THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

TBK - Q1 2016 Triumph Bancorp Inc Earnings Call

EVENT DATE/TIME: APRIL 28, 2016 / 1:30PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

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

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

Bryce Fowler *Triumph Bancorp, Inc. - CFO*

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

Gibran Mahmud *Triumph Capital Advisors - Chief Investment Officer, Senior Managing Director*

CONFERENCE CALL PARTICIPANTS

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

Timur Braziler *Wells Fargo Securities, LLC - Analyst*

Steve Moss *Evercore ISI - Analyst*

Chris Chouinard *1C Investment Company - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Triumph Bancorp, Incorporated First Quarter 2016 Earnings Call. (Operator Instructions)

As a reminder, this conference call may be recorded. At this time, I'd like to hand the call over to Luke Wyse, Vice President of Finance and Investor Relations. You may begin.

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

Thank you, Nicole. Good morning. Welcome to the Triumph Bancorp conference call to discuss our 2016 first quarter financial results. I am Luke Wyse of 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, 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 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's 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 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'd like to turn the call over to Aaron. Aaron?

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

Thank you, Luke. Good morning, and thank you for joining us for 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 Chief Financial Officer; Dan Karas, our Chief Lending Officer; and Gibran Mahmud, who leads our TCA division.

Triumph earned net income to common stockholders for the quarter of $4.8 million, or $0.27 per diluted share. We have grown tangible book value to $13.18 per share. While our average outstanding loan balances were up for the quarter, our total loan portfolio balances outstanding at the end of the quarter declined $46 million from last quarter. As Bryce will explain in specifics, some of this decrease is due to volatility in our mortgage warehouse portfolio. Some of the decrease is due to typical first quarter seasonality in our transportation factoring business, as well as lower invoice sizes in our factoring portfolio, which is almost directly attributable to lower diesel prices. Outside of these two lines of business, we did generate net growth in our loan portfolio.

Our ratios of past due and nonperforming loans to total loans moved up this quarter. However, we continued to see strong credit performance in our portfolio. Our charge-off activity has remained minimal, as we recorded net credit recoveries in excess of our charge-offs in the first quarter. Bryce will provide further details related to this.

On the topic of credit quality, and sticking with my analogy from prior calls, remember that Triumph has 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 oil field services businesses and transportation customers who haul for the oil and gas industry.

Our exposure in this space comes through factored receivables, ABL transactions, and equipment finance loans. The total of Triumph's first derivative exposure to this space is $46.4 million, compared to $42.8 million as of December 31, 2015. This total represents approximately 3.7% of our loans. Of this amount, approximately $9 million was classified as substandard as of March 31, 2016.

We continually review this portfolio, and as of March 31st, 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 and resulting soft freight rates have had a continuing 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 decreased $20.8 million to $165.7 million, as the average invoice size purchased this quarter was $1,295 versus $1,400 in the prior quarter, which is a decline of 8%.

In addition, as we have discussed on prior calls, the transportation factoring business typically experiences a seasonal slowdown in the first quarter of each fiscal year. As a result, the number of invoices purchased decreased from 304,000 to 295,000 in the current quarter, a decrease of just under 3%. The dollar value of invoices purchased this quarter decreased $43 million over the prior quarter to $382 million.

While seasonality and fuel prices are out of our control, we continue working to gain market share, and have added 63 net new clients for the quarter. In my opinion, this is the number you should watch. Our active client growth has been steady each consecutive quarter since we acquired this business in 2012. Growing active clients sows the seeds for future growth. As freight activity picks up throughout the year, those clients will sell us more invoices.

As fuel prices go up, whether it happens five months from now or five years from now, the profitability of this business will grow. Within the four walls of Triumph, we don't spend much time talking about market movements and seasonal demand. Instead we concentrate on making decisions and investments to make us the industry leader in providing financial solutions to small businesses, and the lower end of the middle market in transportation.

Our Triumph Community Bank division continues to focus on core account generation, while supplementing deposit growth with CD offerings. In December, we opened a new branch in Davenport, Iowa, and that branch is off to a good start generating new account relationships.

Throughout the first quarter, our community bank management staff has been focused on planning the integration of Colorado East retail functions into our own. We maintain a high level of confidence that Colorado East operations will fit very well within the larger TBK bank platform.

On that topic, the acquisition of Colorado East is progressing as expected at this point, and we do not expect any material deviations from our comments on the announcement call in March. We will keep you updated and apprised of the status as we continue forward.

Our asset management business continues to manage its five CLOs. As we have discussed during previous calls, we also expect to be named staff and services provider to a new asset manager, Trinitas Capital Management, upon the issuance of two CLOs currently being warehoused. We remain committed to growing this segment of our business.

At this point, 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. Slide 7 and 8, as well as the tables attached to the earnings release, present the current and historic mix of the loan portfolio. Total loans declined $46 million, or 3.7% this quarter. Contributing to this was a $43 million decline is period-end balances in our mortgage warehouse portfolio, and a $23 million decline in the balance of transportation factoring receivables.

The average balance of the mortgage warehouse portfolio for this quarter increased about $1 million over the prior quarter, to $78 million. The decline in transportation factoring was due to the factors Aaron discussed. Excluding the mortgage warehouse and transportation factoring portfolios, the period-end balance of total loans increased $20 million or 2% this quarter.

Average total loans outstanding this quarter increased $37 million or 3.1%, versus the fourth quarter of 2015. The commercial finance loan portfolio, excluding transportation factoring, continued its strong growth, increasing $30 million or 9% for the quarter.

Year over year, from March 31, 2015 to March 31st this year, total loans increased $234 million or 23%. The balance of the transportation factoring receivables increased $800,000, despite a 17% decrease in average invoice size outstanding at the end of each of those periods.

The total commercial finance portfolio was up $142 million, or 37% year over year. And it now represents 42% of total loans.

Slide 13 presents our asset quality metrics. Our provision for loan loss expense this quarter was a credit or benefit of $511,000, due to the net impact of several factors. We increased the allowance for loan loss to establish specific reserves of $536,000 on three credits with a total carrying amount of approximately $5.4 million. These increases were offset by reductions in allowance for loan loss, due to the overall decline in the period-end balance of our held for investment loan portfolio, and most significantly by the decline in factoring balances, which carried the highest, ALLL allocation of all of our loan products.

Our actual realized losses continued to remain low. Recoveries exceeded charge-offs by $37,000 this quarter, and our allowance for loan loss as a percentage of total loans remain flat at 97 basis points as of March 31st.

The increase in our nonperforming assets during the quarter was primarily due to the addition of three commercial finance loans totaling $6.8 million, one of which was a relationship restructured as a TDR. These credits also accounted for the majority of the specific loan loss reserves added during the first quarter.

In addition, we transferred approximately $2.2 million of retail branch facilities from fixed assets into OREO during the quarter, as these locations are no longer being actively operated as branches.

Our ratio of past due to total loans increased to 3.61% at March 31st, compared to 2.41% at the December 31st of last year. Most of this increase was due to one $10.5 million loan reported past due at March 31st. A payment due to us at its renewal is not received until a couple of days after quarter end, and the loan is now current. This loan accounted for 84 basis points of the past due percentage increase. The remaining increase was primarily due to the nonperforming commercial finance relationships previously mentioned.

In our investment securities portfolio, we've purchased $26 million of A-rated CLO securities during the first quarter that we classified as held at maturity. Credit spreads on these products widened early in the year due to the market volatility we all observed, providing an opportunity to purchase these securities at attractive risk-adjusted yields.

We were able to leverage the expertise of our Triumph Capital Advisors team to underwrite and select the securities purchase. These floating-rate CLO securities provide an initial yield of approximately 4.7%, with an estimated average life of approximately 6.5 years. These are not CLO securities issued or managed by TCA, but by other large CLO managers.

Slides 8 through 10 present trend information for net interest margin. Yield on loans this quarter was 7.84%. The adjusted yield on loans, which excludes the impact of approximately $1.1 million of purchased loan discount accretion recording during the first quarter, was down 37 basis points to 7.47%. As of March 31, 2016, we had $11.7 million of remaining loan purchase discount, of which we expect $6 million to accrete into income over the remaining lives of the associated loans.

The decline in loan yield was substantially due to the decline in factoring activity at our Triumph Business Capital subsidiary this quarter, as the overall yield on the remainder of the loan portfolio decreased by only 6 basis points from the prior quarter.

The cost of total deposits and total funds increased 3 basis points quarter over quarter, due primarily to the mix change caused by growth in time deposits.

Net interest margin remains strong at 5.9% for the quarter, but did decline 30 basis points from the previous quarter due to the factors I've just mentioned.

We earned non-interest income of $5 million for the quarter ended March 31, 2016. Non-interest income includes $1.6 million in asset management fees earning by Triumph Capital Advisors. TCA now manages approximately $1.85 billion of CLO assets, earning approximately 35 basis points, on average, in management fees.

In addition at March 31st, Triumph continues to hold a $21.5 million equity investment in CLO warehouses that generated non-interest income of $984,000 in the first quarter.

For the first quarter of 2016, non-interest expense totaled $20.1 million, compared to $20.9 million for the fourth quarter. As you may recall, our non-interest expense in the fourth quarter included approximately $500,000 of integration and system conversion costs.

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

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

Thank you, Bryce. To wrap up, this is a tough market. Competition is still fierce, and the economic growth is tepid. What I see convinces me more than ever that Triumph's business model is the best way to create value for our shareholders. We blend the best of community banking and commercial finance in a single institution.

We will continue on our march forward to grow according to our blueprint. And we are becoming more efficient as we do it. After completion of the Colorado East transaction, we will have a much more efficient capital structure and expect to continue improve our returns to shareholders.

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 & Partners LP - Analyst*

Hey, good morning, guys. Aaron, with the move in the price of oil we've seen over the last 30 or 45 days, where would you expect your average invoice to go to maybe in the second quarter? And would you expect the NIM to snap back as it did, I guess, in the second quarter of last year, kind of at a similar type pace?

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

Well, that's a great question, and one that we are interested to know how things will unfold. First of all, just a couple of points, the actual invoice size does not-- is not 100% correlated to the price of diesel. It depends upon demand in the market, freight demand, et cetera. I would expect the trend to be up from where we are now.

If you look at a long period of time, we are below the median size that invoices have averaged going back almost a decade. It feels like, to me, that the average invoice size will go up. I could be wrong on that. But I believe it will go up. As far as snapping back the volume of invoices, we believe what we've seen in that past is that the second quarter will be better than the first quarter. But it hasn't roared out of the gates. I think it slowly builds. There's a shift in the freight mix, as more refrigerated trucks are running, which have generally higher average invoice sizes.

So the short answer, Brad, is I think it does get stronger. But I don't have clarity on how much stronger, and how much invoice appreciation there will be. Just to illustrate it for you though, for the benefit of everyone, if invoices were to go to where they were last year, which is about 20% higher than they were this time-- at this time-- that would add about $5 million in profitability pretax, without us doing any more work. That's the incremental value difference in that.

And so will it get to-- return to last year's prices, which are more along the average of where it's been over a long period of time? We have no way of knowing. What we do know is the more active clients we keep, the more we will experience that rebound when it happens.

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

That's great. And then just maybe a few numbers questions, Bryce. In fee income, anything in the other category this quarter that you would consider nonrecurring? It was up quite a bit link quarter and year over year. Just curious if that's kind of a sustainable number, or was there anything in there that you would remove.

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

I think there's a couple of items in there of note. One you might recall that in the prior quarter, we were completing a conversion of our core systems. And there were some asset disposals, some write-offs that occurred, a little over $200,000. It was actually up in that other income line. And so that obviously was not recurring this quarter.

And then the other is the increase that we saw in earnings off of our investment in the CLO warehouse. That income is reported down in other. And that's up about $280,000 from the prior quarter.

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

Okay. So that is not included in the regular asset management fee line?

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

That's correct.

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

Okay. And then finally, do you have the components--

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

But those should-- those should Brad, if I can just add-- once that CLO or once that warehouse investment is returned and that warehouse becomes a CLO, we would expect something roughly equivalent to that level of income to then be realized in an asset management line. So they should somewhat match up. It won't be perfectly timed and exactly the same. But roughly some of that income that we earn in the warehouse, some of it should be replaced with asset management fees.

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

Got it. Got it. Thank you. That's helpful. And then just one final question. Can you give us the components and dollars of your NPAs, like broken down between OREO, TDRs and NPLs for the quarter?

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

Hey, Brad. It's Dan Karas. That's a great question as well. So the NPAs really were discrete, independent unrelated events. But two of those increase in the NPLs were commercial finance loans. And those were $4.6 million, roughly. One of those was also a commercial finance, was a TDR for $2.2 million. So that accounts for roughly $6.8 million of the increase in the NPLs for the period.

And then the other component of NPA are two branches that were moved into OREO. And one of those in particular, as you may recall we closed our mortgage business. And the mortgage operations was housed in a branch. So almost all of that increase, roughly $1.9 million, is one of those locations that we had to change classification on. So we're working with each of those try and resolve it, and have made some progress so far. So we feel pretty good about both collateral positions and the progress we've made.

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

So, Brad, this is Bryce. And I'll give you a little more color on part of your question there as far as a breakdown. In our nonperforming loans overall, there are $3.4 million of TDRs that are accruing is reported in that number. So about $2.5 million in factored receivables, which is-- they're beyond their collection date, but that's kind of a normal level that's reported for that group. There's just a little over $7 million of purchase credit impaired loans that have about $5 million in discount that's netted against that number in terms of book value.

And then as Dan was talking about, there's about $4.5 million of loans, two of them with specific reserves on them, which leaves about just under $4 million for the rest of the nonperforming loan section. And then of course, plus OREO gets you to the total nonperforming asset number.

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

And Brad, you didn't ask this question specifically. But it's related. So if you look at our past due loans and notice the increase, and Bryce addressed the fact that roughly $10.5 million or 84 basis points of the increase was accounted for, and was brought current. We had one other in there as well. So total loans in that past due category since quarter end that have been brought current, are about 94 basis points.

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

Okay, great. Thank you.

Operator

Jared Shaw, Wells Fargo Securities

Timur Braziler - *Wells Fargo Securities, LLC - Analyst*

Hi. Good morning. This is actually Timur Braziler filling in for Jared. Just one quick follow-up on the CLO investment question that was just discussed. What the absolutely dollar amount related to CLO that's currently included in the other line item in the other fee income line item?

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

Are you talking about in other income? Let me clarify there.

Timur Braziler - *Wells Fargo Securities, LLC - Analyst*

Yes.

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

So just in gross, our dollar investment in that is roughly [$21.5 million and change], a little bit, that's in there. That's invested into an entity that then has a warehouse borrowing line in place with a third party lender where they're accumulating the loans in there for eventual issuance of a CLO.

If you question is what is the gross amount of the loans held inside of that vehicle, I'd have ask Gibran over here to give me a current number.

Gibran Mahmud - *Triumph Capital Advisors - Chief Investment Officer, Senior Managing Director*

Yes, if it's the gross amount of loans held in those two vehicles, there's $250 million of gross amount of loans in one vehicle, and $100 million of gross amount in another vehicle, for a total of $350 million of loans in those warehouses.

Timur Braziler - *Wells Fargo Securities, LLC - Analyst*

Okay. That's helpful. And then I believe you had said the other fee income line item went up $280,000 on a link quarter basis from this investment. I'm just wondering what's the absolute dollar amount now that we should see switch over from other income to assets under management income, once that warehouse-- once it leaves the warehouse.

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

So, this is Bryce. And I'll have the others probably tighten up my answer if needed here. But so again, as a reminder, so that $21.5 million we have invested is yielding a very nice yield to generate $980,000 of income this quarter. So as these CLOs get issued, those investment dollars will come back to us. And it's currently in different CLO warehouse investments. So the timing of when all those dollars will come back, it will kind of come back in two pieces.

It's hard to predict when that will occur. So that's roughly yielding, if you just do the math, around 18% annualized rate on that investment. So, then as the CLOs get issued, it will kind of depend on the size of the CLOS that get issued, and the amount of the fees that are eventually negotiated that has under the staff and servicing arrangement between TCA and Trinitas and Capital Advisors. And those are to be determined.

But I think what we've talked about there is those fees should range, we hope, in the range of 30 basis points of asset managed. And so about a half a million CLO, that's--

---

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

A $500 million CLO.

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

$500 million, excuse me.

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

It would be million and a half a year.

Timur Braziler - *Wells Fargo Securities, LLC - Analyst*

Okay. That's very helpful. And I appreciate the color you gave around the first and second derivative impact to energy. Maybe just expanding that a little bit and kind of that second derivative impact away from your portfolio specifically, but maybe just what you're seeing from some of your C&I customers and kind of some of the local geographies and economies are being impacted by lower energy prices.

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

We don't have exposure, much exposure, in Houston or West Texas. We don't have real estate, commercial real estate exposure in either market. Our real estate exposure, or CRE exposure in Texas is about $50 million. So we don't see that same second derivative impact that we might had we been in the Dakotas or West Texas, with a large client base.

So I'm not sure if that helps. But overall, we're not seeing the impact, except at is it relates to those who are specifically serving the energy sector in that first derivative category.

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

I would add on to that, the C&I lending we do around Dallas is-- to the extent there is second derivative exposure to those companies, we're not seeing it. These companies here that aren't in the business of servicing the oil field services businesses seem to be doing well. I mean we hear anecdotally that that's not case, perhaps, in some of those areas of the market, as Dan referred to, West Texas and some other places where the economy is very bound up with energy prices.

But in North Texas and our Midwestern footprint, we're just not seeing a lot of spillover into those businesses yet.

Timur Braziler - *Wells Fargo Securities, LLC - Analyst*

Okay. That is helpful. Thank you. And I just have one other question regarding M&A or the Colorado East deal slated to close later this year. Would you be looking to do something else prior to that deal closing? Or would you want that deal to close and kind of swallow that whole thing before you work on it for other opportunities?

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

Well, for the Triumph team members on this call or in this room, I'm sure they're hoping that we get to close that one before we announce the next one. From my seat, we're always looking. And I don't think it will be that long until we close Colorado East. I don't know when it will get approved. But we are working towards that end. But we continue to look.

So it's impossible to predict whether those would overlap. But we don't view being in the process of acquiring Colorado East as bringing our other M&A activity to a hard stop.

Timur Braziler - *Wells Fargo Securities, LLC - Analyst*

Okay, understood. Thank you.

Operator

(Operator Instructions) Steve Moss, Evercore ISI

Steve Moss - *Evercore ISI - Analyst*

Good morning. I just wanted to touch base, circle back to Aaron, you mentioned the competitive environment. And I'm wondering if you could update us in terms of loan pricing and maybe Dan as well, in what the competitive structures you're seeing out there.

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

Well, let me take part of it. This marketplace lending stupidity is we experience it. We feel it at the margins. Now, that being said, it seems like some of those companies are returning to earth. Some of the liquidity is exiting that market. But there's still aggressive marketing, aggressive, unsustainable, ridiculous lending going on in that market that affects prospects for us. Because if those customers have entered into an MCA relationship or some type of marketplace loan, they may no longer be eligible or not eligible at all to enter into a factoring relationship with us.

And it's inevitable that they won't be able to pay the rates that they're going to facing in those loans, the vast majority of them. So there is tremendous marketing going on towards those customers. We're still adding net customers, which I don't think that if we're speaking specifically about the transportation space, I don't think that it is growing as the whole industry or that there are that many new participants coming in. So we're still taking market share. It's just difficult to do that. But we are still accomplishing that.

With respect to other types of-- the rest of our lending portfolio, I think Dan would be best to speak to that.

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

Yes. I look forward to the day when I can say that the price competition has abated, and that we are getting higher yields. But today isn't that day. Aaron alluded to we're seeing credit structures loosening, and we're just not going to follow down that path. And so that causes some internal frustration. But maintaining credit discipline through the cycle is going to be critical to us, coming out whenever the other side is, strong.

We still focus on building relationships and educating team members across the platform on all of our capabilities, not solely the capability they have within their individual business unit. And that is beginning to pay some more dividends for us as well, by enhancing client relationships and hopefully holding those for the long haul.

We're looking at the energy sector. We're being highly selective in what we do. You noticed a tick up in energy. That was by design for the quarter. So we'll continue to look. But again, highly selective in that space.

And then overall pipeline activity has been solid. I expect continued growth in commercial finance, as Bryce pointed out earlier. I expect the community bank activity to continue to grow and provide stability. And I expect some improvement in mortgage warehouse. But that's a niche-y chunky sort of business for us.

So overall yields are under pressure, and we're doing our best to get the most attractive yields, and balance the risk.

Steve Moss - *Evercore ISI - Analyst*

Got you. And then with regard to the delinquent credit, I think it was $10.5 million you mentioned. I was just wondering. Is that a one-off issue with the borrower, or is that a criticized or a classified credit?

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

No. That's just a purely unfortunate event that occurred for us. We had an extension set. It was scheduled to close on the 31st. The client had a personal matter and was out of the office, and was unable to send the money and sign the documents. And so they did that the very next week. But it shows up on quarter end, and it doesn't make the numbers look attractive. So that was just a one-off, unfortunate event.

Steve Moss - *Evercore ISI - Analyst*

Got you. And in terms of expenses this quarter seemed pretty well contained. I'm just wondering. Is this a good run rate here, ignoring the impact of Colorado East, going forward?

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

This is Bryce. I mean I think overall it is. But as a reminder, we will see here this is the period here where we do equity grants to our team, and board members, and also we'll see a pickup in expenses associated with the equity grants, probably around $500,000 for the next quarter. And we're still kind of absorbing the overall impact of our core systems conversion. There could be a little chatter up on that. But overall there's some benefits working in. So I hope that kind of net-nets out.

So with those caveats, I think it's a good starting point.

Steve Moss - *Evercore ISI - Analyst*

Okay. And I guess one other question on CLOs here. Obviously we had volatility in the first quarter for capital markets. And the timing of closing of a CLO obviously is difficult to time out. But just wondering what's your guys' sense of the market, and how we should think about potential closing of one of the transactions.

Gibran Mahmud - *Triumph Capital Advisors - Chief Investment Officer, Senior Managing Director*

Yes, sure. This is Gibran. As you mentioned, there's volatility at the beginning of the year. What we've seen in March and continuing into the second quarter is a pickup of that CLO machine again. We've seen a pretty good spike in issuance as it's come about.

So for the year, I think we'll still hit some of the analyst targets, the CLO market analyst targets of $50 billion to $60 billion. So far this year it's been about $12 billion. So we expect to see a continued pickup throughout the second quarter into the third, as a market statement.

Steve Moss - *Evercore ISI - Analyst*

Got you. And then is it fair to assume like maybe a third quarter type close as you continue to add loans to the CLO?

Gibran Mahmud - *Triumph Capital Advisors - Chief Investment Officer, Senior Managing Director*

Hard to predict exactly when close will be for us. We are patient in trying to make sure we issue CLOs when it the makes most sense to. So we're continuing to look at the market and assess when is the best time. I think sometime in the second or third quarter is a reasonable assumption, but no guarantees of that, of course.

Steve Moss - *Evercore ISI - Analyst*

Okay. Thank you very much.

Operator

Chris Chouinard, 1C Investment Company.

Chris Chouinard - *1C Investment Company - Analyst*

Hi. Good morning. Thank you for taking my question. Just a couple of very quick ones, first the new investment that you made in held to maturity securities, did that come in near quarter end? I'm just kind of curious if that was reflected in the average security deal this quarter, or it sounds like it should be coming on materially above average, and might bump that up next quarter.

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

This is Bryce. So those were accumulated probably at the beginning-- or about the first of March, maybe in late February in there. So in terms of the dollar amounts, we should have some additional benefit in the next quarter.

The yield -- assuming rates don't move-- that we reported should be about the same.

Chris Chouinard - *1C Investment Company - Analyst*

Got it. You know, and just on the mortgage warehouse business, maybe I didn't hear all your comments at the beginning about sort of the reason for the decline. And I know those can be volatile. But just, is this kind of normal volatility or is this sort of doing-- you know, your customers are doing a little less business? Or did you lose a customer? Or what was-- and kind of where do you expect this business to kind of-- is this sort of the right run rate here for the business in terms of the $78 million we had at year end-- or quarter end.

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

Thanks, Chris. It's a good question. It's Dan Karas. We think of-- at least I think of mortgage warehouse in some regards as similar to our commercial finance businesses, in that look to serve underserved sectors of the mortgage origination market. And by that I mean we are not market leaders. We don't price and structure as market leaders do.

So as a result, to try and get our risk and return balanced, we have fewer clients. They tend to be smaller. Their volumes tend to be a little lumpy. We have generally seen seasonality in the first quarter. So if you looked at average funds employed, Q1 of 2015 to Q1 2016, that's about the same. But we did see a decline in purchases from a couple of our clients. We're working to expand that base.

But I don't know that we're going to get the second quarter bounce that I would normally expect. So it's hard to predict that business. But it may be a little softer than it was last year.

Chris Chouinard - *1C Investment Company - Analyst*

Understood. Thank you very much.

Operator

(Operator Instructions) And I am showing no further questions at this time.

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

All right, well thank you, everyone, for joining us today. And we look forward to speaking with you in the future.

Operator

Ladies and gentlemen, thank you for participating in today's conference. That does conclude today's program. You may all disconnect. Have a great day, everyone.