

Section 1: 10-K (FORM 10-K)

[Table of Contents](#)

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

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2018

or

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

For the transition period from _____ to _____

Commission file number 000-50448

Marlin Business Services Corp.

(Exact name of Registrant as specified in its charter)

Pennsylvania
(State of incorporation)

38-3686388
(I.R.S. Employer
Identification No.)

300 Fellowship Road, Mount Laurel, NJ 08054
(Address of principal executive offices)

Registrant's telephone number, including area code:
(888) 479-9111

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$.01 par value	The NASDAQ Stock Market LLC

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that registrant was required to submit and such files.) Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the voting common stock held by non-affiliates of the Registrant, based on the closing price of such shares on the NASDAQ Global Select Market was approximately \$254,357,832 as of June 30, 2018. Shares of common stock held by each executive officer and director and persons known to us who beneficially own 5% or more of our outstanding common stock have been excluded from this computation in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of Registrant's common stock outstanding as of February 26, 2018 was 12,328,824 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement related to the 2019 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission within 120 days of the close of Registrant's fiscal year, are incorporated by reference into Part III of this Form 10-K.

[Table of Contents](#)

**MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
FORM 10-K
INDEX**

		Page No.
PART I		
Item 1	Business	2
Item 1A	Risk Factors	18
Item 1B	Unresolved Staff Comments	25
Item 2	Properties	25
Item 3	Legal Proceedings	25
Item 4	Mine Safety Disclosures	25
PART II		
Item 5	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	26
Item 6	Selected Financial Data	29
Item 7	Management's Discussion and Analysis of Financial Condition and Results of Operations	31
Item 7A	Quantitative and Qualitative Disclosures About Market Risk	59
Item 8	Financial Statements and Supplementary Data	59
Item 9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	115
Item 9A	Controls and Procedures	115
Item 9B	Other Information	115
PART III		
Item 10	Directors, Executive Officers and Corporate Governance	116
Item 11	Executive Compensation	116
Item 12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	116
Item 13	Certain Relationships and Related Transactions, and Director Independence	116
Item 14	Principal Accountant Fees and Services	116
PART IV		
Item 15	Exhibits and Financial Statement Schedules	117

Table of Contents

PART I

As used herein, the terms “Company,” “Marlin,” “Registrant,” “we,” “us” or “our” refer to Marlin Business Services Corp. and its subsidiaries.

Item 1. Business

Overview

We are a nationwide provider of credit products and services to small businesses. The products and services we provide to our customers include loans and leases for the acquisition of commercial equipment and working capital loans. Our average original transaction size was approximately \$16,000 at December 31, 2018, and we typically do not exceed \$250,000 for any single lease or loan transaction. Our average net investment on Equipment Finance contracts as of December 31, 2018 was approximately \$10,500. We acquire our small business customers primarily by offering equipment financing through independent commercial equipment dealers and various national account programs, through direct solicitation of our small business customers and through relationships with select lease and loan brokers. Through these origination partners, we are able to cost-effectively access small business customers while also helping our origination partners obtain financing for their customers. As of December 31, 2018, we serviced approximately 94,000 finance contracts having a total original value of \$1.6 billion for approximately 80,000 small business customers. Our revenue consists of interest and fees from our leases and loans and, to a lesser extent, income from our property insurance program and other fee income, and is derived from customers in the United States.

The small balance commercial financing market is highly fragmented. We estimate that there are more than 100,000 independent commercial equipment dealers and other intermediaries who sell the types of equipment we finance or require the types of financing we provide. We believe this segment of equipment dealers is underserved because: (1) large commercial finance companies and large commercial banks typically concentrate their efforts on marketing their products and services directly to larger equipment manufacturers and larger distributors, rather than to independent equipment dealers; and (2) many smaller commercial finance companies and regional banking institutions have not developed the systems and infrastructure required to adequately service large volumes of low-balance transactions. We focus on establishing our relationships with independent equipment dealers who value convenient point-of-sale financing programs because we can make their sale process more effective. By providing them with the ability to offer our financing and related services to their customers as an integrated part of their selling process, our origination partners are able to increase their sales and provide better service to their customers. By doing this, we are also able to gather small business customers to which we can sell additional credit products and services through our fully integrated origination platform which allows us to efficiently solicit, process and service a large number of low-balance financing transactions. From our inception in 1997 to December 31, 2018, we have processed approximately 1,188,000 lease applications and originated over 498,000 new leases.

Through the issuance of Federal Deposit Insurance Corporation (“FDIC”)-insured deposits, the Company’s wholly-owned subsidiary, Marlin Business Bank (“MBB”), serves as the Company’s primary funding source. MBB receives time deposits through a variety of sources including: directly from customers, through the use of on-line listing services, and through the use of deposit brokers. In the future MBB may elect to offer other products and services to the Company’s customer base. As a Utah state-chartered Federal Reserve member bank, MBB is supervised by both the Federal Reserve Bank of San Francisco and the Utah Department of Financial Institutions.

On January 13, 2009, Marlin Business Services Corp. became a bank holding company and is subject to the Bank Holding Company Act and supervised by the Federal Reserve Bank of Philadelphia. On September 15, 2010, the Federal Reserve Bank of Philadelphia confirmed the effectiveness of Marlin Business Services Corp.’s election to become a financial holding company (while remaining a bank holding company) pursuant to Sections 4(k) and (l)

Table of Contents

of the Bank Holding Company Act and Section 225.82 of the Federal Reserve Board's Regulation Y. Such election permits Marlin Business Services Corp. to engage in activities that are financial in nature or incidental to a financial activity, including the maintenance and expansion of our reinsurance activities conducted through our wholly-owned subsidiary, AssuranceOne, Ltd. ("AssuranceOne").

Competitive Strengths

We believe several characteristics may distinguish us from our competitors, including the following:

Multiple Sales Origination Channels. We use multiple sales origination channels to penetrate effectively the highly diversified and fragmented small-ticket equipment leasing market. We use both direct and indirect origination channels. Our direct channel involves soliciting our existing small business customer base for repeat business as well as identifying other small business customers who need financing. The indirect channel sources financing opportunities through our partner network and our broker network. Our indirect origination channels, which accounted for approximately 80% of the 2018 lease and loan new origination fundings, involve: (1) establishing relationships with independent equipment dealers; (2) securing endorsements from national equipment manufacturers and distributors to become the preferred lease financing source for the independent dealers who sell their equipment; and (3) establishing relationships with independent brokers who identify opportunities for us. Our broker network accounted for 25% of the indirect channel's 2018 lease and loan new origination volume. Our direct origination channel accounted for approximately 20% of the 2018 lease and loan new origination volume.

Highly Effective Account Origination Platform. Our telephonic direct marketing platform and our strategic use of outside sales account executives offer origination partners a high level of personalized service through our team of sales account executives and sales support personnel. Our business model is built on a real-time, fully integrated customer information database and a contact management and telephony application that facilitate our account solicitation and servicing functions.

Comprehensive Credit Process. We seek to manage credit risk effectively at the origination partner as well as at the transaction and portfolio levels. Our comprehensive credit process starts with the qualification and ongoing review of our origination partners. Once the origination partner is approved, our credit process focuses on analyzing and underwriting the small business customer and the specific financing transaction, regardless of whether the transaction was originated through our direct or indirect origination channels. Our underwriting process involves the use of our customized acquisition scorecards along with detailed rules-based analysis conducted by our team of seasoned credit analysts.

Portfolio Diversification. As of December 31, 2018, no single small business customer accounted for more than 0.10% of our portfolio balance and leases from our largest origination partner accounted for only 2.35% of our portfolio. Our portfolio is also diversified nationwide with the largest state portfolios existing in California (13%), Texas (12%) and Florida (10%).

Fully Integrated Information Management System. Our business integrates information technology solutions to optimize the sales origination, credit, collection and account servicing functions. Throughout a transaction, we collect a significant amount of information on our origination partners and small business customers. The enterprise-wide integration of our systems enables data collected by one group, such as credit, to be used by other groups, such as sales or collections, to better perform their functions.

Sophisticated Collections Environment. Our centralized collections department is structured to collect delinquent accounts, minimize credit losses and maximize post charge-off recovery dollars. Our collection strategy employs a delinquency bucket segmentation approach, where certain collectors are assigned to accounts based on their delinquency status. We also stratify and assign our accounts to collectors based on other relevant criteria, such as customers with an early missed payment, risk profile and transaction size. This segmentation approach allows us to assign our more experienced collectors to the late stage delinquent accounts. In addition, the collections department also focuses on collecting delinquent late fees, property taxes, and other outstanding amounts due under the customer's contracts.

Table of Contents

Access to Multiple Funding Sources. We have established and maintained diversified funding sources, with our wholly-owned subsidiary, MBB. MBB is currently our primary funding source through the issuance of fixed and variable rate FDIC-insured deposits raised nationally through direct platforms, listing services, and through various deposit brokers. We believe that our proven ability to access funding consistently at competitive rates through various economic cycles provides us with the liquidity necessary to manage our business. (See **Liquidity and Capital Resources** in Item 7).

Experienced Management Team. Our executive officers have an average of more than 20 years of experience in financial services. As we have grown, we have expanded the management team with a group of successful, seasoned executives.

Disciplined Growth Strategy

Our primary objective is to enhance our current position as a provider of credit services to small and mid-sized businesses by pursuing a strategy focused primarily on organic growth initiatives while actively managing credit risk. We seek to maintain consistent credit quality standards while continuing to pursue strategies designed to increase the number of independent equipment dealers and other origination partners that generate and develop lease and loan customers. We also target strategies to further penetrate our existing origination partners.

Asset Originations

Overview of Origination Process. We access our small business customers through our extensive network of independent equipment dealers and through the direct solicitation of our small business customers. We use both a highly efficient telephonic direct sales model and, for strategic larger accounts, outside sales executives to market to our origination partners. Through these sources, we are able to deliver convenient and flexible financing solutions to our small business customers.

Our origination process begins with our database of thousands of origination partner prospects located throughout the United States. We develop and continually update this database by purchasing marketing data from third parties, such as Dun & Bradstreet, Inc., by joining industry organizations and by attending equipment trade shows. The prospects in our database are systematically distributed to our sales force for solicitation and further data collection. Sales account executives access prospect information and related marketing data through our contact management software. This contact management software enables the sales account executives to sort their origination partners and prospects by any data field captured, schedule calling campaigns, send e-mails, produce correspondence and documents, manage their time and calendar, track activity, recycle leads and review management reports.

Once a sales account executive converts a prospect into an active relationship, that sales account executive becomes the origination partner's single point of contact for all dealings with us. This approach, which is a cornerstone of our origination platform, offers our origination partners a personal relationship through which they can address all of their questions and needs, including matters relating to pricing, credit, documentation, training and marketing. This single point of contact approach distinguishes us from our competitors, many of whom require origination partners to interface with several people in various departments, such as sales support, credit and customer service, for each application submitted. Since many of our origination partners have little or no prior experience in using lease financing as a sales tool, our personalized, single point of contact approach facilitates the leasing process for them. Other key aspects of our platform aimed at facilitating the lease financing process for the origination partners include:

- ability to submit applications via fax, phone, Internet, mail, e-mail, or web portal;
- credit decisions generally within two hours;
- one-page, plain-English form of lease for transactions up to \$100,000;

Table of Contents

- ability to use electronic documents with instantaneous routing;
- check, wire, or ACH funding to the origination partner once all lease and loan origination conditions are satisfied;
- value-added services, such as application and portfolio reporting, marketing support and sales training on the benefits of financing;
- online portal for dealers to view current status and important information about their customers;
- on-site or telephonic training of the equipment dealer's sales force on leasing as a sales tool; and
- custom leases and loan programs.

Sales Origination Channels. We primarily use indirect sales origination channels to penetrate effectively a multitude of origination partners in the highly diversified and fragmented small-ticket equipment leasing market. All inside sales account executives use our telephonic direct marketing sales model to solicit these origination partners and small business customers.

Indirect Channels. Our indirect sales origination channels, which account for approximately 86% of the active lease contracts in our portfolio, involve:

- *Independent Equipment Dealer Solicitations.* This origination channel focuses on soliciting and establishing relationships with independent equipment dealers in a variety of equipment categories located across the United States. Service is a key determinant in becoming the preferred provider of financing recommended by these equipment dealers.
- *Major and National Accounts.* This channel focuses on two specific areas of development: (i) national equipment manufacturers and distributors, where we seek to leverage their endorsements to become the preferred lease financing source for their independent dealers, and (ii) major accounts (larger independent dealers, distributors and manufacturers) with a consistent flow of business that need a specialized marketing and sales platform to convert more sales using a leasing option.
- *Brokers.* Our broker channels account for approximately 14% of the active lease contracts in our portfolio and consist of our relationships with lease brokers and certain equipment dealers who refer small business customer transactions to us for a fee or sell us leases that they originated with small business customers. We conduct our own independent credit analysis on each small business customer in a broker lease transaction. We have written agreements with most of our broker origination partners whereby they provide us with certain representations and warranties about the underlying lease transaction. The origination partners in our broker channels generate leases that are similar to those generated by our direct channels.
- *Direct Channel.* This channel focuses primarily on soliciting our existing portfolio of approximately 80,000 small business customers for additional equipment leasing or working capital opportunities. We view our existing small business customers as an excellent source for additional business for various reasons, including (i) retained credit information; (ii) payment history; and (iii) a demonstrated propensity to finance their equipment.

Product Offerings

Equipment Leases. The types of lease products offered by each of our sales origination channels share common characteristics, and we generally underwrite our leases using the same criteria. Our leases provide for non-cancelable rental payments due during the initial lease term. The initial non-cancelable lease term is equal to or less than the equipment's economic life. Initial terms generally range from 36 to 72 months. At December 31, 2018, the average original term of the leases in our portfolio was approximately 48 months, and we had personal

Table of Contents

guarantees on approximately 30% of our leases. The remaining terms and conditions of our leases are substantially similar, generally requiring small business customers to, among other things:

- address any maintenance or service issues directly with the equipment dealer or manufacturer;
- insure the equipment against property and casualty loss;
- pay or reimburse us for all taxes associated with the equipment;
- use the equipment only for business purposes; and
- make all scheduled payments regardless of the performance of the equipment.

We charge late fees when appropriate throughout the term of the lease. Our standard lease contract provides that in the event of a default, we can require payment of the entire balance due under the lease through the initial term and can take action to seize and remove the equipment for subsequent sale, refinancing or other disposal at our discretion, subject to any limitations imposed by law.

At the time of application, small business customers select a purchase option that will allow them to purchase the equipment at the end of the contract term for either one dollar, the fair market value of the equipment or a specified percentage of the original equipment cost. We seek to realize our recorded residual in leased equipment at the end of the initial lease term by collecting the purchase option price from the small business customer, re-marketing the equipment in the secondary market or receiving additional rental payments pursuant to the applicable contract's renewal provision.

Property Insurance on Leased Equipment. Our lease agreements specifically require customers to obtain all-risk property insurance in an amount sufficient to cover the value of the equipment and to designate us as the loss payee on the policy. If the customer already has a commercial property policy for its business, it can satisfy its obligation under the lease by delivering a certificate of insurance that evidences us as the loss payee under that policy. At December 31, 2018, approximately 52% of our small business customers insured the equipment under their existing policies. For the others, we have a master property insurance policy underwritten by a third-party national insurance company that is licensed to write insurance under our program in all 50 states and the District of Columbia. This master policy names us as the beneficiary for all of the equipment insured under the policy and provides all-risk coverage for the value of the equipment.

In May 2000, we established AssuranceOne, our Bermuda-based, wholly-owned captive insurance subsidiary which enables us to reinsure the property insurance coverage for the equipment financed by MLC and MBB for our small business customers. Under this contract, AssuranceOne reinsures 100% of the risk under the master policy, and the issuing insurer pays AssuranceOne the policy premiums, less claims, premium tax and a ceding fee based on a percentage of annual net premiums written. The reinsurance contract is scheduled to expire in September 2023. On January 27, 2010, pursuant to an application filed with the Bermuda Monetary Authority, AssuranceOne changed from a Class 1 insurer to a Class 3 insurer under the Bermuda Insurance Act of 1978, as amended. As a Class 3 insurer, AssuranceOne is permitted to collect up to 50% of its premiums in connection with insurance coverage on equipment unrelated to the Company, meaning that, through AssuranceOne, we may offer an insurance product to cover equipment not otherwise financed through the Company.

Working Capital Loans. During the first quarter of 2015, the Company launched Funding Stream, a flexible loan program of MBB. The success of this program and the growing demand by small businesses for convenient working capital solutions prompted the Company to update the name of this program to Working Capital Loans in 2018, while maintaining its commitment to a convenient, hassle-free alternative to traditional lenders and access to capital to help companies grow their businesses. Generally, these loans range from \$5,000 to \$150,000, have 6 to 24 month terms, and have automated daily or weekly payback. Business owners can apply online, in ten minutes or less, on MarlinCapitalSolutions.com. Approved borrowers can receive funds in as little as two days.

Table of Contents

Portfolio Overview

At December 31, 2018, we had approximately 94,000 active Equipment Finance leases and loans in our portfolio, representing a period ending net investment in Equipment Finance lease and loans, excluding the allowance for credit losses, of \$980.0 million. With respect to our portfolio at December 31, 2018:

- the average original Equipment Finance lease and loan transaction was approximately \$16,000, with an average remaining balance of approximately \$12,000;
- the average original Equipment Finance lease and loan term was approximately 48 months;
- our active Equipment Finance lease and loans were spread among approximately 80,000 different small business customers, with the largest single small business customer accounting for only 0.10% of the aggregate Equipment Finance minimum lease and loan payments receivable;
- over 76.0% of the aggregate minimum Equipment Finance lease and loan payments receivable were with small business customers who had been in business for more than five years;
- the portfolio was spread among 12,673 origination partners, with the largest source accounting for only 2.35% of the aggregate Equipment Finance minimum lease and loan payments receivable, and our 10 largest origination partners accounting for only 12.3% of the aggregate Equipment Finance minimum lease and loan payments receivable;
- there were over 100 different equipment categories financed, with the largest categories set forth as follows, as a percentage of the December 31, 2018 aggregate Equipment Finance minimum lease and loan payments receivable:

<u>Equipment Category</u>	<u>Percentage</u>
Copiers	18.81%
Commercial & Industrial	8.56%
Titled V-Commercial	5.43%
Restaurant	5.12%
Medical	3.93%
Auto Equipment	2.65%
VOIP	2.38%
Intangible	2.34%
Titled V-Trailers	2.13%
Titled V-Other	2.10%
Office Furniture	1.96%
All others (none more than 1.96%)	44.59%

Table of Contents

- we had leases outstanding with small business customers located in all 50 states and the District of Columbia, with our largest states of origination set forth below, as a percentage of the December 31, 2018 aggregate minimum lease payments receivable:

<u>State</u>	<u>Percentage</u>
California	12.45%
Texas	12.27%
Florida	9.94%
New York	6.66%
New Jersey	4.54%
Pennsylvania	3.85%
Georgia	3.64%
Illinois	3.38%
North Carolina	3.25%
Maryland	2.51%
Massachusetts	2.45%
Ohio	2.29%
All others (none more than 2.29%)	32.77%

As of December 31, 2018, the Company had approximately 1,200 Working Capital Loans with a book value of \$ 36.9 million on the balance sheet. Approximately 45% of our Working Capital Loan customers renew or take additional capital.

Information Management

A critical element of our business operations is our ability to collect detailed information on our origination partners and small business customers at all stages of a financing transaction and to manage that information effectively so that it can be used across all aspects of our business. Our information management system integrates a number of technologies to optimize our sales origination, credit, collection and account servicing functions. Applications used across our business include:

- *a customer relationship management system* that: (1) summarizes vital information on our prospects, origination partners, competitors and small business customers compiled from third-party data, trade associations, manufacturers, transaction information and data collected through the sales solicitation process; and (2) produces detailed reports using a variety of attributes to evaluate the performance and effectiveness of our sales process and customer interactions;
- *a call management reporting system* that systematically analyzes call activity patterns to improve inbound and outbound calling campaigns for originations, collections and customer service;
- *a data warehouse* that aggregates data from origination, sales, credit and servicing attributes based on the performance and preferences of our origination partners and small business customers. Organization leaders have direct access to monitor origination partners, trends, exposure, portfolio concentration and other key performance indicators;
- *an originations processing system* that allows the organization to:
 - manage departmental tasks attributed to the full life cycle of an application;
 - automatically aggregate credit attributes from third party data sources;
 - automatically approve applications which qualify under certain guidelines, while rejecting those that do not qualify; and
 - allows for the automated submission of applications to syndication partners.

Table of Contents

- a *servicing software platform* that facilitates:
 - contract maintenance;
 - delinquency management and collections; and
 - Payment assessment and processing.
- *predictive auto dialer technology* that is used primarily in the collection processes to improve the efficiencies by which these groups make their daily phone calls;
- *integrated imaging technology* that enables our employees to retrieve at their desktops all documents evidencing a lease transaction, thereby further improving our operating efficiencies and service levels;
- *an integrated voice response unit* that enables our small business customers the opportunity to quickly and efficiently obtain certain information from us about their accounts; and
- *web-based digital platforms for our partner and customer community* that provides several capabilities including:
 - application entry and tracking;
 - real-time notification for application approvals;
 - portfolio management;
 - on-line retrieval of documents;
 - operational metrics; and
 - payment history, invoice presentment and bill payment.
- *eLink* – An integration platform that gives partners the ability to integrate financing options directly into their ecommerce sales platform.

Our technology platform is industry standard and fully scalable to support future growth. We use state of the art technology solutions for off-site data replication, backup and recovery.

Credit Underwriting

Credit underwriting is separately performed and managed apart from asset origination. Credit analysts are located in our New Jersey corporate office, Riverside, California and at MBB's office in Salt Lake City, Utah. At December 31, 2018 we had a total of 21 credit analysts and managers with an average of approximately 17 years of experience. Each credit analyst's performance is measured monthly against a discrete set of performance variables, including decision turnaround time, performance metrics and adherence to our underwriting policies and procedures.

Our typical financing transaction involves three parties: the origination partner, the small business customer and us. The key elements of our comprehensive credit underwriting process include the qualification and ongoing review of origination partners, the performance of due diligence procedures on each small business customer and the monitoring of overall portfolio trends and underwriting standards.

Qualification and Ongoing Review of Origination Partners. Each origination partner is reviewed and qualified by the credit analyst. The origination partner's credit information is reviewed as part of the qualification process. Over time, our database has captured credit profiles on thousands of origination partners. We regularly track all applications and lease and loan originations by source, assessing whether the origination partner has a high application decline rate and analyzing the portfolio performance of the leases and loans originated through that source. Each origination partner is reviewed on a regular basis using portfolio performance statistics as well as any other information noted in the source's file. We will place an origination partner on watch status if its

Table of Contents

portfolio performance statistics are consistently below our expectations. If the origination partner's statistics do not improve in a timely manner, we often stop accepting applications from that origination partner. Some of our business is originated directly with the end user, therefore there is no origination partner involved.

Small Business Customer Review. Each small business customer's application is reviewed using our customized acquisition scorecards along with our rules-based set of underwriting guidelines that focus on predictive commercial and consumer credit data. These underwriting guidelines have been developed and refined by our management team based on proven best practices and its experience in extending credit to small and mid-sized businesses. The guidelines are reviewed and revised as necessary by our Risk Committee, which is comprised of our Chief Risk Officer, Chief Executive Officer, Chief Operations Officer, General Counsel, President of MBB and Chief Lending Officer of MBB. Our underwriting guidelines require a thorough credit investigation of the small business customer. The guidelines may also include an analysis of the personal credit of the owner, who may guarantee the transaction, and verification of the corporate name and location. The credit analyst may also consider other factors in the credit decision process, including:

- financial strength of the business;
- length of time in business;
- confirmation of actual business operations and ownership;
- management history, including prior business experience;
- size of the business, including the number of employees;
- third-party commercial credit data and consumer credit data (when applicable);
- legal structure of business; and
- fraud indicators.

Transactions over \$150,000 receive a higher level of scrutiny which may include a review of financial statements or tax returns and a review of the business purpose of the equipment to the small business customer.

Within two hours of receipt of the application, the credit analyst is usually ready to render a credit decision on transactions less than \$50,000. If there is insufficient information to render a credit decision, a request for more information will be made by the credit analyst. Credit approvals are typically valid for up to a 90-day period from the date of initial approval. In the event that the funding does not occur within the initial approval period, a re-approval may be issued after the credit analyst has reprocessed all the relevant credit information to determine that the creditworthiness of the applicant has not deteriorated.

In some instances, after a lease is approved, a phone verification with the small business customer is performed by us prior to funding the transaction. The purpose of this call is to review the terms and conditions of the lease contract, confirm the customer's satisfaction with the equipment and obtain additional billing information. We will delay paying the origination partner for the equipment if the contract management specialist uncovers any material issues during the phone verification.

Since mid-2009, we have been using proprietary, customized acquisition scorecards for use in our credit decisioning process based on our database of historical information. The scorecards are tested and validated on an ongoing basis by credit and non-credit subject matter experts both inside and outside the organization. The scorecards' key attributes and mathematical computations are periodically modified. The scorecards enable us to increase efficiencies and consistency in the credit decisioning process. In 2018, approximately 51% of new credit applications were auto-decisioned using Marlin's scorecards.

Monitoring of Portfolio Trends and Underwriting Standards. Credit personnel use our databases and our information management tools to monitor the characteristics and attributes of our overall portfolio. Reports are produced to analyze origination partner performance, small business customer delinquencies, portfolio

Table of Contents

concentrations, trends and other related indicators of portfolio performance. Any significant findings are presented to the Risk Committee for review and action.

Our credit underwriting is subjected to monitoring by our Governance Risk and Compliance Teams and Internal Audit to ensure that the credit department adheres to all underwriting guidelines and policy. The examinations conducted by these teams and departments are designed to monitor our origination partners, the appropriateness of exceptions to our underwriting guidelines and documentation quality.

Account Servicing

We service the leases we originate. Account servicing involves a variety of functions performed by numerous work groups, including:

- entering the lease into our accounting and billing system;
- preparing the invoice information;
- generally, filing Uniform Commercial Code financing statements on leases in excess of \$50,000;
- paying the equipment dealers for leased equipment and services;
- billing, collecting and remitting sales, use and property taxes to the taxing jurisdictions;
- assuring compliance with insurance requirements; and
- providing customer service to the leasing customers.

Our integrated lease processing and accounting systems automate many of the functions associated with servicing high volumes of small-ticket leasing transactions.

Collection Process

Our centralized collections department is structured to collect delinquent accounts, open fees, renewal payments and recover post-default dollars to offset losses incurred. This process features a blend of proven methods:

- a delinquency bucket approach is in use, in which certain collectors are assigned to accounts based on their delinquency status;
- 1 to 30 day accounts are pooled together and called by a team of collectors using a predictive dialer;
- 31+ accounts are assigned to collectors within the respective delinquency bucket such as 31-60, 61-90 or 91-120 (prior to charge-off);
- during collection calls, the collectors also attempt to collect open late fees, delinquent property taxes, and all other miscellaneous fees; and
- collectors are compensated for commission purposes on a team basis, but they are also evaluated individually using various metrics which include call volumes, payments taken, messages, promises to pay and customer centric measurements.

Initial outbound phone contact is generally made when a lease becomes 10 days past its due date. A predictive dialer is used to create outbound call campaigns based on delinquency.

Delinquency notices are sent at 10, 30, 60 and 90-day delinquency stages. Generally, the notices are in paper form, but the collectors also use e-mails to communicate with delinquent lessees. In addition, and as needed, collectors will also generate ad-hoc notices to those most at-risk customers to communicate the seriousness of the delinquency. During the late stage efforts, late charges are assessed and legal options explored, including but not limited to acceleration of the entire lease balance, litigation and repossession.

Table of Contents

Generally, after an account becomes 120 days or more past-due it is charged-off from the servicing system. Those charged-off accounts are then referred to our internal legal or recovery teams. These teams may initiate legal action against the end-user customer and any personal guarantor if warranted. The accounts may also be referred to an external collection agency or law firm for action to offset the losses taken from charge-off.

All collection related activity and notes are directly input into the servicing system to record and memorialize conversations and action plans with customers.

At the end of the initial lease term, on fair market value leases, a customer may return the equipment, continue leasing the equipment or purchase the equipment under the guidelines set forth in the purchase option granted to the customer. Our end of term department seeks to realize our recorded residual in the leased equipment at the end of the lease term.

Supervision and Regulation

Although most states do not directly regulate the commercial equipment lease financing business, certain states require lenders and finance companies to be licensed, impose limitations on certain contract terms and on interest rates and other charges, mandate disclosure of certain contract terms and constrain collection practices and remedies. Under certain circumstances, we also may be required to comply with the Equal Credit Opportunity Act and the Fair Credit Reporting Act. These acts require, among other things, that we provide notice to credit applicants of their right to receive a written statement of reasons for declined credit applications. We are also subject to those sections of the Telephone Consumer Protection Act of 1991 that regulate business-to-business telephone and facsimile communication. The Fair and Accurate Credit Transactions Act ("FACT Act") requires financial institutions to establish a written program to implement "Red Flag Guidelines," which are intended to detect, prevent and mitigate identity theft. The FACT Act also provides guidance regarding reasonable policies and procedures that a user of consumer credit reports must employ when a consumer reporting agency sends the user a notice of address discrepancy.

Our insurance operations are subject to various types of governmental regulation. Our wholly-owned insurance company subsidiary, AssuranceOne, is a Class 3 Bermuda insurance company and, as such, is subject to the Bermuda Insurance Act 1978, as amended, and related regulations.

Banking Regulation. On January 13, 2009, the Company became a bank holding company and is subject to the Bank Holding Company Act and supervised by the Federal Reserve Bank of Philadelphia. On September 15, 2010, the Federal Reserve Bank of Philadelphia confirmed the effectiveness of the Company's election to become a financial holding company (while remaining a bank holding company) pursuant to Sections 4(k) and (l) of the Bank Holding Company Act and Section 225.82 of the Federal Reserve Board's Regulation Y. Such election permits the Company to engage in activities that are financial in nature or incidental to a financial activity, including the maintenance and expansion of our reinsurance activities conducted through AssuranceOne.

Since its opening on March 12, 2008, MBB has been operating in accordance with the agreement entered into with the FDIC on March 20, 2007 (the "FDIC Agreement") and in accordance with certain requirements and conditions applicable during its three-year de novo period, as well as requirements and conditions applicable thereafter. MBB's three-year de novo period expired on March 12, 2011, as did certain of the requirements and conditions that were applicable solely during such period.

MBB is also subject to comprehensive federal and state regulations dealing with a wide variety of subjects, including reserve requirements, loan limitations, requirements governing the establishment of branches and numerous other aspects of its operations. These regulations generally have been adopted to protect depositors and creditors rather than shareholders. All of our subsidiaries may be subject to examination by the Federal Reserve Board and the Federal Reserve Bank of Philadelphia even if not otherwise regulated by them, subject to certain conditions in the case of "functionally regulated subsidiaries," such as broker/dealers and registered investment advisers.

Table of Contents

Regulations governing the Company and its affiliates restrict extensions of credit by MBB to Marlin Business Services Corp. and, with some exceptions, to other affiliates. For these purposes, extensions of credit include loans and advances to and guarantees and letters of credit on behalf of Marlin Business Services Corp. and such affiliates. These regulations also restrict investments by MBB in the stock or other securities of Marlin Business Services Corp. and the covered affiliates, as well as the acceptance of such stock or other securities as collateral for loans to any borrower, whether or not related to Marlin Business Services Corp.

Additional Activities. Bank holding companies and their banking and non-banking subsidiaries have traditionally been limited to the business of banking and activities that are closely related thereto. The Gramm-Leach-Bliley Act (“GLB Act”) expanded the provisions of the Bank Holding Company Act by including a section that permits bank holding companies to become financial holding companies (which we did effective September 15, 2010, while remaining a bank holding company) and permits them to engage in a wider range of financial activities. A financial holding company is permitted to engage in a wide variety of activities deemed to be “financial in nature” including lending, exchanging, transferring, investing for others, or safeguarding money or securities, providing financial, investment or economic advisory services and underwriting, dealing in, or making a market in securities.

Capital Adequacy. The Company and MBB operate under the Basel III capital adequacy standards adopted by the federal bank regulatory agencies effective on January 1, 2015. Under the risk-based capital requirements applicable to them, bank holding companies must maintain a ratio of total capital to risk-weighted assets (including the asset equivalent of certain off-balance sheet activities such as acceptances and letters of credit) of not less than 8% (10% in order to be considered “well-capitalized”). The requirements include a 6% minimum Tier 1 risk-based ratio (8% to be considered well-capitalized). Tier 1 Capital consists of common stock, related surplus, retained earnings, qualifying perpetual preferred stock and minority interests in the equity accounts of certain consolidated subsidiaries, after deducting goodwill and certain other intangibles. The remainder of total capital (“Tier 2 Capital”) may consist of certain perpetual debt securities, mandatory convertible debt securities, hybrid capital instruments and limited amounts of subordinated debt, qualifying preferred stock, allowance for credit losses on loans and leases, allowance for credit losses on off-balance-sheet credit exposures and unrealized gains on equity securities. At December 31, 2018, the Company’s Tier 1 Capital and total capital ratios were 17.50% and 18.76%, respectively.

The capital standards require a minimum Tier 1 leverage ratio of 4%. The capital requirements also now require a new common equity Tier 1 risk-based capital ratio with a required minimum of 4.5% (6.5% to be considered well-capitalized). The Federal Reserve Board’s guidelines also provide that bank holding companies experiencing internal growth or making acquisitions are expected to maintain capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the guidelines indicate that the Federal Reserve Board will continue to consider a “tangible tier 1 leverage ratio” (*i.e.*, after deducting all intangibles) in evaluating proposals for expansion or new activities. MBB is subject to similar capital standards. At December 31, 2018, the Company’s leverage and common equity ratios were 16.38% and 17.50%, respectively.

The Company is required to have a level of regulatory capital in excess of the regulatory minimum and to have a capital buffer above 1.875% for 2018, and 2.5% for 2019 and thereafter. If a banking organization does not maintain capital above the minimum plus the capital conservation buffer it may be subject to restrictions on dividends, share buybacks, and certain discretionary payments such as bonus payments.

On July 2, 2013, the Federal Reserve Board approved a final rule to help ensure banking organizations maintain strong capital positions that will enable them to continue lending to creditworthy households and businesses even after unforeseen losses and during severe economic downturns. The final rule minimizes the burden on smaller, less complex financial institutions. It establishes an integrated regulatory capital framework that addresses shortcomings in capital requirements, particularly for larger, internationally active banking organizations, that became apparent during the recent financial crisis. The Basel III regulatory capital reforms from the Basel Committee on Banking Supervision and certain changes required by the Dodd-Frank Wall Street

Table of Contents

Reform and Consumer Protection Act (the “Dodd-Frank Act”) were implemented in the United States, and were effective January 1, 2014 and phased in over a multiple-year period, becoming fully effective on January 1, 2019.

Under the final rule, minimum requirements will increase for both the quantity and quality of capital held by banking organizations. In addition, for the largest, most internationally active banking organizations, the final rule includes a new minimum supplementary leverage ratio that takes into account off-balance sheet exposures. The rule establishes new criteria for instruments that will qualify as common equity tier 1 capital, additional tier 1 capital, or tier 2 capital; adjusts thresholds for the prompt corrective action capital categories and adds in the common equity tier 1 capital ratio to the prompt corrective action thresholds; places limits on distributions or discretionary bonus payments based on the size of the financial institution’s capital conservation buffer and retained income; and establishes revised risk weights and credit conversion factors for certain loans and equity exposures.

In September 2017, the federal banking agencies proposed a rule that would simplify certain aspects of the capital rules with the goal of reducing regulatory burdens on community banks while maintaining safety and soundness and the quality and quantity of regulatory capital in the banking system. Any changes in the capital rules would apply primarily to banking organizations that are not subject to the advanced approaches capital rules. In anticipation of these possible changes, in October 2017, the federal banking agencies adopted a final rule to extend the regulatory capital treatment applicable during 2017 for certain items. The final rule extends the 2017 capital regulatory treatment for mortgage servicing assets; deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks; significant investments in the capital of unconsolidated financial institutions in the form of common stock; non-significant investments in the capital of unconsolidated financial institutions; significant investments in the capital of unconsolidated financial institutions that are not in the form of common stock; and common equity tier 1 minority interest, tier 1 minority interest, and total capital minority interest exceeding the capital rules’ minority interest limitations. This extension would apply only to non-advanced approaches banking organizations.

Prompt Corrective Action. The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”) requires federal regulators to take prompt corrective action against any undercapitalized institution. Five capital categories have been established under federal banking regulations: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Well-capitalized institutions significantly exceed the required minimum level for each relevant capital measure. Adequately capitalized institutions include depository institutions that meet but do not significantly exceed the required minimum level for each relevant capital measure. Undercapitalized institutions consist of those that fail to meet the required minimum level for one or more relevant capital measures. Significantly undercapitalized depository institutions consist of those with capital levels significantly below the minimum requirements for any relevant capital measure. Critically undercapitalized depository institutions are those with minimal capital and at serious risk for government seizure.

Under certain circumstances, a well-capitalized, adequately capitalized or undercapitalized institution may be treated as if the institution were in the next lower capital category. A depository institution is generally prohibited from making capital distributions, including paying dividends, or paying management fees to a holding company if the institution would thereafter be undercapitalized. Institutions that are adequately capitalized but not well-capitalized cannot accept, renew or roll over brokered deposits except with a waiver from the FDIC and are subject to restrictions on the interest rates that can be paid on such deposits. Undercapitalized institutions may not accept, renew or roll over brokered deposits.

The federal bank regulatory agencies are permitted or, in certain cases, required to take certain actions with respect to institutions falling within one of the three undercapitalized categories. Depending on the level of an institution’s capital, the agency’s corrective powers include, among other things:

- prohibiting the payment of principal and interest on subordinated debt;

Table of Contents

- prohibiting the holding company from making distributions without prior regulatory approval;
- placing limits on asset growth and restrictions on activities;
- placing additional restrictions on transactions with affiliates;
- restricting the interest rate the institution may pay on deposits;
- prohibiting the institution from accepting deposits from correspondent banks; and
- in the most severe cases, appointing a conservator or receiver for the institution.

A banking institution that is undercapitalized is required to submit a capital restoration plan and such a plan will not be accepted unless, among other things, the banking institution's holding company guarantees the plan up to a certain specified amount. Any such guarantee from a depository institution's holding company is entitled to a priority of payment in bankruptcy. MBB's Tier 1 Capital balance was \$139.0 million at December 31, 2018, resulting in a Tier 1 leverage ratio, common equity Tier 1 risk based ratio, Tier 1 risk-based capital ratio and a total risk-based capital ratio of 15.55%, 15.99%, 15.99% and 17.24%, respectively, which exceeded the regulatory requirements for well-capitalized status of 5%, 6.5%, 8% and 10%, respectively.

Pursuant to the FDIC Agreement entered into in conjunction with the opening of MBB, MBB must keep its total risk-based capital ratio above 15%. MBB's total risk-based capital ratio of 17.24% at December 31, 2018 exceeded the threshold for well-capitalized status under the applicable laws and regulations, and also exceeded the 15% minimum total risk-based capital ratio required in the FDIC Agreement.

The federal banking agencies' final regulatory capital rules, discussed above, also modify the above prompt corrective action requirements to add a common equity tier 1 risk-based ratio requirement, and increase certain other capital requirements for the various prompt corrective action thresholds. For example, the requirements for a bank to be considered well-capitalized under the rules are a 5.0% tier 1 leverage ratio, a 6.5% common equity tier 1 risk-based ratio, an 8.0% tier 1 risk-based capital ratio and a 10.0% total risk-based capital ratio. To be adequately capitalized, those ratios are 4.0%, 4.5%, 6.0% and 8.0%, respectively. These changes took effect for the Company on January 1, 2015.

Federal Deposit Insurance. Under the Federal Deposit Insurance Reform Act of 2005, as amended by the Dodd-Frank Act, the FDIC changed its risk-based premium system for FDIC deposit insurance, providing for quarterly assessments of FDIC-insured institutions based on their respective rankings in one of four risk categories depending upon their examination ratings and capital ratios. Beginning in 2011, the FDIC assessment base changed from total domestic deposits to consolidated total assets minus tangible equity capital, defined as Tier 1 Capital. Institutions in FDIC-assigned Risk Categories II, III and IV are assessed premiums at progressively higher rates.

On July 21, 2010, President Barack Obama signed the Dodd-Frank Act into law, which, in part, (1) required the FDIC to increase reserves for the Deposit Insurance Fund (the "DIF") against future losses which will necessitate increased deposit insurance premiums that are to be borne primarily by institutions with assets greater than \$10 billion and (2) permanently raised the standard maximum deposit insurance amount to \$250,000. To bolster the DIF, the Dodd-Frank Act provides for a new minimum reserve ratio of not less than 1.35% of estimated insured deposits and requires that the FDIC take steps necessary to attain this 1.35% ratio by September 30, 2020. The FDIC is required by law to offset the effect on institutions with less than \$10 billion in total consolidated assets of increasing the reserve ratio from 1.15% to 1.35%. When the reserve ratio is at or above 1.38 percent, the FDIC will automatically apply a small bank's credits to reduce its regular assessment up to the entire amount of the assessment. If the reserve ratio exceeds 1.5 percent, the FDIC must dividend to DIF members the amount above the amount necessary to maintain the DIF at 1.5 percent, but the FDIC Board of Directors may, in its sole discretion, suspend or limit the declaration of payment of dividends. In April 2016, the Board of Directors of the FDIC approved a final rule that amends the way small banks are assessed for deposit

Table of Contents

insurance, affecting banks with less than \$10 billion in assets that have been FDIC insured for at least five years. Changes in the rules include a revised methodology that the FDIC uses to determine risk-based assessments to better reflect risks and assign insurance assessments based on those risks. This final rule was implemented starting in the third quarter of 2016. These changes took effect at the same time rates were reduced for small banks due to hitting the 1.15 percent ratio.

Source of Strength Doctrine. Under the provisions of the Dodd-Frank Act, as well as Federal Reserve Board policy and regulation, a bank holding company must serve as a source of financial and managerial strength to each of its subsidiary banks and is expected to stand prepared to commit resources to support each of them. Consistent with this policy, the Federal Reserve Board has stated that, as a matter of prudent banking, a bank holding company should generally not maintain a given rate of cash dividends unless its net income available to common shareholders has been sufficient to fully fund the dividends and the prospective rate of earnings retention appears to be consistent with the organization's capital needs, asset quality and overall financial condition.

USA Patriot Act of 2001. A major focus of governmental policy applicable to financial institutions in recent years has been the effort to combat money laundering and terrorism financing. The USA Patriot Act of 2001 (the "Patriot Act") was enacted to strengthen the ability of the U.S. law enforcement and intelligence communities to achieve this goal. The Patriot Act requires financial institutions, including our banking subsidiary, to assist in the prevention, detection and prosecution of money laundering and the financing of terrorism. The Patriot Act established standards to be followed by institutions in verifying client identification when accounts are opened and provides rules to promote cooperation among financial institutions, regulators and law enforcement organizations in identifying parties that may be involved in terrorism or money laundering.

Privacy. Title V of the GLB Act is intended to increase the level of privacy protection afforded to customers of financial institutions, including customers of the securities and insurance affiliates of such institutions, partly in recognition of the increased cross-marketing opportunities created by the GLB Act's elimination of many of the boundaries previously separating various segments of the financial services industry. Among other things, these provisions require institutions to have in place administrative, technical and physical safeguards to ensure the security and confidentiality of customer records and information, to protect against anticipated threats or hazards to the security or integrity of such records and to protect against unauthorized access to or use of such records that could result in substantial harm or inconvenience to a customer.

Future Legislation. From time to time, legislation will be introduced in Congress and state legislatures with respect to the regulation of financial institutions.

These proposals could substantially increase regulation of the financial services industry, impose restrictions on the operations and general ability of firms within the industry to conduct business consistent with historical practices, including in the areas of compensation, interest rates and financial product offerings and disclosures, among other things. Federal and state regulatory agencies also frequently adopt changes to their regulations or change the manner in which existing regulations are applied. We cannot determine the ultimate effect that potential legislation, if enacted, or any regulations issued to implement it, would have on the Company or MBB.

National Monetary Policy. In addition to being affected by general economic conditions, the earnings and growth of the Company and MBB are affected by the policies of the Federal Reserve Board. An important function of the Federal Reserve Board is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve Board to implement these objectives are open market operations in U.S. government securities, adjustments of the discount rate and changes in reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

Table of Contents

The monetary policies and regulations of the Federal Reserve Board have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The effects of such policies upon our future business, earnings and growth cannot be predicted.

Dividends. The Federal Reserve Board has issued policy statements which provide that, as a general matter, insured banks and bank holding companies should pay dividends only out of current operating earnings. For state-chartered banks which are members of the Federal Reserve System, such as MBB, the approval of the Federal Reserve Board is required for the payment of dividends by the bank subsidiary in any calendar year if the total of all dividends declared by the bank in that calendar year, including the proposed dividend, exceeds the current year's net income combined with the retained net income for the two preceding calendar years. "Retained net income" for any period means the net income for that period less any common or preferred stock dividends declared in that period. Moreover, no dividends may be paid by such bank in excess of its undivided profits account.

Transfers of Funds and Transactions with Affiliates. Sections 23A and 23B of the Federal Reserve Act and applicable regulations impose restrictions on MBB that limit the transfer of funds by MBB to Marlin Business Services Corp. and certain of its affiliates, in the form of loans, extensions of credit, investments or purchases of assets. These transfers by MBB to Marlin Business Services Corp. or any other single affiliate are limited in amount to 10% of MBB's capital and surplus, and transfers to all affiliates are limited in the aggregate to 20% of MBB's capital and surplus. These loans and extensions of credit are also subject to various collateral requirements. Sections 23A and 23B of the Federal Reserve Act and applicable regulations also require generally that MBB's transactions with its affiliates be on terms no less favorable to MBB than comparable transactions with unrelated third parties.

Restrictions on Ownership. Subject to certain exceptions, the Change in Bank Control Act of 1978, as amended, prohibits a person or group of persons from acquiring "control" of a bank holding company unless the FDIC has been notified 60 days prior to such acquisition and has not objected to the transaction. Under a rebuttable presumption in the Change in Bank Control Act, the acquisition of 10% or more of a class of voting stock of a bank holding company with a class of securities registered under Section 12 of the 1934 Act, such as the Company, would, under the circumstances set forth in the presumption, constitute acquisition of control of the bank holding company. The regulations provide a procedure for challenging this rebuttable control presumption.

We believe that we currently are in substantial compliance with all material statutes and regulations that are applicable to our business.

Competition

We compete with a variety of equipment financing sources that are available to small and mid-sized businesses, including:

- national, regional and local finance companies that provide leases and loan products;
- financing through captive finance and leasing companies affiliated with major equipment manufacturers;
- working capital lenders, often referred to as FinTech companies;
- corporate credit cards; and
- commercial banks, savings and loan associations and credit unions.

Our principal competitors in the small-ticket equipment leasing market are independent finance companies, local and regional banks and, to a lesser extent, in the case of our national accounts channels, national providers of equipment lease financing, some of which are national banks with leasing divisions. Many of our national

Table of Contents

competitors are substantially larger than we are and generally focus on larger ticket transactions and in some cases international programs. We compete on the quality of service we provide to our origination partners and small business customers. With the introduction of our Working Capital Loans, we also compete with FinTech lenders. We have encountered and will continue to encounter significant competition.

Employees

As of December 31, 2018, we employed 341 people. None of our employees are covered by a collective bargaining agreement and we have never experienced any work stoppages.

Available Information

We are a Pennsylvania corporation with our principal executive offices located at 300 Fellowship Road, Mount Laurel, NJ 08054. Our telephone number is (888) 479-9111 and our website address is www.marlin Capitalsolutions.com. We make available free of charge through the investor relations section of our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission. We include our website address in this Annual Report on Form 10-K only as an inactive textual reference and do not intend it to be an active link to our website.

Item 1A. Risk Factors

Set forth below and elsewhere in this report and in other documents we file with the Securities and Exchange Commission are risks and uncertainties, not limited to the risks set forth below, that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this report and other periodic statements we make.

If we cannot obtain deposits or financing, we may be unable to fund our operations. Our business requires a substantial amount of cash to operate. Our cash requirements will increase as our lease and loan originations increase. We obtain a substantial amount of the cash required for operations through a variety of external funding sources, such as deposits raised by MBB, long-term note securitizations and capital markets activities including sales and syndications of leases and loans. A failure to access the deposits market or to add new funding facilities could affect our ability to fund and originate new leases and loans.

Our ability to obtain continued access to the deposits market or to obtain a renewal of our lender's commitment and new funding facilities is affected by a number of factors, including:

- conditions in the market for FDIC-insured deposits;
- restrictions and costs associated with banking industry regulation which could negatively impact MBB;
- conditions in the long-term lending markets; and
- our ability to service the leases and loans.

We are and will continue to be dependent upon these funding sources to continue to originate leases and loans and to satisfy our other working capital needs. We may be unable to obtain additional financing on acceptable terms, or at all, as a result of prevailing interest rates or other factors at the time, including the presence of covenants or other restrictions under existing financing arrangements. If any or all of our funding sources become unavailable on acceptable terms or at all, we may not have access to the financing necessary to conduct our business, which would limit our ability to fund our operations. In the event we seek to obtain equity financing, our shareholders may experience dilution as a result of the issuance of additional equity securities. This dilution may be significant depending upon the amount of equity securities that we issue and the prices at which we issue such securities.

Table of Contents

If we inaccurately assess the creditworthiness of our small business customers, we may experience a higher number of lease and loan defaults, which may restrict our access to funding and reduce our earnings. We specialize in leasing equipment and providing working capital to small and mid-sized businesses. Small and mid-sized businesses may be more vulnerable than large businesses to economic downturns, as they typically depend on the management talents and efforts of one person or a small group of persons and often need substantial additional capital to expand or compete. Small and mid-sized business leases and loans, therefore, may entail a greater risk of delinquencies and defaults than leases and loans entered into with larger leasing customers. In addition, there is typically only limited publicly available financial and other information about small and mid-sized businesses and they often do not have audited financial statements. Accordingly, in making credit decisions, our underwriting guidelines rely upon the accuracy of information about these small and mid-sized businesses obtained from the small and mid-sized business owner and/or third-party sources, such as credit reporting agencies. If the information we obtain from small and mid-sized business owners and/or third-party sources is incorrect or fraudulent, our ability to make appropriate credit decisions will be impaired. If we inaccurately assess the creditworthiness of our small business customers, we may experience a higher number of lease and loan defaults and related decreases in our earnings.

We rely on information provided by our customers and vendors. If the information that we rely upon is not accurate, or if it was provided with fraudulent or malicious intent, we may not make appropriate credit decisions and our financial position, operating results and reputation may be negatively impacted. Customer and vendor fraud have always been risks inherent to the Equipment Finance business. We have taken measures to detect and reduce the risk of fraud, including the implementation of new antifraud tools, increased vendor surveillance staff and enhancements to procedures, but these measures need to be continually improved and may not be effective against new and continually evolving forms of fraud. If we experience increases in fraudulent activity, or if our anti-fraud measures are not effective, we could experience an increase in the level of our fraud charge-offs, adversely affecting the results of operations. This could also lead to increased regulatory scrutiny, which could adversely affect our brand and reputation. These impacts, as well as the implementation of any necessary measures to reduce fraud risk could increase our costs and adversely impact our results of operations.

Deteriorated economic or business conditions may lead to greater than anticipated lease or loan defaults and credit losses, which could limit our ability to obtain additional financing and reduce our operating income. Historically, the capital and credit markets have experienced periodic volatility and disruption. In many cases, these markets have produced downward pressure on stock prices of, and credit availability to, certain companies without regard to those companies' underlying financial strength. Concerns over geopolitical issues and the availability and cost of credit, have contributed to increased volatility for the economy and the capital and credit markets. In the event of extreme and prolonged market events, such as a global credit crisis, we could incur significant losses. Even in the absence of a market downturn, we are exposed to substantial risk of loss due to market volatility.

Our operating income may be reduced by various economic factors and business conditions, including the level of economic activity in the markets in which we operate. Delinquencies and credit losses generally increase during economic slowdowns or recessions. Because we extend credit primarily to small and mid-sized businesses, many of our customers may be particularly susceptible to economic slowdowns or recessions and may be unable to make scheduled lease or loan payments during these periods. Therefore, to the extent that economic activity or business conditions deteriorate, our delinquencies and credit losses may increase. Unfavorable economic conditions may also make it more difficult for us to maintain both our new lease and loan origination volume and the credit quality of new leases and loans at levels previously attained. Unfavorable economic conditions could also increase our funding costs or operating cost structure or limit our access to funding. Any of these events could reduce our operating income.

If losses from leases and loans exceed our allowance for credit losses, our operating income will be reduced or eliminated. In connection with our financing of leases, we record an allowance for credit losses to provide for estimated losses. Our allowance for credit losses is based on both qualitative and quantitative factors including, among other things, past collection experience, lease and loan delinquency data, industry data, economic

Table of Contents

conditions and our assessment of collection risks. Significant management judgment is required to determine the appropriate level of the allowance and, therefore, our determination of this allowance may prove to be inadequate to cover losses in connection with our portfolio of leases and loans. Factors that could lead to the inadequacy of our allowance may include our inability to manage collections effectively, unanticipated adverse changes in the economy or discrete events adversely affecting specific leasing customers, industries or geographic areas. Losses in excess of our allowance for credit losses would cause us to increase our provision for credit losses, reducing or eliminating our operating income.

We are subject to regulatory capital adequacy guidelines, and if we fail to meet these guidelines, our business, financial condition or results of operations may be adversely affected. Under regulatory capital adequacy guidelines, and other regulatory requirements, we must meet guidelines that include quantitative measures of assets, liabilities and certain off-balance sheet items, subject to qualitative judgments by regulators regarding components, risk weightings and other factors. (See **Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Bank Capital and Regulatory Oversight**). If we fail to meet these minimum capital guidelines and other regulatory requirements, our business, financial condition or results of operations may be adversely affected. In addition, if we fail to maintain “well-capitalized” status under the regulatory framework, if we are deemed to be not well-managed under regulatory exam procedures or if we experience certain regulatory violations, our status as a financial holding company, our related eligibility for a streamlined review process for acquisition proposals and our ability to offer certain financial products may be compromised or impaired.

We may be required to raise additional capital in the future, but that capital may not be available when it is needed. We are required by regulatory authorities to maintain adequate levels of capital to support our operations. The Dodd-Frank Act sets a statutory floor for risk-based and leverage capital standards, and U.S. regulatory capital rules broadly establish minimum regulatory capital requirements. See “*Supervision and Regulation – Capital Adequacy*” above. We may at some point need to raise additional capital to support our operations. Our ability to raise additional capital will depend, in part, on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we may be unable to raise additional capital, if and when needed, on terms acceptable to us, or at all. If we cannot raise additional capital when needed, we may become subject to adverse regulatory actions or restrictions, and limitations on growth of our operations. In addition, if we decide to raise additional equity capital, our shareholders’ interests in us could be diluted.

Monetary policies and regulations of the Federal Reserve Board could adversely affect our business, financial condition and results of operations. In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve Board. An important function of the Federal Reserve Board is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve Board to implement these objectives are open market operations in U.S. government securities, adjustments of the discount rate and changes in reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

The monetary policies and regulations of the Federal Reserve Board have had a significant affect on the operating results of bank holding companies in the past and are expected to continue to do so in the future. The effects of such policies upon our business, financial condition and results of operations cannot be predicted.

Government regulation significantly affects our business. The banking industry is heavily regulated, and such regulations are intended primarily for the protection of depositors and the federal deposit insurance funds, not shareholders. Since becoming a bank holding company on January 13, 2009, we have been subject to regulation by the Federal Reserve Board and the Federal Reserve Bank of Philadelphia and subject to the Bank Holding Company Act. Our bank subsidiary, MBB, is also subject to regulation by the Federal Reserve Board, the Federal Reserve Board of San Francisco, and the Utah Department of Financial Institutions. Such regulation affects lending practices, capital structure, investment practices, dividend policy and growth.

Table of Contents

The financial crisis of 2008 and 2009 resulted in U.S. government and regulatory agencies placing increased focus and scrutiny on the financial services industry, which have subjected financial institutions to additional restrictions, oversight and costs. In addition, new proposals for legislation continue to be introduced in Congress that could further substantially increase regulation of the financial services industry and impose restrictions on the operations and general ability of firms within the industry to conduct business consistent with historical practices, including in the areas of compensation, interest rates and financial product offerings and disclosures, among other things. Federal and state regulatory agencies also frequently adopt changes to their regulations or change the manner in which existing regulations are applied. Such proposed changes in laws, regulations and regulatory practices affecting the banking industry may limit the manner in which we may conduct our business. Such changes may adversely affect us, including our ability to originate loans and leases, and may also result in the imposition of additional costs on us.

Further legislative and regulatory reforms may have a significant impact on our business, results of operations and financial condition. Recent conditions, particularly in the financial markets, have resulted in government regulatory agencies and political bodies placing increased focus and scrutiny on the financial services industry. For example, on July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act contains provisions that, among other things, establish a systemic risk regulator, consolidate certain federal bank regulators and give shareholders an advisory vote on executive compensation. The Dodd-Frank Act substantially increases regulation of the financial services industry, imposes restrictions on the operations and general ability of firms within the industry to conduct business consistent with historical practices, including in the areas of compensation, interest rates, financial product offerings and disclosures, and has an effect on bankruptcy proceedings with respect to consumer residential real estate mortgages, among other things.

The Dodd-Frank Act added sweeping deposit insurance provisions. Deposit insurance assessments are now based upon a bank's average consolidated total assets minus its average tangible equity, rather than upon its deposit base. The changes also made the temporary \$250,000 deposit insurance limit permanent, and expanded the FDIC's authority to raise insurance premiums by setting a target ratio as high as the FDIC determines to be appropriate. The Dodd-Frank Act also restricts proprietary trading and the derivatives activities of banks and their affiliates.

Many provisions of the Dodd-Frank Act require the adoption of rules to implement it. In addition, the Dodd-Frank Act mandates multiple studies, which could result in additional legislative or regulatory action. The effect of the Dodd-Frank Act and its implementing regulations on our business and operations could be significant. In addition, we may be required to invest significant management time and resources to address the various provisions of the Dodd-Frank Act and the numerous regulations that have been and are still required to be issued under it. The Dodd-Frank Act, any related legislation and any implementing regulations could have a significant adverse effect on our business, results of operations and financial condition.

The current administration and members of Congress have publicly disclosed proposals to change certain laws and regulations affecting the financial services industry. In addition, proposals to change financial services laws and regulations are frequently introduced at the state level. The likelihood and timing of any such changes and the impact such changes may have on us cannot be determined with any certainty.

Further increase in the FDIC deposit insurance premium or required reserves may have a significant financial impact on us. The FDIC insures deposits at FDIC-insured financial institutions up to certain limits. The FDIC charges insured financial institutions premiums to maintain the DIF. In the event of a bank failure, the FDIC takes control of a failed bank and ensures payment of deposits up to insured limits using the resources of the DIF. The FDIC is required by law to maintain adequate funding of the DIF, and the FDIC may increase premium assessments to maintain such funding.

The Dodd-Frank Act required the FDIC to increase the DIF's reserves against future losses, which will necessitate increased deposit insurance premiums that are to be borne primarily by institutions with assets of

Table of Contents

greater than \$10 billion. Future increases in assessments may decrease our earnings and could have a material effect on the value of, or market for, our common stock.

On October 19, 2010, the FDIC further addressed plans to bolster the DIF by increasing the required reserve ratio for the industry to 1.35% (ratio of reserves to insured deposits) by September 30, 2020, as required by the Dodd-Frank Act. As of the third quarter of 2016, the FDIC implemented new assessment rates when the reserve ratio reached 1.15%. These changes also apply higher or lower insurance premiums based on the risk of an institution's assets and liabilities.

If we are unable to effectively execute our business strategy, we may suffer material operating losses. Our financial position, liquidity and results of operations depend on management's ability to execute our business strategy and navigate through changing economic environments. Key factors involved in the execution of this strategy include achieving the desired volume of leases and loans of suitable yield and credit quality, effectively managing those leases and loans and obtaining appropriate funding. Accomplishing such a result on a cost-effective basis is largely a function of our marketing capabilities, our management of the leasing process, our credit underwriting guidelines, our ability to provide competent, attentive and efficient servicing to our origination partners and our small business customers, our ability to execute effective credit risk management and collection techniques, our access to financing sources on acceptable terms and our ability to attract and retain high quality employees in all areas of our business. Failure to manage effectively these and other factors related to our business strategy and our overall operations may cause us to suffer material operating losses.

If we cannot effectively compete within the equipment leasing industry, we may be unable to increase our revenues or maintain our current levels of operations. The business of small-ticket equipment leasing is highly fragmented and competitive. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, some competitors may have a lower cost of funds and access to funding sources that are not available to us. A lower cost of funds could enable a competitor to offer leases and loans with yields that are lower than those we use to price our leases and loans, potentially forcing us to decrease our yields or lose origination volume. In addition, certain of our competitors may have higher risk tolerances or different risk assessments, which could allow them to establish more origination partner and small business customer relationships and increase their market share. The barriers to entry are relatively low with respect to our business and, therefore, new competitors could enter the business of small-ticket equipment leasing at any time. The companies that typically provide financing for large-ticket or middle-market transactions could begin competing with us on small-ticket equipment leases. If this occurs, or we are unable to compete effectively with our competitors, we may be unable to sustain our operations at their current levels or generate revenue growth.

If we cannot maintain our relationships with origination partners and our existing customers, and if we cannot successfully integrate and grow our recent acquisitions, our ability to generate lease and loan transactions and related revenues may be significantly impeded. We have formed relationships with thousands of origination partners, comprised primarily of independent equipment dealers. We rely on these relationships to generate lease and loan applications and originations. Most of these relationships are not formalized in written agreements and those that are formalized by written agreements are typically terminable at will. Our typical relationship does not commit the origination partner to provide a minimum number of lease and loan transactions to us nor does it require the origination partner to direct all of its lease and loan transactions to us. The decision by a significant number of our origination partners to refer their leasing transactions to another company could impede our ability to generate lease and loan transactions and related revenues.

If interest rates change significantly, we may be subject to higher interest costs with respect to our funding sources, which may cause us to suffer material losses. Because we use FDIC insured deposits to fund our leases, our margins could be reduced by an increase in interest rates. Each of our leases is structured so that the sum of all scheduled lease payments will equal the cost of the equipment to us, less the residual, plus a return on the amount of our investment. This return is known as the yield. The yield on our leases is fixed because the scheduled payments are fixed at the time of lease origination. When we originate or acquire leases, we base our

Table of Contents

pricing in part on the spread we expect to achieve between the yield on each lease and the effective interest rate we expect to pay when we finance the lease. To the extent that a lease is financed with variable-rate funding, increases in interest rates during the term of a lease could narrow or eliminate the spread, or result in a negative spread. A negative spread is an interest cost greater than the yield on the lease. Because most of our assets have a fixed interest rate, increases in LIBOR (“LIBOR”) or our MMDA Product would negatively impact our earnings. If interest rates increase faster than we are able to adjust the pricing under our new leases or loans, our net interest margin would be reduced. In addition, with respect to our fixed-rate deposits and borrowings, increases in interest rates could have the effect of increasing our costs on future transactions.

The termination or interruption of, or a decrease in volume under, our property insurance program would cause us to experience lower revenues and may result in a significant reduction in our net income. Our customers are required to obtain all-risk property insurance for the replacement value of financed equipment. Each customer has the option of either delivering a certificate of insurance listing us as loss payee under a commercial property policy issued by a third-party insurer or satisfying such insurance obligation through our insurance program. Under our program, the customer pays for coverage under a master property insurance policy written by a national third-party insurer (our “primary insurer”) with whom our captive insurance subsidiary, AssuranceOne, has entered into a 100% reinsurance arrangement. Termination or interruption of our program could occur for a variety of reasons, including: (1) adverse changes in laws or regulations affecting our primary insurer or AssuranceOne; (2) a change in the financial condition or financial strength ratings of our primary insurer or AssuranceOne; (3) negative developments in the loss reserves or future loss experience of AssuranceOne, which render it uneconomical for us to continue the program; (4) termination or expiration of the reinsurance agreement with our primary insurer, coupled with an inability by us to identify quickly and negotiate an acceptable arrangement with a replacement carrier; or (5) competitive factors in the property insurance market. If there is a termination or interruption of this program or if fewer small business customers elected to satisfy their insurance obligations through our program, we would experience lower revenues and our net income may be reduced.

Regulatory and legal uncertainties could result in significant financial losses and may require us to alter our business strategy and operations. Laws or regulations may be adopted with respect to our equipment leases, the equipment leasing, telemarketing and collection processes or the banking industry. Any new legislation or regulation, or changes in the interpretation of existing laws, that affect the equipment leasing industry or the banking industry could increase our costs of compliance or require us to alter our business strategy.

We, like other finance companies, face the risk of litigation, including class action litigation, and regulatory investigations and actions in connection with our business activities. These matters may be difficult to assess or quantify, and their magnitude may remain unknown for substantial periods of time. A substantial legal liability or a significant regulatory action against us could cause us to suffer significant costs and expenses and could require us to alter our business strategy and the manner in which we operate our business.

Failure to realize the projected value of residual interests in equipment we finance would reduce the residual value of equipment recorded as assets on our balance sheet and may reduce our operating income. We estimate the residual value of the equipment which is recorded as an asset on our balance sheet. Realization of residual values depends on numerous factors including: the general market conditions at the time of expiration of the lease; the customer’s election to enter into a renewal period; the cost of comparable new equipment; the obsolescence of the leased equipment; any unusual or excessive wear and tear on or damage to the equipment; the effect of any additional or amended government regulations; and the foreclosure by a secured party of our interest in a defaulted lease. Our failure to realize our recorded residual values would reduce the residual value of equipment recorded as assets on our balance sheet and may reduce our operating income.

If we experience significant telecommunications or technology downtime, our operations would be disrupted and our ability to generate operating income could be negatively impacted. Our business depends in large part on our telecommunications and information management systems. The temporary or permanent loss of our computer systems, telecommunications equipment or software systems, through casualty or operating

Table of Contents

malfunction, could disrupt our originations and operations and negatively impact our ability to secure new business and to service our customers. This could lead to significant declines in our operating income.

Failure to maintain the security of our information and technology networks, including personally identifiable and other information, non-compliance with our contractual or other legal obligations regarding such information, or a violation of the Company's privacy and security policies with respect to such information, could adversely affect us. In the normal course of our business, we collect and retain significant volumes of certain types of personally identifiable and other information pertaining to our customers, stockholders and employees. The legal, regulatory and contractual environment surrounding information security and privacy is constantly evolving and companies that collect and retain such information are under increasing attack by cyber-criminals around the world. A significant actual or potential theft, loss, fraudulent use or misuse of customer, stockholder, employee or our data by cybercrime or otherwise, non-compliance with our contractual or other legal obligations regarding such data or a violation of our privacy and security policies with respect to such data could adversely impact our reputation and could result in significant costs, fines, litigation or regulatory action against us. Increasingly, our products and services are accessed through the Internet, and security breaches in connection with the delivery of our services via the Internet may affect us and could be detrimental to our reputation, business, operating results and financial condition. We cannot be certain that advances in criminal capabilities, new discoveries in the field of cryptography or other developments will not compromise or breach the technology protecting the networks that access our products and services.

Customer complaints or negative publicity could result in a decline in our customer growth and our business could suffer. Our reputation is important to attract new customers as well as to obtain repeat business from existing customers. There can be no assurance that we will continue to maintain a good relationship with our customers or avoid negative publicity. Any damage to our reputation, whether arising from our conduct of business, negative publicity, regulatory, supervisory or enforcement actions, matters affecting our financial reporting or compliance with SEC and New York Stock Exchange listing requirements, security breaches or otherwise could have a material adverse effect on our business.

Our quarterly operating results may fluctuate significantly. Our operating results may differ from quarter to quarter, and these differences may be significant. Factors that may cause these differences include: changes in the volume of lease and loan applications, approvals and originations; changes in interest rates; the availability and cost of capital and funding; the degree of competition we face; the levels of charge-offs we incur; changes in the regulatory environment; general economic conditions; and other factors.

Our common stock price is volatile. The trading price of our common stock may fluctuate substantially depending on many factors, some of which are beyond our control and may not be related to our operating performance. These fluctuations could cause investors to lose part or all of their investment in our shares of common stock. Those factors that could cause fluctuations include, but are not limited to, the following:

- price and volume fluctuations in the overall stock market from time to time;
- significant volatility in the market price and trading volume of financial services companies;
- actual or anticipated changes in our earnings or fluctuations in our operating results or in the expectations of market analysts;
- investor perceptions of the equipment leasing industry in general and the Company in particular;
- the operating and stock performance of comparable companies;
- legislative and regulatory changes with respect to the financial or banking industries;
- general economic conditions and trends;
- major catastrophic events;
- loss of external funding sources;
- sales of large blocks of our stock or sales by insiders; or
- departures of key personnel.

Table of Contents

It is possible that in some future quarter our operating results may be below the expectations of financial market analysts and investors and, as a result of these and other factors, the price of our common stock may decline.

Future sales of our common stock by a certain large shareholder could adversely affect the market price of our common stock. A substantial number of shares of our common stock could be sold into the public market pursuant to a shelf registration statement on Form S-3 (No. 333-128329) that became effective on December 19, 2005. As of December 31, 2018, this large shareholder owned 2,976,925 shares of our common stock. The sale of all or a portion of these shares into the public market, or the perception that such a sale could occur, could adversely affect the market price of our common stock.

Anti-takeover provisions and our right to issue preferred stock could make a third-party acquisition of us difficult. We are a Pennsylvania corporation. Anti-takeover provisions of Pennsylvania law could make it more difficult for a third party to acquire control of us, even if such change in control would be beneficial to our shareholders. Our amended and restated articles of incorporation and our bylaws contain certain other provisions that would make it difficult for a third party to acquire control of us, including a provision that our Board of Directors may issue preferred stock without shareholder approval.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

At December 31, 2018, we operated from seven leased facilities including our executive office facility, branch offices and the headquarters of MBB. Our Mount Laurel, New Jersey executive offices are housed in a leased facility of approximately 50,000 square feet under a lease that expires in May 2020. In addition, we have a regional office in Johns Creek, Georgia (a suburb of Atlanta), whose lease expires in February 2019 and will not be renewed. The headquarters of MBB in Salt Lake City, Utah is 4,399 square feet and the lease expires in December 2020. We also lease office space in Philadelphia, Pennsylvania; Portsmouth, New Hampshire; Highlands Ranch, Colorado; and Riverside, California.

In January 2019, the Company extended its lease agreement on its executive offices in Mount Laurel, New Jersey. The original expiration date of May 2020 was extended to May 2032, with an expected obligation of approximately \$0.9 million per year. Concurrently, the Company also entered into a lease agreement for an additional 9,700 square feet at the same location. The original expiration date of May 2020 was extended to May 2032, with an expected obligation of approximately \$0.2 million per year (See Note 21 – Events Subsequent to Year-End, in the accompanying Notes to Consolidated Financial Statements.)

In July 2014, the Company extended its lease agreement on its office in Salt Lake City, Utah. The extended term commenced in November 2014 and expires in December 2020, with an expected obligation of approximately \$0.1 million per year.

We believe our leased facilities are adequate for our current needs and sufficient to support our current operations and anticipated future requirements.

Item 3. Legal Proceedings

We are party to various legal proceedings, which include claims and litigation arising in the ordinary course of business. In the opinion of management, these actions will not have a material effect on our business, financial condition or results of operations or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

[Table of Contents](#)

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Marlin Business Services Corp. completed its IPO of common stock and became a publicly traded company on November 12, 2003. The Company's common stock trades on the NASDAQ Global Select Market under the symbol "MRLN."

Dividend Policy

On November 1, 2018, Marlin Business Services Corp. declared its twenty-ninth regular quarterly dividend. The dividend of \$0.14 per share of common stock was paid on November 23, 2018 to holders of our common stock as of November 12, 2018.

In addition to the Company's regular quarterly dividend, the Company's Board of Directors declared a special cash dividend of \$2.00 per share in 2013 and 2015.

Payment of future dividends will also depend upon our earnings, financial condition, capital requirements, cash flow, long-range plans and such other factors as our Board of Directors may deem relevant.

The Federal Reserve Board has issued policy statements which provide that, as a general matter, insured banks and bank holding companies should pay dividends only out of current operating earnings. Payment of dividends by MBB to its sole shareholder, Marlin Business Services Corp., are also subject to the regulatory requirements and restrictions described in the "Supervision and Regulation" portion of Item 1 of Part I of this Form 10-K.

Number of Record Holders

There were 220 holders of record of our common stock at February 26, 2018. We believe that the number of beneficial owners is greater than the number of record holders because a large portion of our common stock is held of record through brokerage firms in "street name."

Information on Stock Repurchases

On July 29, 2014, the Company's Board of Directors approved a stock repurchase plan, under which, the Company was authorized to repurchase up to \$15 million in value of its outstanding shares of common stock (the "2014 Repurchase Plan"). On May 30, 2017, the Company's Board of Directors approved a new stock repurchase plan to replace the 2014 Repurchase Plan (the "2017 Repurchase Plan"). Under the 2017 Repurchase Plan, the Company is authorized to repurchase up to \$10 million in value of its outstanding shares of common stock. This authority may be exercised from time to time and in such amounts as market conditions warrant. Any shares purchased under this plan are returned to the status of authorized but unissued shares of common stock. The repurchases may be made on the open market or in block trades. The program may be suspended or discontinued at any time. The repurchases are funded using the Company's working capital.

Table of Contents

The number of shares of common stock repurchased by the Company under the 2017 Repurchase Plan during the fourth quarter of 2018 and the average price paid per share is as follows:

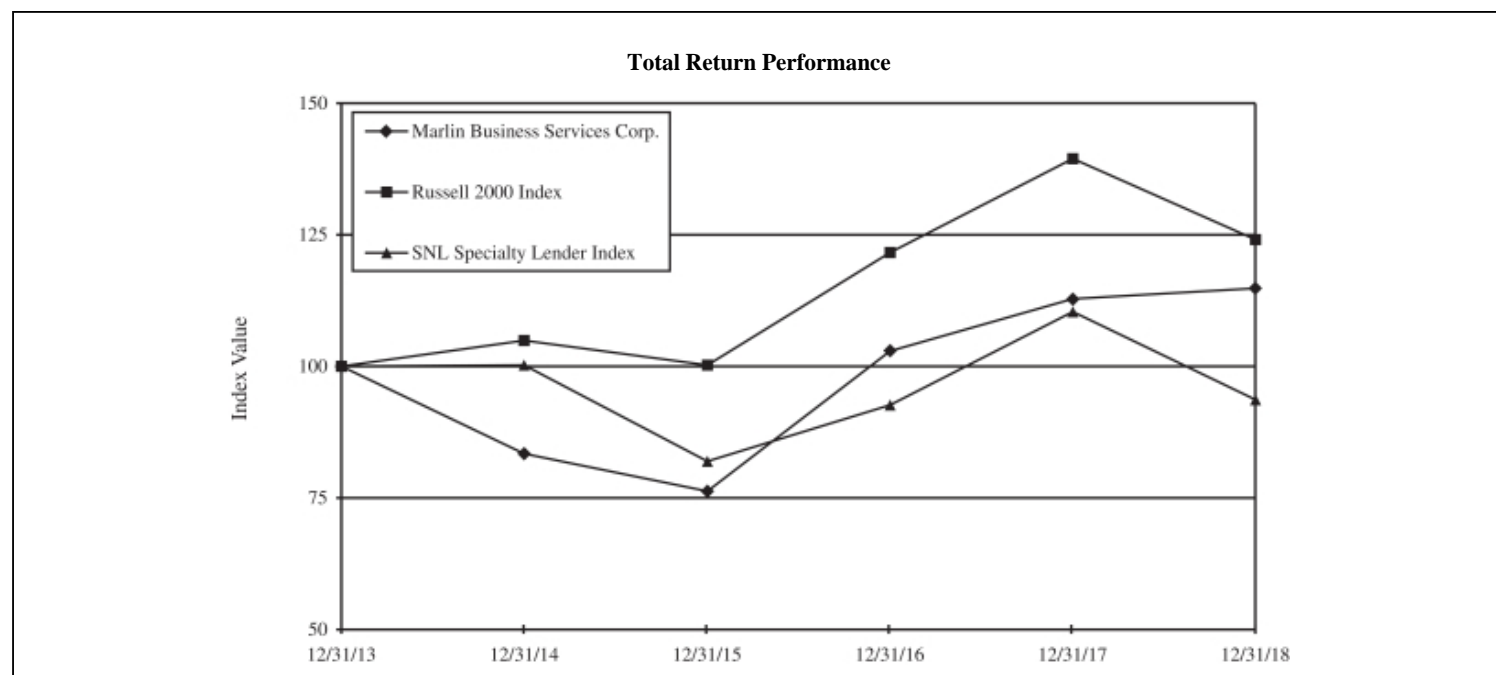
<u>Time Period</u>	<u>Number of Shares Purchased</u>	<u>Average Price Paid Per Share</u>	<u>Maximum Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs</u>
October 1, 2018 to October 31, 2018	—	\$ —	\$ 6,539,126
November 1, 2018 to November 30, 2018	—	\$ —	\$ 6,539,126
December 1, 2018 to December 31, 2018	35,338	\$ 22.29	\$ 5,751,273
Total for the quarter ended December 31, 2018	35,338	\$ 22.29	\$ 5,751,273

In addition to the repurchases described above, pursuant to the Company's 2003 Equity Compensation Plan, as amended (the "2003 Plan") and the Company's 2014 Equity Compensation Plan (approved by the Company's shareholders on June 3, 2014) (the "2014 Plan" and, together with the 2003 Plan, the "Equity Plans"), participants may have shares withheld to cover income taxes. There were 859 shares repurchased to cover income tax withholding in connection with shares granted under the 2014 Plan during the three-month period ended December 31, 2018, at an average cost of \$25.55 per share.

[Table of Contents](#)

Shareholder Return Performance Graph

The following graph compares the dollar change in the cumulative total shareholder return on the Company’s common stock against the cumulative total return of the Russell 2000 Index and the SNL Specialty Lender Index for the period commencing on December 31, 2013 and ending on December 31, 2018. The graph shows the cumulative investment return to shareholders based on the assumption that a \$100 investment was made on December 31, 2013 in each of the following: the Company’s common stock, the Russell 2000 Index and the SNL Specialty Lender Index. We computed returns assuming the reinvestment of all dividends. The shareholder return shown on the following graph is not indicative of future performance.



<i>Index</i>	<i>Period Ending</i>					
	<u>12/31/13</u>	<u>12/31/14</u>	<u>12/31/15</u>	<u>12/31/16</u>	<u>12/31/17</u>	<u>12/31/18</u>
Marlin Business Services Corp.	100.00	83.39	76.35	102.90	112.87	114.83
Russell 2000 Index	100.00	104.89	100.26	121.63	139.44	124.09
SNL Specialty Lender Index	100.00	100.22	82.00	92.67	110.42	93.71

Source: S&P Global Market Intelligence

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[Table of Contents](#)

Item 6. *Selected Financial Data*

The following selected financial data as of and for each of the five years ended December 31, 2018 has been derived from the consolidated financial statements. The selected financial data should be read together with the consolidated financial statements and notes thereto and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this Form 10-K.

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands, except per-share data)				
Statement of Operations Data:					
Interest and fee income	\$ 112,868	\$ 102,319	\$ 90,252	\$ 81,953	\$ 81,684
Interest expense	17,414	11,180	7,778	5,696	4,965
Net interest and fee income	95,454	91,139	82,474	76,257	76,719
Provision for credit losses	19,522	18,394	12,414	9,995	9,116
Net interest and fee income after provision for credit losses	75,932	72,745	70,060	66,262	67,603
Non-Interest Income	21,434	16,732	9,758	7,809	7,077
Non-interest expense:					
Salaries and benefits	39,750	37,569	31,912	31,174	26,628
General and administrative	24,915	28,272	19,523	17,451	15,606
Financing related costs	—	—	85	218	1,174
Non-interest expense	64,665	65,841	51,520	48,843	43,408
Income before income taxes	32,701	23,636	28,298	25,228	31,272
Income tax expense (benefit)	7,721	(1,656)	11,019	9,262	11,922
Net income	<u>\$ 24,980</u>	<u>\$ 25,292</u>	<u>\$ 17,279</u>	<u>\$ 15,966</u>	<u>\$ 19,350</u>
Basic earnings per share	\$ 2.01	\$ 2.02	\$ 1.38	\$ 1.25	\$ 1.50
Diluted earnings per share	\$ 2.00	\$ 2.01	\$ 1.38	\$ 1.25	\$ 1.49
Cash dividends declared per share	\$ 0.56	\$ 0.56	\$ 0.56	\$ 2.53	\$ 0.47

Table of Contents

	Year Ended December 31,				
	2018	2017	2016	2015	2014
(Dollars in thousands, except per-share data)					
Operating Data:					
Total number of finance receivables originated	33,105	32,189	27,583	25,307	24,228
Total finance receivables originated	\$ 704,894	\$ 629,445	\$504,282	\$381,071	\$334,835
Average total finance receivables ⁽¹⁾	\$ 944,588	\$ 846,743	\$720,060	\$636,790	\$602,923
Weighted average interest rate (implicit) on new finance receivables originated ⁽²⁾	12.45%	11.98%	11.67%	11.13%	11.14%
Interest income as a percent of average total finance receivables ⁽¹⁾	10.27%	10.33%	10.38%	10.47%	11.07%
Interest expense as percent of average interest-bearing liabilities	2.02%	1.43%	1.20%	1.02%	0.93%
Portfolio Asset Quality Data:					
Total finance receivables, end of period ⁽¹⁾	\$ 996,383	\$ 911,242	\$793,285	\$679,738	\$627,922
Delinquencies greater than 60 days past due ⁽³⁾	0.65%	0.55%	0.46%	0.41%	0.51%
Allowance for credit losses	\$ 16,100	\$ 14,851	\$ 10,937	\$ 8,413	\$ 8,537
Allowance for credit losses to total finance receivables, end of period ⁽¹⁾	1.62%	1.63%	1.38%	1.24%	1.36%
Charge-offs, net	\$ 18,273	\$ 14,480	\$ 9,890	\$ 10,119	\$ 9,046
Ratio of net charge-offs to average total finance receivables ⁽¹⁾	1.93%	1.71%	1.37%	1.59%	1.50%
Operating Ratios:					
Efficiency ratio ⁽⁴⁾	55.32%	61.04%	55.77%	57.84%	50.40%
Return on average total assets	2.29%	2.59%	2.08%	2.11%	2.64%
Return on average stockholders' equity	13.27%	15.38%	11.15%	9.49%	11.47%
Balance Sheet Data:					
Cash and cash equivalents	\$ 97,156	\$ 67,146	\$ 61,757	\$ 60,129	\$110,656
Restricted interest-earning deposits with banks	\$ 14,045	\$ —	\$ —	\$ 216	\$ 711
Net investment in leases and loans	\$1,000,740	\$ 914,420	\$796,717	\$682,432	\$629,507
Total assets	\$1,167,046	\$1,040,160	\$892,158	\$772,984	\$758,449
Deposits	\$ 755,776	\$ 809,315	\$697,357	\$587,940	\$550,119
Long-term borrowings	\$ 150,055	\$ —	\$ —	\$ —	\$ —
Total liabilities	\$ 968,535	\$ 860,511	\$729,869	\$622,846	\$584,485
Total stockholders' equity	\$ 198,511	\$ 179,649	\$162,289	\$150,138	\$173,964

(1) Total finance receivables include net investment in direct financing leases and loans. For purposes of asset quality and allowance calculations the effects of (i) the allowance for credit losses and (ii) initial direct costs and fees deferred, are excluded from total finance receivables.

(2) Excludes initial direct costs and fees deferred.

(3) Calculated as a percentage of minimum lease payments receivable for leases and as a percentage of principal outstanding for loans.

(4) Salaries, benefits, general and administrative expense divided by net interest and fee income, insurance and other income.

Table of Contents

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

FORWARD-LOOKING STATEMENTS

Certain statements in this document may include the words or phrases “can be,” “expects,” “plans,” “may,” “may affect,” “may depend,” “believe,” “estimate,” “intend,” “could,” “should,” “would,” “if” and similar words and phrases that constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “1933 Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “1934 Act”). Forward-looking statements are subject to various known and unknown risks and uncertainties and the Company cautions that any forward-looking information provided by or on its behalf is not a guarantee of future performance. Statements regarding the following subjects are forward-looking by their nature: (a) our business strategy; (b) our projected operating results; (c) our ability to obtain external deposits or financing; (d) our understanding of our competition; and (e) industry and market trends. The Company’s actual results could differ materially from those anticipated by such forward-looking statements due to a number of factors, some of which are beyond the Company’s control, including, without limitation:

- availability, terms and deployment of funding and capital;
- changes in our industry, interest rates, the regulatory environment or the general economy resulting in changes to our business strategy;
- the degree and nature of our competition;
- availability and retention of qualified personnel;
- general volatility of the capital markets; and
- the factors set forth in the section captioned “Risk Factors” in Item 1A of this Form 10-K.

Forward-looking statements apply only as of the date made and the Company is not required to update forward-looking statements for subsequent or unanticipated events or circumstances. As used herein, the terms “Company,” “Marlin,” “Registrant,” “we,” “us” or “our” refer to Marlin Business Services Corp. and its subsidiaries.

Overview

Founded in 1997, we are a nationwide provider of credit products and services to small and mid-sized businesses. The products and services we provide to our customers include loans and leases for the acquisition of commercial equipment (including Commercial Vehicle Group (“CVG”) assets) and working capital loans. We access our end user customers primarily through origination sources consisting of independent commercial equipment dealers, various national account programs, through direct solicitation of our end user customers and through relationships with select lease and loan brokers. We use both a telephonic direct sales model and, for strategic larger accounts, outside sales executives to market to our origination sources and end user customers. Through these origination sources, we are able to cost-effectively access end user customers while also helping our origination sources obtain financing for their customers.

Our leases are fixed-rate transactions with terms generally ranging from 36 to 72 months. At December 31, 2018, our lease portfolio consisted of approximately 94,000 accounts, excluding Working Capital Loans, with an average original term of 48 months and average original transaction size of approximately \$16,000.

MBB offers a flexible loan program called Working Capital Loans. Working Capital Loans is tailored to the small business market to provide customers access to capital to help grow their businesses. As of December 31, 2018, the Company had approximately \$ 36.9 million, not including the allowance for credit losses allocated to loans of \$1.5 million, of small business loans on the balance sheet. Generally, these loans range from \$5,000 to \$150,000, have flexible 6 to 24 month terms, and have automated daily and weekly payback.

Table of Contents

At December 31, 2018, we have \$1,167.0 million in total assets. Our assets are substantially comprised of our net investment in leases and loans which totaled \$1,000.7 million at December 31, 2018.

Our revenue consists of interest and fees from our leases and loans and, to a lesser extent, income from our property insurance program and other fee income. Our expenses consist of interest expense and operating expenses, which include salaries and benefits and other general and administrative expenses. As a credit lender, our earnings are also impacted by credit losses. For the year ended December 31, 2018, our net credit losses were 1.93% of our average total finance receivables. We establish reserves for credit losses which require us to estimate inherent losses in our portfolio as of the reporting date.

Our leases are classified under generally accepted accounting principles in the United States (“U.S. GAAP”) as direct financing leases, and we recognize interest income over the term of the lease. Our net investment in direct finance leases is included in our consolidated financial statements in “net investment in leases and loans.” Net investment in direct financing leases consists of the sum of total minimum lease payments receivable and the estimated residual value of leased equipment, less unearned lease income. Unearned lease income consists of the excess of the total future minimum lease payments receivable plus the estimated residual value expected to be realized at the end of the lease term plus deferred net initial direct costs and fees less the cost of the related equipment. Approximately 60% of our lease portfolio at December 31, 2018 amortizes over the lease term to a \$1 residual value. For the remainder of the portfolio, we must estimate end of term residual values for the leased assets. Failure to correctly estimate residual values could result in losses being realized on the disposition of the equipment at the end of the lease term.

We fund our business primarily through the issuance of fixed-rate FDIC-insured deposits, and money market demand accounts raised nationally by MBB, as well as, from time to time, fixed-rate asset backed securitization transactions.

Since its opening in 2008, MBB has served as a funding source for a portion of the Company’s new originations through the issuance of FDIC-insured deposits. We anticipate that FDIC-insured deposits issued by MBB will continue to represent our primary source of funds for the foreseeable future. As of December 31, 2018, total MBB deposits were \$755.8 million compared to \$809.3 million at December 31, 2017. We had \$151.2 million of outstanding secured borrowings as of December 31, 2018 and none as of December 31, 2017. In the future MBB may elect to offer other products and services to the Company’s customer base.

Fixed rate leases may be financed with variable-rate funding sources, therefore, our earnings may be exposed to interest rate risk should interest rates rise. We generally benefit in times of falling and low interest rates.

From time to time we use derivative financial instruments to manage exposure to the effects of changes in market interest rates and to fulfill certain covenants in our borrowing arrangements. All derivatives are recorded on the Consolidated Balance Sheets at their fair value as either assets or liabilities. The Company was not a party to any active derivatives at December 31, 2018.

As a Utah state-chartered Federal Reserve member bank, MBB is supervised by both the Federal Reserve Bank of San Francisco and the Utah Department of Financial Institutions.

On January 13, 2009, Marlin Business Services Corp. became a bank holding company and is subject to the Bank Holding Company Act and supervised by the Federal Reserve Board and the Federal Reserve Bank of Philadelphia. On September 15, 2010, the Federal Reserve Bank of Philadelphia confirmed the effectiveness of Marlin Business Services Corp.’s election to become a financial holding company (while remaining a bank holding company) pursuant to Sections 4(k) and (l) of the Bank Holding Company Act and Section 225.82 of the Federal Reserve Board’s Regulation Y. Such election permits Marlin Business Services Corp. to engage in activities that are financial in nature or incidental to a financial activity, including the maintenance and expansion of our reinsurance activities conducted through its wholly-owned subsidiary, AssuranceOne.

Table of Contents

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “TCJA”). The TCJA made broad and complex changes to the U.S. tax code, including, but not limited to, reducing the U.S. federal corporate tax rate from 35 percent to 21 percent, effective January 1, 2018. Consequently, we recorded a decrease related to deferred tax assets and deferred tax liabilities of \$4.5 million and \$14.7 million, respectively, with a corresponding net adjustment to deferred income tax benefit of \$10.2 million for the year ended December 31, 2017. Additional information is provided in Note 15, Income Taxes in the accompanying Notes to Consolidated Financial Statements.

Stock Repurchase Plan

On July 29, 2014, the Company’s Board of Directors approved the 2014 Repurchase Plan, under which, the Company was authorized to repurchase up to \$15 million in value of its outstanding shares of common stock. On May 30, 2017, the Company’s Board of Directors approved the 2017 Repurchase Plan to replace the 2014 Repurchase Plan. Under the 2017 Repurchase Plan, the Company is authorized to repurchase up to \$10 million in value of its outstanding shares of common stock. This authority may be exercised from time to time and in such amounts as market conditions warrant. Any shares purchased under this plan are returned to the status of authorized but unissued shares of common stock. The repurchases may be made on the open market or in block trades. The program may be suspended or discontinued at any time. The repurchases are funded using the Company’s working capital.

During the year ended December 31, 2018, the Company purchased 83,305 shares of its common stock in the open market under the 2017 Repurchase Plan at an average cost of \$ \$25.83 per share and did not purchase any shares of its common stock under the 2014 Repurchase Plan. During the year ended December 31, 2017, the Company purchased 87,210 shares of its common stock in the open market under the 2017 Repurchase Plan at an average cost of \$ \$24.05 per share and 58,914 shares of its common stock under the 2014 Repurchase Plan at an average cost of \$ \$25.09 per share. As of December 31, 2018, the maximum approximate dollar value of shares that may yet be purchased under the 2017 Stock Repurchase Plan is approximately \$5.8 million.

In addition to the repurchases described above, pursuant to the Equity Plans, participants may have shares withheld to cover income taxes. There were 28,605 shares repurchased to cover income tax withholding in connection with shares granted under the 2014 Equity Plan during the year ended December 31, 2018, at an average cost of \$26.50 per share.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. Preparation of these financial statements requires us to make estimates and judgments that affect reported amounts of assets, liabilities, revenues and expenses and affect related disclosure of contingent assets and liabilities at the date of our financial statements. On an ongoing basis, we evaluate our estimates, including credit losses, residuals, initial direct costs and fees, other fees, the fair value of financial instruments, self-insurance reserves and the realization of deferred tax assets. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties. Our consolidated financial statements are based on the selection and application of critical accounting policies, the most significant of which are described below.

Lease residual values. A direct financing lease is recorded at the aggregate future minimum lease payments plus the estimated residual value less unearned income. Residual values are established at lease inception based on our estimate of the expected fair value of the equipment at the end of the lease term. Residual values may be realized at lease termination from lease extensions, sales or other dispositions of leased equipment. These estimates are based on industry data, management’s experience, and historical performance.

Table of Contents

The Company records an estimated residual value at lease inception for all fair market value and fixed purchase option leases based on a percentage of the equipment cost of the asset being leased. The percentages used depend on equipment type and term. The Company records an estimated residual value on fixed purchase option leases based on the contractual fixed purchase price. In setting and reviewing estimated residual values, the Company focuses its analysis primarily on total historical and expected realization statistics pertaining to sales of equipment. In subsequent evaluations for the impairment of the booked residual values, the Company reviews historical realization statistics, including lease renewals and equipment sales. Anticipated renewal income is not included in the determination of fair value; however, it is one of the ways that fair value may be realized at the end of the lease term.

At the end of an original lease term, lessees may choose to purchase the equipment, renew the lease or return the equipment to the Company. The Company receives income from lease renewals when the lessee elects to retain the equipment longer than the original term of the lease. This income, net of appropriate periodic reductions in the estimated residual values of the related equipment, is included in fee income as net residual income.

When a lessee elects to return equipment at lease termination, the equipment is transferred to other assets at the lower of its basis or fair market value. The Company generally sells returned equipment to independent third parties, rather than leasing the equipment a second time. The Company generally charges off the value of equipment within other assets once it has been aged greater than 120 days. Any loss recognized on transferring equipment to other assets, and any gain or loss realized on the sale or disposal of equipment to a lessee or to others is included in fee income as net residual income.

Based on the Company's experience, the amount of ultimate realization of the residual value tends to relate more to the customer's election at the end of the lease term to enter into a renewal period, to purchase the leased equipment or to return the leased equipment than it does to the equipment type. Management performs reviews of the estimated residual values and historic realization statistics no less frequently than quarterly and any impairment, if other than temporary, is recognized in the current period.

Allowance for credit losses. In accordance with the Contingencies Topic of the Financial Accounting Standards Board (the "FASB") ASC, we maintain an allowance for credit losses at an amount sufficient to absorb losses inherent in our existing lease and loan portfolios as of the reporting dates based on our projection of probable net credit losses. We identify portfolio segments, which represent the level at which we develop and document a systematic methodology to determine the allowance for credit losses. As of December 31, 2018, we have identified four segments, which consist of equipment lease and loan, Working Capital Loans, CVG, and Community Reinvestment Act ("CRA") loans, of which all methodologies are evaluated on a pooled basis, due to their composition of similar accounts with similar general credit risk characteristics, diversified among industry, geography, equipment type (if applicable), obligor and vendor (if applicable). The Company has determined there to be one class of financing receivable within each portfolio segment as finance receivables of each segment contain the same initial measurement attributes, risk characteristics, and has the same method for monitoring and assessing credit risk within the segment.

Each segment generally considers both quantitative and qualitative factors in determining the allowance for credit losses. Quantitative factors for the equipment lease and loan segment include a migration analysis stratified by industry classification, historic delinquencies and charge-offs, and a static pool analysis of historic recoveries. A migration analysis is a technique used to estimate the likelihood that an account will progress through the various delinquency stages and ultimately charge off. A loss emergence period (LEP), which is the period of time between an event that triggers the probability of a loss and the confirmation of loss, is applied to the migration results to develop an estimate of losses inherent in the portfolio at the reporting period. Quantitative factors for the CVG and Working Capital Loans segments include establishing a loss curve based on historical analysis of net charge-offs. The loss curve technique is used to estimate the likelihood and timing of when an account will charge-off relative to the month in which it was funded. An LEP is applied to the loss curve results to develop an estimate of losses inherent in the portfolio at the reporting period. The CVG and Working Capital Loan segments

Table of Contents

utilize different assumptions for the historical charge-offs and loss emergence which is based on analysis specific to each segment. The CRA loan segment quantitative factor includes the analysis of historical losses that are used in conjunction with an LEP to develop a quantitative allowance for credit losses. As part of all of our quantitative analyses for each segment we may also consider specifically identified pools of equipment leases or loans separately from the quantitative analysis, whenever certain identified pools are not expected to perform consistently with their credit characteristics or the portfolio segment as a whole. These lease and loan pools may be analyzed for impairment separately quantitative analysis and a specific reserve established.

Qualitative factors that may result in further adjustments to the quantitative analyses include items such as changes in the composition of our lease and loan portfolio segments (including geography, industry, equipment type and vendor source), seasonality, economic or business conditions and other external factors, business practices or policies at the reporting date that are different from the periods used in the quantitative analyses and changes in experience and ability of leasing and lending management and other relevant staff. The total net adjustments due to all qualitative factors decreased the allowance for credit losses by approximately \$0.5 and \$0.3 million at December 31, 2018 and December 31, 2017, respectively.

The various factors used in the analysis are reviewed periodically, and no less frequently than quarterly. We then establish an allowance for credit losses for the projected probable net credit losses inherent in the portfolio based on this analysis. A provision is charged against earnings to maintain the allowance for credit losses at the appropriate level. Our policy is to generally charge-off against the allowance the estimated unrecoverable portion of accounts once they reach 120 or more days delinquent.

Our projections of probable net credit losses are inherently uncertain, and as a result we cannot predict with certainty the amount of such losses. Changes in economic conditions, the risk characteristics and composition of the portfolio, bankruptcy laws, and other factors could impact our actual and projected net credit losses and the related allowance for credit losses. Actual losses may vary from current estimates.

Income taxes. The Income Taxes Topic of the FASB ASC requires the use of the asset and liability method under which deferred taxes are determined based on the estimated future tax effects of differences between the financial statement and tax basis of assets and liabilities, given the provisions of the enacted tax laws. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. In making this assessment, management considers the scheduled reversal of deferred tax liabilities and projected future taxable income, the level of historical taxable income, projections for future taxable income over the periods which the deferred tax assets are deductible and available tax planning strategies.

Significant management judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and any necessary valuation allowance recorded against net deferred tax assets. The process involves summarizing temporary differences resulting from the different treatment of items such as leases for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the Consolidated Balance Sheets. Our management then assesses the likelihood that deferred tax assets will be recovered from future taxable income or tax carry-back availability and, to the extent our management believes recovery is not likely, a valuation allowance is established. To the extent that we establish a valuation allowance in a period, an expense is recorded within the tax provision in the Consolidated Statements of Operations.

The periods subject to general examination for the Company's federal return include the 2015 tax year to the present. The Company files state income tax returns in various states which may have different statutes of limitations. Generally, state income tax returns for years 2015 through the present are subject to examination.

The Company records penalties and accrued interest related to taxes in income tax expense. Uncertain tax positions are recognized when we believe it is more likely than not that the tax position will be upheld on

Table of Contents

examination by the taxing authorities based on merits of the position. The Company records penalties and accrued interest related to taxes in income tax expense. Uncertain tax positions are recognized when we believe it is more likely than not that the tax position will be upheld on examination by the taxing authorities based on merits of the position. As of December 31, 2018 and 2017, there are no unrecognized tax benefits, and we did not have any accrued interest and penalties.

Other Income. Other income includes various administrative transaction fees, insurance policy fees, fees received from referral of leases to third parties, and gain on sale of leases and servicing fees, recognized as earned. Effective third quarter 2016, on a prospective basis, the insurance policy fees are recognized in the Consolidated Statements of Operations in “Other income” and for all previous annual and interim periods are recorded net in “Insurance premiums written and earned.” Selected major components of other income for the year ended December 31, 2018 included \$0.8 million of referral income, \$2.1 million of insurance policy fees, and \$9.0 million gain on the sale of leases and servicing fee income. Selected major components of other income for the year ended December 31, 2017 included \$2.5 million of referral income, \$1.8 million of insurance policy fees, and \$3.7 million gain on the sale of leases and servicing fee income. Selected major components of other income for the year ended December 31, 2016 included \$0.5 million of referral income, \$0.8 million of insurance policy fees, and \$0.7 million gain on the sale of leases and servicing fee income.

Insurance Premiums Written and Earned. Insurance premiums written and earned are recognized over the term of the policy, which is month to month. Since the policy’s premiums are recognized month to month, there is no unearned premium on the Consolidated Balance Sheets as these are fully recognized through the Consolidated Statements of Operations in the month written. For all annual and interim periods, second quarter 2016 and prior, income and expense related to insurance premiums written and earned, insurance policy fees, deferred acquisition costs, premium taxes and provision for losses and loss adjustment expenses is recorded within the “Insurance premiums written and earned” line on the Consolidated Statement of Operations. Effective third quarter 2016, on a prospective basis, only insurance premium written and earned was recorded to that line. Effective third quarter 2016, on a prospective basis, insurance policy fees were recorded to “Other income” and deferred acquisition costs, premium taxes and provision for losses and loss adjustment expenses were recorded in “General and administrative” expense. For the years ended December 31, 2018, 2017, and 2016, insurance premiums written and earned were \$8.1 million, \$7.2 million, and \$6.4 million respectively.

Insurance Program Deferred Acquisition Costs. Deferred acquisition costs represent the fees paid to a third-party insurance company. Effective third quarter 2016, on a prospective basis, the costs are recognized on the Consolidated Statements of Operations in “General and administrative” expense and for all previous interim and annual periods are recognized net in “Insurance premiums written and earned.” For each of the years ended December 31, 2018, 2017, and 2016, the Company recognized deferred acquisition costs and premium taxes of \$0.9 million, \$0.9 million, and \$0.7 million, respectively. Since the policy’s premiums are recognized on a month to month basis, there is no deferred acquisition costs on the Consolidated Balance Sheet as these are fully recognized through the Consolidated Statements of Operations in the month written.

Provision for Unpaid Losses and Loss Adjustment Expenses. The Company records a provision for insurance losses and loss adjustment expenses. Effective third quarter 2016, on a prospective basis, the expense was recorded in “General and administrative” expense on the Consolidated Statements of Operations and for all previous annual and interim periods is recorded net in “Insurance premiums written and earned.” The liability for losses and loss adjustment expenses includes an amount determined from loss reports and individual cases and an amount, based on historical loss experience and industry statistics, for losses incurred but not reported (“IBNR”). These estimates are continually reviewed and are subject to the impact of future changes in such factors as claim severity and frequency. Loss and loss expenses are paid when advised by the third-party insurance company. Outstanding losses comprise estimates of the amount of reported losses and loss expenses received from the third-party insurance company plus a provision for losses IBNR. IBNR is determined with the assistance of a third-party actuary. For each of the years ended December 31, 2018, 2017, and 2016, the Company recognized provision for unpaid losses and loss adjustment expenses of \$0.8 million, \$0.8 million, and \$0.6 million, respectively.

[Table of Contents](#)

RESULTS OF OPERATIONS

Comparison of the Years Ended December 31, 2018 and 2017

Net income. Net income of \$25.0 million was reported for the year ended December 31, 2018, resulting in diluted earnings per share of \$2.00, compared to net income of \$25.3 million and diluted earnings per share of \$2.01 for the year ended December 31, 2017. The comparable results are primarily due to an increase of \$10.5 million in interest and fee income on a larger portfolio, an increase of \$4.7 million in Non-Interest income and a decrease of \$1.2 million in Non-Interest expense, offset by increased interest expense of \$6.2 million primarily due to the impact on funding costs from the recent debt securitization and a net increase of \$9.4 million in tax expense primarily due to the revaluation of deferred tax assets and liabilities in 2017 associated with the TCJA.

Return on average assets was 2.29% for the year ended December 31, 2018, compared to a return of 2.59% for the year ended December 31, 2017. Return on average equity was 13.27% for the year ended December 31, 2018, compared to a return of 15.38% for the year ended December 31, 2017.

Overall, our average net investment in total finance receivables for the year ended December 31, 2018 increased 11.6% to \$944.6 million, compared to \$846.7 million for the year ended December 31, 2017. This change was primarily due to origination volume continuing to exceed lease repayments. The end-of-period net investment in total finance receivables at December 31, 2018 was \$1,000.7 million, an increase of 9.4% from \$914.4 million at December 31, 2017.

During the year ended December 31, 2018, we generated 33,105 new leases and loans in the amount of \$704.9 million, compared to 32,189 new leases and loans in the amount of \$629.4 million originated for the year ended December 31, 2017. Approval rates increased from 56% at December 31, 2017 to 57% at December 31, 2018.

For the year ended December 31, 2018 compared to the year ended December 31, 2017, net interest and fee income increased \$4.4 million, or 4.8%, primarily due to a \$9.6 million increase in interest income and a \$0.9 million increase in fee income offset by a \$6.2 million increase in interest expense. The provision for credit losses increased \$1.1 million, or 6.0%, to \$19.5 million for the year ended December 31, 2018 from \$18.4 million for the year ended December 31, 2017, due primarily to higher charge-offs attributed to growth in average finance receivables and 1.2 million in charge-offs during the fourth quarter due to fraudulent activity by a single vendor partner.

Table of Contents

Average balances and net interest margin. The following table summarizes the Company's average balances, interest income, interest expense and average yields and rates on major categories of interest-earning assets and interest-bearing liabilities for the years ended December 31, 2018 and 2017.

	Year Ended December 31,							
	2018		(Dollars in thousands)				2017	
	Average Balance ⁽¹⁾	Interest	Average Yields/Rates	Average Balance ⁽¹⁾	Interest	Average Yields/Rates		
Interest-earning assets:								
Interest-earning deposits with banks	\$ 77,141	\$ 1,554	2.01%	\$ 81,249	\$ 646	0.80%		
Time deposits	8,639	154	1.79	8,704	110	1.26		
Restricted interest-earning deposits with banks	6,323	57	0.90	—	—	—		
Securities available for sale	10,977	225	2.05	8,778	173	1.97		
Net investment in leases ⁽²⁾	880,547	82,361	9.35	806,677	77,084	9.56		
Loans receivable ⁽²⁾	64,041	12,674	19.79	40,066	9,442	23.57		
Total interest-earning assets	1,047,668	97,025	9.26	945,474	87,455	9.25		
Non-interest-earning assets:								
Cash and due from banks	5,551			2,283				
Intangible assets	2,826			729				
Goodwill	2,727			705				
Property and equipment, net	4,134			4,005				
Property tax receivables	7,491			8,063				
Other assets ⁽³⁾	21,554			13,730				
Total non-interest-earning assets	44,283			29,515				
Total assets	\$1,091,951			\$ 974,989				
Interest-bearing liabilities:								
Certificate of Deposits ⁽⁴⁾	\$ 756,571	\$ 13,999	1.85%	\$ 732,772	\$ 10,654	1.45%		
Money Market Deposits ⁽⁴⁾	29,068	598	2.06	44,954	526	1.17		
Long-term borrowings ⁽⁴⁾	75,180	2,817	3.75	—	—	—		
Total interest-bearing liabilities	860,819	17,414	2.02	777,726	11,180	1.43		
Non-interest-bearing liabilities:								
Sales and property taxes payable	5,796			5,054				
Accounts payable and accrued expenses	18,076			14,223				
Net deferred income tax liability	19,049			13,534				
Total non-interest-bearing liabilities	42,921			32,812				
Total liabilities	903,740			810,538				
Stockholders' equity	188,211			164,451				
Total liabilities and stockholders' equity	\$1,091,951			\$ 974,989				
Net interest income		\$ 79,611			\$ 76,275			
Interest rate spread⁽⁵⁾			7.24%			7.82%		
Net interest margin⁽⁶⁾			7.60%			8.07%		
Ratio of average interest-earning assets to average interest-bearing liabilities						121.71%	121.57%	

(1) Average balances were calculated using average daily balances.

Table of Contents

- (2) Average balances of leases and loans include non-accrual leases and loans, and are presented net of unearned income. The average balances of leases and loans do not include the effects of (i) the allowance for credit losses and (ii) initial direct costs and fees deferred.
- (3) Includes operating leases.
- (4) Includes effect of transaction costs. Amortization of transaction costs is on a straight-line basis, resulting in an increased average rate whenever average portfolio balances are at reduced levels.
- (5) Interest rate spread represents the difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.
- (6) Net interest margin represents net interest income as a percentage of average interest-earning assets.

The following table presents the components of the changes in net interest income by volume and rate.

	Year Ended December 31, 2018 Compared To Year Ended December 31, 2017		
	Increase (Decrease) Due To:		
	Volume ⁽¹⁾	Rate ⁽¹⁾	Total
(Dollars in thousands)			
Interest income:			
Interest-earning deposits with banks	\$ (34)	\$ 942	\$ 908
Restricted interest-earning deposits with banks	57	—	57
Time Deposits	(1)	45	44
Securities available for sale	45	7	52
Net investment in leases	6,937	(1,660)	5,277
Loans receivable	4,936	(1,704)	3,232
Total interest income	9,464	106	9,570
Interest expense:			
Certificate of Deposits	356	2,989	3,345
Money Market Deposits	(231)	303	72
Long-term borrowings	2,817	—	2,817
Total interest expense	1,296	4,938	6,234
Net interest income	\$ 7,933	\$ (4,597)	\$ 3,336

- (1) Changes due to volume and rate are calculated independently for each line item presented rather than presenting vertical subtotals for the individual volume and rate columns. Changes attributable to changes in volume represent changes in average balances multiplied by the prior period's average rates. Changes attributable to changes in rate represent changes in average rates multiplied by the prior year's average balances. Changes attributable to the combined impact of volume and rate have been allocated proportionately to the change due to volume and the change due to rate.

Table of Contents

Net interest and fee margin. The following table summarizes the Company's net interest and fee income as a percentage of average total finance receivables for the years ended December 31, 2018 and 2017.

	Year Ended December 31,	
	2018	2017
	(Dollars in thousands)	
Interest income	\$ 97,025	\$ 87,455
Fee income	15,843	14,864
Interest and fee income	112,868	102,319
Interest expense	17,414	11,180
Net interest and fee income	\$ 95,454	\$ 91,139
Average total finance receivables ⁽¹⁾	\$944,588	\$846,743
Percent of average total finance receivables:		
Interest income	10.27%	10.33%
Fee income	1.68	1.76
Interest and fee income	11.95	12.09
Interest expense	1.84	1.32
Net interest and fee margin	10.11%	10.77%

⁽¹⁾ Total finance receivables include net investment in direct financing leases and loans. For the calculations above, the effects of (i) the allowance for credit losses and (ii) initial direct costs and fees deferred are excluded.

Net interest and fee income increased \$4.4 million, or 4.8%, to \$95.5 million for the year ended December 31, 2018 from \$91.1 million for the year ended December 31, 2017. The net interest and fee margin was 10.11% and 10.77% for the years ended December 31, 2018 and December 31, 2017, respectively.

Interest income, net of amortized initial direct costs and fees, increased \$9.5 million, or 10.9%, to \$97.0 million for the year ended December 31, 2018 from \$87.5 million for the year ended December 31, 2017. The increase in interest income was principally due to a 11.6% increase in average total finance receivables, which increased \$97.9 million to \$944.6 million at December 31, 2018 from \$846.7 million at December 31, 2017. The increase in average total finance receivables was primarily due to origination volume continuing to exceed lease repayments. The weighted average implicit interest rate on new finance receivables increased 47 basis point to 12.45% for the year ended December 31, 2018, from 11.98% for the year ended December 31, 2017.

Fee income increased \$0.9 million, or 6.0%, to \$15.8 million for the year ended December 31, 2018 from \$14.9 million for the year ended December 31, 2017. Fee income included approximately \$3.7 million of net residual income for the year ended December 31, 2018 and \$3.6 million for the year ended December 31, 2017.

Fee income also included approximately \$9.3 million in late fee income for the year ended December 31, 2018, which increased 3.3%, compared to \$9.0 million for the year ended December 31, 2017. The increase in late fee income was primarily due to the increase in average total finance receivables.

Fee income, as a percentage of average total finance receivables, decreased 8 basis points to 1.68% for the year ended December 31, 2018 from 1.76% for the year ended December 31, 2017. Late fees remained the largest component of fee income at 1.10% as a percentage of average total finance receivables for the year ended December 31, 2018, compared to 1.25% for the year ended December 31, 2017. As a percentage of average total finance receivables, net residual income was 0.44% for the year ended December 31, 2018, compared to 0.50% for the year ended December 31, 2017.

Table of Contents

Interest expense increased \$6.2 million to \$17.4 million, or 2.02% as a percentage of average deposits, for the year ended December 31, 2018 from \$11.2 million, or 1.43% as a percentage of average deposits, for the year ended December 31, 2017. The increase was almost equally due to increases in rate and average balance of interest bearing liabilities. Interest expense, as an annualized percentage of average total finance receivables, increased 52 basis points to 1.84% for the year ended December 31, 2018, from 1.32% for the year ended December 31, 2017. The average balance of deposits was \$785.6 million and \$777.7 million for the years ended December 31, 2018 and December 31, 2017, respectively.

For the year ended December 31, 2018, average term securitizations outstanding were \$75.2 million at a weighted average coupon of 3.75%. There were no outstanding borrowings for the year ended December 31, 2017.

Our wholly-owned subsidiary, MBB, serves as our primary funding source. MBB raises time deposits through a variety of sources including: directly from customers, through the use of on-line listing services, and through the use of deposit brokers. At December 31, 2018, brokered certificates of deposit represented approximately 56.3% of total deposits, while approximately 40.4% of total deposits were obtained from direct channels, and 3.3% were in the brokered MMDA Product.

Insurance premiums written and earned. Insurance premiums written and earned increased \$0.9 million to \$8.1 million for the year ended December 31, 2018 from \$7.2 million for the year ended December 31, 2017, primarily due to an increase in the number of contracts enrolled in the insurance program as well as higher average ticket size

Other income. Other income increased \$3.7 million to \$13.3 million for the year ended December 31, 2018 from \$9.6 million for the year ended December 31, 2017. Other income primarily includes various administrative transaction fees and fees received from referral of leases to third parties, and gain on sale of leases and servicing fee income, recognized as earned. Selected major components of other income for the year ended December 31, 2018 included \$0.8 million of referral income, \$2.1 million of insurance policy fees, and \$9.0 million gain on the sale of leases and servicing fee income. In comparison, selected major components of other income for the year ended December 31, 2017 included \$2.5 million of referral income, \$1.8 million of insurance policy fees, and \$3.7 million gain on the sale of leases and servicing fee income. Gain on sale of leases and servicing fee income and referral fee income increases are due to the Company's expanded capital markets activities and capabilities.

Salaries and benefits expense. Salaries and benefits expense increased \$2.2 million, or 5.9%, to \$39.8 million for the year ended December 31, 2018 from \$37.6 million for the year ended December 31, 2017. The increase was primarily due to an increase in total personnel and increased compensation related to increased origination volume. Salaries and benefits expense, as a percentage of average total finance receivables, was 4.21% for the year ended December 31, 2018 compared with 4.44% for the year ended December 31, 2017. Total personnel was 341 at December 31, 2018 compared to 330 at December 31, 2017.

General and administrative expense. General and administrative expense decreased \$3.4 million, or 12.0%, to \$24.9 million for the year ended December 31, 2018 from \$28.3 million for the year ended December 31, 2017. The decrease was primarily related to the provision for customer restitution recorded in 2017. General and administrative expense as a percentage of average total finance receivables was 2.64% for the year ended December 31, 2018, compared to 3.34% for the year ended December 31, 2017.

Selected major components of general and administrative expense for the year ended December 31, 2018 included \$3.7 million of premises and occupancy expense, \$1.7 million of audit and tax compliance expense, \$3.8 million of data processing expense, \$1.9 million of marketing expense, \$1.1 million of FDIC insurance fees and \$1.6 million of insurance related expenses. In comparison, selected major components of general and administrative expense for the year ended December 31, 2017 included \$3.5 million of premises and occupancy expense, \$1.6 million of audit and tax compliance expense, \$3.3 million of data processing expense, \$1.8 million

Table of Contents

of marketing expense, \$1.2 million of FDIC insurance fees, and \$0.7 million of insurance related expenses, as well as \$4.0 million for customer restitution as further described in Note 11 – Commitments and Contingencies.

Financing related costs. Financing related costs primarily represent bank commitment fees paid to our financing sources on the unused portion of our loan facility. There were no financing related costs for the years ended December 31, 2018 and December 31, 2017.

Provision for credit losses. The provision for credit losses increased \$1.1 million, or 6.0%, to \$19.5 million for the year ended December 31, 2018 from \$18.4 million for the year ended December 31, 2017. Lease portfolio losses tend to follow patterns based on the mix of origination vintages comprising the portfolio. The anticipated credit losses from the inception of a particular lease origination vintage to charge-off generally follow a pattern of lower losses for the first few months, followed by increased losses in subsequent months, then lower losses during the later periods of the lease term. Therefore, the seasoning, or mix of origination vintages, of the portfolio affects the timing and amount of anticipated probable and estimable credit losses.

The increase in our provision for credit losses resulted primarily from higher charge-offs due to growth in average finance receivables and \$1.2 million in charge-offs during the fourth quarter due to fraudulent activity by a single vendor partner.

Net charge-offs were \$18.3 million for the year ended December 31, 2018, compared to \$14.5 million for the year ended December 31, 2017. The increase in charge-offs was primarily due to growth in average finance receivables and 1.2 million in charge-offs during the fourth quarter due to fraudulent activity by a single vendor partner. Net charge-offs as a percentage of average total finance receivables increased to 1.93% during the year ended December 31, 2018, from 1.71% for the year ended December 31, 2017. The allowance for credit losses was \$16.1 million and \$14.9 million at December 31, 2018 and December 31, 2017, respectively.

Additional information regarding asset quality is included herein in the subsequent section, “Finance Receivables and Asset Quality.”

Provision for income taxes. Income tax expense of \$7.7 million was recorded for the year ended December 31, 2018, compared to a benefit of \$1.7 million for the year ended December 31, 2017. The increase was primarily due to the Company’s revaluation of its deferred tax assets and liabilities at the new federal corporate tax rate of 21% in 2017, resulting in a \$12.7 million reduction in income tax expense and, to a lesser extent, excess tax benefits pertaining to share-based payment arrangements that were recognized in income tax expense instead of additional-paid-in-capital because of the January 1, 2017 adoption of ASU 2016-09. Our effective tax rate, which is a combination of federal and state income tax rates, was approximately 23.6% for the year ended December 31, 2018, compared to (7.0%) for the year ended December 31, 2017. The change in effective tax rate is primarily due to the TCJA enacted December 22, 2017.

Comparison of the Years Ended December 31, 2017 and 2016

Net income. Net income of \$25.3 million was reported for the year ended December 31, 2017, resulting in diluted earnings per share of \$2.01, compared to net income of \$17.3 million and diluted earnings per share of \$1.38 for the year ended December 31, 2016. The increase is primarily due to \$12.1 million increase in interest and fee income on higher average interest earning assets, \$7.0 million increase in Other income on expanded capital markets activities and increased gains on sales of leases and loans, and \$12.7 million decrease in tax expense primarily due to revaluation of deferred tax assets and liabilities associated with the TCJA. These increases in net income were partially offset by increase in interest expense of \$3.4 million on increasing cost of funds and higher average deposit balances, an increase of \$6.0 million in the Allowance for Credit losses, and \$14.3 million increase in other expense.

Return on average assets was 2.59% for the year ended December 31, 2017, compared to a return of 2.08% for the year ended December 31, 2016. Return on average equity was 15.38% for the year ended December 31, 2017, compared to a return of 11.15% for the year ended December 31, 2016.

Table of Contents

Overall, our average net investment in total finance receivables for the year ended December 31, 2017 increased 17.6% to \$846.7 million, compared to \$720.1 million for the year ended December 31, 2016. This change was primarily due to origination volume continuing to exceed lease repayments. The end-of-period net investment in total finance receivables at December 31, 2017 was \$914.4 million, an increase of 14.8% from \$796.7 million at December 31, 2016.

During the year ended December 31, 2017, we generated 32,189 new leases and loans in the amount of \$629.4 million, compared to 27,583 new leases and loans in the amount of \$504.3 million originated for the year ended December 31, 2016. Approval rates decreased from 58% at December 31, 2016 to 56% at December 31, 2017.

For the year ended December 31, 2017 compared to the year ended December 31, 2016, net interest and fee income increased \$8.6 million, or 10.4%, primarily due \$12.8 million increase in interest income offset by a \$0.6 million decrease in fee income and a \$3.4 million increase in interest expense. The provision for credit losses increased \$6.0 million, or 48.4%, to \$18.4 million for the year ended December 31, 2017 from \$12.4 million for the year ended December 31, 2016, due to increased delinquency and charge-offs and to a lesser extent growth in the portfolio, and an additional \$0.5 million for estimated inherent credit losses from the areas hardest hit by Hurricane Harvey and Hurricane Irma during third quarter 2017.

Table of Contents

Average balances and net interest margin. The following table summarizes the Company's average balances, interest income, interest expense and average yields and rates on major categories of interest-earning assets and interest-bearing liabilities for the years ended December 31, 2017 and 2016.

	Year Ended December 31,					
	2017			2016		
	Average Balance ⁽¹⁾	Interest	Average Yields/ Rates	Average Balance ⁽¹⁾	Interest	Average Yields/ Rates
Interest-earning assets:						
Interest-earning deposits with banks	\$ 81,249	\$ 646	0.80%	\$ 73,458	\$ 185	0.25%
Time deposits	8,704	110	1.26	8,872	108	1.22
Restricted interest-earning deposits with banks	—	—		62		0.08
Securities available for sale	8,778	173	1.97	6,171	141	2.29
Net investment in leases ⁽²⁾	806,677	77,084	9.56	703,423	69,699	9.91
Loans receivable ⁽²⁾	40,066	9,442	23.57	16,637	4,576	27.51
Total interest-earning assets	945,474	87,455	9.25	808,623	74,709	9.24
Non-interest-earning assets:						
Cash and due from banks	2,283			2,675		
Intangible assets	729			—		
Goodwill	705			—		
Property and equipment, net	4,005			3,731		
Property tax receivables	8,063			4,100		
Other assets ⁽³⁾	13,730			10,719		
Total non-interest-earning assets	29,515			21,225		
Total assets	\$ 974,989			\$ 829,848		
Interest-bearing liabilities:						
Certificate of Deposits ⁽⁴⁾	\$ 732,772	\$ 10,654	1.45%	\$ 595,148	\$ 7,471	1.26%
Money Market Deposits ⁽⁴⁾	44,954	526	1.17	52,253	307	0.59
Total interest-bearing liabilities	777,726	11,180	1.43	647,401	7,778	1.20
Non-interest-bearing liabilities:						
Sales and property taxes payable	5,054			4,717		
Accounts payable and accrued expenses	14,223			6,303		
Net deferred income tax liability	13,534			16,478		
Total non-interest-bearing liabilities	32,812			27,498		
Total liabilities	810,538			674,899		
Stockholders' equity	164,451			154,949		
Total liabilities and stockholders' equity	\$ 974,989			\$ 829,848		
Net interest income		\$ 76,275			\$ 66,931	
Interest rate spread⁽⁵⁾			7.82%			8.03%
Net interest margin⁽⁶⁾			8.07%			8.28%
Ratio of average interest-earning assets to average interest-bearing liabilities			121.57%			124.90%

(1) Average balances were calculated using average daily balances.

Table of Contents

- (2) Average balances of leases and loans include non-accrual leases and loans, and are presented net of unearned income. The average balances of leases and loans do not include the effects of (i) the allowance for credit losses and (ii) initial direct costs and fees deferred.
- (3) Includes operating leases.
- (4) Includes effect of transaction costs. Amortization of transaction costs is on a straight-line basis, resulting in an increased average rate whenever average portfolio balances are at reduced levels.
- (5) Interest rate spread represents the difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.
- (6) Net interest margin represents net interest income as a percentage of average interest-earning assets.

The following table presents the components of the changes in net interest income by volume and rate.

	Year Ended December 31, 2017 Compared To Year Ended December 31, 2016		
	Increase (Decrease) Due To:		
	Volume⁽¹⁾	Rate⁽¹⁾	Total
(Dollars in thousands)			
Interest income:			
Interest-earning deposits with banks	\$ 19	\$ 442	\$ 461
Time Deposits	(1)	3	2
Securities available for sale	53	(21)	32
Net investment in leases	9,938	(2,553)	7,385
Loans receivable	5,607	(741)	4,866
Total interest income	12,658	88	12,746
Interest expense:			
Certificate of Deposits	1,890	1,293	3,183
Money Market Deposits	(48)	267	219
Total interest expense	1,721	1,681	3,402
Net interest income	\$ 11,078	\$ (1,734)	\$ 9,344

- (1) Changes due to volume and rate are calculated independently for each line item presented rather than presenting vertical subtotals for the individual volume and rate columns. Changes attributable to changes in volume represent changes in average balances multiplied by the prior period's average rates. Changes attributable to changes in rate represent changes in average rates multiplied by the prior year's average balances. Changes attributable to the combined impact of volume and rate have been allocated proportionately to the change due to volume and the change due to rate.

Table of Contents

Net interest and fee margin. The following table summarizes the Company's net interest and fee income as a percentage of average total finance receivables for the years ended December 31, 2017 and 2016.

	<u>Year Ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
	(Dollars in thousands)	
Interest income	\$ 87,455	\$ 74,709
Fee income	14,864	15,543
Interest and fee income	102,319	90,252
Interest expense	11,180	7,778
Net interest and fee income	<u>\$ 91,139</u>	<u>\$ 82,474</u>
Average total finance receivables ⁽¹⁾	\$846,743	\$720,060
Percent of average total finance receivables:		
Interest income	10.33%	10.38%
Fee income	1.76	2.16
Interest and fee income	12.09	12.54
Interest expense	1.32	1.08
Net interest and fee margin	<u>10.77%</u>	<u>11.46%</u>

⁽¹⁾ Total finance receivables include net investment in direct financing leases and loans. For the calculations above, the effects of (i) the allowance for credit losses and (ii) initial direct costs and fees deferred are excluded.

Net interest and fee income increased \$8.6 million, or 10.4%, to \$91.1 million for the year ended December 31, 2017 from \$82.5 million for the year ended December 31, 2016. The net interest and fee margin was 10.77% and 11.46% for the years ended December 31, 2017 and December 31, 2016, respectively.

Interest income, net of amortized initial direct costs and fees, increased \$12.8 million, or 17.1%, to \$87.5 million for the year ended December 31, 2017 from \$74.7 million for the year ended December 31, 2016. The increase in interest income was principally due to a 17.6% increase in average total finance receivables, which increased \$126.6 million to \$846.7 million at December 31, 2017 from \$720.1 million at December 31, 2016. The increase in average total finance receivables was primarily due to origination volume continuing to exceed lease repayments. The weighted average implicit interest rate on new finance receivables increased 31 basis point to 11.98% for the year ended December 31, 2017, from 11.67% for the year ended December 31, 2016.

Fee income decreased \$0.6 million, or 3.9%, to \$14.9 million for the year ended December 31, 2017 from \$15.5 million for the year ended December 31, 2016. Fee income included approximately \$3.6 million of net residual income for the year ended December 31, 2017 and \$4.1 million for the year ended December 31, 2016.

Fee income also included approximately \$9.0 million in late fee income for the year ended December 31, 2017, which decreased 3.2%, compared to \$9.3 million for the year ended December 31, 2016.

Fee income, as a percentage of average total finance receivables, decreased 40 basis points to 1.76% for the year ended December 31, 2017 from 2.16% for the year ended December 31, 2016. Late fees remained the largest component of fee income at 1.06% as a percentage of average total finance receivables for the year ended December 31, 2017, compared to 1.29% for the year ended December 31, 2016. As a percentage of average total finance receivables, net residual income was 0.43% for the year ended December 31, 2017, compared to 0.57% for the year ended December 31, 2016.

Table of Contents

Interest expense increased \$3.4 million to \$11.2 million, or 1.43% as a percentage of average deposits, for the year ended December 31, 2017 from \$7.8 million, or 1.20% as a percentage of average deposits, for the year ended December 31, 2016. The increase was almost equally due to increases in rate and average balance of interest bearing liabilities. Interest expense, as an annualized percentage of average total finance receivables, increased 24 basis points to 1.32% for the year ended December 31, 2017, from 1.08% for the year ended December 31, 2016. The average balance of deposits was \$777.7 million and \$647.4 million for the years ended December 31, 2017 and December 31, 2016, respectively.

For the year ended December 31, 2017 and December 31, 2016, there were no borrowings outstanding. (See **Liquidity and Capital Resources** in this Item 7).

Our wholly-owned subsidiary, MBB, serves as our primary funding source. MBB raises time deposits through a variety of sources including: directly from customers, through the use of on-line listing services, and through the use of deposit brokers. At December 31, 2017, brokered certificates of deposit represented approximately 55.2% of total deposits, while approximately 40.0% of total deposits were obtained from direct channels, and 4.8% were in the brokered MMDA Product.

Insurance premiums written and earned. Insurance premiums written and earned increased \$0.8 million to \$7.2 million for the year ended December 31, 2017 from \$6.4 million for the year ended December 31, 2016, primarily due to an increase in the number of contracts enrolled in the insurance program as well as higher average ticket size. For all annual and interim periods, second quarter 2016 and prior, income and expense related to insurance premiums written and earned, insurance policy fees, deferred acquisition costs, premium taxes and provision for losses and loss adjustment expenses is recorded within the “Insurance premiums written and earned” line on the Consolidated Statement of Operations. Effective third quarter 2016, on a prospective basis, only insurance premiums written and earned were recorded to that line. Effective third quarter 2016, on a prospective basis, insurance policy fees were recorded to “Other income” and deferred acquisition costs, premium taxes and provision for losses and loss adjustment expenses were recorded in the “General and administrative” expense line.

Other income. Other income increased \$6.2 million to \$9.6 million for the year ended December 31, 2017 from \$3.4 million for the year ended December 31, 2016. Other income primarily includes various administrative transaction fees and fees received from referral of leases to third parties and gain on sale of leases and servicing fee income, recognized as earned. Selected major components of other income for the year ended December 31, 2017 included \$2.5 million of referral income, \$1.8 million of insurance policy fees, and \$3.7 million gain on the sale of leases and servicing fee income. In comparison, selected major components of other income for the year ended December 31, 2016 included \$0.5 million of referral income, \$0.8 million of insurance policy fees, and \$0.7 million gain on the sale of leases and servicing fee income. Gain on sale of leases and servicing fee income and referral fee income increases are due to the Company’s expanded capital markets activities and capabilities.

Salaries and benefits expense. Salaries and benefits expense increased \$5.7 million, or 17.9%, to \$37.6 million for the year ended December 31, 2017 from \$31.9 million for the year ended December 31, 2016. The increase was primarily due to an increase in total personnel and increased compensation related to increased origination volume. Salaries and benefits expense, as a percentage of average total finance receivables, was 4.44% for the year ended December 31, 2017 compared with 4.43% for the year ended December 31, 2016. Total personnel was 330 at December 31, 2017 compared to 318 at December 31, 2016.

General and administrative expense. General and administrative expense increased \$8.8 million, or 45.1%, to \$28.3 million for the year ended December 31, 2017 from \$19.5 million for the year ended December 31, 2016. General and administrative expense as a percentage of average total finance receivables was 3.34% for the year ended December 31, 2017, compared to 2.71% for the year ended December 31, 2016.

Selected major components of general and administrative expense for the year ended December 31, 2017 included \$3.5 million of premises and occupancy expense, \$1.6 million of audit and tax compliance

Table of Contents

expense, \$3.3 million of data processing expense, \$1.8 million of marketing expense, \$1.2 million of FDIC insurance fees, a \$4.2 million estimated charge for restitution expense in connection with MBB's regulatory examination preliminary findings (See Note 11, Commitments and Contingencies, in the accompanying Notes to Consolidated Financial Statements), and \$1.6 million of insurance related expenses which were recognized net in "Insurance premiums written and earned" in prior quarters. In comparison, selected major components of general and administrative expense for the year ended December 31, 2016 included \$3.3 million of premises and occupancy expense, \$1.4 million of audit and tax compliance expense, \$2.4 million of data processing expense, \$1.9 million of marketing expense, \$0.7 million of FDIC insurance fees, and \$0.7 million of insurance related expenses which were recognized net in "Insurance premiums written and earned" in prior quarters.

Financing related costs. Financing related costs primarily represent bank commitment fees paid to our financing sources on the unused portion of our loan facility. There were no financing related costs for the year ended December 31, 2017, compared to \$0.1 million for the year ended December 31, 2016.

Provision for credit losses. The provision for credit losses increased \$6.0 million, or 48.4%, to \$18.4 million for the year ended December 31, 2017 from \$12.4 million for the year ended December 31, 2016. Lease portfolio losses tend to follow patterns based on the mix of origination vintages comprising the portfolio. The anticipated credit losses from the inception of a particular lease origination vintage to charge-off generally follow a pattern of lower losses for the first few months, followed by increased losses in subsequent months, then lower losses during the later periods of the lease term. Therefore, the seasoning, or mix of origination vintages, of the portfolio affects the timing and amount of anticipated probable and estimable credit losses.

The increase in our provision for credit losses resulted from increased delinquency and charge-offs and to a lesser extent growth in the portfolio, and an additional \$0.5 million for estimated inherent losses from the areas hardest hit by Hurricane Harvey and Hurricane Irma during third quarter 2017. This additional reserve is an estimate based on information currently available which includes information obtained from contacting affected customers. As of December 31, 2017, the Company did not have any charge-offs associated with Hurricane activity, however, the \$0.5 million established reserve was still deemed appropriate at December 31, 2017.

Net charge-offs were \$14.5 million for the year ended December 31, 2017, compared to \$9.9 million for the year ended December 31, 2016. The increase in charge-offs was primarily due to a return to a more normalized credit environment and higher than expected charge-offs in the CVG channel and also partially due to an increase in portfolio size. Net charge-offs as a percentage of average total finance receivables increased to 1.71% during the year ended December 31, 2017, from 1.37% for the year ended December 31, 2016. The allowance for credit losses was \$14.9 million and \$10.9 million at December 31, 2017 and December 31, 2016, respectively.

Additional information regarding asset quality is included herein in the subsequent section, "Finance Receivables and Asset Quality."

Provision for income taxes. Income tax benefit of \$1.7 million was recorded for the year ended December 31, 2017, compared to expense of \$11.0 million for the year ended December 31, 2016. The decrease was primarily due to the Company's revaluation of its deferred tax assets and liabilities at the new federal corporate tax rate of 21% resulting in a \$12.7 million reduction in income tax expense and, to a lesser extent, excess tax benefits pertaining to share-based payment arrangements that were recognized in income tax expense instead of additional-paid-in-capital because of the January 1, 2017 adoption of ASU 2016-09. Our effective tax rate, which is a combination of federal and state income tax rates, was approximately (7.0%) for the year ended December 31, 2017, compared to 38.9% for the year ended December 31, 2016. The change in effective tax rate is primarily due to the TCJA enacted December 22, 2017.

Operating Data

We manage expenditures using a comprehensive budgetary review process. Expenses are monitored by departmental heads and are reviewed by senior management monthly. The efficiency ratio (relating expenses

Table of Contents

with revenues) and the ratio of salaries and benefits and general and administrative expense as a percentage of the average total finance receivables shown below are metrics used by management to monitor productivity and spending levels. Please refer to **Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations** for additional information regarding factors influencing these metrics.

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
Average total finance receivables	\$944,588	\$846,743	\$720,060
Salaries and benefits expense	39,750	37,569	31,912
General and administrative expense	24,915	28,272	19,523
Efficiency ratio ⁽¹⁾	55.32%	61.04%	55.77%
Percent of average total finance receivables:			
Salaries and benefits	4.21%	4.44%	4.43%
General and administrative	2.64%	3.34%	2.71%

(1) Represents expenses (salaries and benefits expense and general and administrative expense) divided by the sum of net interest and fee income, insurance income and other income.

We generally reach our lessees through a network of independent equipment dealers and, to a much lesser extent, lease brokers. The number of dealers and brokers with whom we conduct business depends on, among other things, the number of sales account executives we have.

Finance Receivables and Asset Quality

Our net investment in leases and loans increased \$86.3 million, or 9.4%, to \$1,000.7 million at December 31, 2018, from \$914.4 million at December 31, 2017. During 2018, we increased origination activity through continued development of our internal sales organization and our 2017 acquisition of Horizon Keystone Financial (“HKF”) and to a lesser extent, our 2018 acquisition of Fleet Financing Resources (“FFR”). A portion of the Company’s lease portfolio is generally assigned as collateral for borrowings as described below in **Liquidity and Capital Resources** in this Item 7.

Table of Contents

The chart which follows provides our asset quality statistics for each of the five years ended December 31, 2018:

(Dollars in thousands)	Year Ended December 31,				
	2018	2017	2016	2015	2014
Allowance for credit losses, beginning of period	\$ 14,851	\$ 10,937	\$ 8,413	\$ 8,537	\$ 8,467
Provision for credit losses	19,522	18,394	12,414	9,995	9,116
Charge-offs:					
Commercial loans:					
Working Capital Loans	(1,537)	(1,219)	(455)	(14)	—
CRA	—	—	—	—	—
Equipment Finance ⁽¹⁾	(18,149)	(14,343)	(11,893)	(12,439)	(11,463)
CVG	(907)	(1,154)	(39)	—	—
Total charge-offs	<u>(20,593)</u>	<u>(16,716)</u>	<u>(12,387)</u>	<u>(12,453)</u>	<u>(11,463)</u>
Recoveries:					
Commercial loans:					
Working Capital Loans	60	121	93	—	—
CRA	—	—	—	—	—
Equipment Finance ⁽¹⁾	2,199	2,066	2,404	2,334	2,417
CVG	61	49	—	—	—
Total recoveries	<u>2,320</u>	<u>2,236</u>	<u>2,497</u>	<u>2,334</u>	<u>2,417</u>
Net charge-offs	<u>(18,273)</u>	<u>(14,480)</u>	<u>(9,890)</u>	<u>(10,119)</u>	<u>(9,046)</u>
Allowance for credit losses, end of period	<u>\$ 16,100</u>	<u>\$ 14,851</u>	<u>\$ 10,937</u>	<u>\$ 8,413</u>	<u>\$ 8,537</u>
Allowance to total loans ⁽²⁾	1.62%	1.63%	1.38%	1.24%	1.36%
Net charge-offs to average loans ⁽²⁾	1.93%	1.71%	1.37%	1.59%	1.50%

(1) Equipment Finance consists of Equipment Finance Agreements, Install Purchase Agreements, and other leases and loans.

(2) For purposes of asset quality and allowance calculations, the effects of (i) the allowance for credit losses and (ii) initial direct costs and fees deferred are excluded.

Table of Contents

The following tables provide information about delinquent and non-accrual leases and loans in the Company's portfolio each of the five years ended December 31, 2018:

(Dollars in thousands)	Year Ended December 31,				
	2018	2017	2016	2015	2014
Non-accrual loans:					
Commercial loans:					
Working Capital Loans	\$ 492	\$ 118	\$ 66	\$ —	\$ —
CRA	—	—	—	—	—
Equipment Finance ⁽¹⁾	3,529	3,023	2,176	1,677	1,742
CVG	191	42	—	—	—
Total non-accrual loans	<u>\$4,212</u>	<u>\$3,183</u>	<u>\$2,242</u>	<u>\$1,677</u>	<u>\$1,742</u>
Accruing loans past due 90 days or more:					
Commercial loans:					
Working Capital Loans	\$ —	\$ —	\$ —	\$ —	\$ —
CRA	—	—	—	—	—
Equipment Finance ⁽¹⁾	—	—	—	—	—
CVG	—	—	—	—	—
Total accruing loans past 90 days or more	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

(1) Equipment Finance consists of Equipment Finance Agreements, Install Purchase Agreements, and other leases and loans.

Net investments in leases and loans are generally charged-off when they are contractually past due for 120 days or more. Income recognition is discontinued on leases or loans when a default on monthly payment exists for a period of 90 days or more. Income recognition resumes when a lease or loan becomes less than 90 days delinquent. At December 31, 2018 and December 31, 2017, there were no finance receivables past due 90 days or more and still accruing.

Working Capital Loans are generally placed in non-accrual status when they are 30 days past due and charged-off at 60 days past due. The loan is removed from non-accrual status once sufficient payments are made to bring the loan current and reviewed by management. There were no Working Capital Loans past due 30 days or more and still accruing.

Net charge-offs for the year ended December 31, 2018 were \$18.3 million, or 1.93% of average total finance receivables, compared to \$14.5 million, or 1.71% of average total finance receivables, for the year ended December 31, 2017. The increase in charge-offs was primarily due to growth in average total finance receivables and 1.2 million in charge-offs during the fourth quarter due to fraudulent activity by a single vendor partner.

Net charge-offs for the year ended December 31, 2017 were \$14.5 million, or 1.71% of average total finance receivables, compared to \$9.9 million, or 1.37% of average total finance receivables, for the year ended December 31, 2016. The increase in charge-off rate is primarily due to the growth in average total finance receivables, the ongoing seasoning of the portfolio as reflected in the mix of origination vintages, the mix of credit profiles, and a slight increase in average charge-offs. Lease portfolio losses tend to follow patterns based on the mix of origination vintages comprising the portfolio. The timing of credit losses from the inception of a particular lease origination vintage to charge-off generally follows a pattern of lower losses for the first few months, followed by increased losses in subsequent months, then lower losses during the later periods of the lease term. Therefore, the seasoning, or mix of origination vintages, of the portfolio affects the timing and amount of charge-offs.

Table of Contents

Delinquent accounts 60 days or more past due (as a percentage of minimum lease payments receivable for leases and as a percentage of principal outstanding for loans) were 0.65% at December 31, 2018, 0.55% at December 31, 2017 and 0.46% at December 31, 2016. Supplemental information regarding loss statistics and delinquencies is available on the investor relations section of Marlin's website at www.marlincapital.com.

In accordance with the Contingencies and Receivables Topic of the FASB ASC, we maintain an allowance for credit losses at an amount sufficient to absorb losses inherent in our existing lease and loan portfolios as of the reporting dates based on our projection of probable net credit losses. The factors and trends discussed above were included in the Company's analysis to determine its allowance for credit losses. (See "Critical Accounting Policies.")

Residual Performance

Our leases offer our end user customers the option to own the equipment at lease expiration. As of December 31, 2018, approximately 60% of our leases were one dollar purchase option leases, 39% were fair market value leases and less than 1% were fixed purchase option leases, the latter of which typically contain an end-of-term purchase option equal to 10% of the original equipment cost. As of December 31, 2018, there were \$27.6 million of residual assets retained on our Consolidated Balance Sheet, of which \$23.6 million, or 85.4%, were related to copiers. As of December 31, 2017, there were \$26.9 million of residual assets retained on our Consolidated Balance Sheet, of which \$22.8 million, or 84.8%, were related to copiers. No other group of equipment represented more than 10% of equipment residuals as of December 31, 2018 and 2017, respectively. Improvements in technology and other market changes, particularly in copiers, could adversely impact our ability to realize the recorded residual values of this equipment.

Fee income included approximately \$3.7 million, \$3.6 million and \$4.1 million of net residual income for the years ended December 31, 2018, 2017 and 2016, respectively. Net residual income includes income from lease renewals and gains and losses on the realization of residual values of leased equipment disposed at the end of term as further described below.

Our leases generally include renewal provisions and many leases continue beyond their initial contractual term. Based on the Company's experience, the amount of ultimate realization of the residual value tends to relate more to the customer's election at the end of the lease term to enter into a renewal period, purchase the leased equipment or return the leased equipment than it does to the equipment type. We consider renewal income a component of residual performance. Renewal income, net of depreciation, totaled approximately \$5.0 million, \$4.7 million and \$5.0 million for the years ended December 31, 2018, 2017 and 2016, respectively.

For the year ended December 31, 2018, the net loss on residual values disposed at end of term totaled \$1.2 million compared to a net loss of \$1.1 million and \$0.8 million for the years ended December 31, 2017 and December 31, 2016, respectively. The primary driver of the changes was a shift in the mix of the amounts, types of disposition and age of equipment disposed at the end of the applicable lease term. Historically and currently, our net residual income has exceeded 100% of the residual recorded on such leases. Management performs reviews of the estimated residual values and historical realization statistics no less frequently than quarterly. There was no impairment recognized on estimated residual values during the years ended December 31, 2018, 2017 and 2016, respectively.

Liquidity and Capital Resources

Our business requires a substantial amount of cash to operate and grow. Our primary liquidity need is to fund new originations. In addition, we need liquidity to pay interest and principal on our deposits and borrowings, to pay fees and expenses incurred in connection with our financing transactions, to fund infrastructure and technology investment, to pay dividends and to pay administrative and other operating expenses.

Table of Contents

We are dependent upon the availability of financing from a variety of funding sources to satisfy these liquidity needs. Historically, we have relied upon four principal types of external funding sources for our operations:

- FDIC-insured deposits issued by our wholly-owned subsidiary, MBB;
- sales and syndications of leases and loans;
- borrowings under various bank facilities;
- financing of leases and loans in various warehouse facilities (all of which have been repaid in full); and
- financing of leases through term note securitizations.

With the opening of MBB in 2008, we began to fund increasing amounts of new originations through the issuance of FDIC-insured deposits. Deposits issued by MBB represent our primary funding source for new originations.

MBB receives time deposits through a variety of sources including: directly from customers, through the use of on-line listing services, and through the use of deposit brokers. Over time, MBB may offer other products and services to the Company's customer base. MBB is a Utah state-chartered, Federal Reserve member commercial bank. As such, MBB is supervised by both the Federal Reserve Bank of San Francisco and the Utah Department of Financial Institutions.

On January 13, 2009, Marlin Business Services Corp. became a bank holding company and is subject to the Bank Holding Company Act and supervised by the Federal Reserve Board and the Federal Reserve Bank of San Francisco. On September 15, 2010, the Federal Reserve Bank of San Francisco confirmed the effectiveness of Marlin Business Services Corp.'s election to become a financial holding company (while remaining a bank holding company) pursuant to Sections 4(k) and (l) of the Bank Holding Company Act and Section 225.82 of the Federal Reserve Board's Regulation Y. Such election permits Marlin Business Services Corp. to engage in activities that are financial in nature or incidental to a financial activity, including the maintenance and expansion of our reinsurance activities conducted through our wholly-owned subsidiary, AssuranceOne.

On November 1, 2018, Marlin Business Services Corp. declared its twenty-ninth consecutive regular quarterly dividend. The dividend of \$0.14 per share of common stock was paid on November 23, 2018 to holders of our common stock as of November 12, 2018.

In addition to the Company's regular quarterly dividend, the Company's Board of Directors declared a special cash dividend of \$2.00 per share in 2013 and 2015.

On July 27, 2018, we completed a \$201.7 million asset-backed term securitization which provided us with fixed-cost borrowing with the objective of diversifying our funding resources. This was a private offering made pursuant to Rule 144A and Reg S under the Securities Act of 1933, as amended, by Marlin Receivables 2018-1 LLC, a wholly owned subsidiary of Marlin Leasing Corporation. Standard & Poor's Ratings Services, Inc. and Fitch Ratings Inc. rated the transaction, with the two senior classes receiving the agencies' highest ratings. As with all our prior term note securitizations, it is recorded in long-term borrowings in the Consolidated Balance Sheets.

At December 31, 2018, we have approximately \$25.0 million of available borrowing capacity in addition to available cash and cash equivalents of \$97.2 million. This amount excludes additional liquidity that may be provided by the issuance of insured deposits through MBB and additional borrowing capacity under the Federal Reserve Discount Window.

Our debt to equity ratio was 4.56 to 1 at December 31, 2018 and 4.50 to 1 at December 31, 2017.

Table of Contents

Net cash used in investing activities was \$126.9 million for the year ended December 31, 2018, compared to net cash used in investing activities of \$148.8 million for the year ended December 31, 2017 and \$138.5 million for the year ended December 31, 2016. The increase in cash flows from investing activities from 2017 to 2018 is primarily due to an increase of \$64.4 million of proceeds from sale of leases originated for investment and an increase of \$50.1 million of principal collections on leases and loans due to higher average finance receivables, partially offset by \$88.0 million more of purchases of equipment for direct financing lease contracts. The decrease in cash flows from investing activities from 2016 to 2017 is primarily due to \$124.8 million more of purchases of equipment for direct financing lease contracts partially offset by \$47.5 more of proceeds from sale of leases originated for investment and \$67.2 million more of principal collections on leases and loans due to higher average finance receivables.

Net cash provided by financing activities was \$86.6 million for the year ended December 31, 2018, compared to net cash provided by financing activities of \$101.3 million for the year ended December 31, 2017 and net cash provided by financing activities of \$102.5 million for the year ended December 31, 2016. The decrease in cash flows from financing activities from 2017 to 2018 is primarily due to a \$165.5 million decrease in deposits offset by net proceeds of \$151.2 from our asset backed term securitization.

Additional liquidity is provided by our cash flow from operations. Net cash provided by operating activities for the years ended December 31, 2018, 2017 and 2016 was \$84.4 million, \$52.9 million and \$37.5 million, respectively. The increase in cash flows from operating activities from 2017 to 2018 is primarily due to an increase in proceeds from leases originated for sale and change in other assets.

We expect cash from operations, additional borrowings on existing and future credit facilities and funds from deposits issued through brokers, direct deposit sources, and the MMDA Product to be adequate to support our operations and projected growth for the next 12 months and the foreseeable future.

Total Cash and Cash Equivalents. Our objective is to maintain an adequate level of cash, investing any free cash in leases and loans. We primarily fund our originations and growth using certificates of deposit issued through MBB. Total cash and cash equivalents available as of December 31, 2018 totaled \$97.2 million compared to \$67.1 million at December 31, 2017.

Time Deposits with Banks. Time deposits with banks are primarily composed of FDIC-insured certificates of deposits that have original maturity dates of greater than 90 days. Generally, the certificates of deposits have the ability to redeem early, however, early redemption penalties may be incurred. Total time deposits as of December 31, 2018 and December 31, 2017 totaled \$9.7 million and \$8.1 million, respectively.

Restricted Interest-earning Deposits with Banks. As of December 31, 2018, \$14.0 million was classified as restricted interest-earning deposits with banks. We had no restricted interest-earning deposits with banks in 2017 or 2016. Restricted interest-earning deposits with banks consist of \$10.0 million in a trust account related to our secured debt facility and \$4.0 million in a trust account reserved for payments related to customer restitution (see Note 11 – Commitments and Contingencies.)

Borrowings. Our primary borrowing relationships may require the pledging of eligible lease and loan receivables to secure amounts advanced. We had \$151.2 million outstanding secured borrowings at December 31, 2018 and none at December 31, 2017. Borrowings outstanding consist of the following:

	<u>For the Twelve Months Ended December 31, 2018</u>				<u>As of December 31, 2018</u>		
	<u>Maximum Facility Amount</u>	<u>Maximum Month End Amount Outstanding</u>	<u>Average Amount Outstanding</u>	<u>Weighted Average Rate⁽³⁾</u>	<u>Amount Outstanding</u>	<u>Weighted Average Rate⁽²⁾</u>	<u>Unused Capacity⁽¹⁾</u>
				(Dollars in thousands)			
Federal funds purchased	\$ 25,000	\$ —	\$ —	— %	\$ —	— %	\$ 25,000
Term note securitizations ⁽⁴⁾	—	201,650	75,180	3.75%	151,233	3.21%	—
	<u>\$ 25,000</u>		<u>\$ 75,180</u>	3.75%	<u>\$ 151,233</u>	3.21%	<u>\$ 25,000</u>

Table of Contents

- (1) Does not include MBB's access to the Federal Reserve Discount Window, which is based on the amount of assets MBB chooses to pledge. Based on assets pledged at December 31, 2018, MBB had \$32.8 million in unused, secured borrowing capacity at the Federal Reserve Discount Window. Additional liquidity that may be provided by the issuance of insured deposits is also excluded from this table.
- (2) Does not include transaction costs.
- (3) Includes transaction costs.
- (4) Our term note securitizations are one-time fundings that pay down over time without any ability for us to draw down additional amounts.

Federal Funds Line of Credit with Correspondent Bank. MBB has established a federal funds line of credit with a correspondent bank. This line allows for both selling and purchasing of federal funds. The amount that can be drawn against the line is limited to \$25.0 million.

Federal Reserve Discount Window. In addition, MBB has received approval to borrow from the Federal Reserve Discount Window based on the amount of assets MBB chooses to pledge. MBB had \$32.8 million in unused, secured borrowing capacity at the Federal Reserve Discount Window, based on 35.8 million of net investment in leases pledged at December 31, 2018.

Term Note Securitizations. On July 27, 2018 we completed a \$201.7 million asset-backed term securitization. This transaction was Marlin's eleventh term securitization and its first since 2010. It provides the company with fixed-cost borrowing with the objective of diversifying its funding sources. As with all prior securitizations, this transaction was recorded as an "on-balance sheet" transaction and the financing is recorded in long-term borrowings in the Consolidated Balance Sheet.

This was a private offering made to qualified institutional buyers pursuant to Rule 144A under and Regulation S under the Securities Act of 1933 by Marlin Receivables 2018-1 LLC, a wholly-owned subsidiary of Marlin Leasing Corporation. Standard & Poor's Ratings Service, Inc. and Fitch Ratings Inc. rated the transaction with the two senior classes receiving the agencies' highest ratings. The effective weighted average interest expense over the term of the financing is expected to be approximately 3.41%.

In connection with this securitization transaction, we have transferred leases to our wholly-owned SPE and issued term debt collateralized by such commercial leases to institutional investors in private securities offerings. These SPEs are considered VIEs under U.S. GAAP. We are required to consolidate VIEs in which we are deemed to be the primary beneficiary through having (1) power over the significant activities of the entity and (2) an obligation to absorb losses or the right to receive benefits from the VIE which are potentially significant to the VIE. We continue to service the assets of our VIEs and retain equity and/or residual interests. Accordingly, assets and related debt of these VIEs are included in the accompanying Consolidated Balance Sheets. Our leases and restricted interest-earning deposits with banks are assigned as collateral for these borrowings and there is no further recourse to our general credit. Collateral in excess of these borrowings represents our maximum loss exposure. Our term note securitizations have fixed terms, fixed interest rates and fixed principal amounts. At December 31, 2018 outstanding term securitizations amounted to \$151.2 million with no outstanding securitizations at December 31, 2017.

Table of Contents

As of December 31, 2018, \$172.3 million of minimum lease payments receivable and \$10.0 million of restricted interest-earning deposits are assigned as collateral for the term note securitization. The July 27, 2018, term note securitization is summarized below:

	<u>Notes Originally Issued</u>	<u>Outstanding Balance as of December 31, 2018</u>	<u>Final Maturity Date</u>	<u>Original Coupon Rate</u>
2018 — 1				
Class A-1	\$ 77,400	\$ 26,983	July 2019	2.55%
Class A-2	55,700	55,700	October 2020	3.05
Class A-3	36,910	36,910	April 2023	3.36
Class B	10,400	10,400	May 2023	3.54
Class C	11,390	11,390	June 2023	3.70
Class D	5,470	5,470	July 2023	3.99
Class E	4,380	4,380	May 2025	5.02
Total term note securitizations	<u>\$ 201,650</u>	<u>\$ 151,233</u>		3.05% ⁽¹⁾⁽²⁾

- (1) Represents the original weighted average initial coupon rate for all tranches of the securitization. In addition to this coupon interest, term note securitizations have other transaction costs which are amortized over the life of the borrowings as additional interest expense.
- (2) The weighted average coupon rate of the 2018-1 term note securitization will approximate 3.41% over the term of the borrowing.

At December 31, 2018, the Company was in compliance with terms of the term note securitization agreement.

Bank Capital and Regulatory Oversight

On January 13, 2009, we became a bank holding company by order of the Federal Reserve Board and are subject to regulation under the Bank Holding Company Act. All of our subsidiaries may be subject to examination by the Federal Reserve Board and the Federal Reserve Bank of Philadelphia even if not otherwise regulated by the Federal Reserve Board. On September 15, 2010, the Federal Reserve Bank of Philadelphia confirmed the effectiveness of our election to become a financial holding company (while remaining a bank holding company) pursuant to Sections 4(k) and (l) of the Bank Holding Company Act and Section 225.82 of the Federal Reserve Board's Regulation Y. Such election permits us to engage in activities that are financial in nature or incidental to a financial activity, including the maintenance and expansion of our reinsurance activities conducted through our wholly-owned subsidiary, AssuranceOne.

MBB is also subject to comprehensive federal and state regulations dealing with a wide variety of subjects, including minimum capital standards, reserve requirements, terms on which a bank may engage in transactions with its affiliates, restrictions as to dividend payments and numerous other aspects of its operations. These regulations generally have been adopted to protect depositors and creditors rather than shareholders.

There are a number of restrictions on bank holding companies that are designed to minimize potential loss to depositors and the FDIC insurance funds. If an FDIC-insured depository subsidiary is "undercapitalized," the bank holding company is required to ensure (subject to certain limits) the subsidiary's compliance with the terms of any capital restoration plan filed with its appropriate banking agency. Also, a bank holding company is required to serve as a source of financial strength to its depository institution subsidiaries and to commit resources to support such institutions in circumstances where it might not do so absent such policy. Under the Bank Holding Company Act, the Federal Reserve Board has the authority to require a bank holding company to terminate any activity or to relinquish control of a non-bank subsidiary upon the Federal Reserve Board's

Table of Contents

determination that such activity or control constitutes a serious risk to the financial soundness and stability of a depository institution subsidiary of the bank holding company.

Capital Adequacy. The Company and MBB operate under the Basel III capital adequacy standards adopted by the federal bank regulatory agencies effective on January 1, 2015. Under the risk-based capital requirements applicable to them, bank holding companies must maintain a ratio of total capital to risk-weighted assets (including the asset equivalent of certain off-balance sheet activities such as acceptances and letters of credit) of not less than 8% (10% in order to be considered “well-capitalized”). The requirements include a 6% minimum Tier 1 risk-based ratio (8% to be considered well-capitalized). Tier 1 Capital consists of common stock, related surplus, retained earnings, qualifying perpetual preferred stock and minority interests in the equity accounts of certain consolidated subsidiaries, after deducting goodwill and certain other intangibles. The remainder of total capital (“Tier 2 Capital”) may consist of certain perpetual debt securities, mandatory convertible debt securities, hybrid capital instruments and limited amounts of subordinated debt, qualifying preferred stock, allowance for credit losses on loans and leases, allowance for credit losses on off-balance-sheet credit exposures and unrealized gains on equity securities.

The capital standards require a minimum Tier 1 leverage ratio of 4%. The capital requirements also require a common equity Tier 1 risk-based capital ratio with a required minimum of 4.5% (6.5% to be considered well-capitalized). The Federal Reserve Board’s guidelines also provide that bank holding companies experiencing internal growth or making acquisitions may be expected to maintain capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the guidelines indicate that the Federal Reserve Board will continue to consider a “tangible tier 1 leverage ratio” (*i.e.*, after deducting all intangibles) in evaluating proposals for expansion or new activities. MBB is subject to similar capital standards.

The Company is required to have a level of regulatory capital in excess of the regulatory minimum and to have a capital buffer above 1.875% for 2018, and 2.5% for 2019 and thereafter. If a banking organization does not maintain capital above the minimum plus the capital conservation buffer it may be subject to restrictions on dividends, share buybacks, and certain discretionary payments such as bonus payments.

At December 31, 2018, MBB’s Tier 1 leverage ratio, common equity Tier 1 risk-based ratio, Tier 1 risk-based capital ratio and total risk-based capital ratio were 15.55%, 15.99%, 15.99% and 17.24%, respectively, which exceeds requirements for well-capitalized status of 5%, 6.5%, 8% and 10%, respectively. At December 31, 2018, Marlin Business Services Corp.’s Tier 1 leverage ratio, common equity Tier 1 risk based ratio, Tier 1 risk-based capital ratio and total risk-based capital ratio were 16.38%, 17.50%, 17.50% and 18.76%, respectively, which exceeds requirements for well-capitalized status of 5%, 6.5%, 8% and 10%, respectively.

Pursuant to the FDIC Agreement entered into in conjunction with the opening of MBB, MBB is required to keep its total risk-based capital ratio above 15%. MBB’s Tier 1 Capital balance at December 31, 2018 was \$139.0 million, which exceeds the regulatory threshold for “well capitalized” status.

As an FDIC-insured state-chartered bank, MBB is subject to ongoing supervision and regular examination by state and federal banking agencies including the Federal Reserve Bank of San Francisco and the Utah Department of Financial Institutions. In the course of these examinations, the banking regulators may identify issues and request further information from MBB. In 2017, MBB received letters from one of its banking regulators describing findings in connection with certain of MBB’s past payment processing practices related to the assessment of late fees. See Note 11—Commitments and Contingencies for additional information regarding these findings.

Information on Stock Repurchases

Information on Stock Repurchases is provided in “Part II, Item 5, Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities,” herein.

[Table of Contents](#)

Items Subsequent to December 31, 2018

The Company declared a dividend of \$0.14 per share on January 31, 2019. The quarterly dividend, which amounted to a dividend payment of approximately \$1.8 million, was paid on February 21, 2019 to shareholders of record on the close of business on February 11, 2019. It represents the Company's thirtieth consecutive quarterly cash dividend. The payment of future dividends will be subject to approval by the Company's Board of Directors.

Contractual Obligations

In addition to our scheduled maturities on our deposits, we have future cash obligations under various types of contracts. We lease office space and office equipment under long-term operating leases. The contractual obligations under our certificates of deposits, credit facilities, operating leases, agreements and commitments under non-cancelable contracts as of December 31, 2018 were as follows:

Period Ending December 31,	Contractual Obligations as of December 31, 2018					Total
	Certificates of Deposits ⁽¹⁾	Borrowings	Contractual Interest Payments ⁽²⁾	Operating Leases	Capital Leases	
			(Dollars in thousands)			
2019	\$ 361,355	\$ 73,823	\$ 15,460	\$ 1,582	\$ 112	\$452,332
2020	173,263	45,200	8,382	789	112	227,746
2021	123,669	23,628	4,041	103	65	151,506
2022	45,543	8,582	1,524	105	—	55,754
2023	27,024	—	497	—	—	27,521
Total	<u>\$ 730,854</u>	<u>\$ 151,233</u>	<u>\$ 29,904</u>	<u>\$ 2,579</u>	<u>\$ 289</u>	<u>\$914,859</u>

(1) Money market deposit accounts are not included. As of December 31, 2018, money market deposit accounts totaled \$25.0 million.

(2) Includes interest on certificates of deposits and borrowings.

Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements requiring disclosure at December 31, 2018.

Market Interest-Rate Risk and Sensitivity

Market risk is the risk of losses arising from changes in values of financial instruments. We engage in transactions in the normal course of business that expose us to market risks. We attempt to mitigate such risks through prudent management practices and strategies such as attempting to match the expected cash flows of our assets and liabilities.

We are exposed to market risks associated with changes in interest rates and our earnings may fluctuate with changes in interest rates. The lease assets we originate are almost entirely fixed-rate. Accordingly, we generally seek to finance these assets with fixed interest certificates of deposit issued by MBB, and to a lesser extent through the variable-rate MMDA Product at MBB.

Our earnings are sensitive to fluctuations in interest rates. Since the Company has no outstanding variable-rate borrowings as of December 31, 2018, and since the Company also manages its interest rate risk by funding its fixed rate leases with fixed rate funding sources whenever possible, the Company's exposure to interest rate risk is controlled. However, there can be no assurance that we will be able to offset higher deposits costs with increased pricing of our assets. As such, the major sources of the Company's interest rate risk are timing differences in the maturity and repricing characteristics of assets and liabilities, changes in the shape of the yield curve, changes in customer behavior and changes in relationship between rate indices (basis risk).

Table of Contents

We manage and monitor our exposure to interest rate risk using balance sheet simulation models. Such models incorporate many of our assumptions about our business including new asset production and pricing, interest rate forecasts, overhead expense forecasts and assumed credit losses. Many of the assumptions we use in our simulation models are based on past experience and actual results could vary substantially.

Recently Issued Accounting Standards

Information on recently issued accounting pronouncements and the expected impact on our financial statements is provided in Note 2, Summary of Significant Accounting Policies in the accompanying Notes to Consolidated Financial Statements.

Recently Adopted Accounting Standards

Information on recently issued accounting pronouncements and the expected impact on our financial statements is provided in Note 2, Summary of Significant Accounting Policies in the accompanying Notes to Consolidated Financial Statements.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

The information appearing in the section captioned “Management’s Discussion and Analysis of Operations and Financial Condition — Market Interest-Rate Risk and Sensitivity” under Item 7 of this Form 10-K is incorporated herein by reference.

Item 8. *Financial Statements and Supplementary Data*

Management’s Annual Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the 1934 Act. The Company’s internal control over financial reporting is designed to provide reasonable assurance to the Company’s management and Board of Directors regarding the preparation and fair presentation of published financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Management has assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2018. In making its assessment of internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations (“COSO”) of the Treadway Commission in *Internal Control — Integrated Framework (2013)*.

Management has concluded that, as of December 31, 2018, the Company’s internal control over financial reporting was effective based on the criteria set forth by the COSO of the Treadway Commission in *Internal Control — Integrated Framework (2013)*.

The effectiveness of our internal control over financial reporting as of December 31, 2018 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Marlin Business Services Corp.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Marlin Business Services Corp. and subsidiaries (the “Company”) as of December 31, 2018, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2018, of the Company and our report dated March 8, 2019, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ Deloitte & Touche LLP

Philadelphia, Pennsylvania
March 8, 2019

Table of Contents

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES

Index to Consolidated Financial Statements

	Page No.
<u>Report of Independent Registered Public Accounting Firm</u>	62
<u>Consolidated Balance Sheets</u>	63
<u>Consolidated Statements of Operations</u>	64
<u>Consolidated Statements of Comprehensive Income</u>	65
<u>Consolidated Statements of Stockholders' Equity</u>	66
<u>Consolidated Statements of Cash Flows</u>	67
<u>Notes to Consolidated Financial Statements</u>	68

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Marlin Business Services Corp.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Marlin Business Services Corp. and subsidiaries (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income, stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2018, based on the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 8, 2019, expressed an unqualified opinion on the Company’s internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities law and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Philadelphia, Pennsylvania
March 8, 2019

We have served as the Company’s auditor since 2005.

[Table of Contents](#)

**MARLIN BUSINESS SERVICES CORP.
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS**

	December 31,	
	2018	2017
	(Dollars in thousands, except per-share data)	
ASSETS		
Cash and due from banks	\$ 5,088	\$ 3,544
Interest-earning deposits with banks	<u>92,068</u>	<u>63,602</u>
Total cash and cash equivalents	97,156	67,146
Time deposits with banks	9,659	8,110
Restricted interest-earning deposits (includes \$10.0 and \$0 million at December 31, 2018, and December 31, 2017, respectively, related to consolidated VIEs)	14,045	—
Investment securities (amortized cost of \$11.2 million and \$11.7 million at December 31, 2018 and 2017, respectively)	10,956	11,533
Net investment in leases and loans:		
Net investment in leases and loans, excluding allowance for credit losses (includes \$150.2 million and \$0 million at December 31, 2018 and December 31, 2017, respectively, related to consolidated VIEs)	1,016,840	929,271
Allowance for credit losses	<u>(16,100)</u>	<u>(14,851)</u>
Total net investment in leases and loans	1,000,740	914,420
Intangible assets	7,912	1,128
Goodwill	7,360	1,160
Property and equipment, net	4,317	4,204
Property tax receivables	5,245	6,292
Other assets	<u>9,656</u>	<u>26,167</u>
Total assets	<u>\$ 1,167,046</u>	<u>\$ 1,040,160</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	\$ 755,776	\$ 809,315
Long-term borrowings related to consolidated VIEs	150,055	—
Other liabilities:		
Sales and property taxes payable	3,775	2,963
Accounts payable and accrued expenses	36,369	31,492
Net deferred income tax liability	<u>22,560</u>	<u>16,741</u>
Total liabilities	968,535	860,511
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Preferred Stock, \$0.01 par value; 5,000,000 shares authorized; none issued	—	—
Common Stock, \$0.01 par value; 75,000,000 shares authorized; 12,367,724 and 12,449,458 shares issued and outstanding at December 31, 2018 and December 31, 2017, respectively	124	124
Additional paid-in capital	83,498	82,588
Stock subscription receivable	(2)	(2)
Accumulated other comprehensive loss	(44)	(96)
Retained earnings	<u>114,935</u>	<u>97,035</u>
Total stockholders' equity	198,511	179,649
Total liabilities and stockholders' equity	<u>\$ 1,167,046</u>	<u>\$ 1,040,160</u>

The accompanying notes are an integral part of the consolidated financial statements.

[Table of Contents](#)

**MARLIN BUSINESS SERVICES CORP.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS**

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in thousands, except per-share data)		
Interest income	\$ 97,025	\$ 87,455	\$74,709
Fee income	<u>15,843</u>	<u>14,864</u>	<u>15,543</u>
Interest and fee income	112,868	102,319	90,252
Interest expense	<u>17,414</u>	<u>11,180</u>	<u>7,778</u>
Net interest and fee income	95,454	91,139	82,474
Provision for credit losses	<u>19,522</u>	<u>18,394</u>	<u>12,414</u>
Net interest and fee income after provision for credit losses	<u>75,932</u>	<u>72,745</u>	<u>70,060</u>
Non-interest income:			
Insurance premiums written and earned	8,087	7,155	6,398
Other income	<u>13,347</u>	<u>9,577</u>	<u>3,360</u>
Non-interest income	<u>21,434</u>	<u>16,732</u>	<u>9,758</u>
Non-interest expense:			
Salaries and benefits	39,750	37,569	31,912
General and administrative	24,915	28,272	19,523
Financing related costs	—	—	85
Non-interest expense	<u>64,665</u>	<u>65,841</u>	<u>51,520</u>
Income before income taxes	32,701	23,636	28,298
Income tax expense	<u>7,721</u>	<u>(1,656)</u>	<u>11,019</u>
Net income	<u>\$ 24,980</u>	<u>\$ 25,292</u>	<u>\$17,279</u>
Basic earnings per share	\$ 2.01	\$ 2.02	\$ 1.38
Diluted earnings per share	\$ 2.00	\$ 2.01	\$ 1.38

The accompanying notes are an integral part of the consolidated financial statements.

[Table of Contents](#)

**MARLIN BUSINESS SERVICES CORP.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	<u>Year Ended December 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
	(Dollars in thousands)		
Net income	\$ 24,980	\$ 25,292	\$ 17,279
Other comprehensive income:			
Reclassification due to adoption of ASU 2016-01, ASU 2018-02 and ASU 2018-03	107	—	—
Amortization of net deferred losses on			
Increase (decrease) in fair value of securities available for sale	(7)	68	(15)
Tax effect	(48)	(26)	6
Total other comprehensive income (loss)	52	42	(9)
Comprehensive income	<u>\$ 25,032</u>	<u>\$ 25,334</u>	<u>\$ 17,270</u>

The accompanying notes are an integral part of the consolidated financial statements.

[Table of Contents](#)

**MARLIN BUSINESS SERVICES CORP.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

	<u>Common Shares</u>	<u>Common Stock Amount</u>	<u>Additional Paid-In Capital</u>	<u>Stock Subscription Receivable</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>
	(Dollars in thousands)						
Balance, December 31, 2015	12,410,899	\$ 124	\$ 81,703	\$ (2)	\$ (129)	\$ 68,442	\$ 150,138
Issuance of common stock	16,813	—	259	—	—	—	259
Repurchase of common stock	(23,409)	—	(345)	—	—	—	(345)
Exercise of stock options	7,380	—	77	—	—	—	77
Excess tax benefits from stock-based payment arrangements	—	—	(24)	—	—	—	(24)
Restricted stock grant, net of forfeitures	160,431	2	(2)	—	—	—	—
Stock-based compensation recognized	—	—	1,837	—	—	—	1,837
Net change in unrealized gain/loss on securities available for sale, net of tax	—	—	—	—	(9)	—	(9)
Net income	—	—	—	—	—	17,279	17,279
Cash dividends paid (\$0.56 per share)	—	—	—	—	—	(6,923)	(6,923)
Balance, December 31, 2016	12,572,114	\$ 126	\$ 83,505	\$ (2)	\$ (138)	\$ 78,798	\$ 162,289
Issuance of common stock	18,890	—	356	—	—	—	356
Repurchase of common stock	(184,263)	(2)	(4,499)	—	—	—	(4,501)
Exercise of stock options	39,416	—	488	—	—	—	488
Excess tax benefits from stock-based							
Restricted stock grant, net of forfeitures	3,301	—	—	—	—	—	—
Stock-based compensation recognized	—	—	2,738	—	—	—	2,738
Net change in unrealized gain/loss on securities available for sale, net of tax	—	—	—	—	42	—	42
Net income	—	—	—	—	—	25,292	25,292
Cash dividends paid (\$0.56 per share)	—	—	—	—	—	(7,055)	(7,055)
Balance, December 31, 2017	12,449,458	\$ 124	\$ 82,588	\$ (2)	\$ (96)	\$ 97,035	\$ 179,649
Issuance of common stock	18,076	—	401	—	—	—	401
Repurchase of common stock	(111,910)	—	(2,908)	—	—	—	(2,908)
Exercise of stock options	909	—	23	—	—	—	23
Stock issued in connection with restricted stock and RSU's, net of forfeitures	11,191	—	—	—	—	—	—
Stock-based compensation recognized	—	—	3,394	—	—	—	3,394
Net change in unrealized gain/loss on securities available for sale, net of tax	—	—	—	—	(5)	—	(5)
Net income	—	—	—	—	—	24,980	24,980
Impact of adoption of new accounting standards (1)	—	—	—	—	57	(57)	—
Cash dividends paid (\$0.56 per share)	—	—	—	—	—	(7,023)	(7,023)
Balance, December 31, 2018	<u>12,367,724</u>	<u>\$ 124</u>	<u>\$ 83,498</u>	<u>\$ (2)</u>	<u>\$ (44)</u>	<u>\$ 114,935</u>	<u>\$ 198,511</u>

- (1) Represents the impact of Accounting Standards Update ("ASU") 2016-01, ASU 2018-02 and ASU 2018-03
See Note 2 to the consolidated financial statements for more information

The accompanying notes are an integral part of the consolidated financial statements.

[Table of Contents](#)

**MARLIN BUSINESS SERVICES CORP.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
Cash flows from operating activities:			
Net income	\$ 24,980	\$ 25,292	\$ 17,279
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,146	2,964	1,823
Stock-based compensation	3,394	2,738	1,837
Excess tax (benefits) deficit from stock-based payment arrangements	—	—	24
Change in fair value of equity securities	75		
Provision for credit losses	19,522	18,394	12,414
Net deferred income taxes	5,821	1,598	(1,746)
Amortization of deferred initial direct costs and fees	13,361	11,375	8,694
Loss on equipment disposed	1,219	1,070	846
Gain on leases sold	(8,364)	(2,876)	(473)
Leases originated for sale	(17,436)	(4,669)	(1,226)
Proceeds from the sale of leases originated for sale	18,069	4,727	1,234
Effect of changes in other operating items:			
Other assets	16,942	(19,026)	(2,657)
Other liabilities	3,652	11,284	(587)
Net cash provided by operating activities	<u>84,381</u>	<u>52,871</u>	<u>37,462</u>
Cash flows from investing activities:			
Net change in time deposits with banks	(1,549)	1,495	(2,237)
Purchases of equipment for direct financing lease contracts and funds used to originate loans	(722,745)	(634,709)	(515,237)
Principal collections on leases and loans	476,533	426,482	359,273
Proceeds from sale of leases originated for investment	129,290	64,895	17,371
Security deposits collected, net of refunds	(210)	(448)	(715)
Proceeds from the sale of equipment	3,120	3,415	3,533
Acquisitions of property and equipment	(1,836)	(1,854)	(1,019)
Business Combinations	(10,000)	(2,500)	—
Principal payments received on (purchases of) securities available for sale	465	(5,601)	504
Net cash used in investing activities	<u>(126,932)</u>	<u>(148,825)</u>	<u>(138,527)</u>
Cash flows from financing activities:			
Net change in deposits	(53,539)	111,958	109,417
Term securitization advances	201,650	—	—
Term securitization repayments	(50,417)	—	—
Issuances of common stock	401	356	259
Repurchases of common stock	(2,908)	(4,501)	(345)
Dividends paid	(6,936)	(6,958)	(6,907)
Exercise of stock options	23	488	77
Excess tax benefits (deficit) from stock-based payment arrangements	—	—	(24)
Debt issuance costs	(1,668)	—	—
Net cash provided by financing activities	<u>86,606</u>	<u>101,343</u>	<u>102,477</u>
Net increase in total cash and cash equivalents	44,055	5,389	1,412
Total cash, cash equivalents and restricted cash beginning of period	67,146	61,757	60,345
Total cash, cash equivalents and restricted cash end of period	<u>\$ 111,201</u>	<u>\$ 67,146</u>	<u>\$ 61,757</u>
Supplemental disclosures of cash flow information:			
Cash paid for interest on deposits and borrowings	\$ 16,130	\$ 10,329	\$ 7,145
Net cash paid (refunds received) for income taxes	\$ (12,634)	\$ 10,195	\$ 8,185
Leases transferred into held for sale from investment	\$ 121,559	\$ 62,077	\$ 16,884
Supplemental disclosures of non cash investing activities:			
Acquisition of property and equipment through capital lease arrangements	\$ —	\$ 385	\$ —
Business combinations assets acquired	\$ 3,376	\$ —	\$ —
Purchase of equipment for direct financing lease contracts and loans originated	\$ 8,588	\$ 10,681	\$ —
Reconciliation of cash, cash equivalents and restricted cash to the consolidated balance sheets			
Cash and cash equivalents	\$ 97,156	\$ 67,146	\$ 61,757
Restricted Cash	14,045	—	—
Cash, cash equivalents and restricted cash at end of period	<u>\$ 111,201</u>	<u>\$ 67,146</u>	<u>\$ 61,757</u>

The accompanying notes are an integral part of the consolidated financial statements.

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — The Company

Marlin Business Services Corp. (the “Company”) is a nationwide provider of credit products and services to small and mid-sized businesses. The products and services we provide to our customers include loans and leases for the acquisition of commercial equipment (including Commercial Vehicle Group (“CVG”) assets which now incorporates our Transportation Finance Group (“TFG”)) and working capital loans. The Company was incorporated in the Commonwealth of Pennsylvania on August 5, 2003. In May 2000, we established AssuranceOne, Ltd., a Bermuda-based, wholly-owned captive insurance subsidiary (“Assurance One”), which enables us to reinsure the property insurance coverage for the equipment financed by Marlin Leasing Corporation (“MLC”) and Marlin Business Bank (“MBB”) for our small business customers. Effective March 12, 2008, the Company opened MBB, a commercial bank chartered by the State of Utah and a member of the Federal Reserve System. MBB serves as the Company’s primary funding source through its issuance of Federal Deposit Insurance Corporation (“FDIC”)-insured deposits.

On January 4, 2017, the Company completed the acquisition of Horizon Keystone Financial (“HKF”), an equipment leasing company which primarily identifies and sources lease and loan contracts for investor partners for a fee. With this acquisition, the Company will expand the current leasing business, grow annual originations and increase its presence in certain industry sectors. Additionally, the Company expects to leverage HKF’s valuable relationships with lenders and equipment vendors. The Company paid \$2.5 million in cash for HKF and incurred an immaterial amount of acquisition-related costs for the acquisition. Cash settlement occurred on the date of acquisition. The Company performed an allocation of the purchase price with \$1.2 million recorded to goodwill and \$1.3 million recorded to intangible assets for vendor relationships, customer relationships, and the corporate trade name. See Note 8 for additional information regarding the identified intangible assets acquired.

On September 19, 2018, the Company completed the acquisition of Fleet Financing Resources (“FFR”), a leading provider of equipment finance credit products specializing in the leasing and financing of both new and used commercial vehicles, with an emphasis on livery equipment and other types of commercial vehicles used by small businesses. This acquisition is consistent with our strategy of augmenting organic growth with strategic acquisitions that extend our existing equipment finance business into new and attractive markets and is a new addition to the CVG. The Company paid \$10.0 million in cash for FFR and incurred an immaterial amount of acquisition-related cost. In addition, if FFR generates revenue volume of up to \$542 million from the closing date through September 30, 2026, we have agreed to pay the seller up to an additional \$5.5 million in cash in earn-out consideration. This earn-out consideration will be calculated quarterly based on a sliding scale of percentage of revenue volume that increases as successively greater tiers of volume are attained, and if the maximum earn-out consideration is earned, the total consideration paid for FFR will be \$15.5 million. The Company performed a preliminary allocation of the \$10.0 million purchase price with \$6.2 million recorded to goodwill and \$7.2 million recorded to intangible assets for vendor relationships, customer relationships, and the corporate trade name, offset by a contingent consideration liability of \$3.4 million representing the estimated fair value of the earn-out. See Note 8 for additional information regarding the identified intangible assets acquired. At December 31, 2018, the valuation analyses of certain intangible assets acquired and the estimated fair value of the earn-out were not yet finalized. Review of these items will continue during the measurement period and any further changes to the preliminary purchase price allocation will be recognized as the valuations are finalized, which could change the amount of the preliminary purchase price allocation to goodwill. The acquisition has been accounted for using the acquisition method of accounting. For the year ending December 31, 2018, the results of the acquired FFR business were immaterial to the Company’s consolidated results of operations. The unaudited pro forma financial information disclosed in the following sentence is for informational purposes only and is not indicative of future operations or results. If the acquisition had occurred at the beginning of 2017, the Company’s pro forma revenue for the years ending December 31, 2018 and 2017 would be approximately \$118.3 million and \$107.8 million, respectively. The Company’s net income for the years ending December 31, 2018 and 2017, would be approximately \$26.3 million and \$26.5 million, respectively.

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

References to the “Company,” “Marlin,” “Registrant,” “we,” “us” and “our” herein refer to Marlin Business Services Corp. and its wholly-owned subsidiaries, unless the context otherwise requires.

NOTE 2 — Summary of Significant Accounting Policies

Basis of Financial Statement Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. MLC and MBB are managed together as a single business segment and are aggregated for financial reporting purposes as they exhibit similar economic characteristics, share the same leasing and loan portfolio and have the same product offerings. All intercompany accounts and transactions have been eliminated in consolidation.

During the second quarter of 2017, the Company identified that the sale of certain leases had been reported as cash flows from operating activities that should have been presented as investing activities. In addition, the Company also identified that the deferral of certain expenses associated with the cost of originating leases had been reported as an adjustment to operating cash flow rather than as an investing activity. The Company corrected the previously presented cash flows for these items and in doing so, the consolidated statement of cash flow for the year ended December 31, 2016 was adjusted to decrease net cash flows from operating activities by \$5.4 million and increase net cash flows used in investing activities by the same amount.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles in the United States (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used when accounting for income recognition, the residual values of leased equipment, the allowance for credit losses, deferred initial direct costs and fees, late fee receivables, the fair value of financial instruments, self-insurance reserves, and income taxes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash and interest-bearing money market funds. For purposes of the consolidated statement of cash flows, the Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Time Deposits with Banks

Time deposits with banks are composed of FDIC-insured certificates of deposits that generally have original maturity dates of greater than 90 days. These deposits are held on the balance sheet at amortized cost. Generally, the certificates of deposits issued directly have the ability to redeem early; however early redemption penalties may be incurred. The certificates of deposit issued through deposit brokers generally do not have the ability to redeem early.

Restricted Interest-Earning Deposits with Banks

Restricted interest-earning deposits with banks consist primarily of various interest-earning trust accounts primarily related to the Company’s secured debt facilities including amounts due from securitizations

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

representing reimbursements of servicing fees and excess spread income. The restricted balance also includes funds reserved for payments related to customer restitution (see Note 11 – Commitments and Contingencies.) As of December 31, 2018, \$14.0 million was classified as restricted interest-earning deposits with banks, consisting of \$10.0 million related to our secured debt facility and \$4.0 million related to the aforementioned customer restitution.

Revenue Recognition

Accounting Standards Codification (“ASC”) 606, *Revenue from Contracts with Customers* (“ASC 606”), establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity’s contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The majority of our revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as our leases and loans, investment securities, as well as revenue related to our gain on sale of leases and loans, servicing income, and Insurance premiums income. Revenue-generating activities that are within the scope of ASC 606, which are presented in our income statements as components of non-interest income included certain fees such as property tax administrative fees on leases, ACH payment fees, insurance policy fees outside of the scope of ASC 944, and broker fees earned for referring leases and loans to other funding partners.

Net Investment in Leases and Loans

As required by U.S. GAAP, the Company uses the direct finance method of accounting to record its direct financing leases and related interest income. At the inception of a lease, the Company records as an asset, the aggregate future minimum lease payments receivable, plus the estimated residual value of the leased equipment, less unearned lease income. Residual values are established at lease inception based on our estimate of the expected fair value of the equipment at the end of the lease term. Residual values may be realized at lease termination from lease extensions, sales or other dispositions of leased equipment. Estimates are based on industry data, management’s experience, and historical performance.

The Company records an estimated residual value at lease inception for all fair market value and fixed purchase option leases based on a percentage of the equipment cost of the asset being leased. The percentages used depend on equipment type and term. In setting estimated residual values, the Company focuses its analysis primarily on the Company’s total historical and expected realization statistics pertaining to sales of equipment. In subsequent evaluations for the impairment of the booked residual values, the Company reviews historical realization statistics including lease renewals and equipment sales. Anticipated renewal income is not included in the determination of fair value; however, it is one of the ways that fair value may be realized at the end of the lease term.

At the end of an original lease term, lessees may choose to purchase the equipment, renew the lease or return the equipment to the Company. The Company receives income from lease renewals when the lessee elects to retain the equipment longer than the original term of the lease. This income, net of appropriate periodic reductions in the estimated residual values of the related equipment, is included in fee income as net residual income.

When a lessee elects to return equipment at lease termination, the equipment is transferred to other assets at the lower of its basis or fair market value. The Company generally sells returned equipment to independent third

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

parties, rather than leasing the equipment a second time. The Company generally charges off the value of equipment within other assets once it has been aged greater than 120 days. Any loss recognized on transferring equipment to other assets and any gain or loss realized on the sale or disposal of equipment to a lessee or to others is included in fee income as net residual income.

Based on the Company's experience, the amount of ultimate realization of the residual value tends to relate more to the customer's election at the end of the lease term to enter into a renewal period, to purchase the leased equipment or to return the leased equipment than it does to the equipment type. Management performs reviews of the estimated residual values and historic realization statistics no less frequently than quarterly and any impairment, if other than temporary, is recognized in the current period.

Loans are stated at principal balance, net of deferred fees and costs. Loan origination fees, commitment fees and direct loan origination costs are deferred and recognized over the life of the related loans using an effective yield method over the period to maturity.

Initial direct costs and fees related to lease originations are deferred as part of the investment and amortized over the lease term. Unearned lease income is the amount by which the total lease receivable plus the estimated residual value exceeds the cost of the equipment. Unearned lease income, net of initial direct costs and fees, is recognized as revenue over the lease term using the effective interest method.

Allowance for Credit Losses

In accordance with the Contingencies Topic of the Financial Accounting Standards Board (the "FASB") ASC, we maintain an allowance for credit losses at an amount sufficient to absorb losses inherent in our existing lease and loan portfolios as of the reporting dates based on our projection of probable net credit losses. We identify portfolio segments, which represent the level at which we develop and document a systematic methodology to determine the allowance for credit losses. As of December 31, 2018, we have identified four segments, which consist of equipment lease and loan, Working Capital Loans, CVG, and Community Reinvestment Act ("CRA") loans, of which all methodologies are evaluated on a pooled basis, due to their composition of similar accounts with similar general credit risk characteristics, diversified among industry, geography, equipment type (if applicable), obligor and vendor (if applicable). The Company has determined there to be one class of financing receivable within each portfolio segment as finance receivables of each segment contain the same initial measurement attributes, risk characteristics, and has the same method for monitoring and assessing credit risk within the segment.

Each segment generally considers both quantitative and qualitative factors in determining the allowance for credit losses. Quantitative factors for the equipment lease and loan segment include a migration analysis stratified by industry classification, historic delinquencies and charge-offs, and a static pool analysis of historic recoveries. A migration analysis is a technique used to estimate the likelihood that an account will progress through the various delinquency stages and ultimately charge off. A loss emergence period (LEP), which is the period of time between an event that triggers the probability of a loss and the confirmation of loss, is applied to the migration results to develop an estimate of losses inherent in the portfolio at the reporting period. Quantitative factors for the CVG and Working Capital Loans segments include establishing a loss curve based on historical analysis of net charge-offs. The loss curve technique is used to estimate the likelihood and timing of when an account will charge-off relative to the month in which it was funded. An LEP is applied to the loss curve results to develop an estimate of losses inherent in the portfolio at the reporting period. The CVG and Working Capital Loans segments utilize different assumptions for the historical charge-offs and loss emergence which is based on analysis specific to each segment. The CRA loan segment quantitative factor includes the analysis of historical losses that are used in conjunction with an LEP to develop a quantitative allowance for credit losses. As part of

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

all of our quantitative analyses for each segment we may also consider specifically identified pools of equipment leases or loans separately from the quantitative analysis, whenever certain identified pools are not expected to perform consistently with their credit characteristics or the portfolio segment as a whole. These lease and loan pools may be analyzed for impairment separately quantitative analysis and a specific reserve established.

Qualitative factors that may result in further adjustments to the quantitative analyses include items such as changes in the composition of our lease and loan portfolio segments (including geography, industry, equipment type and vendor source), seasonality, economic or business conditions and other external factors, business practices or policies at the reporting date that are different from the periods used in the quantitative analyses and changes in experience and ability of leasing and lending management and other relevant staff.

The various factors used in the analysis are reviewed periodically, and no less frequently than quarterly. We then establish an allowance for credit losses for the projected probable net credit losses inherent in the portfolio based on this analysis. A provision is charged against earnings to maintain the allowance for credit losses at the appropriate level. Our policy is to generally charge-off against the allowance the estimated unrecoverable portion of accounts once they reach 120 or more days delinquent.

Our projections of probable net credit losses are inherently uncertain, and as a result we cannot predict with certainty the amount of such losses. Changes in economic conditions, the risk characteristics and composition of the portfolio, bankruptcy laws, and other factors could impact our actual and projected net credit losses and the related allowance for credit losses. Actual losses may vary from current estimates.

Property and Equipment

The Company records property and equipment at cost. Equipment capitalized under capital leases is recorded at the present value of the minimum lease payments due over the lease term. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the related assets or lease term, whichever is shorter. The Company generally uses depreciable lives that range from three to seven years based on equipment type.

Other Assets

Included in other assets on the Consolidated Balance Sheets are income taxes receivable, prepaid expenses, accrued fee income, progress payments on equipment purchased to lease and Federal Reserve Bank stock.

Securitizations

In connection with its term note securitization transaction, the Company established a bankruptcy remote special-purpose subsidiary ("SPE") and issued term debt to institutional investors. This type of SPE is considered a variable interest entity ("VIE") under U.S. generally accepted accounting principles ("GAAP"). The Company is required to consolidate a VIE in which it is deemed to be the primary beneficiary through having (1) power over the significant activities of the entity and (2) an obligation to absorb losses or the right to receive benefits from the VIE which are potentially significant to the VIE. The Company continues to service the assets of its VIEs and retain equity and/or residual interests. Accordingly, assets and related debt of these VIEs are included in the accompanying Consolidated Balance Sheets. The Company's leases and restricted interest-earning deposits with banks are assigned as collateral for these borrowings and there is no further recourse to our general credit. Collateral in excess of these borrowings represents the Company's maximum loss exposure.

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Interest Income

Interest income is recognized under the effective interest method. The effective interest method of income recognition applies a constant rate of interest equal to the internal rate of return on each lease at inception.

Based on the historical payment behavior of the Company's equipment finance lease and loan portfolio as a whole, payments are considered reasonably assured when a lease or loan's delinquency status is less than 90 days. Therefore, when a lease or loan is 90 days or more delinquent, the contract is classified as non-accrual and interest income recognition is discontinued. Interest income recognition resumes when the borrower makes payments sufficient to bring the status to less than 90 days delinquent. Working Capital Loans are generally placed in non-accrual status when they are 30 days past due and charged-off at 60 days past due. The loan is removed from non-accrual status once sufficient payments are made to bring the loan current and reviewed by management.

Modifications resulting in renegotiated leases may include reductions in payment and extensions in term. However, such renegotiated leases are not granted concessions regarding implicit rates or reductions in total amounts due. Modifications may be granted on a one-time basis in situations that indicate the lessee is experiencing a temporary, timing issue and has a high likelihood of success with a revised payment plan. After a modification, a lease or loan's accrual status is based on compliance with the modified terms.

Fee Income

Fee income consists of fees for delinquent lease and loan payments, cash collected on early termination of leases and net residual income. Net residual income includes income from lease renewals and gains and losses on the realization of residual values of leased equipment disposed at the end of a lease's term. Residual income is recognized as earned.

Fee income from delinquent lease payments is recognized on an accrual basis based on anticipated collection rates. At a minimum of every quarter, an analysis of anticipated collection rates is performed based on updates to collection history. Adjustments in the anticipated collection rate assumptions are made as needed based on this analysis. Other fees are recognized when received.

Other Income

Other income includes various administrative transaction fees, insurance policy fees, fees received from referral of leases to third parties, and gain on sale of leases and servicing fees, recognized as earned. Effective third quarter 2016, on a prospective basis, the insurance policy fees are recognized in the Consolidated Statements of Operations in "Other income" and for all previous annual and interim periods are recorded net in "Insurance premiums written and earned." Selected major components of other income for the year ended December 31, 2018 included \$0.8 million of referral income, \$2.1 million of insurance policy fees, and \$9.0 million gain on the sale of leases and servicing fee income. Selected major components of other income for the year ended December 31, 2017 included \$2.5 million of referral income, \$1.8 million of insurance policy fees, and \$3.7 million gain on the sale of leases and servicing fee income. Selected major components of other income for the year ended December 31, 2016 included \$0.5 million of referral income, \$0.8 million of insurance policy fees, and \$0.7 million gain on the sale of leases and servicing fee income.

Securities Available for Sale

Securities available for sale consist of asset-backed securities ("ABS"), mutual funds and municipal bonds that are measured at fair value on a recurring basis. Unrealized gains or losses of equity securities available for

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

sale are recorded through the Consolidated Statement of Operations. Fair value measurement is based upon quoted prices in active markets, if available. If quoted prices in active markets are not available, fair values are based on prices obtained from third-party pricing vendors. See Note 14 for more information on fair value measurement of securities.

Securities are evaluated on a quarterly basis, and more frequently when market conditions warrant such an evaluation, to determine whether declines in their value are other-than-temporary. To determine whether a loss in value is other-than-temporary, management utilizes criteria such as the reasons underlying the decline, the magnitude and duration of the decline and whether management intends to sell or expects that it is more likely than not that it will be required to sell the security prior to an anticipated recovery of the fair value. The term “other-than-temporary” is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value for a debt security is determined to be other-than-temporary, the other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income.

Goodwill and Intangible Assets

The Company tests for impairment of goodwill at least annually and more frequently as circumstances warrant in accordance with applicable accounting guidance. Accounting guidance allows for the testing of goodwill for impairment using both qualitative and quantitative factors. Impairment of goodwill is recognized only if the carrying amount of the Company, including goodwill, exceeds the fair value of the Company. The amount of the impairment loss would be equal to the excess carrying value of the goodwill over the implied fair value of the Company’s goodwill.

Currently, the Company does not have any intangible assets with indefinite useful lives.

Intangible assets that are not deemed to have an indefinite useful life are amortized over their estimated useful lives. The carrying amounts of intangible assets are regularly reviewed for indicators of impairment in accordance with applicable accounting guidance. Impairment is recognized only if the carrying amount of the intangible asset is in excess of its undiscounted projected cash flows. Impairment is measured as the difference between the carrying amount and the estimated fair value of the asset.

Initial Direct Costs and Fees

We defer initial direct costs incurred and fees received to originate our leases and loans in accordance with the Receivables Topic and the Nonrefundable Fees and Other Costs Subtopic of the FASB ASC. The initial direct costs and fees we defer are part of the net investment in leases and loans and are amortized to interest income using the effective interest method. We defer third-party commission costs, as well as certain internal costs directly related to the origination activity. Costs subject to deferral include evaluating each prospective customer’s financial condition, evaluating and recording guarantees and other security arrangements, negotiating terms, preparing and processing documents and closing each transaction. The fees we defer are documentation fees collected at inception. The realization of the initial direct costs, net of fees deferred, is predicated on the net future cash flows generated by our lease and loan portfolios.

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Common Stock and Equity

On July 29, 2014, the Company's Board of Directors approved a stock repurchase plan, under which, the Company was authorized to repurchase up to \$15 million in value of its outstanding shares of common stock (the "2014 Repurchase Plan"). On May 30, 2017, the Company's Board of Directors approved a new stock repurchase plan to replace the 2014 Repurchase Plan (the "2017 Repurchase Plan"). Under the 2017 Repurchase Plan, the Company is authorized to repurchase up to \$10 million in value of its outstanding shares of common stock on the open market. The par value of the shares repurchased is charged to common stock with the excess of the purchase price over par charged against any available additional paid-in capital.

Debt Issuance Costs

Debt issuance costs are presented as a direct deduction from the carrying amount of the related debt and amortized as interest expense over the term of that debt. See Note 13 – Debt and Financing Arrangements for the total unamortized debt issuance costs that are recorded as a reduction to long-term debt on the Consolidated Balance Sheets.

Stock-Based Compensation

The Compensation—Stock Compensation Topic of the FASB ASC establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value-based measurement method in accounting for share-based payment transactions with employees and non-employees, except for equity instruments held by employee share ownership plans.

The Company measures stock-based compensation cost at grant date, based on the fair value of the awards ultimately expected to vest. Stock-based compensation expense is recognized on a straight-line basis over the service period. We generally use the Black-Scholes valuation model to measure the fair value of our stock options and the Monte Carlo simulation valuation model to measure the fair value of our restricted stock units utilizing various assumptions with respect to expected holding period, risk-free interest rates, stock price volatility, and dividend yield. The assumptions are based on management's judgment concerning future events.

Based on the October 28, 2009 amendment to the 2003 Equity Compensation Plan, the fair value calculations for the one-time stock option exchange program were based on a binomial valuation model which considered many variables, such as the volatility of our stock and the expected term of an option, including consideration of the ratio of stock price to the exercise price at which exercise is expected to occur. The binomial valuation model was used for both the surrendered stock options and the new replacement options under the stock option exchange program.

As required by U.S. GAAP, the Company uses its judgment in estimating the amount of awards that are expected to be forfeited, with subsequent revisions to the assumptions if actual forfeitures differ from those estimates. The vesting of certain restricted shares may be accelerated to a minimum of three years based on achievement of various individual performance measures. Acceleration of expense for awards based on individual performance factors occurs when the achievement of the performance criteria is determined.

Non-forfeitable dividends paid on shares of restricted stock are recorded to retained earnings for shares that are expected to vest and to compensation expense for shares that are not expected to vest.

Self-Insurance

Beginning in 2014, the Company assumed financial risk for providing health care benefits to its employees through a self-insured group health plan. The estimate of our self-insurance liability contains uncertainty since

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

we must use judgment to estimate the ultimate cost that will be incurred to settle reported claims and unreported claims for incidents incurred but not reported as of the balance sheet date. Liabilities associated with the risk that we retain are estimated by considering historical claims experience, including frequency, severity, demographic factors and other actuarial assumptions. In calculating our liability, we analyze our historical trends, including loss development, and apply appropriate loss development factors to the incurred costs associated with the claims made against our self-insured program. The estimated accruals for these liabilities could be significantly affected if future occurrences or loss development differ from these assumptions.

Income Taxes

The Income Taxes Topic of the FASB ASC requires the use of the asset and liability method under which deferred taxes are determined based on the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities, given the provisions of the enacted tax laws. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. In making this assessment, management considers the scheduled reversal of deferred tax liabilities and projected future taxable income, the level of historical taxable income, projections for future taxable income over the periods which the deferred tax assets are deductible and available tax planning strategies.

Management judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and any necessary valuation allowance recorded against net deferred tax assets. The process involves summarizing temporary differences resulting from the different treatment of items, such as leases, for tax and accounting purposes. These differences result in deferred tax assets and liabilities which are included within the Consolidated Balance Sheets. Management then assesses the likelihood that deferred tax assets will be recovered from future taxable income or tax carry-back availability and, to the extent our management believes recovery is not likely, a valuation allowance is established. To the extent that we establish a valuation allowance in a period, an expense is recorded within the tax provision in the Consolidated Statements of Operations.

The periods subject to examination for the Company's federal return include the 2015 tax year to the present. The Company files state income tax returns in various states which may have different statutes of limitations. Generally, state income tax returns for the years 2015 through the present are subject to examination.

The Company records penalties and accrued interest related to taxes in income tax expense. Uncertain tax positions are recognized when we believe it is more likely than not that the tax position will be upheld on examination by the taxing authorities based on merits of the position. The Company records penalties and accrued interest related to taxes in income tax expense. Uncertain tax positions are recognized when we believe it is more likely than not that the tax position will be upheld on examination by the taxing authorities based on merits of the position. As of December 31, 2018 and 2017, there are no unrecognized tax benefits, and we did not have any accrued interest and penalties

Earnings Per Share

The Company's restricted stock awards are paid non-forfeitable common stock dividends and thus meet the criteria of participating securities. Accordingly, earnings per share ("EPS") is calculated using the two-class method, under which earnings are allocated to both common shares and participating securities. All shares of restricted stock are deducted from the weighted average shares outstanding for the computation of basic EPS.

Diluted EPS is computed based on the weighted average number of common shares outstanding for the period including the dilutive impact of the exercise or conversion of common stock equivalents, such as stock options, into shares of common stock as if those securities were exercised or converted.

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Insurance Premiums Written and Earned

Insurance premiums written and earned are recognized on an accrual basis over the term of the policy, which is month to month. Generally, insurance payments that are 120 days or more past due are charged against income. Since the policy's premiums are recognized month to month, there is no unearned premium on the Consolidated Balance Sheets as these are fully recognized through the Consolidated Statements of Operations in the month written. For all annual and interim periods, second quarter 2016 and prior, income and expense related to insurance premiums written and earned, insurance policy fees, deferred acquisition costs, premium taxes and provision for losses and loss adjustment expenses is recorded within the "Insurance premiums written and earned" line on the Consolidated Statement of Operations. Effective third quarter 2016, on a prospective basis, only insurance premium written and earned was recorded to that line. Effective third quarter 2016, on a prospective basis, insurance policy fees were recorded to "Other income" and deferred acquisition costs, premium taxes and provision for losses and loss adjustment expenses were recorded in "General and administrative" expense. For the years ended December 31, 2018, 2017, and 2016, insurance premiums written and earned were \$8.1 million, \$7.2 million, and \$6.4 million respectively.

Insurance Program Deferred Acquisition Costs

Deferred acquisitions costs represent the fees paid to a third-party insurance company. Effective third quarter 2016, on a prospective basis, the costs are recognized on the Consolidated Statements of Operations in "General and administrative" expense and for all previous interim and annual periods are recognized net in "Insurance premiums written and earned." For the years ended December 31, 2018, 2017, and 2016, the Company recognized deferred acquisition costs and premium taxes of \$0.9 million, \$0.9 million, and \$0.7 million, respectively. Since the policy's premiums are recognized on a month to month basis, there is no deferred acquisition costs on the Consolidated Balance Sheet as these are fully recognized through the Consolidated Statements of Operations in the month written.

Provision for Unpaid Losses and Loss Adjustment Expenses

The Company records a provision for insurance losses and loss adjustment expenses. Effective third quarter 2016, on a prospective basis, the expense was recorded in "General and administrative" expense on the Consolidated Statements of Operations and for all previous annual and interim periods is recorded net in "Insurance premiums written and earned." The liability for losses and loss adjustment expenses includes an amount determined from loss reports and individual cases and an amount, based on historical loss experience and industry statistics, for losses incurred but not reported ("IBNR"). These estimates are continually reviewed and are subject to the impact of future changes in such factors as claim severity and frequency. Loss and loss expenses are paid when advised by the third-party insurance company. Outstanding losses comprise estimates of the amount of reported losses and loss expenses received from the third-party insurance company plus a provision for losses IBNR. IBNR is determined with the assistance of a third-party actuary. For the years ended December 31, 2018, 2017, and 2016, the Company recognized provision for unpaid losses and loss adjustment expenses of \$0.8 million, \$0.8 million, and \$0.6 million, respectively.

Recently Issued Accounting Standards

Collaborative Arrangements. In November 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-18, *Collaborative Arrangements (Topic 808)*. This ASU clarifies the interaction between Topic 808, *Collaborative Arrangements*, and Topic 606, *Revenue from Contracts with Customers*. This ASU is effective for fiscal years beginning after December 15, 2019. The adoption of this new requirement is not expected to have a material impact on the consolidated earnings, financial position or cash flows of the company.

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Variable Interest Entities. In October 2018, the FASB issued ASU 2018-17, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*. This ASU amends the guidance for determining whether a decision-making fee is a variable interest and is effective for fiscal years beginning after December 15, 2019. The adoption of this new requirement is not expected to have a material impact on the consolidated earnings, financial position or cash flows of the company.

Fair Value. In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* which modifies the disclosures on fair value measurements by removing the requirement to disclose the amount and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of such transfers and the valuation process for Level 3 fair value measurements. The ASU expands the disclosure requirements for Level 3 fair value measurements, primarily focused on changes in unrealized gains and losses included in other comprehensive income. The ASU is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The adoption of this new requirement is not expected to have a material impact on the consolidated earnings, financial position or cash flows of the company.

Intangibles—Goodwill. In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* to clarify the accounting treatment for implementation costs for cloud computing arrangements. The ASU is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The adoption of this new requirement is not expected to have a material impact on the consolidated earnings, financial position or cash flows of the company.

Credit Losses. In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which changes the methodology for evaluating impairment of most financial instruments. The ASU replaces the currently used incurred loss model with a forward-looking current expected loss model which will generally result in more timely recognition of losses. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company has formed a cross functional implementation team to review the requirements of ASU 2016-13 and has contracted with a third-party provider to assist in the development and implementation of the revised credit loss methodology. The Company has not determined the impact that the adoption of this ASU will have on the Company’s consolidated financial statements.

Leases. In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* to increase transparency and comparability among organizations recognizing lease assets and lease liabilities on the balance sheet. The ASU will require lessees to recognize a right-of-use (ROU) asset for its right to use the underlying asset and a lease liability for the corresponding lease obligation for leases with terms of more than twelve months. Accounting by lessors will remain largely unchanged from current U.S. GAAP. The ASU also requires expanded quantitative and qualitative disclosures for both lessees and lessors. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides entities with an additional (and optional) transition method in which the entity applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company plans to apply the new transition method upon adoption. In December 2018, the FASB issued ASU 2018-20, *Leases (Topic 842): Narrow Scope Improvements for Lessors*, which clarifies the treatment of sales taxes and other taxes collected from lessees, lessor costs paid directly by lessees, and recognition of variable payments for contracts with lease and non-lease components. The Company adopted the guidance in these ASUs on January 1, 2019. As a result the Company recorded right-of-use assets of \$6.2 million, lease incentive receivables of \$2.8 million and lease liabilities of \$9.1 million. At January 1, 2019, there was no adjustment to opening retained earnings. The Company, as a Lessor, will record property tax income and expense associated with leasing to the Consolidated

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Statements of Operations. The property tax income and expense will be recorded in the same period and will not have an impact on net income. In addition, the adoption of the standard changes the way the Company will defer origination related costs by changing what is allowed to be deferred.

Recently Adopted Accounting Standards.

Income Taxes. In March 2018, the FASB issued ASU 2018-05, *Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118* to update the income tax accounting in GAAP to reflect the SEC's interpretive guidance released on Dec. 22, 2017, when the Tax Cuts and Jobs Act was signed into law. Adoption of this ASU did not have a material impact on our results of operations or financial position.

Investments and Regulated Operations. In March 2018, the FASB issued ASU 2018-04, *Investments — Debt Securities (Topic 320) and Regulated Operations (Topic 980): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 117 and SEC Release No. 33-9273*, to delete ASC 320-10-S99-1, which had codified SAB Topic 5.M which provided the SEC guidance determining when a decline in fair value below cost for an available-for-sale equity security is OTTI. ASU 2018-04 also removes from the ASC special requirements in SEC Regulation S-X Rule 3A-05 for public utility holding companies. The changes were effective when issued. Adoption of this ASU did not have a material impact on our results of operations or financial position.

Financial Instruments. In February 2018, the FASB issued ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments—Overall*. The amendments in this Update clarify certain aspects of the guidance issued in Update 2016-01 regarding the fair value measurement of certain financial assets and financial liabilities. Adoption of this ASU did not have a material impact on our results of operations or financial position.

Income Statement. In February 2018, the FASB issued ASU 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The amendments in this Update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (the "TCJA"). Consequently, the amendments eliminate the stranded tax effects resulting from the TCJA and will improve the usefulness of information reported to financial statement users. All entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The amendments in this Update should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the TCJA is recognized. The early adoption of the guidance resulted in an immaterial cumulative-effect adjustment that increased retained earnings and decreased AOCI in the first quarter of 2018 as reflected on the Consolidated Statements of Stockholders' Equity.

Stock-Based Compensation. In May 2017, the FASB issued ASU 2017-09, *Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting*. The amendments in this ASU provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. An entity should account for the effects of modifications unless all the following are met: 1) the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified; 2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; 3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The current disclosure requirements in Topic 718 apply regardless of whether an entity is required to apply modification accounting under the amendments in this ASU. The amendments in this

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ASU are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The Company adopted these changes effective January 1, 2018 on a prospective basis. Adoption of this ASU did not have a material impact on our results of operations or financial position.

Other Income. In February 2017, the FASB issued ASU 2017-05, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*. The amendments in this ASU clarify that a financial asset is within the scope of Subtopic 610-20 if it meets the definition of an in substance nonfinancial asset. The amendments define the term in substance nonfinancial asset, in part, as a financial asset promised to a counterparty in a contract if substantially all of the fair value of the assets (recognized and unrecognized) that are promised to the counterparty in the contract is concentrated in nonfinancial assets. If substantially all of the fair value of the assets that are promised to the counterparty in a contract is concentrated in nonfinancial assets, then all of the financial assets promised to the counterparty are in substance nonfinancial assets within the scope of Subtopic 610-20. The amendments in this ASU also clarify that nonfinancial assets within the scope of Subtopic 610-20 may include nonfinancial assets transferred within a legal entity to a counterparty. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company adopted these changes effective January 1, 2018 on a prospective basis. Adoption of this ASU did not have a material impact on our results of operations or financial position.

Business Combinations. In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. The amendments in this Update provide a screen to determine when a set is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company adopted these changes effective January 1, 2018 on a prospective basis. Adoption of this ASU did not have a material impact on our results of operations or financial position.

Restricted Cash. In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This Update requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. ASU 2016-18 will be applied retrospectively and is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, with early adoption permitted. The Company adopted ASU 2016-18 in the first quarter of 2018 as required and includes restricted cash with cash and cash equivalents when reconciling the beginning and end of period total amounts shown on the consolidated statements of cash flows.

Financial Instruments. In January 2016, the FASB issued ASU 2016-01, *Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in this Update require equity securities (including other ownership interests, such as partnerships, unincorporated joint ventures, and limited liability companies) to be measured at fair value with changes in the fair value recognized through net income. The amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted these changes effective January 1, 2018 on a prospective basis. Adoption of this ASU did not have a material impact on our results of operations or financial position.

Debt Issuance Costs. In April 2015, the FASB issued ASU 2015-03, *Interest — Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. The amendments in this Update require

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

that debt issuance costs be presented on the balance sheet as a direct deduction from the carrying amount of the related debt and that the amortization of the debt issuance costs be reported as interest expense. The amendments in this Update are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The Company adopted ASU 2015-03 in the first quarter of 2016 although it had no long-term borrowings and related debt issuance costs. The Company subsequently completed a debt issuance in fiscal 2018 and presented the related debt issuance costs as required (See Note 13 – Debt and Financing Arrangements.) Adoption of this ASU did not have a material impact on our results of operations or financial position.

Revenue Recognition. In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (a new revenue recognition standard)*. The ASU's core principle is that a company will recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, this ASU specifies the accounting for certain costs to obtain or fulfill a contract with a customer and expands disclosure requirements for revenue recognition. This ASU is effective, as a result of ASU 2015-14, for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company adopted the revenue recognition guidance on January 1, 2018 using the modified retrospective approach. A significant amount of the Company's revenues is excluded from the scope of the amended guidance, including interest income, fee income, and insurance premiums written and earned, as seen on the Consolidated Statements of Operations. Revenue streams that are subject to the new revenue recognition guidance include certain revenues associated with lease and loan contracts including property tax administrative fees, fees billed to customers for the convenience of paying through ACH, and insurance administrative fees. In addition, referral fee income generated from referring lease and loan customers to third parties was deemed to be in scope of the amended guidance. The Company analyzed the in scope contracts and determined there were no material changes in the timing of revenue recognition when considering the amended guidance. The adoption of this ASU did not have a material impact on our results of operations, financial position or disclosure to the notes of the consolidated financial statements. The company has included applicable disclosures regarding revenue recognition within Note 3 of the consolidated financial statements.

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 – Non-Interest Income

On January 1, 2018, the Company adopted the amendments of ASU 2014-09—*Revenue from Contracts with Customers (Topic 606)* and all subsequent ASUs that modified Topic 606. The Company earns revenue including interest and fees from customers as well as revenues from non-customers. Interest and fee income are outside the scope of ASC Topic 606, Revenue from contracts with customers (Topic 606). Some sources of revenue included in non-interest income fall within the scope of Topic 606, while other sources do not. The Company recognizes revenue when the performance obligations related to the transfer of goods or services under the terms of the contract are satisfied. Some obligations are satisfied at a point in time while others, such as servicing income, property tax administrative fees and insurance policy fees, are satisfied over a period of time related to the specific obligation. Revenue is recognized as the amount of consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. When consideration includes a variable component, the amount of consideration attributable to variability is included in the transaction price only to the extent it is probable that significant revenue recognized will not be reversed when uncertainty associated with the variable consideration is subsequently resolved. Generally, the variability relating to the consideration is explicitly stated in the contracts, but may also arise from the Company's customer business practice, for example, waiving certain fees. The Company's contracts generally do not contain terms that require significant judgement to determine the variability impacting the transaction price. The Company has included the following table regarding the Company's non-interest income for the periods presented.

	<u>Year Ended December 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
	(Dollars in thousands)		
Insurance premiums written and earned	\$ 8,087	\$ 7,155	\$6,398
Gain on sale of leases and loans	8,363	2,874	469
Servicing income	653	864	213
Net gains and (losses) recognized during the period on equity securities	(75)	—	—
Non-interest income within the scope of other GAAP topics	<u>17,028</u>	<u>10,893</u>	<u>7,080</u>
Property tax administrative fees on leases	740	751	748
ACH payment fees	333	326	331
Insurance policy fees	2,124	1,846	842
Referral fees	839	2,518	528
Other	370	398	229
Non-interest income from contracts with customers	<u>4,406</u>	<u>5,839</u>	<u>2,678</u>
Total non-interest income	<u>\$21,434</u>	<u>\$16,732</u>	<u>\$9,758</u>

The majority of the Company's revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as our leases and loans, investment securities, as well as revenue related to our gain on sale of leases and loans, servicing income, and insurance premiums written and earned. Revenue-generating activities that are within the scope of ASC 606, which are presented in our income statements as components of non-interest income, include certain fees such as property tax administrative fees on leases, ACH payment fees, insurance policy fees outside of the scope of ASC 944, broker fees earned for referring leases and loans to other funding partners, and other fees.

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 – Investment Securities

Debt Securities, Available for Sale are recorded at fair value and unrealized gains and losses are reported, net of taxes, in accumulated other comprehensive income (loss) included in stockholders' equity unless management determines that an investment is other-than-temporarily impaired (OTTI). Prior to the adoption of ASU 2016-01, the changes in fair value of equity securities classified as available for sale were accounted for consistent with the changes in fair value of debt securities available for sale. After the adoption on January 1, 2018, changes in fair value of equity securities are recorded through the Consolidated Statement of Operations. The amortized cost and estimated fair value of investments, with gross unrealized gains and losses, were as follows as of December 31, 2018 and December 31, 2017:

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(Dollars in thousands)				
Debt Securities, Available for Sale:				
Asset-backed securities ("ABS")	\$ 4,934	\$ 20	\$ (39)	\$ 4,915
Municipal securities	2,629	3	(20)	2,612
Equity Securities				
Mutual fund	3,631	—	(202)	3,429
Total investment securities	<u>\$ 11,194</u>	<u>\$ 23</u>	<u>\$ (261)</u>	<u>\$ 10,956</u>

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(Dollars in thousands)				
Debt Securities, Available for Sale:				
ABS	\$ 5,717	\$ 27	\$ (39)	\$ 5,705
Municipal securities	2,420	18	(36)	2,402
Equity Securities				
Mutual fund	3,553	—	(127)	3,426
Total investment securities	<u>\$ 11,690</u>	<u>\$ 45</u>	<u>\$ (202)</u>	<u>\$ 11,533</u>

The Company had \$3.4 million in equity securities recorded at fair value for each of the three years ending December 31, 2018, 2017 and 2016. The following schedule is a summary of fair value changes recognized in net income on equity securities during each of those three years:

	Year Ended December 31,		
	2018 ⁽¹⁾	2017 ⁽²⁾	2016 ⁽²⁾
(Dollars in thousands)			
Net gains and (losses) recognized during the period on equity securities	\$ (75)	\$ —	\$ —
Less: Net gains and (losses) recognized during the period on equity securities sold during the period	—	—	—
Unrealized gains and (losses) recognized during the reporting period on equity securities still held at the reporting date	<u>\$ (75)</u>	<u>\$ —</u>	<u>\$ —</u>

(1) After adoption of ASU 2016-01 on January 1, 2018, unrealized gains and losses of equity securities classified as available for sale were recorded through the Consolidated Statement of Operations.

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) Prior to adoption of ASU 2016-01, unrealized gains and losses of equity securities classified as available for sale were reported in other comprehensive income (loss).

The following tables present the aggregate amount of unrealized losses on securities in the Company's investment securities classified according to the amount of time those securities have been in a continuous loss position as of December 31, 2018 and December 31, 2017:

	December 31, 2018					
	<u>Less than 12 months</u>		<u>12 months or longer</u>		<u>Total</u>	
	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
	(Dollars in thousands)					
Debt Securities, Available for Sale:						
ABS	\$ —	\$ —	\$ (39)	\$ 3,340	\$ (39)	\$ 3,340
Municipal securities	(16)	1,436	(4)	408	(20)	1,844
Equity Securities						
Mutual fund	—	—	(202)	3,429	(202)	3,429
Total investment securities	<u>\$ (16)</u>	<u>\$ 1,436</u>	<u>\$ (245)</u>	<u>\$ 7,177</u>	<u>\$ (261)</u>	<u>\$ 8,613</u>

	December 31, 2017					
	<u>Less than 12 months</u>		<u>12 months or longer</u>		<u>Total</u>	
	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
	(Dollars in thousands)					
Debt Securities, Available for Sale:						
ABS	\$ (39)	\$ 3,703	\$ —	\$ —	\$ (39)	\$ 3,703
Municipal securities	—	—	(36)	2,402	(36)	2,402
Equity Securities						
Mutual fund	—	—	(127)	3,426	(127)	3,426
Total investment securities	<u>\$ (39)</u>	<u>\$ 3,703</u>	<u>\$ (163)</u>	<u>\$ 5,828</u>	<u>\$ (202)</u>	<u>\$ 9,531</u>

Based on current facts and circumstances, the Company believes the unrealized losses presented in the December 31, 2018 securities in a gross unrealized loss position in the table above are not indicative of the ultimate collectability of the current amortized cost of the securities, but rather are attributable to changes in interest rates, credit spreads and other factors.

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the amortized cost, fair value, and weighted average yield of investments in debt securities available for sale at December 31, 2018, by remaining contractual maturity, with the exception of ABS and municipal securities, which are based on estimated average life. Receipt of cash flows may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties:

	Distribution of Maturities				Total
	1 Year or Less	Over 1 to 5 Years	Over 5 to 10 Years	Over 10 Years	
(Dollars in thousands)					
Amortized Cost:					
Debt Securities, Available for Sale:					
ABS	\$ —	\$ 3,018	\$ 1,917	\$ —	\$4,935
Municipal securities	—	15	750	1,864	2,629
Total debt securities available for sale	<u>\$ —</u>	<u>\$ 3,033</u>	<u>\$ 2,667</u>	<u>\$ 1,864</u>	<u>\$7,527</u>
Estimated fair value	\$ —	\$ 3,006	\$ 2,677	\$ 1,844	\$7,527
Weighted-average yield, GAAP basis	—	2.20%	3.06%	2.55%	2.59%

OTTI

The Company evaluates all investment securities in an unrealized loss position for OTTI on at least a quarterly basis. An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. The OTTI assessment is a subjective process requiring the use of judgments and assumptions. During the securities-level assessments, consideration is given to (1) the intent not to sell and probability that the Company will not be required to sell the security before recovery of its cost basis to allow for any anticipated recovery in fair value, (2) the financial condition and near-term prospects of the issuer, as well as company news and current events, and (3) the ability to collect the future expected cash flows. Key assumptions utilized to forecast expected cash flows may include loss severity, expected cumulative loss percentage, cumulative loss percentage to date, weighted average Fair Isaac Corporation (“FICO®”) scores and weighted average LTV ratio, rating or scoring, credit ratings and market spreads, as applicable.

According to accounting guidance for debt securities in an unrealized loss position, the Company is required to assess whether it has the intent to sell the debt security or more likely than not will be required to sell the debt security before the anticipated recovery. If either of these conditions is met the Company must recognize an other than temporary impairment with the entire unrealized loss being recorded through earnings. For debt securities in an unrealized loss position not meeting these conditions, the Company assesses whether the impairment of a security is other than temporary. If the impairment is deemed to be other than temporary, the Company must separate the other than temporary impairment into two components: the amount representing the credit loss and the amount related to all other factors, such as changes in interest rates. The credit loss represents the portion of the amortized book value in excess of the net present value of the projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment. The credit loss component of the other than temporary impairment is recorded through earnings, whereas the amount relating to factors other than credit losses is recorded in other comprehensive income, net of taxes. The Company did not recognize any OTTI in earnings related to its investment securities for each of the years ended December 31, 2018 and December 31, 2017.

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 — Net Investment in Leases and Loans

Net investment in leases and loans consists of the following:

	December 31,	
	2018	2017
	(Dollars in thousands)	
Minimum lease payments receivable	\$ 530,867	\$ 607,736
Estimated residual value of equipment	27,646	26,922
Unearned lease income, net of initial direct costs and fees deferred	(68,376)	(81,769)
Security deposits	(838)	(1,046)
Total leases	489,299	551,843
Commercial loans, net of origination costs and fees deferred		
Working Capital Loans	36,856	28,128
CRA ⁽¹⁾	1,466	1,222
Equipment loans ⁽²⁾	423,168	291,333
CVG	66,051	56,745
Total commercial loans	527,541	377,428
Allowance for credit losses	(16,100)	(14,851)
	<u>\$ 1,000,740</u>	<u>\$ 914,420</u>

(1) CRA loans are comprised of loans originated under a line of credit to satisfy its obligations under the Community Reinvestment Act of 1977.

(2) Equipment loans are comprised of Equipment Finance Agreements, Install Purchase Agreements, and other loans.

At December 31, 2018, \$150.2 million in net investment in leases are pledged as collateral for the company's outstanding asset-backed securitization balance and \$ 35.8 million in net investment in leases are pledged as collateral for the secured borrowing capacity at the Federal Reserve Discount Window.

Initial direct costs and origination costs net of fees deferred were \$20.5 million and \$17.2 million as of December 31, 2018 and December 31, 2017, respectively. Initial direct costs are netted in unearned income and are amortized to income using the effective interest method. Origination costs are netted in commercial loans and are amortized to income using the effective interest method. At December 31, 2018 and December 31, 2017, \$23.6 million and \$22.6 million, respectively, of the estimated residual value of equipment retained on our Consolidated Balance Sheets was related to copiers.

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Minimum lease payments receivable under lease contracts and the amortization of unearned lease income, including initial direct costs and fees deferred, are as follows as of December 31, 2018:

Period Ending December 31,	Minimum Lease Payments Receivable	Income Amortization
	(Dollars in thousands)	
2019	\$ 216,923	\$ 35,492
2020	151,381	19,288
2021	93,767	9,232
2022	49,130	3,501
2023	18,253	792
Thereafter	1,413	71
	<u>\$ 530,867</u>	<u>\$ 68,376</u>

As of December 31, 2018 and December 31, 2017, the Company maintained total finance receivables which were on a non-accrual basis of \$4.2 million and \$3.2 million, respectively. As of December 31, 2018 and December 31, 2017, the Company had total finance receivables in which the terms of the original agreements had been renegotiated in the amount of \$3.6 million and \$4.5 million, respectively. (See Note 7 for additional asset quality information).

NOTE 6 — Concentrations of Risk

As of December 31, 2018 and 2017, leases approximating 13%, 12% and 10% of the net investment balance of leases by the Company were located in the states of California, Texas and Florida. No other state accounted for more than 7% of the net investment balance of leases owned and serviced by the Company as of December 31, 2018 and December 31, 2017. As of December 31, 2018 and December 31, 2017, no single vendor source accounted for more than 3% of the net investment balance of leases owned by the Company. The largest single obligor accounted for less than 1% of the net investment balance of leases owned by the Company as of December 31, 2018 and December 31, 2017. Although the Company's portfolio of leases includes lessees located throughout the United States, such lessees' ability to honor their contracts may be substantially dependent on economic conditions in these states. All such contracts are collateralized by the related equipment. The Company leases to a variety of different industries, including the medical, retail, service, manufacturing and restaurant industries, among others. To the extent that the economic or regulatory conditions prevalent in such industries change, the lessees' ability to honor their lease obligations may be adversely impacted. As of December 31, 2018 and December 31, 2017, copiers comprised 85.4% and 84.8%, respectively, of the estimated residual value of leased equipment. No other group of equipment represented more than 10% of equipment residuals as of December 31, 2018 and December 31, 2017. Improvements and other changes in technology could adversely impact the Company's ability to realize the recorded value of this equipment. There were no impairments of estimated residual value recorded during the years ended December 31, 2018, 2017 or 2016.

NOTE 7 — Allowance for Credit Losses

In accordance with the Contingencies Topic of the FASB ASC, we maintain an allowance for credit losses at an amount sufficient to absorb losses inherent in our existing lease and loan portfolios as of the reporting dates based on our estimate of probable net credit losses.

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following tables provides activity in the allowance for credit losses and asset quality statistics for each of the years ended December 31, 2018, 2017 and 2016.

(Dollars in thousands)	December 31, 2018				
	Commercial Leases and Loans				
	Working Capital Loans	CRA	Equipment Finance⁽²⁾	CVG	Total
Allowance for credit losses, beginning of period	\$ 1,036	\$ —	\$ 12,663	\$ 1,152	\$ 14,851
Charge-offs	(1,537)	—	(18,149)	(907)	(20,593)
Recoveries	60	—	2,199	61	2,320
Net charge-offs	(1,477)	—	(15,950)	(846)	(18,273)
Provision for credit losses	1,908	—	16,818	796	19,522
Allowance for credit losses, end of period	<u>\$ 1,467</u>	<u>\$ —</u>	<u>\$ 13,531</u>	<u>\$ 1,102</u>	<u>\$ 16,100</u>
Ending lease or loan balance⁽¹⁾	\$ 36,478	\$ 1,466	\$ 890,785	\$ 67,654	\$ 996,383
Ending balance: individually evaluated for impairment ⁽³⁾	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

(Dollars in thousands)	December 31, 2017				
	Commercial Leases and Loans				
	Working Capital Loans	CRA	Equipment Finance⁽²⁾	CVG	Total
Allowance for credit losses, beginning of period	\$ 760	\$ —	\$ 9,808	\$ 369	\$ 10,937
Charge-offs	(1,219)	—	(14,343)	(1,154)	(16,716)
Recoveries	121	—	2,066	49	2,236
Net charge-offs	(1,098)	—	(12,277)	(1,105)	(14,480)
Provision for credit losses	1,374	—	15,132	1,888	18,394
Allowance for credit losses, end of period	<u>\$ 1,036</u>	<u>\$ —</u>	<u>\$ 12,663</u>	<u>\$ 1,152</u>	<u>\$ 14,851</u>
Ending lease or loan balance^(1,3)	\$ 27,810	\$ 1,222	\$ 826,880	\$ 55,330	\$ 911,242

(Dollars in thousands)	December 31, 2016				
	Commercial Leases and Loans				
	Working Capital Loans	CRA	Equipment Finance⁽²⁾	CVG	Total
Allowance for credit losses, beginning of period	\$ 174	\$ —	\$ 8,217	\$ 22	\$ 8,413
Charge-offs	(455)	—	(11,893)	(39)	(12,387)
Recoveries	93	—	2,404	—	2,497
Net charge-offs	(362)	—	(9,489)	(39)	(9,890)
Provision for credit losses	948	—	11,080	386	12,414
Allowance for credit losses, end of period	<u>\$ 760</u>	<u>\$ —</u>	<u>\$ 9,808</u>	<u>\$ 369</u>	<u>\$ 10,937</u>
Ending lease or loan balance^(1,3)	\$ 19,676	\$ 1,098	\$ 744,103	\$ 28,408	\$ 793,285

(1) For purposes of asset quality and allowance calculations, the effects of (i) the allowance for credit losses and (ii) initial direct costs and fees deferred are excluded.

Table of Contents

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- (2) Equipment Finance consists of Equipment Finance Agreements, Install Purchase Agreements, and other leases and loans.
- (3) As of December 31, 2018, the Company determined that no leases or loans required individual evaluation, and as of December 31, 2017 and 2016 all leases and loans were collectively evaluated.

As of December 31, 2018 and 2017, sales of leases and loans were \$139.0 million and \$62.1 million respectively. No leases or loans have been acquired with deteriorated credit quality.

Credit Quality Indicators

The Company's credit review process includes a risk classification of all leases and loans that includes pass, special mention, substandard, doubtful, and loss. The classification of a lease or loan may change based on changes in the creditworthiness of the borrower. The description of the risk classifications are as follows:

Pass: A lease or loan is classified as pass when payments are current and it is performing under the original contractual terms.

Special Mention: A lease or loan is classified as special mention when the borrower exhibits potential credit weakness or a downward trend which, if not checked or corrected, will weaken the asset or inadequately protect the Company's position. While potentially weak, the borrower is currently marginally acceptable; no loss of principal or interest is envisioned.

Substandard: A lease or loan is classified as substandard when the borrower has a well-defined weakness or weaknesses that jeopardize the orderly liquidation of the debt. A substandard loan is inadequately protected by the current net worth and paying capacity of the obligor, normal repayment from this borrower is in jeopardy, and there is a distinct possibility that a partial loss of interest and/or principal will occur if the deficiencies are not corrected.

Doubtful: A lease or loan is classified as doubtful when a borrower has all weaknesses inherent in a loan classified as substandard with the added provision that: (1) the weaknesses make collection of debt in full on the basis of currently existing facts, conditions and values highly questionable and improbable; (2) serious problems exist to the point where a partial loss of principal is likely; and (3) the possibility of loss is extremely high, but because of certain important, reasonably specific pending factors which may work to the advantage and strengthening of the assets, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens and additional refinancing plans.

Loss: A lease or loan is classified as loss when uncollectible and of such little value that its continuance as a bankable asset is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value but rather that it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be effected in the future.

Equipment Finance leases are placed in non-accrual status when they are 90 days past due or earlier if collection of principal or interest is considered doubtful and Working Capital Loans are placed in non-accrual status when they are 30 days past due and charged-off at 60 days past due.

The following tables present the segments of the loan portfolio in which a formal risk weighting system is utilized summarized by the categories of "pass" and "special mention", and the classified categories of "substandard", "doubtful", and "loss" within the Bank's risk rating system at December 31, 2018 and

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017. The data within the tables reflect net investment, excluding deferred fees and cost and allowance:

(Dollars in thousands)	December 31, 2018				
	Commercial Loans				
	Working Capital Loans	CRA	Equipment Finance	CVG	Total
Pass	\$ 35,793	\$1,466	\$ 879,275	\$66,463	\$982,997
Special Mention	47	—	4,373	146	4,566
Substandard	145	—	3,460	660	4,265
Doubtful	300	—	2,353	158	2,811
Loss	193	—	1,324	227	1,744
Total	\$ 36,478	\$1,466	\$ 890,785	\$67,654	\$996,383

(Dollars in thousands)	December 31, 2017				
	Commercial Loans				
	Working Capital Loans	CRA	Equipment Finance	CVG	Total
Pass	\$ 27,405	\$1,222	\$ 801,894	\$50,342	\$880,863
Special Mention	56	—	15,141	4,906	20,103
Substandard	47	—	6,428	44	6,519
Doubtful	163	—	2,995	38	3,196
Loss	139	—	422	—	561
Total	\$ 27,810	\$1,222	\$ 826,880	\$55,330	\$911,242

Loan Delinquencies and Non-Accrual Leases and Loans

Net investments in leases and loans are generally charged-off when they are contractually past due for 120 days or more. Income recognition is discontinued on leases or loans when a default on monthly payment exists for a period of 90 days or more. Income recognition resumes when a lease or loan becomes less than 90 days delinquent. At December 31, 2018 and December 31, 2017, there were no finance receivables past due 90 days or more and still accruing.

Working Capital Loans are generally placed in non-accrual status when they are 30 days past due and charged-off at 60 days past due. The loan is removed from non-accrual status once sufficient payments are made to bring the loan current and reviewed by management. There were no Working Capital Loans past due 30 days or more and still accruing.

Management further monitors the performance and credit quality of the loan portfolio as determined by the length of time a recorded payment is due.

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following tables provide information about delinquent and non-accrual leases and loans in the Company's portfolio each of the years ended December 31, 2018 and December 31, 2017.

December 31, 2018 (Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	>90 Days Past Due	Total Past Due	Current	Total Finance Receivables	Non- Accruing
Commercial Loans:							
Working Capital Loans	\$ 300	\$ 51	\$ 141	\$ 492	\$ 35,986	\$ 36,478	\$ 492
CRA	—	—	—	—	1,466	1,466	—
Equipment Finance ⁽¹⁾	4,537	3,123	3,529	11,189	1,001,363	1,012,552	3,529
CVG	166	257	191	614	78,407	79,021	191
Total Leases and Loans⁽²⁾	\$ 5,003	\$ 3,431	\$ 3,861	\$ 12,295	\$ 1,117,222	\$ 1,129,517	\$ 4,212
December 31, 2017 (Dollars in thousands)							
Commercial Loans:	30-59 Days Past Due	60-89 Days Past Due	>90 Days Past Due	Total Past Due	Current	Total Finance Receivables	Non- Accruing
Working Capital Loans	\$ 119	\$ —	\$ —	\$ 119	\$ 27,691	\$ 27,810	\$ 118
CRA	—	—	—	—	1,222	1,222	—
Equipment Finance ⁽¹⁾	4,621	2,532	3,023	10,176	928,963	939,139	3,023
CVG	178	50	42	270	64,499	64,769	42
Total Leases and Loans⁽²⁾	\$ 4,918	\$ 2,582	\$ 3,065	\$ 10,565	\$ 1,022,375	\$ 1,032,940	\$ 3,183

(1) Equipment Finance consists of Equipment Finance Agreements, Install Purchase Agreements, and other leases and loans.

(2) Represents total minimum lease and loan payments receivable for Equipment Finance and CVG and as a percentage of principal outstanding for Working Capital Loans and CRA.

NOTE 8 — Goodwill and Intangible Assets

Goodwill

As a result of the HKF acquisition on January 4, 2017, the Company's goodwill was \$1.2 million as of December 31, 2017. On September 19, 2018, the Company acquired FFR and recorded goodwill of \$6.2 million based on a preliminary allocation of the purchase price. The Company finalized the purchase price allocation in the first quarter of 2019. The goodwill balance represents the excess purchase price over the Company's fair value of the assets acquired and is not amortizable but is deductible for tax purposes. Impairment testing is performed in the fourth quarter of each year and more frequently as warranted in accordance with the applicable accounting guidance. There was no impairment recorded during the twelve-month period ended December 31, 2018.

The changes in the carrying amount of goodwill for the twelve-month period ended December 31, 2018 are as follows:

(Dollars in thousands)	Total Company
Balance at December 31, 2017	\$ 1,160
Changes	6,200
Balance at December 31, 2018	\$ 7,360

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Intangible assets

During the first quarter of 2017, in connection with the acquisition of HKF, the Company acquired certain definite-lived intangible assets with a total cost of \$1.3 million and a weighted average amortization period of 8.7 years. On September 19, 2018, the Company acquired FFR and recorded intangible assets of \$7.2 million based on a preliminary allocation of the purchase price. The Company had no indefinite-lived intangible assets at December 31, 2018.

The following table presents details of the Company's intangible assets:

	<u>Useful Life</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
(Dollars in thousands)				
As of December 31, 2018				
Lender relationships	3 to 10 years	\$ 1,590	\$ 271	\$ 1,319
Vendor relationships	11 years	6,852	302	6,550
Corporate trade name	7 years	60	17	43
Total		<u>\$ 8,502</u>	<u>\$ 590</u>	<u>\$ 7,912</u>
As of December 31, 2017				
Lender relationships	3 years	\$ 360	\$ 120	\$ 240
Vendor relationships	11 years	920	84	836
Corporate trade name	7 years	60	8	52
Total		<u>\$ 1,340</u>	<u>\$ 212</u>	<u>\$ 1,128</u>

There was no impairment of these assets in 2018. Amortization related to the Company's definite lived intangible assets was \$0.4 million and \$0.2 million for the twelve-month periods ended December 31, 2018 and December 31, 2017, respectively. The Company expects the amortization expense for the next five years will be as follows:

(Dollars in thousands)	<u>Amortization Expense</u>
2019	\$ 874
2020	754
2021	754
2022	754
2023	754

NOTE 9 — Property and Equipment, Net

Property and equipment, net consist of the following:

	<u>December 31,</u>		<u>Depreciable Life</u>
	<u>2018</u>	<u>2017</u>	
	(Dollars in thousands)		
Furniture and equipment	\$ 2,986	\$ 2,859	7 years
Computer systems and equipment	17,234	15,619	3-5 years
Leasehold improvements	1,197	1,194	Shorter of estimated useful life or remaining lease term
Total property and equipment	21,417	19,672	
Less—Accumulated depreciation and amortization	(17,100)	(15,468)	
Property and equipment, net	<u>\$ 4,317</u>	<u>\$ 4,204</u>	

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Depreciation and amortization expense was \$1.6 million, \$1.5 million and \$1.3 million for each of the years ended December 31, 2018, 2017 and 2016, respectively.

NOTE 10 — Other Assets

Other assets are comprised of the following:

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
	(Dollars in thousands)	
Accrued fees receivable	\$ 3,354	\$ 3,052
Prepaid expenses	2,447	2,026
Income taxes receivable (See Note 15 for further discussion)	—	13,306
Federal Reserve bank stock	1,711	1,711
Other	2,144	6,072
	<u>\$ 9,656</u>	<u>\$ 26,167</u>

NOTE 11 — Commitments and Contingencies

MBB is a member bank in a non-profit, multi-financial institution Community Development Financial Institution (“CDFI”) organization. The CDFI serves as a catalyst for community development by offering flexible financing for affordable, quality housing to low- and moderate-income residents, helping the Bank meet its CRA obligations. Currently, MBB receives approximately 1.2% participation in each funded loan which is collateral for the loan issued to the CDFI under the program. MBB records loans in its financial statements when they have been funded or become payable. Such loans help MBB satisfy its obligations under the Community Reinvestment Act of 1977. At December 31, 2018 and December 31, 2017, MBB had an unfunded commitment of \$0.5 million and \$0.8 million, respectively, for this activity. MBB’s one-year commitment to the CDFI will expire in September 2019 at which time the commitment may be renewed for another year based on Marlin’s review.

The Company is involved in legal proceedings, which include claims, litigation and suits arising in the ordinary course of business. In the opinion of management, these actions will not have a material effect on the Company’s consolidated balance sheet, statement of operations or cash flows.

Banking institutions are subject to periodic reviews and examinations from banking regulators. In 2017, one of MBB’s regulatory agencies communicated findings in connection with the timing of certain aspects of payment application processes in effect prior to February 2016 related to the assessment of late fees. Resolution of this matter, which was previously disclosed as an estimated contingency, will require the Company to pay restitution to customers in the amount \$4.0 million. Such amount was expensed and the related liability was recorded in the first quarter of 2017. The Company expects to begin processing such restitution in the first quarter of 2019.

As of December 31, 2018, the Company leases all seven of its office locations including its executive offices in Mt. Laurel, New Jersey, and its offices in or near Atlanta, Georgia; Salt Lake City, Utah; Philadelphia, Pennsylvania; Portsmouth, New Hampshire; Highlands Ranch, Colorado; and Riverside, California. These lease commitments are accounted for as operating leases. The Company has entered into several capital leases to finance corporate property and equipment.

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

with all debt covenants required under this line of credit and there were no outstanding balances on this line of credit as of December 31, 2018 and 2017.

Long-Term Borrowings

Borrowings with an original maturity date of one year or more are classified as long-term borrowings. The Company's term note securitizations are classified as long-term borrowings.

The Company's long-term borrowings consisted of the following:

	December 31,	
	2018	2017
	(Dollars in thousands)	
Term securitization 2018-1	\$ 151,233	\$ —
Unamortized debt issuance costs	(1,178)	—
	\$ 150,055	\$ —

On July 27, 2018 the Company completed a \$201.7 million asset-backed term securitization. Each tranche of the term note securitization has a fixed term, fixed interest rate and fixed principal amount. At December 31, 2018, outstanding term securitizations amounted to \$151.2 million and are collateralized by \$172.3 million of minimum lease and loan payments receivable and \$10 million of restricted interest-earning deposits.

The July 27, 2018 term note securitization is summarized below:

	Notes Originally Issued	Outstanding Balance as of December 31, 2018	Final Maturity Date	Original Coupon Rate
	(Dollars in thousands)			
2018 — 1				
Class A-1	\$ 77,400	\$ 26,983	July 2019	2.55%
Class A-2	55,700	\$ 55,700	October 2020	3.05
Class A-3	36,910	\$ 36,910	April 2023	3.36
Class B	10,400	\$ 10,400	May 2023	3.54
Class C	11,390	\$ 11,390	June 2023	3.70
Class D	5,470	\$ 5,470	July 2023	3.99
Class E	4,380	\$ 4,380	May 2025	5.02
Total Term Note Securitizations	\$ 201,650	\$ 151,233		3.05% (1)(2)

(1) Represents the original weighted average initial coupon rate for all tranches of the securitization. In addition to this coupon interest, term note securitizations have other transaction costs which are amortized over the life of the borrowings as additional interest expense.

(2) The weighted average coupon rate of the 2018-1 term note securitization will approximate 3.41% over the term of the borrowing.

Federal Funds Line of Credit with Correspondent Bank

MBB has established a federal funds line of credit with a correspondent bank. This line allows for both selling and purchasing of federal funds. The amount that can be drawn against the line is limited to \$25.0 million. As of December 31, 2018 and 2017, there were no balances outstanding on this line of credit.

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Federal Reserve Discount Window

In addition, MBB has received approval to borrow from the Federal Reserve Discount Window based on the amount of assets MBB chooses to pledge. MBB had \$32.8 million in unused, secured borrowing capacity at the Federal Reserve Discount Window, based on 35.8 million of net investment in leases pledged at December 31, 2018.

Scheduled principal and interest payments on outstanding borrowings as of December 31, 2018 are as follows:

	<u>Principal</u>	<u>Interest</u>
	(Dollars in thousands)	
Period Ending December 31,		
2019	\$ 73,823	\$ 3,861
2020	45,200	1,993
2021	23,628	813
2022	8,582	159
	<u>\$ 151,233</u>	<u>\$ 6,826</u>

NOTE 14 — Fair Value Measurements and Disclosures about the Fair Value of Financial Instruments

Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the FASB ASC establishes a framework for measuring fair value and requires certain disclosures about fair value measurements. Its provisions do not apply to fair value measurements for purposes of lease classification and measurement, which is addressed in the Leases Topic of the FASB ASC.

Fair value is defined in GAAP as the price that would be received to sell an asset or the price that would be paid to transfer a liability on the measurement date. GAAP focuses on the exit price in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. A three-level valuation hierarchy is required for disclosure of fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the measurement in its entirety.

The three levels are defined as follows:

- Level 1 – Inputs to the valuation are unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs to the valuation may include quoted prices for similar assets and liabilities in active or inactive markets, and inputs other than quoted prices, such as interest rates and yield curves, which are observable for the asset or liability for substantially the full term of the financial instrument.
- Level 3 – Inputs to the valuation are unobservable and significant to the fair value measurement. Level 3 inputs shall be used to measure fair value only to the extent that observable inputs are not available.

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company characterizes active markets as those where transaction volumes are sufficient to provide objective pricing information, such as an exchange traded price. Inactive markets are typically characterized by low transaction volumes, and price quotations that vary substantially among market participants or are not based on current information.

The Company's balances measured at fair value on a recurring basis include the following as of December 31, 2018 and 2017:

	December 31, 2018			December 31, 2017		
	Fair Value			Fair Value		
	Measurements Using			Measurements Using		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	(Dollars in thousands)					
Assets						
ABS	\$ —	\$ 4,915	\$ —	\$ —	\$ 5,705	\$ —
Municipal securities	—	2,612	—	—	2,402	—
Mutual fund	3,429	—	—	3,426	—	—

At this time, the Company has not elected to report any assets and liabilities using the fair value option available under the Financial Instruments Topic of the FASB ASC. There have been no transfers between Level 1 and Level 2 of the fair value hierarchy.

Disclosures about the Fair Value of Financial Instruments

The Financial Instruments Topic of the FASB ASC requires the disclosure of the estimated fair value of financial instruments including those financial instruments not measured at fair value on a recurring basis. This requirement excludes certain instruments, such as the net investment in leases and all nonfinancial instruments.

The fair values shown below have been derived, in part, by management's assumptions, the estimated amount and timing of future cash flows and estimated discount rates. Valuation techniques involve uncertainties and require assumptions and judgments regarding prepayments, credit risk and discount rates. Changes in these assumptions will result in different valuation estimates. The fair values presented would not necessarily be realized in an immediate sale. Derived fair value estimates cannot necessarily be substantiated by comparison to independent markets or to other companies' fair value information.

The following summarizes the carrying amount and estimated fair value of the Company's financial instruments:

	December 31, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Dollars in thousands)			
Assets				
Cash and cash equivalents	\$ 97,156	\$ 97,156	\$ 67,146	\$ 67,146
Time deposits with banks	9,659	9,614	8,110	7,843
Restricted interest-earning deposits with banks	14,045	14,045	—	—
Loans, net of allowance	518,697	515,754	370,865	358,089
Federal Reserve Bank Stock	1,711	1,711	1,711	1,711
Servicing Rights	—	—	2,518	2,554
Liabilities				
Deposits	\$ 755,776	\$ 722,682	\$ 809,315	\$ 803,470
Long-term borrowings	150,055	149,912	—	—
Servicing liability	1,352	1,352	—	—

Table of Contents

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The paragraphs which follow describe the methods and assumptions used in estimating the fair values of financial instruments.

Cash and Cash Equivalents

The carrying amounts of the Company's cash and cash equivalents approximate fair value as of December 31, 2018 and December 31, 2017, because they bear interest at market rates and had maturities of less than 90 days at the time of purchase. The cash equivalents include a money market fund with a balance of \$29.1 million that the Company considers operating cash and has no reportable gross unrealized gains or losses. This fair value measurement of cash and cash equivalents is classified as Level 1.

Time Deposits with Banks

Fair value of time deposits is estimated by discounting cash flows of current rates paid by market participants for similar time deposits of the same or similar remaining maturities. This fair value measurement is classified as Level 2.

Restricted Interest-Earning Deposits with Banks

The Company maintains interest-earning trust accounts primarily related to our secured debt facilities. The book value of such accounts is included in restricted interest-earning deposits with banks on the accompanying Consolidated Balance Sheet. These accounts earn a floating rate of market interest which results in a fair value approximating the carrying amount at December 31, 2018 and December 31, 2017. As of December 31, 2018, \$14.0 million was classified as restricted interest-earning deposits with banks, consisting of \$10.0 million in a trust account related to our secured debt facility and \$4.0 million in a trust account reserved for payments related to customer restitution. This fair value measurement is classified as Level 1.

Loans

The loan balances are comprised of three types of loans. Loans made as a member bank in a non-profit, multi-financial institution CDFI serve as a catalyst for community development by offering financing for affordable, quality housing to low- and moderate-income residents. Such loans help MBB satisfy its obligations under the Community Reinvestment Act of 1977. The fair value of these loans approximates the carrying amount at December 31, 2018 and December 31, 2017 as it is based on recent comparable sales transactions with consideration of current market rates. This fair value measurement is classified as Level 2. The Company also invests in a small business loan product tailored to the small business market. Fair value for these loans is estimated by discounting cash flows at an imputed market rate for similar loan products with similar characteristics. This fair value measurement is classified as Level 2. The Company invests in loans to our customers in the franchise finance channel. These loans may be secured by equipment being acquired, blanket liens on personal property, or specific equipment already owned by the customer. The fair value of loans is estimated by discounting the future cash flows using the current rate at which similar loans would be made to borrowers with similar credit, collateral, and for the same remaining maturities. This fair value measurement is classified as Level 2.

Federal Reserve Bank Stock

Federal Reserve Bank Stock are non-marketable equitable equity securities and are reported at their redeemable carrying amounts, which approximates fair value. This fair value measurement is classified as Level 2.

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Deposits

Deposit liabilities with no defined maturity such as MMDA deposits have a fair value equal to the amount payable on demand at the reporting date (i.e., their carrying amount). Fair value for certificates of deposits is estimated by discounting cash flows at current rates paid by the Company for similar certificates of deposit of the same or similar remaining maturities. This fair value measurement is classified as Level 2.

Long-Term Borrowings

The fair value of the Company's secured borrowings is estimated by discounting cash flows at indicative market rates applicable to the Company's secured borrowings of the same or similar maturities. This fair value measurement is classified as Level 2.

Servicing Liability

Servicing liabilities do not trade in an active market with readily observable prices. Accordingly, we determined fair value based on a discounted cash flow model which uses various inputs related to the estimated net servicing income, if any, and costs to service discounted back at a discount rate. There were no changes to the valuation techniques for the periods presented. Fair value measurements of our servicing liabilities use unobservable inputs, and accordingly we classify our servicing liability as Level 3.

NOTE 15 — Income Taxes

The Company's income tax provision consisted of the following components:

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
Current:			
Federal	\$ 201	\$(4,591)	\$11,073
State	1,707	1,419	1,722
Total current	<u>1,908</u>	<u>(3,172)</u>	<u>12,795</u>
Deferred			
Federal	6,133	986	(1,742)
State	(320)	530	(34)
Total deferred	<u>5,813</u>	<u>1,516</u>	<u>(1,776)</u>
Total income tax expense (benefit)	<u><u>\$7,721</u></u>	<u><u>\$(1,656)</u></u>	<u><u>\$11,019</u></u>

In accordance with U.S. GAAP, uncertain tax positions taken or expected to be taken in a tax return are subject to potential financial statement recognition based on prescribed recognition and measurement criteria. Based on our evaluation, there are no unrecognized tax benefits, and we did not have any accrued interest and penalties as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016. We do not expect our unrecognized tax positions to change significantly over the next 12 months.

The periods subject to examination for the Company's federal return include the 2015 tax year to the present. The Company files state income tax returns in various states which may have different statutes of limitations. Generally, state income tax returns for the years 2015 through the present are subject to examination. No material income tax interest or penalties were incurred for the years ended December 31, 2018, 2017 or 2016.

Deferred income tax expense results principally from the use of different revenue and expense recognition methods for tax and financial accounting purposes, primarily related to lease accounting. The Company estimates these differences and adjusts to actual upon preparation of the income tax returns.

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the TCJA. The TCJA makes broad and complex changes to the U.S. tax code, including, but not limited to, reducing the U.S. federal corporate tax rate from 35 percent to 21 percent, effective January 1, 2018. Consequently, we recorded a decrease related to deferred tax assets and deferred tax liabilities of \$4.5 million and \$14.7 million, respectively, with a corresponding net adjustment to deferred income tax benefit of \$10.2 million for the year ended December 31, 2017, and upon further analysis, determined that no additional adjustments were required.

The sources of these temporary differences and the related tax effects were as follows:

	December 31,	
	2018	2017
	(Dollars in thousands)	
Deferred income tax assets:		
Allowance for credit losses	\$ 4,484	\$ 4,143
Net operating loss net valuation allowance	5,443	—
Accrued expenses	2,111	1,977
Deferred income	1,723	1,548
Deferred compensation	1,416	945
Other comprehensive income	55	60
Other	743	399
Total deferred income tax assets	<u>15,975</u>	<u>9,072</u>
Deferred income tax liabilities:		
Lease accounting	(35,472)	(23,077)
Deferred acquisition costs	(2,480)	(2,338)
Depreciation	(583)	(398)
Total deferred income tax liabilities	<u>(38,535)</u>	<u>(25,813)</u>
Net deferred income tax liability	<u>\$ (22,560)</u>	<u>\$ (16,741)</u>

The company has a gross state and federal income tax net operating loss carryforward in the amount of \$5.4 million and \$6.7 million for years ending December 31, 2018 and December 31, 2017, respectively. The federal net operating loss of \$4.9 million can be carried forward indefinitely. Most of the state net operating loss carryforwards are set to expire between 2028 and 2034. The deferred tax asset related to this carryforward item, net of federal benefit, is included in "Other deferred income tax assets."

The following is a reconciliation of the statutory federal income tax rate to the effective income tax rate:

	Year Ended December 31,		
	2018	2017	2016
Statutory federal income tax rate	21.0%	35.0%	35.0%
State taxes, net of federal benefit	3.3%	2.7%	4.1%
Other permanent differences	0.2%	(0.1)%	(0.3)%
Excess stock based compensation	(0.7)%	(1.5)%	— %
Tax benefit due to TCJA	— %	(43.4)%	— %
Other	(0.2)%	0.3%	0.1%
Effective rate	<u>23.6%</u>	<u>(7.0)%</u>	<u>38.9%</u>

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 — Earnings Per Share

The Company's restricted stock awards are paid non-forfeitable common stock dividends and thus meet the criteria of participating securities. Accordingly, earnings per share ("EPS") has been calculated using the two-class method, under which earnings are allocated to both common stock and participating securities.

Basic EPS has been computed by dividing net income allocated to common stock by the weighted average common shares used in computing basic EPS. For the computation of basic EPS, all shares of restricted stock have been deducted from the weighted average shares outstanding.

Diluted EPS has been computed by dividing net income allocated to common stock by the weighted average number of common shares used in computing basic EPS, further adjusted by including the dilutive impact of the exercise or conversion of common stock equivalents, such as stock options, into shares of common stock as if those securities were exercised or converted.

The following table provides net income and shares used in computing basic and diluted EPS:

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in thousands, except per-share data)		
Basic EPS			
Net income	\$ 24,980	\$ 25,292	\$ 17,279
Less: net income allocated to participating securities	(432)	(628)	(518)
Net income allocated to common stock	<u>\$ 24,548</u>	<u>\$ 24,664</u>	<u>\$ 16,761</u>
Weighted average common shares outstanding	12,418,510	12,528,195	12,521,962
Less: Unvested restricted stock awards considered participating securities	(217,045)	(312,175)	(380,367)
Adjusted weighted average common shares used in computing basic EPS	<u>12,201,465</u>	<u>12,216,020</u>	<u>12,141,595</u>
Basic EPS	<u>\$ 2.01</u>	<u>\$ 2.02</u>	<u>\$ 1.38</u>
Diluted EPS			
Net income allocated to common stock	<u>\$ 24,548</u>	<u>\$ 24,664</u>	<u>\$ 16,761</u>
Adjusted weighted average common shares used in computing basic EPS	12,201,465	12,216,020	12,141,595
Add: Effect of dilutive stock-based compensation awards	<u>71,941</u>	<u>33,603</u>	<u>9,102</u>
Adjusted weighted average common shares used in computing diluted EPS	<u>12,273,406</u>	<u>12,249,623</u>	<u>12,150,697</u>
Diluted EPS	<u>\$ 2.00</u>	<u>\$ 2.01</u>	<u>\$ 1.38</u>

For the years ended December 31, 2018, 2017 and 2016, outstanding stock-based compensation awards in the amount of 145,847, 101,157 and 37,333, respectively, were considered antidilutive and therefore were not considered in the computation of potential common shares for purposes of diluted EPS.

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 — Stockholders' Equity

Stockholders' Equity

On July 29, 2014, the Company's Board of Directors approved the 2014 Repurchase Plan, under which, the Company was authorized to repurchase up to \$15 million in value of its outstanding shares of common stock. On May 30, 2017, the Company's Board of Directors approved the 2017 Repurchase Plan to replace the 2014 Repurchase Plan. Under the 2017 Repurchase Plan, the Company is authorized to repurchase up to \$10 million in value of its outstanding shares of common stock. This authority may be exercised from time to time and in such amounts as market conditions warrant. Any shares purchased under this plan are returned to the status of authorized but unissued shares of common stock. The repurchases may be made on the open market or in block trades. The program may be suspended or discontinued at any time. The repurchases are funded using the Company's working capital.

During the year ended December 31, 2018, the Company purchased 83,305 shares of its common stock in the open market under the 2017 Repurchase Plan at an average cost of \$25.83 per share and did not purchase any shares of its common stock under the 2014 Repurchase Plan. During the year ended December 31, 2017, the Company purchased 87,210 shares of its common stock in the open market under the 2017 Repurchase Plan at an average cost of \$24.05 per share and 58,914 shares of its common stock under the 2014 Repurchase Plan at an average cost of \$25.09 per share. During the year ended December 31, 2016, the Company did not repurchase any of its common stock under the 2014 Repurchase Plan in the open market. At December 31, 2018, the Company had \$5.8 million remaining in the 2017 Repurchase Plan.

In addition to the repurchases described above, participants in the Company's 2003 Equity Compensation Plan, as amended (the "2003 Plan") and the Company's 2014 Equity Compensation Plan (approved by the Company's shareholders on June 3, 2014) (the "2014 Plan" and, together with the 2003 Plan, the "Equity Plans") may have shares withheld to cover income taxes. There were 28,605, 38,139 and 23,409 shares repurchased to cover income tax withholding in connection with shares granted under the Equity Plans during the years ended December 31, 2018, 2017 and 2016, respectively, at average per-share costs of \$26.50, \$24.27 and \$14.73, respectively.

Regulatory Capital Requirements

Through its issuance of FDIC-insured deposits, MBB serves as the Company's primary funding source. Over time, MBB may offer other products and services to the Company's customer base. MBB operates as a Utah state-chartered, Federal Reserve member commercial bank, insured by the FDIC. As a state-chartered Federal Reserve member bank, MBB is supervised by both the Federal Reserve Bank of San Francisco and the Utah Department of Financial Institutions.

The Company and MBB are subject to capital adequacy regulations issued jointly by the federal bank regulatory agencies. These risk-based capital and leverage guidelines make regulatory capital requirements more sensitive to differences in risk profiles among banking organizations and consider off-balance sheet exposures in determining capital adequacy. The federal bank regulatory agencies and/or the U.S. Congress may determine to increase capital requirements in the future due to the current economic environment. Under the capital adequacy regulation, at least half of a banking organization's total capital is required to be "Tier 1 Capital" as defined in the regulations, comprised of common equity, retained earnings and a limited amount of non-cumulative perpetual preferred stock. The remaining capital, "Tier 2 Capital," as defined in the regulations, may consist of other preferred stock, a limited amount of term subordinated debt or a limited amount of the reserve for possible credit losses. The regulations establish minimum leverage ratios for banking organizations, which are calculated by dividing Tier 1 Capital by total quarterly average assets. Recognizing that the risk-based capital standards

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

principally address credit risk rather than interest rate, liquidity, operational or other risks, many banking organizations are expected to maintain capital in excess of the minimum standards.

The Company and MBB operate under the Basel III rules. These standards require a minimum for Tier 1 leverage ratio of 4%, minimum Tier 1 risk-based ratio of 6%, and a total risk-based capital ratio of 8%. The Basel III adequacy standards established a new common equity Tier 1 risk-based capital ratio with a required 4.5% minimum (6.5% to be considered well-capitalized). The Company is required to have a level of regulatory capital in excess of the regulatory minimum and to have a capital buffer above 1.25% for 2017, 1.875% for 2018, and 2.5% for 2019 and thereafter. If a banking organization does not maintain capital above the minimum plus the capital conservation buffer it may be subject to restrictions on dividends, share buybacks, and certain discretionary payments such as bonus payments.

The Company plans to provide the necessary capital to maintain MBB at “well-capitalized” status as defined by banking regulations and as required by an agreement entered into by and among MBB, MLC, Marlin Business Services Corp. and the FDIC in conjunction with the opening of MBB (the “FDIC Agreement”). MBB’s Tier 1 Capital balance at December 31, 2018 was \$139.0 million, which met all capital requirements to which MBB is subject and qualified MBB for “well-capitalized” status. At December 31, 2018, the Company also exceeded its regulatory capital requirements and was considered “well-capitalized” as defined by federal banking regulations and as required by the FDIC Agreement.

The following table sets forth the Tier 1 leverage ratio, common equity Tier 1 risk-based capital ratio, Tier 1 risk-based capital ratio and total risk-based capital ratio for Marlin Business Services Corp. and MBB at December 31, 2018 and 2017.

December 31, 2018	Actual		Minimum Capital Requirement		Well-Capitalized Capital Requirement	
	Ratio	Amount	Ratio⁽¹⁾	Amount	Ratio	Amount
(Dollars in thousands)						
Tier 1 Leverage Capital						
Marlin Business Services Corp.	16.38%	\$183,283	4%	\$ 44,756	5%	\$ 55,945
Marlin Business Bank	15.55%	\$138,994	5%	\$ 44,706	5%	\$ 44,706
Common Equity Tier 1 Risk-Based Capital						
Marlin Business Services Corp.	17.50%	\$183,283	4.5%	\$ 47,118	6.5%	\$ 68,060
Marlin Business Bank	15.99%	\$138,994	6.5%	\$ 60,862	6.5%	\$ 60,862
Tier 1 Risk-based Capital						
Marlin Business Services Corp.	17.50%	\$183,283	6%	\$ 62,825	8%	\$ 83,766
Marlin Business Bank	15.99%	\$138,994	8%	\$ 73,903	8%	\$ 73,903
Total Risk-based Capital						
Marlin Business Services Corp.	18.76%	\$196,409	8%	\$ 83,766	10%	\$104,708
Marlin Business Bank	17.24%	\$149,909	15%	\$130,418	10% ⁽¹⁾	\$ 91,292

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017	Actual		Minimum Capital Requirement		Well-Capitalized Capital Requirement	
	Ratio	Amount	Ratio ⁽¹⁾	Amount	Ratio	Amount
(Dollars in thousands)						
Tier 1 Leverage Capital						
Marlin Business Services Corp.	17.25%	\$177,605	4%	\$ 41,175	5%	\$ 51,468
Marlin Business Bank	14.81%	\$145,269	5%	\$ 49,058	5%	\$ 49,058
Common Equity Tier 1 Risk-Based Capital						
Marlin Business Services Corp.	18.22%	\$177,605	4.5%	\$ 43,877	6.5%	\$ 63,378
Marlin Business Bank	15.21%	\$145,269	6.5%	\$ 62,088	6.5%	\$ 62,088
Tier 1 Risk-based Capital						
Marlin Business Services Corp.	18.22%	\$177,605	6%	\$ 58,503	8%	\$ 78,003
Marlin Business Bank	15.21%	\$145,269	8%	\$ 76,416	8%	\$ 76,416
Total Risk-based Capital						
Marlin Business Services Corp.	19.47%	\$189,826	8%	\$ 78,003	10%	\$ 97,504
Marlin Business Bank	16.46%	\$157,244	15%	\$143,280	10% ⁽¹⁾	\$ 95,520

⁽¹⁾ MBB is required to maintain “well-capitalized” status and must also maintain a total risk-based capital ratio greater than 15% pursuant to the FDIC Agreement.

Prompt Corrective Action. The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”) requires the federal regulators to take prompt corrective action against any undercapitalized institution. Five capital categories have been established under federal banking regulations: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Well-capitalized institutions significantly exceed the required minimum level for each relevant capital measure. Adequately capitalized institutions include depository institutions that meet but do not significantly exceed the required minimum level for each relevant capital measure. Undercapitalized institutions consist of those that fail to meet the required minimum level for one or more relevant capital measures. Significantly undercapitalized characterizes depository institutions with capital levels significantly below the minimum requirements for any relevant capital measure. Critically undercapitalized refers to depository institutions with minimal capital and at serious risk for government seizure.

Under certain circumstances, a well-capitalized, adequately capitalized or undercapitalized institution may be treated as if the institution were in the next lower capital category. A depository institution is generally prohibited from making capital distributions, including paying dividends, or paying management fees to a holding company if the institution would thereafter be undercapitalized. Institutions that are adequately capitalized but not well-capitalized cannot accept, renew or roll over brokered deposits except with a waiver from the FDIC and are subject to restrictions on the interest rates that can be paid on such deposits. Undercapitalized institutions may not accept, renew or roll over brokered deposits.

The federal bank regulatory agencies are permitted or, in certain cases, required to take certain actions with respect to institutions falling within one of the three undercapitalized categories. Depending on the level of an institution’s capital, the agency’s corrective powers include, among other things:

- prohibiting the payment of principal and interest on subordinated debt;
- prohibiting the holding company from making distributions without prior regulatory approval;
- placing limits on asset growth and restrictions on activities;
- placing additional restrictions on transactions with affiliates;

Table of Contents

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- restricting the interest rate the institution may pay on deposits;
- prohibiting the institution from accepting deposits from correspondent banks; and
- in the most severe cases, appointing a conservator or receiver for the institution.

A banking institution that is undercapitalized is required to submit a capital restoration plan, and such a plan will not be accepted unless, among other things, the banking institution's holding company guarantees the plan up to a certain specified amount. Any such guarantee from a depository institution's holding company is entitled to a priority of payment in bankruptcy.

Pursuant to the FDIC Agreement entered into in conjunction with the opening of MBB, MBB must keep its total risk-based capital ratio above 15%. MBB's total risk-based capital ratio of 17.24% at December 31, 2018 exceeded the threshold for "well capitalized" status under the applicable laws and regulations, and also exceeded the 15% minimum total risk-based capital ratio required in the FDIC Agreement.

Dividends. The Federal Reserve Board has issued policy statements requiring insured banks and bank holding companies to have an established assessment process for maintaining capital commensurate with their overall risk profile. Such assessment process may affect the ability of the organizations to pay dividends. Although generally organizations may pay dividends only out of current operating earnings, dividends may be paid if the distribution is prudent relative to the organization's financial position and risk profile, after consideration of current and prospective economic conditions.

NOTE 18 — Stock-Based Compensation

Under the terms of the Company's 2014 Plan, employees, certain consultants and advisors and non-employee members of the Company's Board of Directors have the opportunity to receive incentive and nonqualified grants of stock options, stock appreciation rights, restricted stock and other equity-based awards as approved by the Company's Board of Directors. These award programs are used to attract, retain and motivate employees and to encourage individuals in key management roles to retain stock. The Company has a policy of issuing new shares to satisfy awards under the 2014 Plan. The aggregate number of shares under the 2014 Plan that may be issued pursuant to stock options, stock units, stock awards, and other equity awards is 1,200,000 with not more than 1,000,000 of such shares shall be available for issuance as stock units, stock awards, and other equity awards. There were 342,552 shares available for future awards under the 2014 Plan as of December 31, 2018, of which 289,892 shares were available to be issued as stock units, stock awards, and other equity awards.

Total stock-based compensation expense was \$3.4 million, \$2.8 million and \$1.9 million for the years ended December 31, 2018, 2017 and 2016, respectively. Excess tax benefits from stock-based payment arrangements was \$0.3 million for the year ended December 31, 2018 and \$0.4 million for the year ended December 31, 2017. An excess tax deficit from stock-based payment arrangements decreased cash provided by financing activities and increased cash provided by operating activities by less than \$0.1 million for the year ended December 31, 2016.

Stock Options

Option awards were generally granted with an exercise price equal to the market price of the Company's stock at the date of the grant and have seven year contractual terms. All options issued contain service conditions based on the participant's continued service with the Company and may provide for accelerated vesting if there is a change in control as defined in the 2014 Plan. Employee stock options generally vest over three to four years. In previous years, the Company also issued stock options to independent directors. These options generally vest in one year.

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

There were 68,689 and 115,883 stock options granted during the years ended December 31, 2018 and 2017, respectively. There were no stock options granted during the year ended 2016.

The fair value of stock options granted during the years ended December 31, 2018 and December 31, 2017 was \$7.21 and 6.56, respectively, and was estimated on the date of grant using the Black-Scholes option pricing model using the following weighted average assumptions:

	<u>Assumptions</u>	
	<u>2018</u>	<u>2017</u>
Weighted Averages:		
Risk-free interest rate	2.64%	1.82%
Expected life (years)	4.50	4.50
Expected volatility	32.32%	34.62%
Expected dividends	1.98%	2.17%

The expected life for options is estimated based on their vesting and contractual terms and was determined by applying the simplified method as defined by the SEC's Staff Accounting Bulletin No. 107 ("SAB 107"). The risk-free interest rate reflected the yield on zero-coupon Treasury securities with a term approximating the expected life of the stock options. The expected volatility was determined using historical volatilities based on historical stock prices.

A summary of option activity for the each of the three years in the period ended December 31, 2018 follows:

<u>Options</u>	<u>Number of Shares</u>	<u>Weighted Average Exercise Price Per Share</u>
Outstanding, December 31, 2015	50,686	\$ 12.09
Granted	—	—
Exercised	(7,380)	10.44
Forfeited	(1,666)	12.41
Expired	—	—
Outstanding, December 31, 2016	41,640	\$ 12.37
Granted	115,883	25.75
Exercised	(39,416)	12.37
Forfeited	(21,122)	24.35
Expired	—	—
Outstanding, December 31, 2017	96,985	\$ 25.75
Granted	68,689	28.25
Exercised	(909)	25.75
Forfeited	(17,827)	26.97
Expired	(507)	25.75
Outstanding, December 31, 2018	<u>146,431</u>	\$ 26.77

During the years ended December 31, 2018 and 2017, the Company recognized total compensation expense related to options of \$0.3 million and \$0.2 million, respectively. During the year ended December 31, 2016, the Company did not recognize any compensation expense related to options.

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

There were 909, 39,416 and 7,380 stock options exercised during the years ended December 31, 2018, 2017 and 2016, respectively. The total pretax intrinsic value of stock options exercised was \$0.1 million, \$0.4 million and \$0.1 million for the years ended December 31, 2018, 2017 and 2016, respectively.

The following table summarizes information about the stock options outstanding and exercisable as of December 31, 2018:

Range of Exercise Prices	<i>Options Outstanding</i>				<i>Options Exercisable</i>			
	Number Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value (In thousands)	Number Exercisable	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value (In thousands)
\$25.75	86,410	5.2	25.75	—	30,289	5.2	25.75	—
\$28.25	60,021	6.2	28.25	—	—	—	—	—
	<u>146,431</u>	<u>5.6</u>	<u>26.77</u>	<u>\$ —</u>	<u>30,289</u>	<u>5.2</u>	<u>25.75</u>	<u>\$ —</u>

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on the Company's closing stock price of \$22.33 as of December 31, 2018, which would have been received by the option holders had all option holders exercised their options as of that date.

As of December 31, 2018, there was \$0.6 million of unrecognized compensation cost related to non-vested stock options not yet recognized in the Consolidated Statements of Operations scheduled to be recognized over a weighted average period of 1.3 years.

Restricted Stock Awards

Restricted stock awards provide that, during the applicable vesting periods, the shares awarded may not be sold or transferred by the participant. The vesting period for restricted stock awards generally ranges from three to seven years. All awards issued contain service conditions based on the participant's continued service with the Company, and provide for accelerated vesting if there is a change in control as defined in the 2014 Plan.

The vesting of certain restricted shares may be accelerated to a minimum of three years based on achievement of various individual performance measures. Acceleration of expense for awards based on individual performance factors occurs when the achievement of the performance criteria is determined.

Of the total restricted stock awards granted during the year ended December 31, 2018, no shares may be subject to accelerated vesting based on individual performance factors; no shares have vesting contingent upon performance factors. Vesting was accelerated in 2018, 2017 and 2016 on certain awards based on the achievement of certain performance criteria determined annually, as described below.

The Company also issues restricted stock to non-employee independent directors. These shares generally vest in seven years from the grant date or six months following the director's termination from Board of Directors service.

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the activity of the non-vested restricted stock during the each of the three years in the period ended December 31, 2018:

Non-vested restricted stock	Number of Shares	Weighted Average Grant- Date Fair Value
Outstanding at December 31, 2015	313,236	\$ 16.65
Granted	183,506	15.31
Vested	(77,149)	16.11
Forfeited	(23,075)	17.73
Outstanding at December 31, 2016	396,518	\$ 16.07
Granted	44,758	25.36
Vested	(122,202)	16.19
Forfeited	(41,457)	16.07
Outstanding at December 31, 2017	277,617	\$ 17.51
Granted	18,206	29.84
Vested	(93,764)	15.13
Forfeited	(15,456)	17.46
Outstanding at December 31, 2018	<u>186,603</u>	\$ 19.91

During the years ended December 31, 2018, 2017 and 2016, the Company granted restricted stock awards with grant date fair values totaling \$0.5 million, \$1.1 million and \$2.8 million, respectively. The grant date fair value per share was equivalent to the Company's closing stock price on the date of the grant.

As vesting occurs, or is deemed likely to occur, compensation expense is recognized over the requisite service period and additional paid-in capital is increased. The Company recognized \$1.3 million, \$1.7 million and \$1.9 million of compensation expense related to restricted stock for the years ended December 31, 2018, 2017 and 2016, respectively.

Of the \$1.3 million total compensation expense related to restricted stock for the year ended December 31, 2018, approximately \$0.2 million related to accelerated vesting during the first quarter of 2018, based on the achievement of certain performance criteria determined annually. Of the \$1.7 million total compensation expense related to restricted stock for the year ended December 31, 2017, approximately \$0.5 million related to accelerated vesting during the first quarter of 2017, which was also based on the achievement of certain performance criteria determined annually.

As of December 31, 2018, there was \$2.0 million of unrecognized compensation cost related to non-vested restricted stock compensation scheduled to be recognized over a weighted average period of 3.6 years. In the event individual performance targets are achieved, \$0.1 million of the unrecognized compensation cost would accelerate to be recognized over a weighted average period of 0.2 years. In addition, certain of the awards granted may result in the issuance of 7,075 additional shares of stock if achievement of certain targets is greater than 100%. The expense related to the additional shares awarded will be dependent on the Company's stock price when the achievement level is determined.

The fair values of shares that vested during the years ended December 31, 2018, 2017 and 2016 were \$2.5 million, \$3.0 million and \$1.2 million, respectively.

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Restricted Stock Units

Restricted stock units (“RSUs”) are granted with vesting conditions based on fulfillment of a service condition (generally three to four years from the grant date), and may also require achievement of certain operating performance criteria or achievement of certain market-based targets associated with the Company’s stock price. The market based target measurement period begins one year from the grant date and ends three years from the grant date. Expense for equity based awards with market and service conditions is recognized over the service period based on the grant-date fair value of the award.

The following tables summarize market restricted stock unit activity for the twelve-month period ended December 31, 2018:

	Number of RSUs	Weighted Average Grant- Date Fair Value
Performance-based & market-based RSUs		
Outstanding at December 31, 2015	—	\$ —
Granted	120,000	9.47
Forfeited	—	—
Converted	—	—
Outstanding at December 31, 2016	120,000	\$ 9.47
Granted	72,180	24.06
Forfeited	(33,627)	14.13
Converted	—	—
Outstanding at December 31, 2017	158,553	15.13
Granted	35,056	28.25
Forfeited	(1,688)	25.75
Converted	—	—
Outstanding at December 31, 2018	<u>191,921</u>	17.43
Service-based RSUs		
Outstanding at December 31, 2016	—	\$ —
Granted	30,653	25.65
Forfeited	(4,813)	25.75
Converted	—	—
Outstanding at December 31, 2017	25,840	25.63
Granted	49,463	28.26
Forfeited	(5,606)	27.21
Converted	(8,441)	25.63
Outstanding at December 31, 2018	<u>61,256</u>	27.61

There were no RSU’s with market based vesting conditions granted during the twelve-month period ended December 31, 2018. The weighted average grant-date fair value of RSUs with market based vesting conditions granted during the twelve-month period ended December 31, 2017 was \$13.32 per unit. The weighted average grant-date fair value of RSUs with market based vesting conditions granted during the twelve-month period

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ended December 31, 2016 was \$9.47 per unit. The weighted average grant date fair value of these market based RSUs was estimated using a Monte Carlo simulation valuation model with the following assumptions:

	Year Ended December 31,		
	2018	2017	2016
Grant date stock price	\$ —	25.75	18.24
Risk-free interest rate	—	1.72%	1.06%
Expected volatility	—	33.42%	35.16%
Dividend yield	—	—	—

The risk free interest rate reflected the yield on zero coupon Treasury securities with a term approximating the expected life of the RSUs. The expected volatility was based on historical volatility of the Company's common stock. Dividend yield was assumed at zero as the grant assumes dividends distributed during the performance period are reinvested. When valuing the grant, we have assumed a dividend yield of zero, which is mathematically equivalent to reinvesting dividends in the issuing entity.

During the years ended December 31, 2018, 2017 and 2016, the Company granted RSUs with grant-date fair values totaling \$2.4 million, 2.5 million and \$1.1 million, respectively. The Company recognized \$1.7 million, 0.9 million and less than \$0.1 million of compensation expense related to RSUs for the years ended December 31, 2018, 2017 and 2016, respectively. As of December 31, 2018, there was \$2.9 million of unrecognized compensation cost related to RSUs scheduled to be recognized over a weighted average period of 1.6 years based on the most probable performance assumptions. In the event maximum performance targets are achieved, an additional \$1.7 million of compensation cost would be recognized over a weighted average period of 1.5 years. As of December 31, 2018, 161,569 performance units are expected to convert to shares of common stock based on the most probable performance assumptions. In the event maximum performance targets are achieved, 271,276 performance units would convert to shares of common stock.

Employee Stock Purchase Plan

In May 2012, the Company's shareholders approved the adoption of the Company's 2012 Employee Stock Purchase Plan (the "2012 ESPP"). Under the terms of the 2012 ESPP, employees have the opportunity to set aside up to 10% of their compensation (subject to certain maximums) and to purchase shares of common stock during designated offering periods at a price equal to the lesser of 95% of the fair market value per share on the first day of the offering period or the fair market value per share on the purchase date. The aggregate number of shares that may be issued under the 2012 ESPP is 140,000. During the years ended 2018 and 2017, 18,076 and 18,890 shares, respectively, of common stock were sold for \$0.4 million and \$0.4 million, respectively, pursuant to the terms of the 2012 ESPP. As of December 31, 2018, there were 33,349 shares remaining available for issuance under the 2012 ESPP. During the years ended 2018 and 2017, the Company recognized total compensation expense of \$0.1 million and \$0.1 million, respectively, related to the 2012 ESPP. During the year ended December 31, 2016 the Company did not recognize any compensation expense related to the 2012 ESPP.

NOTE 19 — Employee 401(k) Plan

The Company adopted a 401(k) plan (the "401(k) Plan") which originally became effective as of January 1, 1997. The Company's employees are entitled to participate in the 401(k) Plan, which provides savings and investment opportunities. Employees can contribute up to the maximum annual amount allowable per Internal Revenue Service guidelines. Effective July 1, 2007, the 401(k) Plan provides for Company contributions equal to 25% of an employee's contribution percentage up to a maximum employee contribution of 6%. The Company's contributions to the 401(k) Plan for the years ended December 31, 2018, 2017 and 2016 were approximately \$0.3 million, \$0.3 million and \$0.2 million, respectively.

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20 — Parent Company

Summarized financial information of the parent company is as follows:

Parent Company — Balance Sheet

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>(Dollars in thousands, except per-share data)</u>	
ASSETS		
Investment in and advances to subsidiaries:		
Bank subsidiary	\$ 141,827	\$ 145,249
Nonbank subsidiaries	56,684	34,400
Total assets	<u>\$ 198,511</u>	<u>\$ 179,649</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Total liabilities	—	—
Stockholders' equity:		
Preferred Stock, \$0.01 par value; 5,000,000 shares authorized; none issued	—	—
Common Stock, \$0.01 par value; 75,000,000 shares authorized; 12,367,724 and 12,449,458 shares issued and outstanding at December 31, 2018 and 2017, respectively	124	124
Additional paid-in capital	83,498	82,588
Stock subscription receivable	(2)	(2)
Accumulated other comprehensive loss	(44)	(96)
Retained earnings	114,935	97,035
Total stockholders' equity	<u>198,511</u>	<u>179,649</u>
Total liabilities and stockholders' equity	<u>\$ 198,511</u>	<u>\$ 179,649</u>

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Parent Company — Income Statement

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
Income:			
Dividends from nonbank subsidiaries	\$ 9,931	\$ 11,556	\$ 7,268
Dividends from bank subsidiary	<u>20,000</u>	<u>6,000</u>	<u>7,600</u>
Total revenue	29,931	17,556	14,868
Total expense	—	—	—
Income before income taxes and equity in undistributed net income of subsidiaries	<u>29,931</u>	<u>17,556</u>	<u>14,868</u>
Income tax (benefit) expense	—	—	—
Equity in undistributed income (loss):			
Bank subsidiary	(3,417)	14,571	7,247
Nonbank subsidiaries	<u>(1,534)</u>	<u>(6,835)</u>	<u>(4,836)</u>
Net Income	<u>\$ 24,980</u>	<u>\$ 25,292</u>	<u>\$ 17,279</u>
Other comprehensive income:			
Reclassification due to adoption of ASU 2016-01, ASU 2018-02 and ASU 2018-03 cash flow hedge derivatives	107	—	—
Increase (decrease) in fair value of securities available for sale	(7)	68	(15)
Tax effect	<u>(48)</u>	<u>(26)</u>	<u>6</u>
Total other comprehensive income (loss)	<u>52</u>	<u>42</u>	<u>(9)</u>
Comprehensive income	<u>\$ 25,032</u>	<u>\$ 25,334</u>	<u>\$ 17,270</u>

[Table of Contents](#)

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Parent Company — Statement of Cash Flows

	Year Ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
Cash flows from operating activities:			
Net income	\$ 24,980	\$ 25,292	\$17,279
Adjustments to reconcile net income to net cash from operating activities:			
Equity in undistributed net (income) losses of subsidiaries	(4,980)	(19,292)	(9,679)
Net cash provided by operating activities	<u>20,000</u>	<u>6,000</u>	<u>7,600</u>
Cash flows from investing activities:			
Capital returned from nonbank subsidiaries	9,931	11,556	7,268
Capital contributed to subsidiaries	(20,492)	(6,941)	(7,952)
Net cash provided by (used in) investing activities	<u>(10,561)</u>	<u>4,615</u>	<u>(684)</u>
Cash flows from financing activities:			
Issuances of common stock	402	356	259
Repurchases of common stock	(2,908)	(4,501)	(345)
Dividends paid to common stockholders	(6,956)	(6,958)	(6,907)
Exercise of stock options	23	488	77
Net cash used in financing activities	<u>(9,439)</u>	<u>(10,615)</u>	<u>(6,916)</u>
Net increase in total cash and cash equivalents	—	—	—
Total cash and cash equivalents, beginning of period	—	—	—
Total cash and cash equivalents, end of period	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

NOTE 21 — Events Subsequent to Year-End

The Company declared a dividend of \$0.14 per share on January 31, 2019. The quarterly dividend, which amounted to a dividend payment of approximately \$1.7 million, was paid on February 21, 2019 to shareholders of record on the close of business on February 11, 2019. It represented the Company's thirtieth consecutive quarterly cash dividend. The payment of future dividends will be subject to approval by the Company's Board of Directors.

In January 2019, the Company extended its lease agreement on its executive offices in Mount Laurel, New Jersey. The original expiration date of May 2020 was extended to May 2032, with an expected obligation of approximately \$0.9 million per year. Concurrently, the Company also entered into a lease agreement for an additional 9,700 square feet at the same location. The original expiration date of May 2020 was extended to May 2032, with an expected obligation of approximately \$0.2 million per year.

Table of Contents

Supplementary Data

The selected unaudited quarterly financial data presented below should be read in conjunction with the Consolidated Financial Statements and related notes.

Selected Quarterly Financial Data (Unaudited)

	Fiscal Year Quarters			
	First	Second	Third	Fourth
(Dollars in thousands, except per-share data)				
Year ended December 31, 2018				
Interest income	\$ 23,279	\$ 23,964	\$ 24,836	\$ 24,946
Fee income	3,959	3,876	3,930	4,078
Interest and fee income	27,238	27,840	28,766	29,024
Interest expense	3,399	3,711	4,955	5,349
Provision for credit losses	4,612	4,256	4,893	5,761
Non-interest income	5,234	4,627	4,448	7,125
Income tax expense	1,682	2,057	1,723	2,259
Net income	6,185	6,467	5,906	6,422
Basic earnings per share	0.50	0.52	0.48	0.52
Diluted earnings per share	0.50	0.52	0.47	0.51
Cash dividends declared per share	0.14	0.14	0.14	0.14
Net investment in leases and loans	930,627	963,109	970,425	1,000,740
Total assets	1,071,225	1,113,311	1,126,733	1,167,046
Year ended December 31, 2017				
Interest income	\$ 20,531	\$ 21,567	\$ 22,363	\$ 22,994
Fee income	3,530	3,745	3,780	3,809
Interest and fee income	24,061	25,312	26,143	26,803
Interest expense	2,340	2,612	3,000	3,228
Provision for credit losses	3,884	4,314	5,680	4,516
Non-interest income	3,753	4,079	3,602	5,298
Income tax expense (benefit)	489	2,732	2,049	(6,926)
Net income	1,540	4,553	3,305	15,894
Basic earnings per share	0.12	0.36	0.26	1.27
Diluted earnings per share	0.12	0.36	0.26	1.27
Cash dividends declared per share	0.14	0.01	0.14	0.14
Net investment in leases and loans	828,840	862,703	886,430	914,420
Total assets	944,492	985,082	1,013,017	1,040,160

Table of Contents

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None.

Item 9A. *Controls and Procedures*

Disclosure Controls and Procedures — The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934, as amended (the "1934 Act") is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

In connection with the preparation of this Annual Report on Form 10-K, as of December 31, 2018, we updated our evaluation of the effectiveness of the design and operation of our disclosure controls and procedures for purposes of filing reports under the 1934 Act. This controls evaluation was done under the supervision and with the participation of management, including our Chief Executive Officer and our Chief Financial Officer. Our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rule 13(a)-15(e) and 15(d)-15(e) under the 1934 Act) are designed and operating effectively to provide reasonable assurance that information relating to us and our subsidiaries that we are required to disclose in the reports that we file or submit to the Securities and Exchange Commission is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure, and is recorded, processed, summarized and reported with the time periods specified in the Securities and Exchange Commission's rules and forms.

Management's Annual Report on Internal Control over Financial Reporting — Our Chief Executive Officer and Chief Financial Officer provided a report on behalf of management on our internal control over financial reporting. The full text of management's report is contained in Item 8 of this Form 10-K and is incorporated herein by reference.

Attestation Report of the Registered Public Accounting Firm — The attestation report of our independent registered public accounting firm on their assessment of internal control over financial reporting is contained in Item 8 of this Form 10-K and is incorporated herein by reference.

Changes in Internal Control Over Financial Reporting — There were no changes in the Company's internal control over financial reporting identified in connection with management's evaluation that occurred during the three months ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. *Other Information*

None.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

The information required by Item 10 is incorporated by reference from the information in the Registrant's definitive Proxy Statement to be filed pursuant to Regulation 14A for its 2019 Annual Meeting of Stockholders.

We have adopted a code of ethics and business conduct that applies to all of our directors, officers and employees, including our principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions. Our code of ethics and business conduct is available free of charge within the investor relations section of our website at www.marlin Capitalsolutions.com. We intend to post on our website any amendments and waivers to the code of ethics and business conduct that are required to be disclosed by the rules of the Securities and Exchange Commission, or file a Form 8-K, Item 5.05 to the extent required by NASDAQ listing standards.

Item 11. *Executive Compensation*

The information required by Item 11 is incorporated by reference from the information in the Registrant's definitive Proxy Statement to be filed pursuant to Regulation 14A for its 2019 Annual Meeting of Stockholders.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by Item 12 is incorporated by reference from the information in the Registrant's definitive Proxy Statement to be filed pursuant to Regulation 14A for its 2019 Annual Meeting of Stockholders.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required by Item 13 is incorporated by reference from the information in the Registrant's definitive Proxy Statement to be filed pursuant to Regulation 14A for its 2019 Annual Meeting of Stockholders.

Item 14. *Principal Accountant Fees and Services*

The information required by Item 14 is incorporated by reference from the information in the Registrant's definitive Proxy Statement to be filed pursuant to Regulation 14A for its 2019 Annual Meeting of Stockholders.

Table of Contents

PART IV

Item 15. *Exhibits and Financial Statement Schedules*

(a) *Documents filed as part of this Report*

The following is a list of consolidated and combined financial statements and supplementary data included in this report under Item 8 of Part II hereof:

1. Financial Statements and Supplemental Data

Reports of Independent Registered Public Accounting Firm.

Consolidated Balance Sheets as of December 31, 2018 and 2017.

Consolidated Statements of Operations for the years ended December 31, 2018, 2017 and 2016.

Consolidated Statements of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016.

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2018, 2017 and 2016.

Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016.

Notes to Consolidated Financial Statements.

Supplementary Data.

2. Financial Statement Schedules

Schedules are omitted because they are not applicable or are not required or because the required information is included in the consolidated and combined financial statements or notes thereto.

(b) *Exhibits*

Number	Description
3.1(2)	<u>Amended and Restated Articles of Incorporation of the Registrant.</u>
3.2(13)	<u>Amended and Restated Bylaws of the Registrant.</u>
4.1(1)	<u>Second Amended and Restated Registration Agreement, as amended through July 26, 2001, by and among Marlin Leasing Corporation and certain of its shareholders.</u>
10.1(5)†	<u>2003 Equity Compensation Plan of the Registrant, as amended.</u>
10.2(4)†	<u>Amendment 2009-1 to the Marlin Business Services Corp. 2003 Equity Compensation Plan, as amended.</u>
10.3(4)†	<u>Amendment 2009-2 to the Marlin Business Services Corp. 2003 Equity Compensation Plan, as amended.</u>
10.4(4)†	<u>Amendment 2009-3 to the Marlin Business Services Corp. 2003 Equity Compensation Plan, as amended.</u>
10.5(5)†	<u>2012 Employee Stock Purchase Plan of the Registrant.</u>
10.6(3)	<u>Letter Agreement, dated as of June 11, 2007 and effective as of March 11, 2008, by and between the Registrant, Peachtree Equity Investment Management, Inc. and WCI (Private Equity) LLC.</u>
10.7(6)	<u>2014 Equity Compensation Plan.</u>
10.8(7)	<u>Form of Non-Employee Director Stock Award.</u>

Table of Contents

Number	Description
10.9 ⁽⁸⁾	<u>Form of Employee Stock Award.</u>
10.10 ^{(9)†}	<u>Employment Offer Letter between W. Taylor Kamp and Marlin Business Services Corp. dated as of August 3, 2015.</u>
10.11 ^{(10)†}	<u>Severance Pay Plan for Senior Management.</u>
10.12 ^{(11)†}	<u>Employment Offer Letter between Jeffrey A. Hilzinger and Marlin Business Services Corp. dated as of April 25, 2016.</u>
10.13 ^{(12)†}	<u>Form of Performance Stock Unit Award Agreement.</u>
10.14 [†]	<u>Employment Offer Letter between Michael A. Bogansky and Marlin Business Services Corp. dated as of December 4, 2018 (Filed herewith).</u>
21.1	<u>List of Subsidiaries (Filed herewith).</u>
23.1	<u>Consent of Deloitte & Touche LLP (Filed herewith)</u>
31.1	<u>Certification of the Chief Executive Officer and Chief Financial Officer of Marlin Business Services Corp. required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended (Filed herewith).</u>
32.1	<u>Certification of the Chief Executive Officer and Chief Financial Officer of Marlin Business Services Corp. required by Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Exchange Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended) (Furnished herewith).</u>
101	Financial statements from the Annual Report on Form 10-K of the Company for the period ended December 31, 2018, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Stockholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements (Submitted electronically with this report).

† Management contract or compensatory plan or arrangement.

- (1) Previously filed with the Securities and Exchange Commission as an exhibit to the Registrant's Amendment No. 1 to Registration Statement on Form S-1 (File No. 333-108530), filed on October 14, 2003, and incorporated by reference herein.
- (2) Previously filed with the Securities and Exchange Commission as an exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 filed on March 5, 2008, and incorporated by reference herein.
- (3) Previously filed with the Securities and Exchange Commission as an exhibit to the Registrant's Current Report on Form 8-K dated March 11, 2008 and filed on March 17, 2008, and incorporated by reference herein.
- (4) Previously filed with the Securities and Exchange Commission as an exhibit to the Registrant's Current Report on Form 8-K dated October 28, 2009 and filed on November 2, 2009, and incorporated by reference herein.
- (5) Previously filed with the Securities and Exchange Commission as an exhibit to the Registrant's Form DEF 14A filed on April 23, 2012, and incorporated by reference herein.
- (6) Previously filed with the SEC as an exhibit to the Registrant's Current Report on Form 8-K filed on June 9, 2014, and incorporated by reference herein.
- (7) Previously filed with the SEC as an exhibit to the Registrant's Current Report on Form 8-K filed on June 12, 2014, and incorporated by reference herein.
- (8) Previously filed with the SEC as an exhibit to the Registrant's Current Report on Form 8-K filed on June 12, 2014, and incorporated by reference herein.

Table of Contents

- (9) Previously filed with the Securities and Exchange Commission as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the period ended September 30, 2015 filed on November 3, 2015, and incorporated by reference herein.
- (10) Previously filed with the Securities and Exchange Commission as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2015 filed on August 5, 2015, and incorporated by reference herein.
- (11) Previously filed with the Securities and Exchange Commission as an exhibit to the Registrant's Current Report on Form 8-K filed on May 5, 2016, and incorporated by reference herein.
- (12) Previously filed with the Securities and Exchange Commission as an exhibit to the Registrant's Current Report on Form 8-K filed on September 19, 2016, and incorporated by reference herein.
- (13) Previously filed with the Securities and Exchange Commission as an exhibit to the Registrant's Current Report on Form 8-K filed on October 20, 2016, and incorporated by reference herein.

[Table of Contents](#)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 8, 2019

MARLIN BUSINESS SERVICES CORP.

By: /s/ JEFFREY HILZINGER
Jeffrey Hilzinger
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

	<u>Signature</u>	<u>Title</u>	<u>Date</u>
By:	<u>/s/ JEFFREY HILZINGER</u> Jeffrey Hilzinger	Chief Executive Officer (Principal Executive Officer) Interim Chief Financial Officer (Principal Financial Officer)	March 8, 2019
By:	<u>/s/ LAWRENCE J. DEANGELO</u> Lawrence J. DeAngelo	Chairman of the Board of Directors	March 8, 2019
By:	<u>/s/ JOHN J. CALAMARI</u> John J. Calamari	Director	March 8, 2019
By:	<u>/s/ SCOTT HEIMES</u> Scott Heimes	Director	March 8, 2019
By:	<u>/s/ MATTHEW J. SULLIVAN</u> Matthew J. Sullivan	Director	March 8, 2019
By:	<u>/s/ J. CHRISTOPHER TEETS</u> J. Christopher Teets	Director	March 8, 2019
By:	<u>/s/ JAMES W. WERT</u> James W. Wert	Director	March 8, 2019

-120-

[\(Back To Top\)](#)

Section 2: EX-10.14 (EX-10.14)

Exhibit 10.14



November 29, 2018

Michael Bogansky
120 Lafayette Avenue
Oreland, PA 19075

Dear Mike:

On behalf of Marlin Business Services Corp. ("Marlin" or the "Company"), I am pleased to offer you the position of Senior Vice President and Chief Financial Officer. In this capacity, you will report to Jeffrey Hilzinger, Marlin's President and CEO. You will be located in our Mount Laurel, NJ office. The

details of this offer include:

Start Date: On February 1, 2019.

Duties: You will be responsible for leading the Finance organization and participate as a member of Marlin's Senior Leadership Team ("SLT"), and such other duties as may be assigned. Of course, the Company may change your duties from time to time in its sole discretion.

Base Salary: Your annual gross salary will be \$350,000.00, paid bi-weekly in accordance with our general payroll practices and subject to all required withholdings.

Incentive Compensation: Commencing on the Start Date, you will be eligible to participate in the Marlin Management Cash Incentive Program (the "MCIP") with an annual bonus opportunity target of 60% of your annual base salary, and with the amount of bonus that is payable determined based on the level of achievement of individual, departmental and corporate goals established annually. Payment of the annual bonus, if any, will occur at the time provided in the MCIP, provided that you must be on the active payroll of Marlin at the time payment is made to be eligible to receive any such bonus for the prior fiscal year. The MCIP is reviewed and approved each year.

Long Term Incentive Compensation: Commencing with Marlin's 2019 fiscal year, you will be eligible to fully participate in the Management Equity Incentive Program (the "MEIP"). Annual grants under the MEIP will consist of a portfolio of performance-based restricted stock units, time-based restricted stock units and time-based options with a notional value approximating \$250,000.00.

Senior Management Severance Plan: Following your Start Date, you will be required to participate as a Tier II participant in the Marlin Severance Pay Plan for Senior Management (the "Severance Plan"), which provides certain severance benefits and includes certain restrictive covenants to executives who are designated as being eligible to participate in the Severance Plan if such executive experience a termination of employment that is covered by the Severance Plan. A copy of the Severance Plan is included with this offer letter.

Benefits: Marlin offers a comprehensive benefits plan including medical and prescription coverage, effective on your date of hire. Dental, vision and life insurance are effective the first of the month following your start date. A summary of the Marlin Benefits Program will be provided to you. These benefits, which will be described in detail during your New Hire Orientation, are subject to the terms and conditions of the plan documents and may be subject to change.

Time Off: SLT members do not accrue any PTO. Marlin celebrates 6 paid holidays per calendar year and an additional 3 variable holidays for a total of 9 holidays.

401(k): You may participate in Marlin's 401(k) Retirement Savings Plan effective the first day of the month, 30 days following your start date. Eligible employees are required to complete 1000 hours of work annually to participate in this program. Changes in your work schedule may impact your eligibility. The plan provides for a company match of 1.5% on the first 6% of personal contribution. Full vesting occurs after 3 years of service, as determined under the plan.

Employee Stock Purchase Program: You will also be eligible to participate in the Marlin 2012 Employee Stock Purchase Plan ("ESPP"), commencing with the first offering period that begins after your Start Date. The ESPP provides eligible participants with an opportunity to purchase shares of Marlin common stock at a discount, subject to the terms and conditions of the ESPP. Additional information relating to the ESPP will be separately provided to you.

Governing Law: Any disputes relating to this offer shall be governed and construed in accordance with the laws of the State of New Jersey. Any litigation related to this Agreement and/or your employment shall be filed solely in the State and/or federal courts for Burlington County, New Jersey and both parties consent to personal jurisdiction in such forum.

Taxes: The Company will, in connection with your employment, withhold from any compensation and benefits payable to you all federal, state, city and other taxes as requested by you or that the Company is required to withhold pursuant to any law or government regulation or ruling.

Employment At-Will: This offer is for employment at-will, meaning either you or Marlin may terminate your employment at any time, with or without cause or notice. The at-will nature of your employment relationship cannot be changed except in a written document signed by you and a Senior HR Representative. Except as otherwise set forth above, upon termination of your employment, Marlin will have no further obligations to you under this letter agreement.

Conditions: Please note that Marlin can rescind the offer of employment at any time up until acceptance is received by Marlin. This offer is also contingent upon certain conditions. If you fail to satisfy any of the conditions, the Company reserves the right to rescind any outstanding offer of employment or terminate your employment without notice. These conditions are as follows:

1. Satisfactory completion of a background and reference check, including confirmation of the accuracy of your resume. Please complete and return the attached background authorization form and credit check form within the next three (3) business days.
2. Satisfactory completion of a pre-employment test for illegal substances. Please complete and return the attached illegal substances screen form within the next three (3) business days.
3. Confirmation of eligibility to legally work in the United States, in accordance with the requirements of the Immigration Reform & Control Act of 1986. You will be required to provide satisfactory documented evidence of your identity and eligibility for employment in the United States, in accordance with the requirements of U.S. law within three (3) business days of your date of hire.
4. This is a full-time position and you agree to devote all your working hours to the Company. You may not work for another employer without the prior written consent of the Company.
5. Execution of the attached Confidentiality and Non-Solicitation Agreement.

Consideration Period: This offer of employment, if not previously withdrawn by the Company or accepted by you, will expire on December 7, 2018, although additional time for consideration of the offer can be made available if you find it necessary.

* * *

I look forward to working with you and welcome the contributions you will bring to this outstanding company. If you agree to the terms and condition of this offer, please sign and return the original of this letter. You should retain one copy of this letter for your files.

Best regards,

/s/ Laura Anger

Laura Anger
Chief HR Officer

I accept your offer of employment and agree to the provisions stated in this letter. I acknowledge and agree that this letter constitutes the entire agreement between Marlin and me and supersedes all prior verbal or written agreements, arrangements or understandings pertaining to my offer of employment, except for the enclosed Confidentiality and Non-Solicitation Agreement, which shall remain in full force and effect. I understand that I am employed at-will and that my employment can be terminated at any time, with or without cause, at the option of either the Company or me.

ACCEPTED AND AGREED:

/s/ Michael Bogansky

Michael Bogansky

[\(Back To Top\)](#)

12/10/18

Date Signed

Section 3: EX-21.1 (EX-21.1)

Exhibit 21.1

Subsidiaries

<u>NAME OF SUBSIDIARY</u>	<u>JURISDICTION OF FORMATION</u>
Marlin Leasing Corporation	Delaware
AssuranceOne, Ltd.	Bermuda
Marlin Business Bank	Utah
Marlin Receivables Corp.	Nevada
Marlin Receivables II LLC	Delaware
Admiral Financial Corp.	New Jersey

[\(Back To Top\)](#)

Section 4: EX-23.1 (EX-23.1)

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-182095, 333-151358 and 333-110378 on Form S-8, and No. 333-128329 on Form S-3/A of our reports dated March 8, 2019, relating to the consolidated financial statements of Marlin Business Services Corp. and subsidiaries and the effectiveness of Marlin Business Services Corp. and subsidiaries' internal control over financial reporting, appearing in this Annual Report on Form 10-K of Marlin Business Services Corp. for the year ended December 31, 2018.

Section 5: EX-31.1 (EX-31.1)

Exhibit 31.1

CERTIFICATION REQUIRED BY RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

CERTIFICATION OF CHIEF EXECUTIVE AND CHIEF FINANCIAL OFFICER

I, Jeffrey Hilzinger, certify that:

1. I have reviewed this annual report on Form 10-K of Marlin Business Services Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures based on my evaluation as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 8, 2019

/s/ Jeffrey Hilzinger
Jeffrey Hilzinger
Chief Executive Officer
Interim Chief Financial Officer
(Principal Financial Officer)

[\(Back To Top\)](#)

Section 6: EX-32.1 (EX-32.1)

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the accompanying Annual Report on Form 10-K of Marlin Business Services Corp. for the year ended December 31, 2018 (the “Annual Report”), Jeffrey Hilzinger, as Chief Executive Officer and Interim Chief Financial Officer of the Company, hereby certifies, that pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Annual Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) The information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of Marlin Business Services Corp.

/s/ Jeffrey Hilzinger

Jeffrey Hilzinger

Chief Executive Officer

Interim Chief Financial Officer

(Principal Financial Officer)

Date: March 8, 2019

[\(Back To Top\)](#)