interest earning assets. In addition, our transportation factoring balances, which generate a higher yield than our non-transportation factoring balances, increased as a percentage of the overall factoring portfolio to 78% at September 30, 2018 compared to 77% at September 30, 2017.

A component of the yield on our loan portfolio consists of discount accretion on the portfolios acquired in connection with our acquisitions. The aggregate increased yield on our loan portfolio attributable to the accretion of purchase discounts associated with our acquisitions was 15 basis points for the three months ended September 30, 2018 and 24 basis points for the three months ended September 30, 2017. Excluding the impact of this discount accretion, the adjusted yield on our loan portfolio was 8.18% and 7.20% for the three months ended September 30, 2018 and 2017, respectively. Subject to future acquisitions, we anticipate that the contribution of this discount accretion to our interest income will continue to decline over time, but we expect that any resulting decreases in aggregate yield on our loan portfolio will be offset in part by continued growth in our higher yielding specialized commercial finance product lines.

Also impacting our net interest margin was an increase in our average cost of interest bearing liabilities of 34 basis points. This increase was caused by an increased use of higher rate certificates of deposit and brokered deposits to fund our growth period over period, and higher rates on short term and floating rate FHLB advances as a result of higher interest rates in the macro economy. This increase was partially offset by a change in the mix of our interest bearing deposits resulting from lower cost customer deposits assumed in the FBD, SCC, Valley and Acquired Branches acquisitions.

Our adjusted net interest margin, which excludes the impact of the acquired loan discount accretion described above, was 6.45% and 5.69% for the three months ended September 30, 2018 and 2017, respectively.

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

	Three Months Ended September 30, 2018 vs. 2017 Increase (Decrease) Due to:		
(Dollars in thousands)	Rate	Volume	Net Increase
Interest earning assets:			
Cash and cash equivalents	$244	$251	$495
Taxable securities	(178)	(185)	(363)
Tax-exempt securities	46	213	259
FHLB stock	53	43	96
Loans	5,161	20,974	26,135
Total interest income	5,326	21,296	26,622
Interest bearing liabilities:			
Interest bearing demand	12	51	63
Individual retirement accounts	7	23	30
Money market	276	200	476
Savings	17	23	40
Certificates of deposit	607	80	687
Brokered deposits	60	1,591	1,651
Total deposits	979	1,968	2,947
Subordinated notes	(2)	2	—
Junior subordinated debentures	110	109	219
Other borrowings	873	313	1,186
Total interest expense	1,960	2,392	4,352
Change in net interest income	$3,366	$18,904	$22,270

Provision for Loan Losses

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

Our ALLL was $27.3 million as of September 30, 2018 versus $18.7 million as of December 31, 2017, representing an ALLL to total loans ratio of 0.78% and 0.67% respectively.

Our provision for loan losses was $6.8 million for the three months ended September 30, 2018 compared to $0.6 million for the three months ended September 30, 2017, an increase of $6.2 million, or 1033.3%.

The increase in provision for loan loss was the result of increased net charge-offs, an increased loss factor on our asset based lending portfolio, which is included in our commercial loan portfolio, and increased net new specific reserves. Net charge-offs increased by $4.1 million from $2 thousand for the three months ended September 30, 2017 to $4.1

million for the three months ended September 30, 2018. Approximately $0.7 million and $0.3 million of the charge-offs for the three months ended September 30, 2018 and 2017, respectively, had specific reserves previously recorded. We recorded net new specific reserves of $0.5 million during the three months ended September 30, 2018 compared to net specific reserve releases of $0.1 million recorded during the three months ended September 30, 2017.

We charged-off approximately $4.0 million on a single asset based lending relationship during the three months ended September 30, 2018. The loss resulted from fraudulent conduct believed to be perpetrated by one or more employees of the borrower. The primary cause of the loss was the borrower’s submission of false borrowing base certificates and supporting documentation that resulted in advances in excess of available collateral. A notice of default has been issued to the borrower and the facility is in the process of liquidation. Approximately $0.7 million of the charge off had specific reserves previously recorded at the beginning of the three months period ended September 30, 2018. In addition, the charge-off resulted in an increase in the estimate of the allowance for loan loss reserves recorded against the remaining asset based lending portfolio in an amount of $2.5 million as a result of higher loss factors being incorporated into the Company’s allowance for loan loss reserve methodology for the period ended September 30, 2018.

Excluding the aforementioned impact of the FBD and SCC acquisitions, during the three months ended September 30, 2018 outstanding loans increased $27.8 million from June 30, 2018. During the three months ended September 30, 2017, outstanding loans increased $130.4 million from June 30, 2017. The smaller increase in loan balances within the three months ended September 30, 2018 partially offset the increase in our provision for loan losses in the current period however, this benefit was offset by a change in the composition of our loan portfolio.

Noninterest Income

The following table presents our major categories of noninterest income:

	Three Months Ended September 30,			
(Dollars in thousands)	2018	2017	$ Change	% Change
Service charges on deposits	$1,412	$1,046	$366	35.0 %
Card income	1,877	956	921	96.3 %
Net OREO gains (losses) and valuation adjustments	65	15	50	333.3 %
Net gains (losses) on sale of securities	—	35	(35)	(100.0 %)
Fee income	1,593	625	968	154.9 %
Insurance commissions	1,113	826	287	34.7 %
Other	(1)	668	(669)	(100.1 %)
Total noninterest income	$6,059	$4,171	$1,888	45.3 %

Noninterest income increased $1.9 million, or 45.3%, primarily due to increases in service charges on deposits, card income and fee income. Changes in selected components of noninterest income in the above table are discussed below.

- Service charges on deposits. Service charges on deposit accounts, including overdraft and non-sufficient funds fees, increased $0.4 million, or 35.0%, primarily due to additional service charges associated with the increase in customer deposits due to the Valley and Acquired Branches acquisitions and to a lesser extent, the FBD and SCC acquisitions.
- Card Income. Debit and credit card income increased $0.9 million, or 96.3%, primarily due to additional customer debit and credit card activity associated with the increase in issued cards resulting from the Valley and Acquired Branches acquisitions and to a lesser extent, the FBD and SCC acquisitions. In addition to increased activity, we received a $0.4 million incentive payment from our debit card provider for the achievement of certain growth goals. The incentive payment was received during the third quarter of 2018 is not expected to continue in future periods.
- Fee income. Fee income increased $1.0 million, or 154.9%, primarily due to increased check and wire fees resulting from the Valley and Acquired Branches acquisitions and to a lesser extent, the FBD and SCC acquisitions.
- Other. Other noninterest income, including income for check cashing and wire transfer fees, income associated with trust activities, and bank-owned life insurance, decreased $0.7 million, or 100.1%. The decrease was driven by a $0.5 million increase on our liability for contingent consideration due to the sellers of ICC upon remeasurement of the liability at September 30, 2018. The contingent payment is due during the fourth quarter of 2020. The decrease was also driven by a write-down on signage and other assets of $0.3 million related to rebranding of Triumph Community Bank to our standardized TBK Bank brand during the three months ended September 30, 2018. There were no other significant increases or decreases in the components of other noninterest income period over period.

Noninterest Expense

The following table presents our major categories of noninterest expense:

	Three Months Ended September 30,			
(Dollars in thousands)	2018	2017	$ Change	% Change

Salaries and employee benefits	$24,695	$16,717	$7,978	47.7	%
Occupancy, furniture and equipment	3,553	2,398	1,155	48.2	%
FDIC insurance and other regulatory assessments	363	294	69	23.5	%
Professional fees	3,384	1,465	1,919	131.0	%
Amortization of intangible assets	2,064	870	1,194	137.2	%
Advertising and promotion	1,609	804	805	100.1	%
Communications and technology	7,252	2,145	5,107	238.1	%
Travel and entertainment	1,168	543	625	115.1	%
Other	4,858	2,989	1,869	62.5	%
Total noninterest expense	$48,946	$28,225	$20,721	73.4	%

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Noninterest expense increased $20.7 million, or 73.4%. Noninterest expense for the three months ended September 30, 2018 was impacted by $5.9 million of transaction costs associated with the FBD and SCC acquisitions. There were no comparable transaction costs during the three months ended September 30, 2017. Excluding the FBD and SCC transaction costs, we incurred adjusted noninterest expense of $43.0 million for the three months ended September 30, 2018, resulting in an adjusted net increase in noninterest expense of $14.8 million period over period. Details of the more significant changes in the various components of noninterest expense are further discussed below.

- Salaries and Employee Benefits. Salaries and employee benefits expenses increased $8.0 million, or 47.7%, which is primarily due to a significant increase in the total size of our workforce between these periods as our average full-time equivalent employees were 1,023.3 and 713.0 for the three months ended September 30, 2018 and 2017, respectively. Sources of this increased headcount were primarily employees added through the ICC, Valley and Acquired Branches acquisitions and to a lesser extent, employees added through the FBD and SCC acquisitions. In addition, employees were hired to support growth in our commercial finance product lines and other strategic initiatives. Other factors contributing to the increase in salaries and employee benefits include merit increases for existing employees, higher health insurance benefit costs, incentive compensation, and 401(k) expense.
- Occupancy, Furniture and Equipment. Occupancy, furniture and equipment expenses increased $1.2 million, or 48.2%, primarily due to expenses associated with the infrastructure and facilities added through the ICC, Valley and Acquired Branches acquisitions and to a lesser extent, infrastructure and facilities added through the FBD and SCC acquisitions.
- Professional Fees. Professional fees, which are primarily comprised of external audit, tax, consulting, and legal fees, increased $1.9 million, or 131.0%, primarily due to $1.4 million of professional fees incurred in connection with the FBD and SCC acquisitions during the quarter.
- Amortization of intangible assets. Amortization of intangible assets increased $1.2 million, or 137.2%, primarily due to the addition of intangible assets resulting from the FBD, SCC, ICC, Valley and Acquired Branch acquisitions.
- Advertising and promotion. Advertising and promotion expenses increased $0.8 million, or 100.1%, primarily due to advertising and brand-awareness activities in connection with the FBD and SCC acquisitions.
- Communications and Technology. Communications and technology expenses increased $5.1 million, or 238.1%, primarily as a result of $3.1 million in information technology deconversion and termination fees resulting from our acquisition of FBD and SCC. The remaining increase is a result of increased usage and transaction volumes resulting from the ICC, Valley and Acquired Branch acquisitions and to a lesser extent, increased usage and transaction volumes resulting from the FBD and SCC acquisitions. The increase is also a result of growth in our organic operations.
- Travel and entertainment. Travel and entertainment expenses increased $0.6 million, or 115.1%, primarily due to additional travel required to efficiently integrate the recent acquisitions as well as additional travel in the normal course of business.
- Other. Other noninterest expense includes loan-related expenses, training and recruiting, postage, insurance, and subscription services. Other noninterest expense increased $1.9 million or 62.5% primarily due to an increase in software amortization cost resulting from our investments in systems and infrastructure to support the growth in our operations. There were no other significant increases or decreases in the components of other noninterest expense period over period.

Income Taxes

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

Income tax expense decreased $2.2 million, or 43.1%, from $5.1 million for the three months ended September 30, 2017 to $2.9 million for the three months ended September 30, 2018. The effective tax rate decreased from 34% for the three months ended September 30, 2017 to 24% for the three months ended September 30, 2018, primarily due to the enactment of the Tax Cuts and Jobs Act (the “Tax Act”) on December 22, 2017 which lowered our federal statutory tax rate, effective on January 1, 2018, and resulted in significant modifications to existing law.

In regard to the Tax Act, authoritative guidance and interpretation by regulatory bodies is ongoing and as such, the accounting for the effects of the Tax Act is not final and the full impact of the new regulation is still being evaluated.

Operating Segment Results

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

Reported segments and the financial information of the reported segments are not necessarily comparable with similar information reported by other financial institutions. Additionally, because of the interrelationships of the various segments, the information presented is not indicative of how the segments would perform if they operated as independent entities. Changes in management structure or allocation methodologies and procedures may result in future changes to previously reported segment financial data. The accounting policies of the segments are substantially similar to those described in the “Summary of Significant Accounting Policies” in Note 1 of the Company’s 2017 Form 10-K. Transactions between segments consist primarily of borrowed funds. Intersegment interest expense is allocated to the Factoring segment based on the Company’s prime rate. The provision for loan loss is allocated based on the segment’s ALLL determination. Noninterest income and expense directly attributable to a segment are assigned accordingly. Taxes are paid on a consolidated basis and are not allocated for segment purposes.

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

(Dollars in thousands) Three Months Ended September 30, 2018	Banking	Factoring	Corporate	Consolidated
Total interest income	$43,769	$27,420	$570	$71,759
Intersegment interest allocations	6,289	(6,289)	—	—
Total interest expense	8,426	—	1,551	9,977
Net interest income (expense)	41,632	21,131	(981)	61,782
Provision for loan losses	6,774	41	(12)	6,803
Net interest income after provision	34,858	21,090	(969)	54,979
Noninterest income	4,991	942	126	6,059
Noninterest expense	33,507	12,902	2,537	48,946
Operating income (loss)	$6,342	$9,130	$(3,380)	$12,092

(Dollars in thousands) Three Months Ended September 30, 2017	Banking	Factoring	Corporate	Consolidated
Total interest income	$32,973	$11,736	$428	$45,137
Intersegment interest allocations	2,193	(2,193)	—	—
Total interest expense	4,294	—	1,331	5,625
Net interest income (expense)	30,872	9,543	(903)	39,512
Provision for loan losses	(69)	649	(8)	572
Net interest income after provision	30,941	8,894	(895)	38,940
Noninterest income	3,498	774	(101)	4,171

Noninterest expense	21,984	5,600	641	28,225
Operating income (loss)	$12,455	$4,068	$(1,637)	$14,886

(Dollars in thousands)					
September 30, 2018	Banking	Factoring	Corporate	Eliminations	Consolidated
Total assets	$4,433,862	$659,782	$712,971	$(1,269,513)	$4,537,102
Gross loans	$3,411,456	$579,985	$10,952	$(490,250)	$3,512,143

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

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Banking

(Dollars in thousands)	Three Months Ended September 30,			
Banking	2018	2017	$ Change	% Change
Total interest income	$43,769	$32,973	$10,796	32.7 %
Intersegment interest allocations	6,289	2,193	4,096	186.8 %
Total interest expense	8,426	4,294	4,132	96.2 %
Net interest income (expense)	41,632	30,872	10,760	34.9 %
Provision for loan losses	6,774	(69)	6,843	9917.4 %
Net interest income (expense) after provision	34,858	30,941	3,917	12.7 %
Noninterest income	4,991	3,498	1,493	42.7 %
Noninterest expense	33,507	21,984	11,523	52.4 %
Operating income (loss)	$6,342	$12,455	$(6,113)	(49.1 %)

Our Banking segment’s operating income decreased $6.1 million, or 49.1%.

Interest income increased primarily as a result of increases in the average balances of our interest earning assets, primarily loans, which was attributable to the impact of the FBD and SCC acquisitions which contributed $287.8 million of loans and $270.7 million of securities. Additionally, interest income increased as a result of the Valley and Acquired Branch acquisitions which contributed $267.0 million of loans and $97.7 million of securities and organic loan growth. Average loans in our Banking segment increased 45.2% from $2.208 billion for the three months ended September 30, 2017 to $3.206 billion for the three months ended September 30, 2018.

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

The increase in provision for loan loss was the result of an increase in net charge-offs at our Banking segment. Net charge-offs increased by $4.0 million from a net recovery of $0.1 million for the three months ended September 30, 2017 to $3.9 million for the three months ended September 30, 2018 at our Banking segment. Approximately $0.7 million and $0.3 million of the charge-offs for the three months ended September 30, 2018 and 2017, respectively, had specific reserves previously recorded. Also impacting the Banking segment provision for loan loss was a $4.0 million charge-off of an asset based lending relationship which resulted in an increase in the estimate of the allowance for loan loss reserves recorded against the remaining asset based lending portfolio in an amount of $2.5 million as a result of higher loss factors being incorporated into the Company’s allowance for loan loss reserve methodology for the period ended September 30, 2018. Refer to the previous Provision for Loan Loss discussion for further details regarding the charge-off. We recorded net new specific reserves at our Banking segment of $0.1 million during the three months ended September 30, 2018 compared to net specific reserve releases of $0.1 million recorded during the three months ended September 30, 2017. Additionally, loans in our Banking segment grew at a slower pace for the nine months ended September 30, 2018 compared to the same period in 2017 which, when combined with changes in the mix of our portfolio and non-asset based lending-related loss factors used to calculate the ALLL, contributed to a slight offset of the increased provision for loan loss.

Noninterest income increased primarily due to additional service charges and card income associated with the increase in customer deposit and credit/debit card accounts acquired in the FBD, SCC, Valley and Acquired Branches acquisitions. Noninterest income for our Banking Segment includes $0.4 million incentive payment from our debit card provider for the achievement of certain growth goals during the three months ended September 30, 2018. The bonus payment is not expected to continue in future periods. It also includes a write-down on signage and other assets of $0.3 million related to rebranding of Triumph Community Bank to our standardized TBK Bank brand during the three months ended September 30, 2018. In addition, other sources of noninterest income, such as check cashing fees and wire transfer fees increased slightly due to incremental transaction volumes associated with the acquisitions.

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For the three months ended September 30, 2018 noninterest expense at our Banking segment includes $4.6 million of transaction costs as well as increased intangible amortization as a result of the FBD and SCC acquisitions with no comparable expenses for the three months ended September 30, 2017. Additionally, noninterest expense increased due to incremental costs associated with the growth in our Banking segment personnel and infrastructure in conjunction with our acquisitions of Valley and the Acquired Branches and to a lesser extent, our acquisitions of FBD and SCC, as well as personnel, facilities and infrastructure to support the continued organic growth in our lending operations. In addition, increases due to merit increases for existing employees, higher health insurance benefit costs, incentive compensation, and 401(k) expense contributed to the increase.

Factoring

(Dollars in thousands)	Three Months Ended September 30,			
Factoring	2018	2017	$ Change	% Change
Total interest income	$27,420	$11,736	$15,684	133.6 %
Intersegment interest allocations	(6,289)	(2,193)	(4,096)	186.8 %
Total interest expense	—	—	—	—
Net interest income (expense)	21,131	9,543	11,588	121.4 %
Provision for loan losses	41	649	(608)	(93.7 %)
Net interest income (expense) after provision	21,090	8,894	12,196	137.1 %
Noninterest income	942	774	168	21.7 %
Noninterest expense	12,902	5,600	7,302	130.4 %
Operating income (loss)	$9,130	$4,068	$5,062	124.4 %

	Three Months Ended September 30, 2018	2017
Factored receivable period end balance	$579,985,000	$315,742,000
Yield on average receivable balance	18.96 %	16.64 %
Rolling twelve quarter annual charge-off rate	0.38 %	0.44 %
Factored receivables - transportation concentration	83 %	84 %
Interest income, including fees	$27,420,000	$11,736,000
Non-interest income	942,000	774,000
Factored receivable total revenue	28,362,000	12,510,000
Average net funds employed	525,499,000	260,384,000
Yield on average net funds employed	21.41 %	19.06 %
Accounts receivable purchased	$1,503,049,000	$732,406,000
Number of invoices purchased	836,771	476,370
Average invoice size	$1,796	$1,537
Average invoice size - transportation	$1,666	$1,486
Average invoice size - non-transportation	$3,267	$1,965
Net new clients	422	235
Period end clients	5,932	2,925

Our Factoring segment’s operating income increased $5.1 million, or 124.4%.

Our average invoice size increased 16.9% from $1,537 for the three months ended September 30, 2017 to $1,796 for the three months ended September 30, 2018, and the number of invoices purchased increased 75.7% period over period. At September 30, 2018, Triumph Business Capital had 86 clients utilizing the TriumphPay platform. For the quarter ended September 30, 2018, TriumphPay processed 65,535 invoices paying 16,125 distinct carriers a total of $95.8 million.

Net interest income increased due to a 101.8% increase in overall average net funds employed in the third quarter of 2018 compared to the third quarter of 2017. Net funds employed represent factored receivable balances net of customer reserves which we hold 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 our consolidated balance sheets. The increase in NFE was the result of a full quarter impact of the ICC acquisition as well as organic growth in the factored receivables portfolio. In addition to increased average net funds employed, yield on average net funds employed increased period over period as a result of an increased average invoice size. Our transportation factoring balances, which typically generate a higher yield than our non-transportation factoring balances, as a percentage of the overall Factoring segment portfolio decreased from 84% on September 30, 2017 to 83% on September 30, 2018.

The decrease in provision for loan losses was primarily the result of lower growth in the ending balance of the factored receivables portfolio during the three months ended September 30, 2018 compared to the same period in 2017. The ending balance of the factored receivables portfolio at our Factoring segment grew $2.4 million during the three months ended September 30, 2018 compared to ending balance growth of $47.0 million over the same time period in 2017. We experienced higher total net charge-offs of $0.2 million in the three months ended September 30, 2018 compared to $0.1 million for the same period in 2017. We recorded net new allowances on specific at-risk balances at our Factoring segment of $0.4 million during the three months ended September 30, 2018 with no significant net new allowances on specific at-risk balances during the three months ended September 30, 2017.

The increase in noninterest income and noninterest expense was driven primarily by increased personnel, operating, and technology costs incurred in connection with the ICC acquisition and growth in our factoring portfolio, particularly the increase in the number of clients and number of invoices processed period over period.

Corporate

(Dollars in thousands)	Three Months Ended September 30,			
Corporate	2018	2017	$ Change	% Change
Total interest income	$570	$428	$142	33.2 %
Intersegment interest allocations	—	—	—	—
Total interest expense	1,551	1,331	220	16.5 %
Net interest income (expense)	(981)	(903)	(78)	8.6 %
Provision for loan losses	(12)	(8)	(4)	(50.0 %)
Net interest income (expense) after provision	(969)	(895)	(74)	8.3 %
Noninterest income	126	(101)	227	224.8 %
Noninterest expense	2,537	641	1,896	295.8 %
Operating income (loss)	$(3,380)	$(1,637)	$(1,743)	106.5 %

The Corporate segment's operating loss increased primarily due to $1.3 million of FBD and SCC-related transaction costs recorded during the three months ended September 30, 2018. There were no other significant fluctuations in accounts in our Corporate segment period over period.

Results of Operations

Nine months ended September 30, 2018 compared with nine months ended September 30, 2017

Net Income

We earned net income of $33.6 million for the nine months ended September 30, 2018 compared to $29.9 million for the nine months ended September 30, 2017, an increase of $3.7 million.

The results for the nine months ended September 30, 2018 include the results of operations of the acquisitions of FBD, SCC, and ICC since their respective acquisition dates and are inclusive of a combined $7.0 million of transaction costs associated with the acquisitions included in noninterest expense. The results for the nine months ended September 30, 2018 were also impacted by the sale of THF, which resulted in a pre-tax gain on sale in the amount of $1.1 million included in noninterest income. The results for the nine months ended September 30, 2017 were impacted by our sale of TCA, which resulted in a pre-tax gain on sale in the amount of $20.9 million included in noninterest income, offset by an additional $4.8 million bonus accrual and $0.3 million of other indirect transaction related costs recorded in connection with the TCA sale; both reported as noninterest expense.

Excluding the tax-effected impact of the FBD, SCC and ICC transaction costs and the THF and TCA sale transactions, we earned adjusted net income of $38.1 million for the nine months ended September 30, 2018 compared to $19.9 million for the nine months ended September 30, 2017, an increase of $18.2 million. The adjusted increase was primarily the result of a $52.3 million increase in net interest income offset in part by a $4.6 million increase in the provision for loan losses, a $0.7 million decrease in adjusted noninterest income, a $28.2 million increase in adjusted noninterest expense and a $0.6 million increase in adjusted income tax expense.

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

Net Interest Income

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

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

	Nine Months Ended September 30,					
	2018			2017		
(Dollars in thousands)	Average Balance	Interest	Average Rate[4]	Average Balance	Interest	Average Rate[4]
Interest earning assets:						
Cash and cash equivalents	$168,827	$2,412	1.91 %	$121,479	$986	1.09 %
Taxable securities	176,953	3,289	2.49 %	239,353	4,750	2.65 %
Tax-exempt securities	53,444	751	1.88 %	25,581	254	1.33 %
FHLB stock	18,548	353	2.54 %	11,295	129	1.53 %
Loans [1]	2,996,138	180,321	8.05 %	2,126,532	118,888	7.47 %
Total interest earning assets	3,413,910	187,126	7.33 %	2,524,240	125,007	6.62 %
Noninterest earning assets:						
Cash and cash equivalents	61,309			36,897		
Other noninterest earning assets	227,294			170,289		
Total assets	$3,702,513			$2,731,426		
Interest bearing liabilities:						
Deposits:						
Interest bearing demand	$396,550	$603	0.20 %	$326,798	$385	0.16 %
Individual retirement accounts	105,337	963	1.22 %	100,224	903	1.20 %
Money market	281,205	1,306	0.62 %	205,585	356	0.23 %
Savings	251,108	120	0.06 %	170,431	81	0.06 %
Certificates of deposit	791,400	8,246	1.39 %	767,680	6,682	1.16 %
Brokered deposits	272,997	3,889	1.90 %	69,359	791	1.52 %
Total deposits	2,098,597	15,127	0.96 %	1,640,077	9,198	0.75 %
Subordinated notes	48,864	2,512	6.87 %	48,767	2,508	6.88 %
Junior subordinated debentures	38,789	2,024	6.98 %	32,881	1,435	5.83 %
Other borrowings	384,922	5,294	1.84 %	286,910	1,978	0.92 %

Total interest bearing liabilities	2,571,172	24,957	1.30	%	2,008,635	15,119	1.01	%
Noninterest bearing liabilities and equity:								
Noninterest bearing demand deposits	569,123				388,217			
Other liabilities	27,260				12,984			
Total equity	534,958				321,590			
Total liabilities and equity	$3,702,513				$2,731,426			
Net interest income								