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TBK - Q1 2015 Triumph Bancorp Inc Earnings Call

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CORPORATE PARTICIPANTS

Luke Wyse *Triumph Bancorp Inc - VP IR*

Aaron Graft *Triumph Bancorp Inc - CEO*

Bryce Fowler *Triumph Bancorp Inc - CFO*

Gibran Mahmud *Triumph Bancorp Inc - SMD, CIO Triumph Capital Advisors*

Dan Karas *Triumph Bancorp Inc - Chief Lending Officer of Triumph Savings Bank*

CONFERENCE CALL PARTICIPANTS

Jared Shaw *Wells Fargo Securities - Analyst*

Brad Milsaps *Sandler O'Neill & Partners - Analyst*

Bill Carcache *Nomura Securities International - Analyst*

John Pancari *Evercore Group - Analyst*

Jefferson Harralson *Keefe, Bruyette & Woods - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Triumph Bancorp conference call to discuss the results for the 2015 First Quarter Financial Results.

(Operator Instructions). As a reminder, this conference call is being recorded.

I'd now like to turn the call over to your host for today, Mr. Luke Wyse, Vice President of Finance and Investor Relations. Sir, you may begin.

Luke Wyse - *Triumph Bancorp Inc - VP IR*

Thank you. Good morning. Welcome to the Triumph Bancorp conference call to discuss our 2015 first quarter financial results. I'm Luke Wyse at Triumph and I would like to thank you for joining us this morning.

I'll go over a few housekeeping items and then hand it over to Aaron Graft, our CEO, to lead the presentation.

Triumph Bancorp filed its first quarter earnings release last evening as well as a slide deck and these items will form the substance of our call this morning. If needed, a copy of the earnings release and slide deck are available on the Investor Relations section of our website, www.triumphbancorp.com or by calling our Investor Relations department at 214-365-6936.

To begin, I would like to offer a few reminders. Some of the remarks made today will constitute forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. We intend such statements to be covered by the Safe Harbor provisions for forward-looking statements contained in the Act.

We caution you that forward-looking statements are not guarantees of future performance and are subject to risks, assumptions and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results or events may differ materially from those expressed in or suggested by the forward-looking statements.

Any forward-looking statement made by Triumph on this conference call speaks only as of the date hereof. New risks and uncertainties come up from time to time and it is impossible for Triumph to predict these events or how they may affect it.

Triumph has no obligation and does not intend to update any forward-looking statements after the date hereof except as required by applicable laws.

On this call, we may discuss a number of financial measures considered to be non-GAAP under the SEC's rules. Reconciliations of these financial measures with GAAP are included in our earnings release filed last evening. At the conclusion of our remarks, we will open the telephone lines for questions. With those reminders, I would like to turn the call over to Aaron. Aaron?

Aaron Graft - *Triumph Bancorp Inc - CEO*

Thank you, Luke. Good morning and thanks for joining us. It's my pleasure to review our first quarter results with you.

After I finish, our CFO, Bryce Fowler, will provide additional comments. Dan Karas, our Chief Lending Officer of Triumph Savings Bank and Gibran Mahmud, our Senior Managing Director at Triumph Capital Advisors are also joining us for the Q&A.

Let's start with what went well, which is summarized on slide 5. We had net income of $14 million and net income to common stockholders of $13.9 million in the first quarter. On the whole, this was an exceptional quarter as we once again executed on an opportunistic transaction that created immediate profits for our shareholders.

In March, Triumph Capital Advisors completed the acquisition of Doral Money, Inc. and two active CLO management contracts with approximately $700 million of assets under management from the FDIC. This transaction increased our assets under management to $1.7 billion. The two CLO contracts were valued at approximately $1.9 million and we should earn 39 basis points of CLO management fee income going forward. In addition to the preliminary $12.5 million bargain purchase gain realized on the acquisitions, we incurred direct transaction expenses of 243,000, recognized 300,000 in other income due to the release of cash previously held in escrow and controlled by Doral Money, Inc. as part of the company's June 2014 purchase of Doral Healthcare Finance, and accrued $1.75 million in incremental bonus expense for an anticipated amount expected to be paid to team members to recognize their contribution to this transaction.

On the whole, this transaction generated a preliminary net contribution of $11.4 million net of tax. The gross amount of asset management fees that we should earn over the remaining life of the Doral CLO contracts will depend on many factors including market conditions once the CLOs become callable. However, we estimate that the gross fee income will be approximately $3.8 million over their remaining life or about two times the $1.9 million fair value of the contracts we recorded as an intangible asset. The value of the intangible asset will be amortized as expense over the remaining life. We estimate that the gross fee income less amortization expense from the Doral CLO contracts will contribute approximately $1 million on a pretax basis over the remainder of 2015.

It is possible we may identify additional unrecorded assets or liabilities subsequent to March 31 that will need to be accounted for at that time. However, on a cash basis, the Doral Money acquisition is already a net positive. After settlement of the acquired assets that were sold and settlement of the liabilities incurred to affect this transaction, our cash position increased almost $8 million as a result of this transaction.

If you'll turn to slide 6, I'll call out a few additional items from the first quarter. We have historically experienced a seasonal slowdown in the first quarter in several of our businesses, particularly in Triumph Business Capital, our factoring subsidiary. Seasonal slowness during the quarter ended March 31, 2015, was exacerbated this year by lower diesel fuel prices which lower the size of our average invoice purchased. Adjusted loans in yield of the total loan portfolio are down 25 basis points from the prior quarter to 8.04% and adjusted net interest margin is down 29 basis points to 5.76% for the first quarter. The lower average purchases in our higher yielding factoring business through the first quarter combined with strong growth in lower yielding mortgage warehouse loan portfolio shifted the mix of the loan portfolio and as a result, overall loan yields decreased. We have seen a significant pickup since mid-March and expect factoring to continue to rebound in the second quarter.

If you look on slide 6, our efficiency ratio in the first quarter was slightly higher than the fourth quarter. Our net interest expense to average asset ratio improved 26 basis points in the fourth quarter. As we have said in the past, we are focused on this ratio and expect it to improve as growth continues.

On the M&A front, we continue to engage with potential strategic and opportunistic acquisition targets; however, to date we have nothing substantive to report.

With that, I'd like to turn the call over to Bryce to provide his thoughts on our financial performance in the first quarter. Bryce?

Bryce Fowler - *Triumph Bancorp Inc - CFO*

Thank you, Aaron. I will review our overall operating results and significant items affecting financial results this quarter.

For the first quarter, net income was $14 million and net income available to common shareholders was $13.9 million, resulting in earnings per share both basic and diluted of $0.78 and $0.76, respectively. Excluding the impact of the Doral Money transaction, net income to common shareholders was $2.4 million for the first quarter and diluted earnings per share were $0.14. Net income to common in the fourth quarter of 2014 was $2 million.

With regard to the loan portfolio, slide 7 and 8, as well as the table attached to the earnings release present the current and historic mix of the loan portfolio. Loans held for investment were just over $1 billion at March 31st, 2015 representing an increase for the quarter of $5.6 million or 0.6%.

Aaron addressed the factors contributing to the decline in our factoring operations. In our Triumph Commercial Finance ABL loan portfolio, we also experienced a decline driven in part by two of our ABL customers who had outstanding ABL facilities with aggregate net funds employed of $8 million which was acquired in the first quarter. As a result of these acquisitions, these customers exited their ABL facilities. Further two relationships totaling $1.4 million in net funds employed were transitioned from ABL to factoring relationships demonstrating our ability to retain these customers should they face challenges. Offsetting these declines, Triumph Healthcare ABL experienced growth of approximately $17.8 million and TCF equipment grew approximately $11.9 million contributing to overall net positive loan growth. As a result, our commercial finance portfolio finished the first quarter at $385.8 million or an annualized growth rate of 11.2%. We also had approximately $14.8 million in growth in our mortgage warehouse program related to increased market activity in the mortgage markets in February and March, leading to increased utilization by clients. You can see the underlying product detail on slide 7.

Turning to slide 10, total deposits were $1.174 billion as of March 31st, 2015, an increase of $8.5 million. The average annualized cost of total deposits including the effect of non-interest bearing deposits was up three basis points from the first quarter to 55 basis points versus the fourth quarter of 2014. The increase in our cost of deposits was mostly related to growth and time deposits during the quarter. Non-interest bearing deposits finished the quarter at 14.3% of total deposits.

We earned non-interest income of $16.7 million for the quarter ended March 31st, 2015, which includes $958,000 in asset management fees. Triumph Capital Advisors now has $1.7 billion of assets under management, of which $1.5 billion is earning approximately 30 basis points on average in management fees.

For the first quarter of 2015, non-interest expense totaled $20.8 million compared to $19.7 million for the fourth quarter of 2014, an increase of $1.1 million. Excluding the Doral Money transaction mentioned earlier, non-interest expense totaled $18.8 million in the first quarter. As a reminder, we incurred and expect to incur expense for the un-invested portion of our restricted stock-based compensation of approximately $700,000 each quarter throughout 2015 and approximately $250,000 each quarter of 2016.

Continuing to slide 13, net loans charged-off were $202,000 for the March 2015 quarter, representing a non-annualized charge-off rate to average loans of 2 basis points. At the end of the first quarter, nonperforming assets decreased 1.4 million to 23.7 million and non-performing assets as a percent of total assets decreased 11 basis points. From December 31st, 2014 to March 31st, 2015, our allowance for loan and lease losses increased from $8.8 million or 88 basis points of total loans to $9.3 million or 92 basis points of total loans.

With that, I'd like to turn the call back over to Aaron. Aaron?

Aaron Graft - *Triumph Bancorp Inc - CEO*

Thank you, Bryce. As we did last quarter, I wanted to provide some color around our oil and gas exposure from a credit perspective. If you'll turn to slide 16, we've compiled some details surrounding our oil and gas exposure. Triumph has not been in the business of extending credit secured by proven reserves, however, we have some limited exposure in the energy space in Texas and across the nation. These are tied to factored receivables and asset-based lending transactions with short durations or via equipment loans to customers who operate in this sector. The majority of equipment loans we identify as exposed to the oil and gas space are actually secured by multi-use collateral such as trucks and trailers. As a reminder, the oil and gas market can impact our business in ways other than direct credit exposure such as the volume decreases in our factoring subsidiary we discussed this quarter related to lower diesel fuel price. If there are specific questions, we are happy to address those during our Q&A. For your convenience, we've included some highlights of the Doral transaction on slide 17.

With that, I would like to turn the call back over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. Ladies and gentlemen in the phone lines, (Operator Instructions). And our first question comes from the line of Jared Shaw of Wells Fargo Securities. Your line is open. Please go ahead.

Unidentified Company Representative

Hi, good morning.

Unidentified Company Representative

Hi, Jared, good morning.

Jared Shaw - *Wells Fargo Securities - Analyst*

Could you give us a little update on the CLO business and your expectations for how many more deals or how is the next few deals are shaping up, what we should expect for the rest of the year and then any update on your work in looking for a partner on the equity retention piece.

Aaron Graft - *Triumph Bancorp Inc - CEO*

Sure, Jared. I'm going to have Gibran Mahmud answer that question for you.

Gibran Mahmud - *Triumph Bancorp Inc - SMD, CIO Triumph Capital Advisors*

Hi, Jared. I think for the rest of the year, you can expect us to continue to try and issue CLOs as we have done in the past. I think you know we can't talk specifically about transactions but I think our goal for the year would be two new CLOs by the end of the year. As it relates to risk retention, we're still working through some outside sources of capital that would be a risk retention solution for us. I think we feel positive about that and you should expect to hear some information on that maybe in the second quarter of this year.

Jared Shaw - *Wells Fargo Securities - Analyst*

Okay, great. And then so it looks like the CLO contract from what you said was 39 basis point fee, but when you look at the 1.5 billion of average CLOs in the quarter, that was earning 30 basis points, is that right?

Gibran Mahmud - *Triumph Bancorp Inc - SMD, CIO Triumph Capital Advisors*

That's correct.

Jared Shaw - *Wells Fargo Securities - Analyst*

Okay, okay. And then shifting to the deposit side, could you give an update on what you're seeing in terms of deposit trends and how you think you'll be able to continue to -- you know, do you feel confident that you'll be able to continue to grow deposits for the existing franchise to cover loan growth that should be coming in in the next few quarters?

Bryce Fowler - *Triumph Bancorp Inc - CFO*

Sure. I can address that. This is Bryce. Certainly, we have experienced in deposits over the last few quarters and would expect to going forward. We expect the pace of our growth, especially in the commercial finance products, to be faster than the core deposit-based growth in our franchise. And we have been, and would continue for the foreseeable future, to fund that gap with growth primarily in our CD portfolio as we need to. Some of that is rate-driven and, of course, that's subject to our continuing efforts on the M&A front to help fill up our funding side.

Jared Shaw - *Wells Fargo Securities - Analyst*

Okay, great. And then just finally, when you look at the growth in the allowance level this quarter, could you give us a little detail on what the breakdown on that was due to new origination versus credit migration in the portfolio overall?

Bryce Fowler - *Triumph Bancorp Inc - CFO*

Sure. I mean obviously, the provision in this quarter was down pretty significantly from the prior quarter. Charge-offs in the quarter were like $200,000. We did set about $450,000 in new specific reserves on existing deals that were out there. They contributed a little bit to the provision this quarter. Again, the other component of that is really attributable to the small amount of loan growth that was there. There's another component in our provisioning that has to do with just the rollover of the acquired loan portfolio in our Triumph Community Bank that was acquired in October 2013. So that portfolio is rolling over. You know, we're re-provisioning, setting up and increasing the ALLL portfolio as it renews.

Jared Shaw - *Wells Fargo Securities - Analyst*

Great. Thank you very much.

Operator

Thank you. Our next question comes from the line of Brad Milsaps of Sandler O'Neill. Your line is open. Please go ahead.

Brad Milsaps - *Sandler O'Neill & Partners - Analyst*

Hi, good morning.

Aaron Graft - *Triumph Bancorp Inc - CEO*

Hi, Brad, good morning.

Brad Milsaps - *Sandler O'Neill & Partners - Analyst*

Aaron, it� be good to see if you can maybe delve into the decline in factored receivables a little bit more. How much of it was due to seasonality versus the decline in diesel prices you talked about?

Aaron Graft - *Triumph Bancorp Inc - CEO*

Sure. So let's talk about seasonality first. If you look over the last five years in this business, for us, the average number of purchases, you know, average amount of invoices purchased dropped about 10% from December to January. Usually, they rebalance and February continues to grow through March. This year, the purchases dropped 17.2% between December and January and then another 2.9% in February. The rebound has been occurring in March and, you know, we're seeing the strength come back as it has historically. Now, a lot of seasonal factors are in play. And I think as I've told you all before, exposure to transportation is really exposure to GDP. And what we saw on the micro level is probably what you heard the FOMC describe on a macro level in the first quarter. There were many factors at play including weather trends, et cetera that caused GDP to slow down, and as a result, the number of purchases we made slowed down. With respect to the average size of invoices we've purchased, because that, of course, drives the amount of net funds employed. First quarter of 2015 average invoice size is down $146 over fourth quarter of 2014. On a quarter-over-quarter basis, that's actually even slightly higher. If you were to look at it from December to March, an invoice we bought at the end of the first quarter is about $220 less than it was in December and that's caused by the continuing decline in diesel prices. Now, offsetting that, we have as of the end of March, we had net client growth of 158 more clients. By the end of the first quarter, we were buying 10,000 more invoices than we were in December and that trend has continued.

So as I stepped back and look at it, there was the seasonal slowdown that we've seen historically. It was exacerbated this year for a lot of factors. It made it even more potent as it relates to Triumph because not only were we buying less invoices but the size of the invoices went down. Underneath all that is the trend that we continue to take market share from competitors as our net amount of clients grows. What I'd expect from what we're seeing here recently is the diesel prices have somewhat stabilized but we don't predict where it will go, we have no idea. But we're seeing the amount of freight that moves go up, and therefore the number of purchases we're making go up, and so as we take market share and as more freight is on the roads, we're going to see volumes grow. But it may not be any time in the near future that the average invoice size returns to where it was during the fourth quarter of last year.

Brad Milsaps - *Sandler O'Neill & Partners - Analyst*

No, that's helpful. Based on kind of where you start the year with all those factors that you've just listed, I mean do you still think you can, you know, generate, you know, mid, high-teen-type growth in that factor book or was it going to take faster growth from, you know, some of the others in specialty finance to get to that type of growth in your specialty finance lending segment?

Aaron Graft - *Triumph Bancorp Inc - CEO*

Well, again, I can't predict where transportation will go because it's closely correlated to GDP, but I will tell you we are working on some things at Triumph Business Capital that make me very excited. And I believe we will continue to take market share, we will continue the growth that we've done year-over-year and I expect to finish this year well above where we did last year. We just may have to work harder to do it. And maybe, you know, when we buy more invoices to have the same amount of funds employed but I'm hopeful that we will offset any inefficiencies caused by that through some of the operational investments we've made in our Triumph Business Capital platform to allow us to process greater and greater volumes on a more efficient basis. So the short answer is I'm still very bullish on where I think this business will be as the year moves forward.

Brad Milsaps - *Sandler O'Neill & Partners - Analyst*

Okay. And with all those factors considered, can you talk maybe about pricing, you know, what that means for your NIM, you know, if you do get a seasonable re bound, would you consider, you know, once you sort of a low point for the NIM, I know that you're also sitting on a firm amount of cash too which affected things this quarter. But any additional color there would be helpful as well.

Aaron Graft - *Triumph Bancorp Inc - CEO*

Sure. So net interest margin -- and Bryce can speak about just overall balance sheet management but obviously, we are sitting on a lot of cash. As the business migrates amongst our various lines of business, in a quarter like the first quarter where the growth migrated away from factored receivables in Triumph Business Capital to something like mortgage warehouse lending, you're going to move NIM because those businesses look very different from a yield profile. Overall, I think on an adjusted basis, our net interest margin is 5.76%. I don't see that declining materially and would not surprise me if that went back up as Triumph Business Capital rebounds because it experienced the greater seasonal slowdown than any of our other lines of business.

As far a pricing, Dan Karas can speaker further to that in specifics, if you would like. I would just say across the board, people are very aggressive in pricing. And I am very proud of what our team has done to hold where our loan yields are which still remain in the top 1% of all banks, I think. But there is aggressive pricing from both banks and non-bank competitors for sure.

Brad Milsaps - *Sandler O'Neill & Partners - Analyst*

Great. Thank you.

Operator

Thank you. Our next question comes from the line of Bill Carcache of Nomura. Your line is open. Please go ahead.

Bill Carcache - *Nomura Securities International - Analyst*

Thanks. Good morning, gentlemen. First question I had was on the decrease in service charges on deposits. Could you, guys, talk about the growth in deposits? Really, I was hoping you have a little bit more color on what's been driving the decline on the service charges line.

Bryce Fowler - *Triumph Bancorp Inc - CFO*

Sure. This is Bryce. I think as we look at it, most of it is been a decline of overdraft fees and charges overall, And we have been trying to better understand the exact whys of that. It's hard to predict customer behavior and thinking but it seems the economy has been better. People are saving more are maybe getting a little smarter about how to manage their money so we can't point to anything specific as to that decline but it has been dropping also over the last few quarters.

Bill Carcache - *Nomura Securities International - Analyst*

Okay, thank you. The next question is a bit more of a broader strategy question that I was hoping you could address, Aaron, specifically on your acquisition growth strategy. You know, I guess if you could talk about whether there is any kind of sense of urgency that you feel to get a deal complete on the bank acquisition front before rates rise.

Just I guess another way of asking the question is do you worry that valuation levels for some of the potential targets that you would consider, you know, would rise with higher rates as deposit basis become more valuable, maybe just speaking to that topic broadly would be helpful.

Aaron Graft - *Triumph Bancorp Inc - CEO*

Sure. Great -- and great question. First of all, just so you know, we think about the world that rates are going to be lower for longer. We think oil is lower for longer and rates are lower for longer. So I feel no sense of urgency with respect that a move in rates in the short term is going to change pricing for target institutions.

If you think about the way Triumph was built and where I would suspect our next acquisition will be, of course, we're always looking for strategic infill acquisitions that would be in our Midwestern markets alongside Triumph Community Bank and we continue to work on those. But there are a limited number of targets and, you know, Triumph has never been one to pay top dollar if we don't believe a franchise adds that much value. So it would take finding the right franchise in those markets.

More broadly, as we look at opportunistic acquisitions, I suspect that the pricing of one of those acquisitions will be driven by structural factors that go far beyond what interest rates are doing. As I sit here today, I suspect there will be a story to whatever type of opportunistic acquisition we might make. As we've said before, if we're going to go into a new geography, we're going to look to make $1 billion footprint either immediately or through a series of transactions or some pathway to grow there. So, you know, that's not a limiting factor as far as the size of the deal we would look at as much it is what our target minimum market presence would be. We have a dialog going with 20 to 30 banks at any given time and bankers as we're looking at certain institutions that meet our criteria. None of which have risen to the level that we can talk about specifically. But of those conversations, there is very little in those conversations that focuses around how interest rate moves might move the pricing for that institution. It's a whole lot more about whether it's a troubled institution and how a structure of our deal might allow us to create upside for our investors not only through the acquisition but through the subsequent integration.

So hopefully that addressed your question just about the way we look at things, but a short summary to that is interest rate moves related to opportunistic acquisitions for us have very little impact on where we think and how we think we'll be able to get deals done.

Bill Carcache - *Nomura Securities International - Analyst*

That's excellent color. Thank you. And then finally, if I may, can you talk about on the same topic, I guess how would you categorize or think about or describe your excitement levels regarding the opportunities before you that you see on the potential acquisition front?

Aaron Graft - *Triumph Bancorp Inc - CEO*

Sure. Well, we've proven since we've started and I think we even proved it again in the first quarter with the Doral deal, that we are opportunistic acquirers. And so I see some opportunistic acquisition opportunities. We have historically been very disciplined on structure and pricing because if you're going in to fix a troubled situation, you need to be rewarded for that. And it's more than just going in and fixing a troubled situation which I think we can do but, you know, when you're talking about it in the context of acquiring a bank enterprise, you have to not only think about, did I make a good purchase upfront, but am I buying something that I can plug into my organization and achieve operational efficiencies? And so I think there are institutions out there that meet our criteria and that have solid deposit franchises. Perhaps they have lackluster earning asset bases and some of them have significantly troubled credit portfolios which for us is a great opportunity because we have a core competency there as I think we've demonstrated in being able to resolve difficult credits.

We have the ability to generate earning assets which can enhance the earnings of any institution we acquire and we believe in the value of a core deposit franchise. So there are several opportunities out there, but we wouldn't do several at one time. We're focused on getting the right deal done on the right terms and executed in the right way. And I'm excited that that's going to happen and that you'll be hearing about that from us sooner rather than later.

Bill Carcache - *Nomura Securities International - Analyst*

That's great. That's us and what -- the color we were looking for. Thank you.

Operator

Thank you. Our next question comes from the line of John Pancari of Evercore. Your line is open. Please go ahead.

John Pancari - *Evercore Group - Analyst*

Good morning, guys.

Aaron Graft - *Triumph Bancorp Inc - CEO*

Hey, John.

John Pancari - *Evercore Group - Analyst*

Well, I just wonder if just talk a little bit more in detail around where loan yield compression. The 25 basis points decline in the core loan yield ex-purchase accounting, I know you triggered a chunk of that to the mix shift. Can you help us, you know, quantify how much would you say is attributable to that mix shift versus pricing pressure and generally low rates?

Bryce Fowler - *Triumph Bancorp Inc - CFO*

This is Bryce. So just mathematically, kind of the yield volume variance analysis approach for that, about 13 basis points of that is attributable to the mix shift between warehouse, ABL and the factored receivables portfolio. As we mentioned earlier, the warehouse program had a nice lift in volume here recently, but it's not the highest yielding part of the portfolio, overall. So that was a big contributor to that. I might just add on, it's not directly to your question, but also on adjusted NIM, I think someone mentioned that some of that drop has been pressured by the liquidity available we are running and it was. I think about 19 basis points of that overall adjusted NIM drop was just due to the higher level of liquidity as a percent of the total average earning assets in the quarter, which is a combination of the receipt of the IPO cash in the previous quarter that was here for the full period, the cash coming out of the DMI transaction here, as well as, the lower than expected loan growth. We funded up for it and are now spending it actually.

Dan Karas - *Triumph Bancorp Inc - Chief Lending Officer of Triumph Savings Bank*

And John, it's Dan here. In addition, I would add just add from a macro perspective that we're certainly not immune to pricing competition. We see it every day. We're selective in how we choose and which opportunities we choose to chase. For example, our commercial real estate portfolio in our community bank faces significant pressure and we just don't chase those risk-adjusted returns down. Unlike some institutions, we have the ability to balance that pricing pressure by deploying our deposits into the commercial finance portfolios. So we try and balance the yield up overall but certainly, we're not immune to what you see in the marketplace as other competitors, chase opportunities.

John Pancari - *Evercore Group - Analyst*

Okay, let me extend, so again, just to understand, as the mix shift, you know, reverts a bit and as you deploy some of this liquidity, do you expect that the net impact on the margin going forward should be more positive than negative? In other words, again, do you expect modest expansion from here versus compression?

Dan Karas - *Triumph Bancorp Inc - Chief Lending Officer of Triumph Savings Bank*

That is correct.

John Pancari - *Evercore Group - Analyst*

Okay. All right. And then on the volume side on loan growth, I appreciate the color you gave on the factoring business demand, et cetera. Can you give us a little bit of color on updated trends that you're seeing in the other businesses specifically ABL and equipment finance?

Dan Karas - *Triumph Bancorp Inc - Chief Lending Officer of Triumph Savings Bank*

Sure, John. It's Dan Karas again. Equipment finance has the same characteristic or somewhat similar characteristic as our transportation factoring business in that the first quarter tends to be slower but you saw some growth in that portfolio. Overall, the pipelines were relatively soft in the first quarter including equipment, but what we're seeing today is a more normalized pipeline. So I think you should expect to see growth in those businesses overall. And in addition, Bryce mentioned the growth in the mortgage warehouse business. The average utilization in that portfolio increased from 25% in December to about 35% to 40% towards the end of the first quarter. And so while it's a lower margin business, it's an efficient business for us to manage as well.

John Pancari - *Evercore Group - Analyst*

Okay, all right. And then lastly on the volume side, you mentioned the commercial real estate portfolio, how should we think about the pace of ongoing runoff in that portfolio and how should we think about potential bottoming there?

Bryce Fowler - *Triumph Bancorp Inc - CFO*

Well, it's a good question. Let me answer that again. We saw runoff in the first quarter of two large real estate clients. And in the second quarter, frankly, we're anticipating some more of that as well. We're offsetting it a bit but given the yields, it's not a business that we're aggressively pursuing just because those risk-adjusted returns are so low.

Aaron Graft - *Triumph Bancorp Inc - CEO*

So John, I think that it would be fair to say that I don't think we would be modeling substantial growth in our CRE portfolio this year. I think as Dan alluded to, there were some unexpected payoffs. There may be a few in this quarter. It's impossible to predict what deals get done and who would pay off, but I would expect across the board, we would generally think that we would be not far off from where we are now. I wouldn't model a lot of growth but I also think we are doing some new real estate deals that would hopefully backfill some of these payoffs, and so probably a fair thing to do would be to look at it and just the trend line being along where it is now.

John Pancari - *Evercore Group - Analyst*

Okay, all right, thanks, Aaron. One more question if I may on expenses, just, you know, a lot of moving parts and everything, but I just wanted to see how we should think about the run rate of total expenses going forward here.

Aaron Graft - *Triumph Bancorp Inc - CEO*

Let me take it from a high level. John, we're a $1.5 billion institution that's being built to be a $3 billion institution, and so there have been investments that have been ongoing since prior to the IPO and, of course, in the last quarter and in this quarter. I'll say again what I said before which is most of the really expensive seats around here for what it takes to be that institution are filled. We will continue to add staff because we are committed to the next acquisition. We have a pretty good idea of what that's going to look like and what it will take from us. So I think at the highest level, you should expect a linear expense growth over the next couple of quarters. Now, of course, when we do an M&A deal, that's going to add volatility all over the board to that, but there could be some marginal linear growth in expenses. Underneath that linear growth I think you'll see a lot of moving parts. We expect by the third quarter to have merged the two subsidiary banks that we currently own, and by the end of the first quarter of 2016 to have substantially completed the integration of those banks, the core processing systems, technology upgrades and all the things we need to do in order to be able to plug and play a new institution into our enterprise in the future. As a result of the merger of our two subsidiary banks and the integration and efficiencies we will achieve from that, we expect to see expense reductions just from those activities of between $1 million and $2 million as we eliminate some redundancies and create efficiencies, but remember that is happening inside of an organization that is continuing to fill out in order to prepare to be a $2 to $3 billion bank not just a more efficient $1.5 billion bank.

So I'm happy to dive in more specifically on any of those but I think the net takeaway should be a somewhat linear expense growth but know that there's a lot of noise underneath that and the firm expectation is that this moderate expense growth that we would experience over the next few quarters would be outpaced by revenue growth in any event even without an M&A transaction.

John Pancari - *Evercore Group - Analyst*

Got it. All right, that's helpful. Thanks, Aaron.

Operator

Thank you. (Operator Instructions). Our next question comes from the line of Jefferson Harralson of KBW. Your line is open. Please go ahead.

Jefferson Harralson - *Keefe, Bruyette & Woods - Analyst*

Yes. I had a couple of questions. First one is just the big picture I guess competition and a lot of your businesses may change a lot with the GE sale. What do you expect from -- like how are we going to think about what that change could be, are there opportunities? I know you, guys are small relative to them but are there opportunities to pick up people over our businesses there and what do you think of the opportunities around GE in total?

Dan Karas - *Triumph Bancorp Inc - Chief Lending Officer of Triumph Savings Bank*

Good morning, Jefferson, it's Dan Karas. GE plays in various different sectors than we do. So I don't see anything that we could, to Aaron's point, plug and play into our organization today, although we certainly are having conversations with some of those individuals who may decide to leave the institution or whatever institution they land at to see if they can help us either expand production in our existing lines or whether they could bring value to create something that's complimentary to the commercial finance businesses we have in place today.

Jefferson Harralson - *Keefe, Bruyette & Woods - Analyst*

Okay. Because I (inaudible) equipment lending business but is that -- do you, guys, do something a little bit differently with the equipment lending or

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Dan Karas - *Triumph Bancorp Inc - Chief Lending Officer of Triumph Savings Bank*

They certainly have. They are in the transportation space as are we. But the market that we serve, we try and find niches in our commercial finance businesses in particular that are more lightly served whether that's by size, by geography or by specific client profile. So while GE is certainly tremendous in size in transportation finance, for example, we participate in the different niches and don't see them as often as you might think.

Jefferson Harralson - *Keefe, Bruyette & Woods - Analyst*

Okay. Back to the factoring business, and you, guys, laid out what's going on there and the give and take pretty well but I just want to ask you about one other piece of it and see if that's a factor or not, which is the fracking transportation, there's a lot of sand pickup, water pickup and delivery. Is that a piece of what making volume soft too or is that a small enough piece where it's not really impacting?

Aaron Graft - *Triumph Bancorp Inc - CEO*

Yes, it is a piece but it is a small piece. Our transportation factoring business serves all 50 states. The fracking piece of that business is active in only a few of those states, in the Bakken Shale, in Texas and elsewhere. But certainly, with the services companies essentially grinding to a halt in the first quarter, that was one of many of the factors that we think made the seasonal slowdown this first quarter worse than it has been over any of the last five years. The number of invoices we buy that are tied to the fracking or oil field services industry is a small percentage of a very large and diverse overall portfolio, but even when you have a slowdown in a small percentage of your portfolio, it affects your overall portfolio trend. So yes, it's there, yes, it's real, but by no means is it a driver of overall portfolio metrics?

Jefferson Harralson - *Keefe, Bruyette & Woods - Analyst*

Okay, got it. Thank you, guys.

Operator

Thank you. And with no further questions in queue, I'd like to turn the conference back over to Mr. Aaron Graft for any closing remarks.

Aaron Graft - *Triumph Bancorp Inc - CEO*

Thank you. In conclusion, I am pleased with this quarter's results. We demonstrated our aptitude for making smart acquisitions both as to price and strategic fit. We weathered a seasonally slow time for Triumph and experienced net profitable growth from the quarter and maintained our asset quality standards. We remained focused on executing our strategy and remained open to and are seeking acquisitions that create value while we work on improving the efficiency of our operations. Thank you for participating with us today and I hope you have a great day.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program and you may all disconnect. Have a great rest of your day.