Triumph Bancorp

Q4 2017 and 2017 Annual Earnings Call

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CORPORATE PARTICIPANTS

Aaron Graft – *Vice Chairman and Chief Executive Officer*

Bryce Fowler – *Executive Vice President, Chief Financial Officer*

Dan Karas – *Chief Lending Officer*

Luke Wyse – *Senior Vice President, Investor Relations*

PRESENTATION

Operator
Good morning, everyone, and welcome to the Triumph Bancorp Q4 2017 and 2017 Annual Earnings Conference Call. All participants will be in a listen-only mode. Should you need assistance please signal a conference specialist by pressing the star (*) key followed by zero (0). After today's presentation there will be an opportunity to ask questions. To ask a question you may press star (*) and then one (1). To withdraw your question you may press star (*) and two (2). Please note today's event is being recorded. At this time, I would like to turn the conference call over to Mr. Luke Wyse, SVP, Finance & Investor Relations. Please go ahead.

Luke Wyse
Good morning. Welcome to the Triumph Bancorp conference call to discuss our fourth quarter 2017 financial results. Before we get started, I would like to remind you that this presentation may include forward-looking statements. Those statements are subject to risks and uncertainties that could cause actual anticipated results to differ. The Company undertakes no obligation to publicly revise any forward-looking statement. If you are logged into the webcast, please refer to the slide presentation available online, including our Safe Harbor statement on Slide 2. For those joining by phone, please note that the Safe Harbor statement and presentation are available on our website at www.triumphbancorp.com. All comments made during today's call are subject to that Safe Harbor statement. I am joined this morning by Triumph's Vice Chairman and CEO, Aaron Graft; our Chief Financial Officer, Bryce Fowler; and Dan Karas, our Chief Lending Officer. After the presentation, we will be happy to address any questions you may have.

At this time, I would like to turn the call over to Aaron. Aaron?

Aaron Graft
Thank you, Luke. We have a lot of things to cover in this call. To signpost the presentation, I am going to use three categories: The unusual, the unexpected, and the unique. First category, the unusual. Three unusual items created noise in our Q4 numbers. First, accounting for our acquisitions, which is the most usual of these unusual items. The fourth quarter results include the impact of our acquisition of nine Independent Bank Colorado branches, which closed on October 6th; and the acquisition of Valley Bancorp Inc., which included seven Colorado branches which was effective on December 9th. These acquisitions further strengthened our position in growth markets of the Northern Front Range region of Colorado. In addition, these acquisitions improved our core deposit base and funding capacity.

TBK Bank now operates 53 branches, with 32 located in Colorado. We acquired $267 million in loans and $454 million of deposits in these two acquisitions and recognized a total of $9.3 million of core deposit intangibles and $16.3 million of goodwill. We incurred $1.7 million in transaction costs, which reduced our diluted earnings per share by $0.05. We have added back this expense in calculating our adjusted earnings per share. Second, once in a generation unusual items: The effect of the new tax legislation. We recognized a non-cash charge of $3 million in income tax expense in Q4, which reduced earnings per share by $0.14. That fact aside, we expect our future earnings to benefit greatly from a new lower expected effective tax rate of approximately 23% in 2018. We expect that a material portion of this benefit will fall to our bottom line. The third unusual item is the impairment charge of $1.3 million on core deposit intangible assets, which reflects the entire remaining unamortized core deposit intangible asset associated with the acquired public deposit funds. This adjustment to the CDI is a non-cash item that accelerates the timing of an expense we would have incurred in the future, and it is the result of our plan to reduce public funds as we discussed on last quarter's call. Given the composition of our balance sheet, it is not financially practical for us to continue to hold public funds. This adjustment reduced earnings per share by $0.04.

Now, let's talk about the unexpected. We have made the decision to exit the healthcare finance business. We have made this decision to simplify our organization. We are going to reinvest the capital and attention we previously allocated to our healthcare finance business into our core businesses, specifically transportation factoring and traditional asset-based lending. As a result of this decision, the carrying amount of Triumph Healthcare Finance assets, including loans with a recorded balance of $68.7 million net of an allowance for loan and lease losses of $2.1 million was transferred to assets held for sale. As of January 19th, we have executed an agreement to sell materially all the assets associated with our healthcare finance business.

And the final category, the unique. By unique, I mean the things that make TBK unique to its competitors. These are the things we're most proud of. First, exceptional loan growth and solid asset quality. Our organic loan growth, excluding the impact of the acquired loan portfolios and Triumph Healthcare Finance, was $186 million, an increase of 7.9% from the end of the third quarter. This included organic growth in our CRE portfolio of $84 million and included $77 million of growth in our mortgage warehouse platform. I am very proud of the organic growth our team has produced this year. We also drove organic growth in our equipment lending, asset-based lending, and factoring lines of business. Excluding Triumph Healthcare Finance, our commercial finance lending portfolio grew $79 million or 10% during the quarter. Again, the team we have put in place in our commercial finance business continues to excel at growing niche loans without sacrificing yield or credit quality.

Year-over-year, our total loan growth was $854 million or 42%. This includes the acquired loan portfolios. Excluding our healthcare asset-based lending portfolio, our total organic loan growth for the year was $595 million or 30.6% and total organic loan growth in our commercial finance loan portfolio was $284 million or 46%. I would be surprised if many or any of our peers outperformed these metrics. As a result of our loan growth in Q4, our net interest margin improved over the prior quarter. This happened on an absolute and an adjusted basis. With respect to asset quality, our fourth quarter metrics remained solid. We recorded a provision for loan loss of $1.9 million, primarily to provide for the quarter's organic loan growth. This quarter's net charge-offs were a manageable $1.4 million or 6 basis points of average loans for the quarter and 28 basis points for the year. Of the total net charge-offs experienced this quarter, $1 million had previously-established reserves. Our past due non-performing loan and non-performing asset ratios all experienced improvement during the fourth quarter.

The next point, continuing strength in our transportation factoring business. Triumph Business Capital, our factoring subsidiary, contributed approximately $30 million of loan growth for the quarter. I sound like a broken record, but I want to point out that TBC once again achieved record highs in the number of invoices purchased, the dollar value of invoices purchased, and the number of clients served in the fourth quarter. TBC purchased 512,000 invoices or a dollar value of $872.4 million during the quarter, which is an increase of $140 million or 19% compared to the prior quarter. For the year, TBC purchased $2.8 billion of invoices, which is an increase of $938 million or 51% compared to the prior fiscal year. That is incredible growth for this segment that continues its winning ways. TBC added 233 net new clients in the fourth quarter to reach 3,158 clients at December 31st. Average net funds employed were $310 million during the fourth quarter, and the average invoice size purchased this quarter increased to $1,705 versus $1,537 in the prior quarter.

To give some color on what has happened since the end of the quarter, January 2018 purchases, which are normally affected by downward seasonal trends, have been surprisingly strong to-date and are 70% higher than the same period in 2017. We are also encouraged by the fact that our average invoice size to date continues to trend higher from where it finished the fourth quarter. While the sample size is too small to draw substantive conclusions, we are experiencing early confirmation of strong economic forecast for the transportation industry in the first half of 2018.

The last thing to mention, and sticking with the u-word theme, is upcoming initiatives to watch for in 2018. First, our Dallas retail branch. We are investing in the establishment of a full-service retail branch in Dallas. For those of you who are familiar with TBK, you know it will be like no other. We have significant relationships in the Dallas market. Our vision is to leverage those relationships to grow core deposits and bring full-service commercial services to Dallas. Early results are very promising, as over $50 million in deposits have already been raised in advance of an anticipated soft opening later this summer. We envision the Dallas branch becoming our largest full-service retail branch in our entire franchise within one year of opening.

Second, Triumph Business Capital Technology initiatives. Since its soft launch in the third quarter of 2017, TriumphPay continues to gain traction with freight brokers and factoring clients. Ahead of any aggressive marketing for the TriumphPay product, several clients have been signed onto the platform, and we have a pipeline of potentially significant clients. We will continue to focus on our proprietary technology platform development such as TriumphPay, third-party application integrations such as transportation management software and transportation data providers, and an enhanced client user experience through things such as updated websites and mobile applications. We expect this investment to enhance our position as the leading transportation factor in the nation. A closely-related technology application, which we are exploring aggressively, is Blockchain. Triumph is a charter member with board representation on the newly formed Blockchain in Transportation Alliance or BiTA. BiTA's mission is to bring transparency and velocity to supply chain transactions. With over 750 members, the aggregate trade volume of the association's membership represents over 85% of all domestic freight tonnage, and Triumph is honored to support transformative technologies in this key market segment. I will say here what I have said before. I believe that TriumphPay, both in its original intended application and its potential Blockchain integration, could be transformative for the industry and certainly for our institution.

At this point, I'd like to turn the call over to Bryce to provide some additional color on our financial performance in the fourth quarter. Bryce?

Bryce Fowler
Thank you, Aaron. For the fourth quarter, we earned net income to common stockholders of $6.1 million or $0.29 per diluted share. As Aaron mentioned, earnings for the quarter include the impact of several items we feel should be highlighted for investors to consider when thinking about our go forward earnings profile. The cumulative impact of the $1.7 million of transaction costs, $1.3 million impairment of the core deposit intangible, and $3 million revaluation of our deferred tax asset reduced diluted earnings per share by $0.23. Regarding operating expenses, during our last earnings call we communicated a $30.5 million fourth quarter expected expense run-rate incorporating the two acquisitions. Total non-interest expense for the quarter adjusted for the transaction cost and an impairment of the core deposit intangible was $30.2 million. We expect operating expenses for the first quarter of 2018 to increase to approximately $34 million. Most of this increase is attributable to the inclusion of Valley Bank and the acquired branches for the full quarter.

Clearly, business was strong as we not only had very good loan growth as Aaron outlined, but we also experienced across-the-board increases in loan yields and net interest margin during the quarter. This was primarily driven by the yields on our commercial finance portfolio, which increased 41 basis points to 11.03%. Additionally, the fourth quarter included $1.7 million of loan discount accretion, an increase of $300,000 compared to the prior quarter. As of December 31st, we have $17.1 million of accretable loan purchase discount and expect approximately $6 million to accrete to interest income during 2018. Our loan-to-deposit ratio was 107% as of December 31st. Our use of federal home loan bank advances to fund most of our mortgage warehouse portfolio and place this ratio about 9%. Total deposits for the quarter were up $609 million, which includes $454 million in acquired deposits. We experienced notable increases in our money market products in Dallas and took in about $80 million of brokered deposits. We remain confident in our ability to obtain funding for profitable loan growth, given our ability to pay competitive deposit rates as our loan portfolio yield remains above 7%.

With that, I'll turn it back over to Aaron.

Aaron Graft
And I will turn it back over to the moderator for any questions.

QUESTIONS AND ANSWERS

Operator
Ladies and gentlemen, at this time we will begin the question-and-answer session. To ask a question you may press star (*) and then one (1). To withdraw your questions you may press star (*) and two (2). If you are using a speakerphone, we do ask that you please pick up your handset before pressing the keys to ensure the best sound quality. Once again, that is star (*) and then one (1) to ask a question. We will pause momentarily to assemble the roster. And our first question today comes from Brett Rabatin from Piper Jaffray. Please go ahead with your question.16:15.7

Brett Rabatin
Hi, guys. Good morning.

Aaron Graft
Good morning, Brett.

Brett Rabatin
I wanted to first ask on the tax rate you guys mentioned that most of the benefit would drop to the bottom line, can you maybe elaborate a little further on what you mean by most of the benefit will drop to bottom line? What things might not and what investments are you making?

Aaron Graft
Sure. So irrespective of whether or not there had been tax reform, we have a variety of initiatives for 2018 that were going to increase on an absolute basis our non-interest expense. That would have included investment in technology, both the specific technologies I intimated related to Triumph Business Capital. We're also improving some of our retail delivery channels. We are continuing to expand space. All of that would have happened whether or not there was tax reform. As a result of tax reform specifically, I would say we have identified less than $500,000 of actual spending. So, our view is if we were going to do these things anyway as a

result of tax reform, we didn't make any changes, so the majority, the vast majority of our expected benefit is just going to flow to the bottom line.

Brett Rabatin
Okay, great color there. And then it looks like you'll have a pretty good path this year for the commercial finance segment to push back to 40 fairly quickly, could you just talk about that? And then maybe, you talked about the full-service branch, but kind of how you see your funding evolving as the year moves on and rates continue to move a little higher in terms of cost of funds?

Aaron Graft
Sure. So taking the first question, the goal of commercial finance to be 40% of outstanding loans is really more of a ceiling than a managing to that number. You can see it from these numbers on an organic basis, commercial finance grows faster than any other segment we have. It would also be reasonable to expect we will engage in M&A in 2018, which will add community bank loans, most likely, into our balance sheet. I would be surprised if at the end of this year we were pushing against that 40% cap, given some of the things we're working on. But on an organic basis, we expect commercial finance will continue to be our fastest growing component of our loan portfolio.

On the second question, the full-service Dallas branch, one of the reasons we're doing that, we already have significant lending in Dallas. One of the reasons we're doing this is to provide a way for us to capture deposits from some of these commercial relationships and many of the high net-worth individuals who are investors with TBK or sit on our Board of Directors. As a result of those efforts, we think we will generate core transactional accounts from those individuals. I don't know if by itself that branch swings the funding mix, but we do think it will become our largest branch almost immediately just because of the relationships we have. With respect to the rest of the funding mix, I would say again you would look at M&A. As we look at M&A, that is the most strategic priority we consider is funding. We'll continue to grow deposits through some of our initiatives that exist in our existing retail framework.

Brett Rabatin
Okay, great. I appreciate the color.

Aaron Graft
No problem.

Operator
And our next question comes from Jared Shaw from Wells Fargo Securities. Please go ahead with your question.

Timur Braziler
Hi, good morning. This is actually Timur Braziler, filling in for Jared. The first question is on the factoring business, really a tremendous three quarters here to end 2017 as far as dollars purchased and average invoice amount. As you look into 2018, how much of that is market share gain, how much of that is true, I guess overall business growth, and as you look at 2018, how should we be thinking about the growth prospects of that business?

Aaron Graft
Yeah. Well it has been a remarkable run and I suppose the first thing we should say is trees don't grow to the sky, right. We know that you couldn't continue on this pace forever, but just a

couple of things to point out. We grew net clients 30% year-over-year from ‘16 to the end of ‘17 on the same period. And average, the number of invoices purchased grew 33%. Those are pretty logical correlated numbers. If you grow clients by 30% and your clients are fully deployed, your invoices ought to grow at about the same rate. Of course, the gross revenues grew 52%. The delta there, the reason revenues grew disproportionately to the number of clients would of course be tied to the average invoice size. Average invoice sizes have continued to strengthen all year. We believe they are going to continue to strengthen in 2018 as a result of the strong economy. But we’ve said before that we think factoring or transportation factoring specifically is a pretty good leading indicator. It feels pretty good right now.

The second reason we think it’s growing is the supply/demand imbalance created by– even though it’s not fully implemented, but by the trucking industry trying to absorb the effect of the ELD mandate, the electronic logging mandate, which is going to reduce, generally speaking, the number of miles driven by a lot of these independent owner operators. When you’ve got a strong economy and you’ve got a very tight labor market in the transportation space, specifically, we think that bodes very well for us. Secondly, we just have a better mousetrap. What we’ve spent on technology, our mobile app has now been downloaded by I think close to 700 of our clients, which is Cash 4 Truckers, is available on Android and Apple, which allows them to take pictures of their invoices and submit them on a purely mobile experience. There’s very few competitors who have that. And the last thing I would point out is we’re not totally clear on this, but it appears some of the tax law changes that are going to make it attractive for many drivers to stay leased on or stay independent truckers, then we think the benefit will be for the large fleets. And a lot of that has yet to be fleshed out, but of course if that does happen that’s great because it just increases the pool of potential consumers of Triumph Business Capital services. We think we have the largest client base, we’re still a very small percentage, probably 5% at most of the entire market. We think there is room to grow clients, which will lead to more invoices. As to what happens on average invoice sizes, that’s out of our control. But for right now, it looks pretty strong and the January, the typical seasonality you see in January has not reared its head this year, which bodes well for the economy.

Timur Braziler
Okay, that’s excellent color. Next one, maybe just following-up on the public funds, can you remind us what the balance of the public funds were and then what the associated costs of those deposits are?

Bryce Fowler
Yeah, this is Bryce. I’ve got it a quarter ago total public funds were in round numbers $115 million or $120 million or so. I would say 70% of that probably has at this point left the building or is on the way out. The cost of those was probably on an average around 40 basis points, 45 basis points in interest costs. But along with that, we weren’t either being able to completely price in the cost of the services we were providing to them, so that’s part of the economic decision to get them out along with the pledging requirements that we had.

Timur Braziler
Okay. And the exit from the public funds space, is that at all indicative of your optimism for either organic growth in the near-term or near-term M&A to kind of supplement that base?

Bryce Fowler
Yeah, to some degree, but if you kind of go through on the funding side, the math of those, I mean where most of that big dollars associated with the public fund clients we have, we were having to carry 105% or 110% of the total largest expected deposit amounts from those

customers in securities, so it really wasn't helping us from a liquidity standpoint overall.

Aaron Graft
Yeah. If I could just jump in on that, Timur, that look, I think banks naturally want to do this and we're trying to help those clients. We have to look at everything through the lens of being a for-profit company and when you look at the pledging requirements to transactional costs of operating those funds, we think the ROE on that business or those funds is less than 5%, which is an unacceptable return for us given overall where we want to take our enterprise. Because we're fully loaned up and we tend to stay that way, we just don't think that this is practical for us to stay in this line of business, so we've made other arrangements to allow these customers to deploy their deposits not on our balance sheet, but to still get the services they need.

Timur Braziler
Okay. And last one for me on TriumphPay. Any more color you can provide on when the kind of soft launch is expected to happen and if you've done any work around the potential revenue stream that you could eventually generate from that business?

Aaron Graft
Yeah. Well, we've done lots of work, none of which we're willing to share at this time. But I would say the soft launch is out there. The sales cycle for TriumphPay is much longer than the sales cycle for a traditional factoring client. We can turnaround a traditional factoring client in a few days. For TriumphPay, especially the first ones we do, you're talking about six to nine month integrations with the transportation management software. And if you think about the TMS providers out there, there is three or four that dominate the market. Well, for us, we are in the process of completing the integrations with those three or four leading providers. And once you get the first integration done, you probably cut two-thirds of the time off the next integration, because you've already written the interface. What I would say is it's an accelerating thing that, you know, we have 74 active freight brokers on the system right now. We've processed thousands of invoices through it, but what is in the pipeline that excites us is some very large potential clients. And of course, we're marketers at heart, so once one of those folks is signed up and live you can imagine we'll be advertising that throughout the industry, because we think there will be many people to follow because it's such a great thing for our freight broker and third-party logistics clients once they're done. Net-net, I think you'll start to see the numbers show up in the second half of '18, but this is a really big year for TriumphPay.

Timur Braziler
Great. Thank you.

Operator
Our next question comes from Brad Milsaps from Sandler O'Neill. Please go ahead with your question.

Brad Milsaps
Hey, good morning guys.

Aaron Graft
Good morning, Brad.

Brad Milsaps
Hey Aaron, a great quarter. I just wanted to follow up on some of the guidance on Page 8 of your slide deck where you kind of break down your ROA goal. I guess there was one change,

your previous goal on the net overhead ratio was around 2%, now you're kind of aiming for less than 3%, is that just more of a realistic goal? Any other big changes there aside from what you talked about in terms of things you're investing in? And how does that sort of speak to your M&A strategy for the rest the year? You know, is it going to be more traditional-type banks, maybe it's more specialty finance, which will keep that higher? I'm just kind of curious. Any color around that change?

Aaron Graft
Yeah. Here's what I would say, Brad. First of all, if you'd note, we've upped our goal from a 1.5% to a 1.8% number. The second thing –and that's effect of the tax rate, etcetera. As far as on the net overhead ratio, I think that's recognition of in that, number one, we're building that technology platform here. There are some costs to that over and above what other traditional community banks would have, but we also happen to think it's something that could be significantly valuable into the future. We also think our factoring and commercial finance businesses are going to grow at a more rapid clip, which they have a higher overhead ratio than traditional banking. I suspect that we will over the long-term beat that 3% goal as we continue to grow. You asked the question about what do acquisitions look like for us in 2018 - I would tell you that almost 100% of our attention would be on the acquisition of traditional depositories. The stuff we're doing in commercial finance and technology-wise is being driven internally and organically. We've just looked at those numbers and we also feel that we have been able to maintain a yield on earning assets or net interest income to total average assets well above where we had set the numbers and our long-term goals, and so we think the shift we made is more appropriate to reflect the granular nature of our business, the fact that we generate very high yields on some niche markets that require a lot of attention, and as a result of the technology we're working on.

Brad Milsaps
Yeah, that's helpful. Just to follow up on the M&A piece of it. You guys' multiple is up quite a bit over the last six months to nine months. How has that changed at all things you would look at? , I kind of know your history as a buyer, Aaron, and you always look for things that are on sale, but has the strong multiple on your performance, has that opened up maybe more acquisition avenues that you might not have pursued before? Just kind of curious kind of what deals might look like - if it's the same, that's great, but just kind of curious if there is any change in that regard?

Aaron Graft
No, definitely. Definitely the multiple helps. We can look at more of our Texas peers, right? We've long expressed the desire to be in Texas. We're doing it organically, but that multiple expansion now makes some of those deals actionable and accretive. We will continue to do what we've always done, which is look for opportunities that we think we're buying at the right price in more rural markets. We continue to believe, notwithstanding the Dallas footprint and I think we will have more growth in Texas, but that some of these markets where we're locking up funding in a dominant presence in those markets, where you don't get the same amount of growth, we think you can buy those institutions well inside of where we trade. So it's accretive. And we also think that funding base is stable, and that's where we will continue to look.

Brad Milsaps
Great. Thanks, guys.

Operator
Our next question comes from Steve Moss from B. Riley. Please go with your question.

Steve Moss
Good morning.

Aaron Graft
Good morning.

Steve Moss
I just – I am just wondering if you could give us any updated thoughts with regard to, specific line items within loan growth in terms of the commercial finance side of the business and also commercial real estate?

Dan Karas
Sure. Good morning Steve, it's Dan Karas. In commercial real estate, just to call that out first. Fourth quarter growth about $84 million. That continues to be comprised of some expansion in our community banks in the Midwest and in the West, but in large part, it's higher credit quality, strong sponsors, the Dallas market, and most of that is even multifamily or office. We feel pretty good about continuing that growth trend as well. In commercial finance in the fourth quarter, we had growth not only in prime business capital of north of $32 million, but we had growth in equipment finance. We had the best quarter that that group has ever had, and we think in large part it's both the geographic expansion of the origination team, but strong fundamentals economically, some of the same characteristics that we experienced in Triumph Business Capital. In general ABL, that's expansion of existing credit facilities for clients that continue to grow as well as its geographic reach has broadened and so have some new clients in different spots of the country as well.

Steve Moss
That's helpful. Appreciate that. And with regard to the margin, just wondering what we should expect for purchase accounting accretion here in the first quarter?

Bryce Fowler
I think, we've mentioned on the introductory remarks that we're looking at about $1 million of total accretion for all of '18. That's probably not a straight line, I think it's little heavier in the first quarter, $6 million – I'm sorry, $6 million over the year. But that will be a little heavier in the first quarter.

Steve Moss
Okay. Thank you very much. Good quarter.

Operator
Our next question comes from Matt Olney from Stephens. Please go ahead with your question.

Matt Olney
Hi, thanks. Good morning, guys.

Aaron Graft
Good morning, Matt.

Matt Olney
I'm curious about the strategic exit of the healthcare ABL portfolio. Why now and how much of this decision is based off concerns you have about healthcare ABL industry versus just more

opportunities you see elsewhere for TBK?

Aaron Graft
Sure. Let's start off with just from a market perspective. We know that the healthcare segment is going to expand and that the ABL opportunities that are out there probably will continue to expand. From our past experience with healthcare, we found those credits to be more difficult for us to underwrite and understand than some of our others, and that may just be on us as senior management not being as comfortable with those as transportation and other areas, where we have a longer experience. And so really the assessment came down to, Matt, that you can be good at a lot of things, but you probably need to be great at a few things and so we see the opportunity to exit this business at a small gain. We think it's a good transaction for the team that's in it. We see a lot of more opportunities in the segments we're in and in more deeply in their core and that will run out of our Dallas office versus healthcare finance which was run out of Portland, Oregon. And so, as just a result of all those factors, we viewed that we were simplifying and de-risking ourselves just a bit by exiting that business and focusing on fewer initiatives and so that's why we chose to do it.

Matt Olney
And Aaron, is there a tentative date you have out there for closing that transaction?

Aaron Graft
Ah, we expect to close it in Q1.

Matt Olney
And then maybe for Bryce on the margin. With a full quarter impact of the acquisition in the first quarter, I assume that's going to set some downward pressure on the margin near-term. Any more color you can provide as far as the near-term margin outlook?

Bryce Fowler
No, I think you're framing that right. I mean, it's a little difficult to be real precise, but certainly, the acquired portfolio being included in the average for the whole quarter will push it down a few more basis points. The accretion, as we just mentioned, is pretty large upfront, but that will burn off, a bunch of it over the first year, but certainly the first quarter should be down a little bit overall.

Matt Olney
Okay, great. Thank you, guys.

Aaron Graft
Thank you.

Bryce Fowler
Thanks, Matt.

Operator
Our next question comes from Nick Grant from KBW. Please go ahead with your question.

Nick Grant
Hey, good morning guys.

Aaron Graft

Good morning, Nick.

Nick Grant
Alright. So kind of going back to your Page 8 targets here on the slides. I mean, we've talked in the past about kind of your scalability and at what points you can hit these targets. In a post-tax reform world, does it look more like after a couple of deals that you're at $4 billion in assets, or is $5 billion still the number where you feel you achieve that scalability necessary to generate this ROA?

Aaron Graft
Yeah, I would say, we still think its $5 billion or above is where we think we will achieve that. I mean, I would expect we will close this year above $4 billion. There's a good chance of that just on an organic basis even, and I suspect we will do M&A, I can't predict the timing of that. But I think you'll see us take material steps closer, and I think by $5 billion we believe this, as a core run-rate, is achievable. And so that's what we're focused on.

Nick Grant
Okay, great. Thanks for the color. And maybe stepping back and thinking more big-picture strategy, so in the past year you exited the CLO business, now healthcare, took steps to simplify and optimize from a risk-adjusted standpoint. You're also looking at the branch in Dallas. How are you guys thinking about your strategy shifting kind of more big picture and how does TBK look different in 3 years, if at all?

Aaron Graft
Yeah, great question. I think you'll see continued expansion, both personnel and geographies and branches of just traditional core retail banking focused on generating full-service customer relationships. I think in 3 years you won't find many if any new commercial finance lines of business. I think you'll find us just to have expanded the ones we are in. I don't expect you'll find us in any asset management business like the CLO business. I don't know that the next 3-year plan has a lot new in it. I think it will have a lot of growth, a lot of excitement. I continue to remain extremely excited about some of the technology things we're doing both alongside the Blockchain integration and just the traditional TriumphPay model that we think can be expanded to maybe other industries, but built on the same platform. When we sit back and look at ourselves and we say look, we can at $5 billion plus with the traditional franchise, we think we can generate a lot of value for investors. We think we can generate even more value by our excellence in commercial finance and continuing to invest in that. And then we think we can create extreme returns and we don't know when, but in some of these technology initiatives that exploit niches that other people don't play. And so that's really where we're focused, and I don't think you'll see us deviate from that.

Nick Grant
Great. Thanks for taking my questions.

Operator
Once again, if you would like to ask a question, please press star (*) and then one (1). Our next question comes from Gary Tenner from D.A. Davidson. Please go ahead with your question.

Gary Tenner
Thanks guys. Good morning. Just a couple of questions for me, just one more on the healthcare business exit. Were there any charge-offs associated with that business here in the fourth quarter?

Dan Karas
There was one small charge-off that we had previously had a specific provision for, but in our net overall charge-off number you would find it in there, so nothing material.

Gary Tenner
Okay. Thanks. And then with the tax cut and the reduction in your effective tax rate, you talked about capital, obviously you'll be accreting capital at a higher pace. Your capital ratios are roughly back to where they were before the July capital raise that went towards these recent acquisitions. Can you talk about how you're thinking about capital given those combination of factors currently?

Aaron Graft
Well, if we just run on an organic basis, we clearly have plenty of capital, and our rate of capital formation is now at a point where it's keeping up with or exceeding our growth. I suspect we will do M&A in 2018, so that will create an opportunity to use our currency and our capital will change as a result of that. I mean, one of the things I think about is once we're at $5 billion and perhaps even before that time, if we continue at the same return metrics that we have now, we're going to cross over $1 billion in market capitalization, which as you know creates some efficiencies and the capital markets bring some new investors to look at us and probably create some expansion opportunity for where we trade, and so that's an exciting proposition. And once we cross over that mark, there's the open questions of do we at that point initiate a dividend? We haven't made those decisions at this time. I know we won't do it unless and until we cross over that mark. And I know that we very likely won't do a capital raise in 2018 unless it's in conjunction with an M&A opportunity.

Gary Tenner
Thank you.

Operator
And once again, if you would like to ask a question please press star (*) and one (1). To remove yourself from the question queue, you may press star (*) and two (2). Again, that is star (*) and then one (1) to ask a question. And ladies and gentlemen, at this time I am showing no questions. I would like to turn the conference call back over to Aaron Graft for any closing remarks.

Aaron Graft
Thank you all for joining us. We hope you have a great day.

Operator
And with that we'll conclude today's conference call. We do thank you for attending. You may now disconnect your lines.