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PRESENTATION

Operator

Good day ladies and gentlemen and welcome to the Triumph Bancorp, Inc. fourth-quarter 2015 earnings call.

(Operator Instructions)

As a reminder, this conference call may be recorded. I would now like to turn the conference over to Luke Wyse. Please go ahead.

Luke Wyse - *Triumph Bancorp, Inc. - VP, Finance & IR*

Good morning. Welcome to the Triumph Bancorp conference call to discuss our 2015 year-end and fourth-quarter financial results. I am Luke Wyse, Vice President of Finance and Investor Relations of Triumph and I would like to thank you for joining us this morning. I will go over a few housekeeping items and then hand it over to Aaron Graft, our CEO, to lead the presentation.

Triumph Bancorp filed its 2015 year-end and fourth-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, copies 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 by 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 -- 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's impossible for Triumph to predict these events or how it 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 SEC rules. Reconciliations of these financial measures with GAAP are included in the earnings release and slide deck filed last evening. At the conclusion of our remarks we will open the telephone lines for Q&A.

With those reminders I would like to turn the call over to Aaron. Aaron?

Aaron Graft - *Triumph Bancorp, Inc. - Vice Chairman & CEO*

Thank you, look. Good morning and thank you all for joining us on this call.

I will cover our financial highlights and general market conditions and then turn it over to others on our team to speak on these topics more in depth. Included with me in the room are Bryce Fowler, our CFO; Dan Karas, our Chief Lending Officer; and Gibran Mahmud who leads our Triumph Capital Advisors division.

Triumph earned net income to common stockholders for the year of $28.4 million, or $1.57 per share. For the fourth quarter net income to common stockholders was $4.3 million or $0.24 per share. Our fourth-quarter results include a net benefit of $900,000 recorded to increase and finalize the bargain purchase gain realized on the acquisition of Doral Money Inc. bringing our overall gain on this transaction to $15.1 million.

You have heard me talk about this transaction for the last several quarters. It has created exceptional value for Triumph.

On the expense side our fourth-quarter numbers include $700,000 of expenses related to the conversion of our core operating system following the merger and integration of our subsidiary banks into a single entity and movement toward a single operating platform which will position us for future acquisitions and greater operating efficiencies. Year to date we have grown tangible book value by $1.73 per share to $12.79 which is an increase of 15.6%.

Our 2015 loan growth totaled $286 million which is an annualized growth rate of 28%. Over the same period our commercial finance loan portfolio grew $145.6 million, or 39% to $521 million and now represents 40% of our total loan portfolio.

For the fourth quarter our loan portfolio grew $106.6 million, representing an annualized growth rate of just under 36%. Our recently launched Premium Finance Group has gotten off the ground and contributed $1.6 million of balances to that growth. Net interest margin adjusted to exclude the effect of loan discount accretion was 6.16% year to date and 5.94% for the fourth quarter.

We exited the residential mortgage production business in the fourth quarter. We exited this business for the same reasons you may have heard other banks mentioned.

At the end of the day our assessment was that this line of business was not profitable enough to justify the operational and compliance risk associated with it. We expect this business and any remaining balances to run off by the end of the first quarter.

Our asset quality ratios continue to reflect strong credit performance. The level of nonperforming assets to total assets has declined to 1.10% from 1.73% at the end of last year. Net charge-offs to average loans were only 1 basis point for the fourth quarter and 7 basis points for the full year.

We have seen exceptional volatility in the market coming into 2016. There has been a lot of ink spilled and airtime filled with people making all sorts of predictions about the direction and state of oil and its correlating impact on banks. While I am not a fan of the short-term influence it has had on our stock price I am very excited about the opportunities that it may create.

To participate in this opportunity we have to make sure that we are not at risk in our own portfolio. On this point I feel very comfortable. As we have discussed in previous calls Triumph has not been in the business of extending credit secured by proven reserves.

So we do not have this type of primary exposure to oil and gas but like every other business in this country we have first and second derivative exposure to oil and gas. First derivative exposure for Triumph would include lending to customers who support the oil and gas industry. This includes oilfield services businesses and transportation customers who haul for the oil and gas industry.

Our exposure in this space primarily comes through factored receivables, ABL transactions and equipment finance loans. The total of Triumph's first derivative exposure to this space is $42.8 million, down from $63.2 million as of December 31, 2014. This total represents approximately 3.4% of our loans.

Of this amount approximately $7 million was classified as substandard as of December 31, 2015. We continuously review this portfolio. And as of December 31, our analysis has not led us to increase our loan loss reserves for this part of our portfolio.

From the perspective of Triumph's second derivative exposure, lower oil and diesel prices do have a continued impact on the average size of invoices purchased at Triumph Business Capital, our factoring subsidiary. This quarter, the balance of outstanding receivables at Triumph Business Capital increased by $10.8 million to a total of $186.5 million. We have continued to experience a decline in the average invoice size purchase due to the continuation of lower fuel prices and soft freight rates.

The average invoice size purchased this quarter was $1,400 versus $1,431 in the prior quarter, a decline of 2%. While a softer market and fuel prices are out of our control, we remain quite pleased with the results in what we can control. We continue to gain market share as we added 124 net new clients in the quarter and as a result the number of invoices purchased increased from 292,000 to 304,000 in the current quarter, an increase of just over 4%.

The dollar value of invoices purchased this quarter increased $7 million over the prior quarter to a total of $425 million. Year over year, the dollar value of our invoices purchased has increased over $200 million to a total of $1.625 billion and the number of clients has increased by 570 to 2,107 and the number of invoices purchased has increased by over 267,002 to a total of over 1.1 million. This was all accomplished while the average invoice size fell $213 from $1,678 for the year ended December 31, 2014 to $1,465 for the year ended December 31, 2015. Profitability remained strong even without the benefit of the higher oil and diesel prices we saw in 2014.

On the whole, my view is that this volatility presents a compelling opportunity for Triumph. We have strong credit quality metrics, a substantial amount of excess capital and a diversified business model. We don't depend on energy or Texas to drive our growth as you can see from this quarter's results.

Our commercial finance disciplines stand out the most when the market is volatile and traditional lenders pull back. We intend to use our opportunistic mindset and superior capital position to capitalize on this market dislocation while we continue to grow the profitability of our core operating platform.

Within this, M&A remains front of mind as an opportunity to improve our operational efficiency, diversify our geographic exposure and create enterprise value for our investors. We are currently engaged in M&A discussions and continue to view an all cash or near all cash transaction that improves our deposit franchise as the most compelling opportunity for improving shareholder value. We will keep you updated on this.

At this point I'd like to turn the call over to Bryce to provide his thoughts on our financial performance for the year and more specifically in the fourth quarter. Bryce?

Bryce Fowler - *Triumph Bancorp, Inc. - CFO*

Thank you, Aaron. The $900,000 increase to the bargain purchase gain recognized this quarter completes our accounting for the Doral Money acquisition. This adjustment to increase the carrying value of the acquired assets is the result of obtaining and completing our documentation and final valuations.

Slides 7 and 8 as well as the tables attached to the earnings release present the current and historic mix of the loan portfolio. Most of the businesses experienced growth in the fourth quarter. Substantially all of the fourth quarter loan growth occurred in the month of December so we did not gain a full quarter's earnings on all of this growth.

The commercial finance loan portfolio continued to experience net growth of 4.7% on a linked-quarter basis. Growth this quarter was evenly distributed across most of our specialty finance businesses. Outside the commercial finance portfolio we experienced significant growth in our commercial real estate portfolio of $44.6 million as we allocated internal resources to source commercial real estate opportunities and $18.5 million in our mortgage warehouse facility.

Slide 13 presents our asset quality metrics. From September 30 to December 31 our allowance for loan and lease loss increased to $12.6 million or 97 basis points of total loans and the provision for loan loss expense this quarter was $1.178 million versus $165,000 in the September quarter. The higher quarter-over-quarter provision for loan loss is due to several factors.

We experienced larger net growth in total loans this quarter. We recorded specific reserves of $199,000 against a nonperforming commercial loan and $275,000 against a transportation factoring client's receivables in the fourth quarter. And as you may recall, we experienced a lower provision in the September quarter as we were able to release a $500,000 specific reserve due to the successful collection of an at risk balance.

Slides 8 through 10 present trend information for net interest margin. Yield on loans this quarter was 8.17%. The adjusted yield on loans which excludes the impact of approximately $967,000 of purchase loan discount accretion recorded during the fourth quarter was 7.84%.

As of December 31, 2015, we had $13.1 million of remaining loan purchase discount of which we expect $7.2 million to accrete into income over the remaining lives of the associated loan. The cost of total deposits increased 2 basis points quarter over quarter to 61 basis points due to the mix change caused by growth in time deposits. The cost of total funds which includes our borrowing positions also increased 2 basis points related to the increase in our deposit cost.

Our usage of Federal Home Loan Bank advances increased to $130 million in the fourth quarter of which $98 million is collateralized by mortgage warehouse facilities. Adjusted net interest margins remain very strong at 6.2% for the quarter but did decline 20 basis points from the previous quarter. Approximately 8 basis points of this decline is attributable to $300,000 of fee income in the third quarter realized on the restructuring of a performing ABL facility and about 9 basis points of the decline this quarter is due to the mix shift on which the average balance of loans as a percentage of total earning assets declined about 1.1%.

We earned noninterest income of $5.6 million for the quarter ended December 31, 2015 which includes the $900,000 adjustment to the bargain purchase gain associated with Doral Money. Noninterest income also includes $1.7 million in asset management fees earned by TCA. Triumph Capital Advisors now manages $1.8 billion of CLO assets earning approximately 35 basis points on average in management fees.

In addition, at December 31 Triumph holds a $21 million equity investment in CLO warehouses that generated noninterest income of $706,000 in the fourth quarter. Noninterest expense for the fourth quarter includes amortization of intangible value asset value assigned to the CLO asset management contracts acquired from Doral Money of $494,000.

For the fourth quarter of 2015 noninterest expense totaled $20.9 million compared to $20.5 million for the third quarter. As Aaron referenced our noninterest expense in the fourth quarter included approximately $700,000 of integration and system conversion cost.

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

Aaron Graft - *Triumph Bancorp, Inc. - Vice Chairman & CEO*

Thank you, Bryce. Even with the recent volatility you should know that competition remains intense. However, despite a number of headwinds we continue to grow earnings and complete strategic initiatives that will facilitate growth in the future.

We continue to look for opportunities that present compelling risk-reward propositions while remaining focused on growing our core earnings base. We are laser focused on creating value for our investors, team members and customers that is well above market.

At this time we would like to turn the call back over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Brad Milsaps, Sandler O'Neill.

Brad Milsaps - *Sandler O'Neill - Analyst*

Hey, good morning guys. Aaron, I was going to see if you could maybe talk a little bit more about the loan growth this quarter, a little bit more weighted in community bank growth than it has been.

It sounds like also a lot of it came towards the end of the quarter. Just curious with that heavier weighting what that might mean for your NIM as you think about it moving into 2016?

Aaron Graft - *Triumph Bancorp, Inc. - Vice Chairman & CEO*

Sure. Let me start off and let Dan Karas address what happened in the past quarter and then he and I can both talk about the pipeline.

Dan Karas - *Triumph Bancorp, Inc. - Chief Lending Officer*

Good morning, Brad. You know we started the fourth quarter with a pretty healthy pipeline maintained throughout the quarter and while we're happy with the results that we got almost all of our growth came in December.

So that combination of raising deposits to fund anticipated growth all of which is organic, none of which is purchased, combined with the ALLL provision we needed in December and the fact that we did not get the benefit of the earnings for the quarter really impacted our NIM as well. So growth looks good. We did pick it up in some areas that were not commercial finance related so we're happy about that and then it certainly gives us a good start to the first quarter.

Aaron Graft - *Triumph Bancorp, Inc. - Vice Chairman & CEO*

And Brad, going forward we don't foresee a fundamental shift in the underlying asset mix. And so I think Bryce pointed out some one-time issues that made this quarter's net interest margin lower than last quarter's that were indeed one-time issues last quarter. So I think the trend for net interest margin from here is fairly stable.

Of course, none of us can predict what will happen in the market. But as we see opportunities in either our commercial finance segment or commercial real estate or community banking we're happy to capitalize on those.

It's just what was interesting about the fourth quarter is everything that was in the pipeline kept getting extended and then of course closed literally right at the end of the quarter. So it made the net interest margin not correspondingly move with the loan growth.

Brad Milsaps - *Sandler O'Neill - Analyst*

Great, that's helpful. And just maybe one follow-up on specialty finance.

I see for the first time you've got some positive footings in the premium finance section, albeit small but bigger than last quarter. I want to just see what your outlook for those loans might be for the year.

And secondly, I know in the past you mentioned maybe some opportunities with what's happened with energy prices to maybe begin factoring for some of those companies. Just kind of curious where you are with that process and to see if that at this point is something that you guys will pursue this year?

Aaron Graft - *Triumph Bancorp, Inc. - Vice Chairman & CEO*

Sure. So premium finance, it's such a young business it would be impossible for me to predict what growth would be this year. I would say whatever the growth is even if we hit a home run it's not going to be meaningful as part of a $520 million commercial finance portfolio.

But remember beyond just the growth that you will see from that line of business and its corresponding profitability as it grows, you get the enterprise or the relationship value that we're trying to build around our commercial finance clients. This is something I talk, when we're out meeting with folks I point out to them that one of the ways we think we differentiate ourselves from the market is being able to offer multiple products including premium finance and insurance and equipment finance and working capital through a factoring relationship. Being able to offer all those to our clients makes them more sticky and it increases the profitability on those clients.

Holding onto one of our factoring, our transportation factoring customers for just another month or two on average makes a dramatic increase in the profitability when you look at the cost of acquisition of that customer. So beyond just growing premium finance, it's also about integrating ourselves into that relationship with them.

On the last point of factored receivables in the oil and gas space, we continue to evaluate that. That's really a case-by-case basis. That really requires us to take a look at who we think the winners and losers are that ultimately would be our account debtors, the source of repayment.

There are certain publicly traded energy companies which we have cut our exposure to because in our estimation they may not make it through this crisis. There are others that despite a low stock price we feel very confident on their ability to pay their trade payables on 45-, 60- or 75-day terms. So as those opportunities present themselves we will look at them.

But it's case-by-case. I think people know that we're in the space.

What we've seen this quarter is a shrink of those, our exposure, that's number one I think there's less activity going on and number two there are certain account debtors as I mentioned to you that we have chosen to decrease our exposure to. But it very likely could go in the future if the right opportunities come along.

Brad Milsaps - *Sandler O'Neill - Analyst*

Great, thanks Aaron.

Operator

Jared Shaw, Wells Fargo.

Jared Shaw - *Wells Fargo Securities - Analyst*

Hi, good morning. Could you touch a little bit on some of the trends you're seeing in the asset management side?

We saw a decline in actual revenue this quarter. One, I guess what was driving the decline? And then what's the pipeline look for the CLO issuance for the next few quarters?

Aaron Graft - *Triumph Bancorp, Inc. - Vice Chairman & CEO*

So taking the second question first, the pipeline, we have two CLOs that are currently in warehouse: one with Wells Fargo, one with Morgan Stanley. Those warehouses have a significant loan portfolios in them, very clean portfolios. The timing of issuing new CLOs is really dependent upon the market.

Until the spreads tighten in it would not be economic -- while it might be economically feasible it wouldn't be wise for the equity investor in our CLOs to push through the issuance of either one or two CLOs. I still expect that we will get one to two CLOs done this year but there's just no way to predict this market and how people are responding.

As soon as that market tightens up we are ready to go. And once those CLOs are issued of course then the asset management fees turn on. But it's impossible for me to give you a prediction about when that would occur other than I'm willing to predict that I think we do get a couple of deals done this year, it is just further back into the year than we would have otherwise expected.

Jared Shaw - *Wells Fargo Securities - Analyst*

And the size, once we see those come out similar sizes to what we've seen in the past or what's the scope we could potentially see with that?

Aaron Graft - *Triumph Bancorp, Inc. - Vice Chairman & CEO*

We're expecting to do $400 million to $500 million deals. So call it $800 million to $1 billion in AUM if it would be if two CLOs were issued what that would look like.

Jared Shaw - *Wells Fargo Securities - Analyst*

Okay. And the management fee still staying consistent around that 35 basis points?

Aaron Graft - *Triumph Bancorp, Inc. - Vice Chairman & CEO*

Well, I mean that's what it's been to date. That's another thing that's impossible to predict because the management fee is very correlated with the expected equity returns. And also you have to remember that the future CLOs that will be issued will not be issued by Triumph.

They will be issued by Trinitas which is an independent vehicle that we may provide staff and services to but that entity will be the primary lead for those negotiations. I don't think it's a bad number to use but you should just know that there's a lot -- there's a lot of things that haven't been sorted out. And my crystal ball is cloudy based upon what people will be willing to accept later on this year to get CLOs printed.

Jared Shaw - *Wells Fargo Securities - Analyst*

Okay, and then the change from third quarter to fourth quarter in terms of total revenue?

Bryce Fowler - *Triumph Bancorp, Inc. - CFO*

This is Bryce, Jared. I'll try to take that one.

I think one of the Doral Money CLOs that was acquired is now in an amortization period, so it's not reinvesting underneath there so the balance that's under management is beginning to decline now as it's moved beyond the reinvestment period. So we'll see over time that one kind of amortize off.

I think we mentioned a call or two ago that we had shortened up our line from an estimate of four on one of those CLOs as far as the amortization. We're not quite sure when the full call date will occur or when it will if at all. But it's now in the decline there.

Jared Shaw - *Wells Fargo Securities - Analyst*

Okay. So barring any incremental new issuance we should expect to see that continue to decline as amortization continues?

Bryce Fowler - *Triumph Bancorp, Inc. - CFO*

Yes, it will be dependent on the cash flow's underlying portfolio that's being managed there. So again I don't know if this is going to be a straight line that dollar amount from here but it should be a small decline over time.

Jared Shaw - *Wells Fargo Securities - Analyst*

Okay. And then just finally, one question separate from this. On the average ticket size on the factoring you had said it was $1,400 for the fourth quarter and that was down from when you said $1,678 for the full year average ticket size for 2014. Is that correct?

Aaron Graft - *Triumph Bancorp, Inc. - Vice Chairman & CEO*

Let us look real quickly on that one.

Jared Shaw - *Wells Fargo Securities - Analyst*

And then I guess as you're looking that up, was that all -- was that change all due to lower fuel price or is it as you bring in new customers just generally the average ticket size is also smaller? Just trying to figure out the --

Aaron Graft - *Triumph Bancorp, Inc. - Vice Chairman & CEO*

Well, there's a lot of things going on in there. So let me just give you a couple of them.

Number one, there's a seasonal shift in the average size of invoices. In the spring and summer months they are generally higher because we're buying more invoices on refrigerated trucks which are going to be -- could be twice -- it could be a $2,800 invoice versus a $1,400 invoice as produce is shipped out of the Valley in Texas or out of the Inland Empire in California.

So there's a seasonal shift, there's a freight, how tight is the freight market that has some bearing on it as well. It's been a little softer.

And then there is the overarching, the major mover, though, in this decrease has been tied to diesel prices. And just it costs the trucker less to fill up their truck the brokers and the people shipping know that and invoice sizes chase it down.

Bryce Fowler - *Triumph Bancorp, Inc. - CFO*

He did have the numbers right.

Dan Karas - *Triumph Bancorp, Inc. - Chief Lending Officer*

Yes, the numbers are correct.

Aaron Graft - *Triumph Bancorp, Inc. - Vice Chairman & CEO*

And one thing I'd point you to this might be helpful, if you compare Q4 of 2014 in our factoring subsidiary with Q3 of 2015, in Q4 of 2014 the average invoice size was $1,763. In Q3 of 2015 it was $1,431. In each of those quarters, the average net funds employed was almost identical at $157 million.

The difference in those two quarters is in Q3 of 2015 it took 400 more clients and 60,000 more average invoices to get there. So you're working just as hard to make just as much money but what is impressive to me about the enterprise investment we've made in our business is that the operating expense in those two periods is only about $50,000 different. It's only about $50,000 higher in Q3 of 2015.

So essentially what we're saying is it cost about $50,000 more to service 400 more clients and 60,000 more invoices. And what I think that illustrates is the embedded intrinsic investment we've made into that business and its ability to grow in the future and for income growth in that business to outpace expense growth.

Of course, in this past quarter invoice prices were even lower at $1,400 but because we continue to take market share our average our net funds employed continues to grow. So I hope that's helpful. I just kind of would illustrate how that business is built to be profitable and I think in the future certainly will capitalize as prices rebound whenever they do.

Jared Shaw - *Wells Fargo Securities - Analyst*

Great, that's some great insight. Thank you.

Operator

Bill Carcache, Nomura.

Bill Carcache - *Nomura Securities - Analyst*

Thank you. Good morning guys. Aaron, I wanted to follow up on some of the commentary around energy as it relates to asset quality.

So certainly both charge-offs and reserve building came in better relative to both our expectations and consensus. And I kind of wanted to see if you could provide a little bit of perspective on the degree to which on one hand you talked about some of the issues that lower oil prices how there are some headwinds to the business, but to what degree is there an overall benefit? And then maybe net-net if you put all the pieces together across your business as a whole, really do you think of lower energy prices as more of a positive or of a negative for Triumph?

Aaron Graft - *Triumph Bancorp, Inc. - Vice Chairman & CEO*

Great. I will let Dan take it first and then I will follow him.

Dan Karas - *Triumph Bancorp, Inc. - Chief Lending Officer*

One of the things that we think about when we look at opportunities in out-of-favor industries, and energy certainly is out of favor, is if we have clients or prospective clients with management who have been through cycles with capital, with liquidity who have a reason for being and in our case have either a need to finance receivables primarily for nonspecific non-energy related equipment, those present good opportunities for us at today's energy prices in particular. There are going to be survivors in the space.

And so to the extent that we have watched people cut expenses, shore up their business, have liquidity, we either stick with those clients or we look for those opportunities to take institutions out who don't want to be in that space today. So I think there's upside potential as Aaron mentioned earlier in that sector today as long as we're selective and prudent in how we pursue it.

Aaron Graft - *Triumph Bancorp, Inc. - Vice Chairman & CEO*

And overall, Bill, for people who've lived in this part of the country and been around this business, this cycle is I mean this is what happens. And unless you believe or the world believes that five years from now we'll wake-up and all of our goods that we get delivered through interstate commerce are being delivered by something other than trucks and that those trucks run on something other than diesel, we know that this industry will cycle back.

So I would say if you look at Triumph's history we have always made the most money in times of volatility when other people were exiting. I think we're incredibly well positioned to do that again. We have -- it's not because we were smart enough not to lend on reserves.

We're just too expensive. And there was other people chasing that opportunity. So if you've lent on reserves you're kind of stuck with that anchor on your balance sheet.

There's not a whole lot you can do about it. If your exposure instead is like our exposure which is in equipment that can be repurposed for other uses or in trade credit that you collect on a 45-day schedule, if we stopped buying invoices exposed to the energy sector we'd runoff $7 million of that first derivative exposure that I explained in 45 to 90 days because that's how fast we'd collect it out.

So given where we're positioned, given that we don't wish ill on any of our competition in these markets but given that some of them are going to have to pull back and retrench we see this is a great opportunity from an acquisition standpoint and also from a taking market share standpoint. So for me like I said I think I don't understand why the market is pricing our stock the way it is and I don't like it. But that being said, I also know that if we do make the right moves in this cycle, we can create a lot of value for our shareholders and if we create value eventually our stock price will follow.

Bill Carcache - *Nomura Securities - Analyst*

That makes a lot of sense and that's very helpful perspective. Thanks. I wanted to do maybe switch gears and ask a little bit more on the M&A side.

I wanted to see if maybe you could offer some thoughts on maybe just how would you characterize the urgency to complete a transaction? I guess if you could also put that in the context of loan to deposit ratio where it stands for you guys right now? And then I think along those lines, how the market volatility that we're seeing right now is impacting your discussions with potential targets, is the volatility a positive or a negative?

Aaron Graft - *Triumph Bancorp, Inc. - Vice Chairman & CEO*

Yes, great questions. Look, I would say there's zero urgency. We want to do a deal because we do believe it will create enterprise value.

We do believe it will improve our deposit position. We do believe we can further diversify our geographic exposure. All of those reasons make us want to do a deal.

We're engaged in discussions on deals that meet those criteria. But as far as urgency there is no sense of urgency that we have to run out and do a deal even if that's what the market expects us to do. I hope we will and I think that we will be able to hopefully announce something to the market soon but if we don't, we can raise deposits.

Your preference, those would primarily be time deposits but given our net interest margin that doesn't concern me too much. I think the balancing act for us if you think about -- if I think about in my biased view, so take this for what it's worth, if I think about what's the best value in the market, Triumph at 1.1 times tangible book is the best value in the market. And I don't have any qualms about saying that.

But in the short term if you buy back your stock and you don't invest for the future, if that's all you do, then I don't know that we create the most value for our investors that way. So the discussions we're having are exactly along the lines of what we've told the market. We're not going to give somebody a material position in our stock right now because we think -- I want to use the right adjective -- it is way undervalued.

So we're going to do a transaction if we do one from the position of cash. As far as the volatility in the market and how that affects the discussions, the people to which we are talking some of them are going to be more exposed to energy than others. The people generally as we've looked it is people who are not so exposed to energy and we've had those discussions.

So we would certainly be willing to look opportunistically next door or in our own state. But my gut tells me that it's going to take a longer period of pain before the current market realities cause sellers to adjust their expectation.

So this volatility hasn't lived with us long enough to create sellers who are capitulating to the market. Instead I think most of them are holding on and believing it will get better. And we're happy, for those types of deals we're happy to wait and see if they are right or we are right.

Bill Carcache - *Nomura Securities - Analyst*

That's very helpful. Thanks, Aaron. Thanks guys.

Operator

Stephen Moss, Evercore.

Stephen Moss - *Evercore ISI - Analyst*

Good morning, guys. I wanted to ask, I guess starting off with how should we think about the average balance in the first quarter for factored receivables?

Aaron Graft - *Triumph Bancorp, Inc. - Vice Chairman & CEO*

Well, the first quarter if you remember last year is generally a period of seasonal slowness for us. I don't know of any reason that will change for this year. I also don't expect anything dramatic.

So what I can tell you is if you look over a long period of years, the first quarter is of the four generally the slowest. We're starting from a larger base than we've ever started from but it's generally the slowest.

Stephen Moss - *Evercore ISI - Analyst*

Right. So I guess perhaps we should see a little bit of the average balance perhaps is going to be a bit lower than what the ending balance is for the fourth quarter.

Aaron Graft - *Triumph Bancorp, Inc. - Vice Chairman & CEO*

Yes, I would say that is possible.

Stephen Moss - *Evercore ISI - Analyst*

Okay. And then just wondering if you could give us an update on commercial finance pricing. Are you seeing tighter spreads and what's going on in the market there?

Dan Karas - *Triumph Bancorp, Inc. - Chief Lending Officer*

Well I would love to say that the Fed's decision had an impact on pricing and that we're able to get wider margins but unfortunately that is not the case. So price competition has not abated. We've seen some compression but we've held as firm as we can.

And I think it's reflected in the overall yield. And we continue to pursue the niches that we think are underserved in the marketplace. So overall we still face price competition and we're working hard to maintain our price discipline.

Stephen Moss - *Evercore ISI - Analyst*

Okay. And I guess if you could give us on the outlook for expenses some overall color for 2016 if possible.

Bryce Fowler - *Triumph Bancorp, Inc. - CFO*

This is Bryce. So we haven't really put out and didn't prepare specific guidance for the whole year on expenses but just last I've seen in terms of kind of consensus out there I mean it looks to me like in the first couple of quarters the consensus number may be a little light on expenses by a couple hundred grand a quarter. But it's starting to get more in line longer term with what's out there.

Stephen Moss - *Evercore ISI - Analyst*

Okay, thank you very much.

Operator

Jefferson Harralson, KBW.

Jefferson Harralson - *KBW - Analyst*

Thanks, guys. I just wanted to ask you about, I think Bryce talked about a $21 million loan that was a CLO warehouse loan.

Was that an investment or a loan? I didn't quite catch what you were talking about.

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Aaron Graft - *Triumph Bancorp, Inc. - Vice Chairman & CEO*

So that is an investment. As we warehouse CLOs or portfolios of loans to get them prepared for a CLO issuance those loans are warehoused on the balance sheet of the arranging bank. So in this case as I mentioned we're in that process with Wells Fargo and Morgan Stanley.

That's who holds the loans on their balance sheet. The primary equity that supports those that are in those warehouse facilities comes from Trinitas which is the independent third-party vehicle that Triumph was part of helping form that it will be the CLO issuer going forward and that we hope to have some relationship with.

In addition to that, we think investing in warehouses, especially if you have terms in your warehouse structure that protect you from short-term volatility like we're experiencing is a great opportunity. So Triumph has $21 million invested alongside Trinitas in the warehouse.

It's earning about a 15% internal rate of return. It will go away when the CLO is issued but in the interim period it certainly helps get the CLOs closer to the finish line. And for us it has historically been a very profitable thing for us to have equity in.

Jefferson Harralson - *KBW - Analyst*

Okay, that makes sense. Thank you.

And I wanted to ask you too, maybe a follow-up on Stephen's question, for 1Q as you were talking about the average balance of the loans in total do you also think that the average invoice price is going to go down in Q1? If we just saw the deeper prices stay here is that going to create maybe even a larger seasonal impact in Q1 with the possibility of the invoice price being down again?

Aaron Graft - *Triumph Bancorp, Inc. - Vice Chairman & CEO*

I think more than invoice prices moving it would just be the number of invoices per client purchased. Is what if Q1 of this year holds true to form of Q1 of last year it's number of invoices more than actual invoice prices contracting.

Jefferson Harralson - *KBW - Analyst*

Okay, okay. Thanks guys.

Operator

(Operator Instructions) I'm showing no further questions at this time. I'd like to turn the call back to Aaron Graft for closing remarks.

Aaron Graft - *Triumph Bancorp, Inc. - Vice Chairman & CEO*

Yes, thank you everyone for joining us. And we'll talk to you soon.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone have a great day.

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