Triumph Bancorp, Inc.

Second Quarter 2017 Earnings Release and Conference Call

Thursday, July 20, 2017, 9:30 A.M. Eastern

CORPORATE PARTICIPANTS

Aaron Graft - *Founder, Vice Chairman & CEO*

Bryce Fowler - *EVP, CFO & Treasurer*

Luke Wyse - *Senior Vice President of Finance and Investor Relations*

Dan Karas - *Chief Lending Officer*

PRESENTATION

Operator
Good morning and welcome to the Triumph Bancorp's Second Quarter Earnings Conference Call. All participants will be in 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 (*) then one (1) on your touchtone phone; to withdraw your question, please press star (*) then two (2). Please note this event is being recorded. I would now like to turn the conference over to Luke Wyse, Senior Vice President of Finance and Investor Relations. Please go ahead.

Luke Wyse
Thank you. Good morning. Welcome to the Triumph Bancorp conference call to discuss our second quarter 2017 financial results. I am Luke Wyse 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 second quarter 2017 earnings release yesterday 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 at 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 today. 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 forward-looking statements after today except as required by applicable law.

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 yesterday 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
Thank you, Luke. The second quarter was an outstanding quarter for TBK. Our performance can mostly be linked to positive core trends across our business, which bodes very well for the future, in my opinion, and when you add the deal we have announced to broaden our retail footprint as well as those we continue to work on, we are creating positive momentum in the three things that we know drive shareholder value: Improving our efficiency, improving our asset quality, and growing our core deposit franchise. Our total loan portfolio grew organically by $260 million in Q2. Nearly all of our businesses contributed to the quarter's success, which

I'm particularly proud of since it shows that we are growing without becoming concentrated in any single area.

Our Community Bank portfolio grew by $172 million for the quarter. This growth was led by our mortgage warehouse business, which increased by $107 million. In addition to seasonal growth, more than half of the additional volume was the result of new client additions. With these new clients, we expect our mortgage warehouse business to continue to grow. Complementing mortgage warehouse was over $43 million of growth in our CRE portfolio. While we've remained well below the regulatory concentration guidance in the CRE area and have no plans for that to change, we believe this line of business will be a continued source of growth for us as we selectively work with clients who we believe are well positioned for the inevitable turbulence of the CRE market.

Our commercial finance portfolio which includes our ABL, equipment finance, and premium finance lending, in addition to our factored receivables, increased by $88 million for the quarter and comprises 35% of our overall loan portfolio. As we have said in the past, our soft target for this is 40%. While each business grew in the quarter, the primary driver of growth in our commercial finance portfolio was Triumph Business Capital, our factoring subsidiary, which contributed approximately $50 million of growth for the quarter.

In our comments on the first quarter earnings call, we called out the performance of TBC as it stayed relatively flat instead of falling with typical seasonality. We believed at the time that this was a sign of good things to come for this line of business and that belief turned out to be right. To add some perspective to our factoring results, TBC achieved record highs in the number of invoices purchased, the dollar value of invoices purchased, and the number of clients served in the second quarter. This growth is primarily the result of increasing our market share due to superior marketing, technology, scale, and customer service. Specifically, TBC purchased 446,000 invoices, or a dollar value of $639.1 million, and added 151 net new clients in the second quarter to reach 2690 clients at June 30.

For the first time, average net funds employed exceeded $200 million during a quarter and the average invoice size purchased this quarter increased to $1433.00 versus $1388.00 in the prior quarter. Since the close of the quarter, we continue to see slight upward movement in invoice sizes, which excites us for the remainder of the year. The dollar value of the invoices purchased this quarter over the same quarter last year are up 47%. We continue to expect great things from this line of business and it has continued to deliver.

Total deposits for the quarter grew by $47.9 million to $2.07 billion. As you will recall, on June 23, we announced that our banking subsidiary, TBK Bank, entered into an agreement to acquire nine branches from Independent Bank in Colorado. We expect the acquisition to provide approximately $68 million in net funding as we will be acquiring approximately $100 million in loans and assuming $168 million in deposits. The branches fit well within our current footprint and will expand our presence in our Western division to 27 branches. The transaction is expected to close during the fourth quarter of 2017 and is subject to certain customary closing conditions. With our recent leadership hires, we continue to focus on our retail growth strategy as well as continuing our M&A work with a primary focus on acquiring solid core deposit franchises within our target markets.

With respect to asset quality, our second quarter metrics all reflect improvements. In the second quarter, we recorded a provision for loan loss of $1.4 million, primarily to provide for the impact of $260 million of loan growth. Net charge-offs declined to acceptable levels of

$743,000.00 or three basis points of average loans. As part of our reduced provision in the second quarter, we were able to reverse approximately $1.1 million of specific reserves related to two credits due to improved performance and pay-downs of outstanding balances.

Our past due nonperforming loan and nonperforming asset ratios all experienced improvement during the second quarter. These improvements are consistent with the communication of our expectations that the first quarter's $7.7 million provision expense was largely driven by the Isolated Healthcare, ABL and ColoEast credits we identified and discussed on our prior earnings call.

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

Bryce Fowler
Thank you, Aaron.

For the second quarter, we earned net income to common stockholders of $9.5 million or $0.51 per diluted share. Net interest income for the second quarter increased $6.7 million or 21% over the prior quarter. This increase was driven by $188 million increase in average balance of loans outstanding over the prior quarter, as well as increases in loan portfolio yields. The yield on loans increased 64 basis points over the prior quarter to 7.79%. Net interest margin increased 79 basis points to 6.16%. Our commercial finance loans remained at 35% of total loans, however, our commercial finance portfolio yields increase 117 basis points to 11.42%, as much of the growth was in our higher-yielding factored receivables.

The second quarter includes $2.9 million of loan discount accretion, an increase of $1.8 million over the prior quarter. The increase in discount accretion includes accelerated accretion of $1.8 million associated with the prepayment of certain purchase credit impaired loans, which contributed to the increase in GAAP loan yield. As of June 30, we had $11 million of remaining loan purchase discount, of which we currently expect $10 million to accrete into income over the remaining lives of the acquired loans. Of this accretable amount, approximately $2 million is expected to accrete by the end of 2017. Excluding the impact of purchase loan discount accretion, the adjusted yield on loans was up 32 basis points to 7.25% in the second quarter and our adjusted net interest margin increased 51 basis points to 5.7%.

Noninterest income increased $494,000.00 over the first quarter to $5.2 million after excluding from prior quarter the gain on our sale of Triumph Capital Advisors and TCA's asset management and fee income, which was sold March 31. As we discussed on our last call, separate from the TCA business that was sold, we held a $21 million investment in a CLO warehouse, of which we realized $964,000.00 of earnings and other noninterest income in the first quarter and $989,000.00 in the second quarter. The CLO was issued in late June and the invested funds returned to us and will be redeployed to support loan growth and other investment opportunities.

Noninterest expenses in the second quarter were $27.3 million, which is in line with what we had communicated during last quarter's call. As a result, measurements of our operating leverage, including the ratio of adjusted net noninterest expense to average assets and efficiency ratio, continued to show improving trends. We project our noninterest expenses for the third quarter should come in around $28 million.

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

Aaron Graft
Thank you. We'd like to turn the call over to the operator for any questions.

QUESTIONS AND ANSWERS

Operator
We will now begin the question and answer session. To ask a question, you may press star (*) then one (1) on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star (*) then two (2). At this time, we will pause momentarily to assemble our roster. And our first question comes from Brad Milsaps with Sandler O'Neill. Please go ahead.

Brad Milsaps
Hey good morning, guys.

Aaron Graft
Good morning, Brad.

Dan Karas
Morning.

Brad Milsaps
Hey, Aaron and Bryce, just curious if you guys might offer a little bit more color, you know, kind of on the P&L impact of the Colorado branch purchase. I assume maybe not a lot of fee income but obviously it will an expense impact and then kind of how you feel about the, kind of the NIM outlook as those funds come on. It looks like with growth the way it's going, you probably already have a place for them, but just kind of curious a little bit more color around the P&L impact of the branch purchase.

Bryce Fowler
Sure. As we mentioned there is about $100 million of loans, they've historically recently been yielding just over 5%, I think 5.1% as a whole. The deposit base of $168 million has a cost of deposits of 39 basis points and I'll just mention, of that $168 million of deposit, 42% of that is demand and so we're looking forward to impact of that. On the net overhead contributions, some kind of approximate numbers in terms of net additions of fee income and impact on operating expenses, we've estimated that to be in the range of about 175 to 200 basis point of assets being brought on, net-net, at least initially.

Brad Milsaps
And, Aaron, you talked a little bit about gaining some share in the mortgage warehouse business, it sounds like you feel pretty good about maintaining those balances. Just kind of curious the difference maybe between the period and what that average warehouse number was for the quarter?

Dan Karas
Hey, good morning, Brad, it's Dan Karas and as Aaron mentioned, we do feel good about mortgage warehouse, which that business is up 70%, year-over-year, almost 70% of the number of packages we touch similarly is up 100%. So we feel good about the sustainability of the balances especially as we rebounded through Q2. Average balances, let me follow them back up and provide those to you, but certainly it's been a substantial increase in Q2 over Q1.

Brad Milsaps
Okay and then one final just modeling question, Bryce, your comments around the income from the TCA, remaining TCA business of almost $1 million this quarter, is that, now that that's been funded and it's [indiscernible] will that income also go away?

Bryce Fowler
Yes, we have gotten the money back and it's during the second quarter, so it's gone.

Brad Milsaps
Got it, okay, great. Thank you, guys.

Dan Karas
Hey, Brad, before I let you go, let me just follow backup with the average warehouse answer. In Q2 the average balances were about $149 million and that compares to Q1, the average balance was $108 million.

Brad Milsaps
Great, thank you.

Operator
Our next question is from Jared Shaw with Wells Fargo Securities. Please go ahead.

Jared Shaw
Hi, good morning.

Aaron Craft
Morning, Jared.

Jared Shaw
Just on the mortgage banking growth, in the past, you've you talked about you being really a secondary provider of liquidity. For these new customers are you more of the primary relationship there or is this still a backup source of liquidity for them?

Dan Karas
Good morning, Jared, it's Dan. We have been, in terms of the quality and speed of service delivery, earning our share in one of the top spots for our mortgage warehouse clients and so I feel good about the position we have. It isn't just a secondary position today. We're earning the top spot.

Jared Shaw
So the average balance should be little more stable or even potentially grow as we go forward with this?

Dan Karas
That's our expectation, yes.

Jared Shaw
Okay and then on the acquisition with the $100 million of loans, do you anticipate over time that you'll still have to be keeping your lending presence in those markets at the same level or could you end up seeing more funding advantage coming from that as those loans pay down over

time?

Aaron Craft
So, Jared, consistent with every time we go into a new market, especially more secondary markets, look, I expect the loan balances to stay about where they are. We're going to serve that market. If there's some loans were we didn't find a lot of loans, most of that loan portfolio was generated under the leadership of Carlile Bancshares or Northstar Bank, followed by, Independent only owned them for a short time, those are conservative lenders who we think highly of their credit quality.

So the loans over there, I suspect, will stay. With the addition of Stuart Pattison and some other hires in Colorado providing more leadership and just greater market presence, I think that you will see the opportunity for loan growth. We want to make sure that our community banking portfolio serves customers who have deposits with us because this is pretty clear from our numbers, we don't need to stretch for loan growth in markets that are new or unfamiliar to us. We want to lend to the core customers and let our niche businesses where we've built out a lot of infrastructure and market presence, allow those to serve as how we use our excess liquidity.

Jared Shaw
Okay, great, thanks and then when you look at the FHLB advanced growth this quarter, was some of that pre-investing, anticipated cash coming from the branches, or are you more comfortable keeping up a higher FHLB borrowing level?

Bryce Fowler
Hi, Jared, this is Bryce. So, I mean, as you're aware and I think we've talked about it before, a large part of volatility in the Federal Home Loan Bank advance line is driven by the mortgage warehouse program. We're able to borrow, daily borrowing base from Federal Home Loan Bank, that's a very cost efficient way for us to fund that program. So that drove a lot of increase that you saw in this quarter, just because of the warehouse growth, overall. But, overall, we are expecting some funding help with the branch acquisitions. There’s probably a little bit of anticipation in there in that growth in that line item.

Jared Shaw
Okay, thanks, and then just finally for me, on the factoring side, you had great growth and then seasonally, second quarter looks like in the past has been good for you. Do you think that momentum will be able to continue through third quarter? And then, also, if you can just touch on what's really driving the higher invoice and higher average invoices after you’re targeting the higher, like the reefers and the higher cost transportation or is that just more a factor of the market?

Aaron Graft
Yeah, so here's some interesting metrics for you, Jared, I think, if you look year-over-year, so if you look at Q2 ‘16 to Q2 of ‘17, the number of clients grew 20%, but the number of invoices we purchased grew 29%. Now we're not economists but what that tells us, based on other market conditions, is the utilization rate of the trucking fleet, especially the ones we serve, have gone up, which corresponds to a tighter spot freight market, which, in turn, leads to higher invoice sizes. So we sort to see the predictors in our numbers and so it's a pretty good leading indicator. I would tell you things appear very strong right now and continue, I see continued strength into the third quarter.

As far as adding net new clients, I will step out there and say we’re going to do that. I think we've done that every quarter since we been public. We just have better technology, we have better marketing, we have a better team. We've invested millions of dollars and lots of time in it and I think you're seeing us reap those rewards. As far as what the average invoice size is going to do, you got a headwind there because oil and gas prices are low, so therefore diesel prices are lower. But like I said, the utilization going up, buying more invoices from the same number of clients tells us they're driving more, tells us the market is tighter and there's other third-party indications that also back this up and so I see that pressure for invoice sizes continuing at least for the short-term. So net-net, that business will grow on an absolute basis and I think even on a percentage basis, it could get a little better when you add absolute client growth, absolute invoice purchase growth, and if the average invoice size goes up, over which we have no control, but if it continues this trend, it could be even more positive news for Triumph Business Capital.

Jared Shaw
Great, thanks very much.

Operator
Our next question comes from Steve Moss with FBR. Please go ahead.

Steve Moss
Good morning.

Aaron Graft
Morning, Steve.

Steve Moss
I was wondering if you'd just discuss the commercial real estate pipeline going forward here and also color around the average loan size and LTVs for the commercial real estate loans originated this quarter.

Dan Karas
Sure. Good morning, Steve, it's Dan. Our pipeline Q2 was more robust then it is in Q3, at least the expectation is. Average facility size is still for most of our targets are $10 million or less, we do a few on either side of that average. LTVs are pretty conservative, depends on the project type, whether its office or self-storage or multifamily. But we stay inside pretty conservative guidelines on LTVs. Again, it just depends on the property type. So I expect to see continued growth in CRE. I don't know that will be as robust as it has been in the first half, but I do expect to see continued growth.

Steve Moss
Okay and then second question for Bryce, just in terms of looking at the fee run rate going forward, I guess $4.2 million is probably clean number for the third quarter run rate?

Bryce Fowler
I think you're talking about total noninterest income at 5.2?

Steve Moss
Yes.

Bryce Fowler
Right. Yeah, overall, it's down in other noninterest income, there are a couple of items in there

that are not likely to continue. I think there's a little bit amount, we had a little bit of pickup from the revenue share agreement that we had from TCA that was like $50,000.00, $60,000.00. We had a recovery on an old charge-off loan from prior bank acquisition, about $150,000.00 in there. Of course, the CLO warehouse investment income was down in that line item, that was up, overall, but I think we already called out the dollar amount of that that will go away. So I would adjust for those items, going forward, down.

Steve Moss
Okay, great, thank you very much.

Bryce Fowler
Yeah.

Operator
Our next question is from Brett Rabatin with Piper Jaffray. Please go ahead.

Brett Rabatin
Hey, guys, good morning.

Aaron Graft
Morning, Brett.

Brett Rabatin
Wanted to ask about the margins. If I hear you correctly in that you said the discount accretion in the back half of the year of $10 million, you'll get half of that or can you go back over that again and then maybe just talk about the implications of the June rate hike and just how you kind of see the margin and particularly the funding cost side evolving from here?

Bryce Fowler
Sure, this is Bryce. Just to clarify, I think we have $10 million of accretable discount remaining as of the end of the second quarter. We're expecting $2 million of that to accrete.

Brett Rabatin
$2 million, okay.

Bryce Fowler
Yeah, over the remainder of 2017.

Brett Rabatin
Okay

Bryce Fowler
The impact of the rate hikes and all are certainly real, I don't have a precise number for you, but I can give a little bit of color. I think if you were to look at assets that we have or tied to or indexed to current short-term market interest rates, such as prime or LIBOR, we've got about $1.2 billion of those kinds of assets on the books as of end of the quarter. We've got about a little less than $500 million of liabilities, similarly priced, overall. So there's about a net more of $750 million more of assets and liabilities that are indexing to current market interest rates. Overall, a lot of that on that asset side is prime, probably three quarters of it, a lot of it is other things like LIBOR, those kind of items. So it's certainly not all a one to one move with the Fed moves, overall, on both sides of the balance sheet, but that gives you some sense of kind of the

magnitude in the short-term.

Brett Rabatin
Okay and then just thinking about funding, I know the branch deal is going to help, but what are you guys doing to organically try and grow deposits and are you looking at other kind of branch heavy type things to try and improve the funding base?

Aaron Graft
Yes and yes. We recently hired Kenyon Warren as our Head of Retail and we've really embarked upon a revamp of the branch strategy in the markets we're in. You know, some of those markets we're just maintaining the market share we have because they're small markets and we dominate the markets. But with some of our newer markets or markets that are adjacent to larger ones, we really are pursuing a more robust retail strategy. So we hope to see growth from that.

As we've said before, M&A for us is focused almost exclusively on acquisitions of banks in markets where we want to be that will build out our core deposit franchise, that's primarily what we focus on. I mean, we do look at commercial finance opportunities that would be nice tuck-ins to what we already do, but from an M&A perspective, that's top of mind. So look, we have the ability to grow our deposits even on the current base, even ahead of the implementation of the retail strategy, of course, by running rate specials and certainly we're going do that to support the very high yielding loan growth we have, but what we're focused on, what we care about for the long-term, is the organic growth of those accounts and we're investing in it through our people and we hope to invest more in it through acquisitions and we're working on several and as soon is there's another one to talk about, of course, we will be back to tell you all.

Brett Rabatin
Okay, I greatly appreciate the color.

Operator
The next question is from Gary Tenner with D.A. Davidson. Please go ahead.

Gary Tenner
Thanks, good morning. Just wanted to talk again about the loan yields for a second. It looks like if you strip out the factored receivables and the discount accretion in the quarter, your yields in the rest of the portfolio went up by about 27 basis points, if my numbers are right. So you talked a little bit about the loans you have that adjust to Prime or LIBOR, et cetera, but it would look like there's may be some pick up in the yields you're getting on new loan originations, as well, possibly in the quarter or is it more of a mix of what was produced in the quarter that may be helped on that front?

Bryce Fowler
I think one thing is our CRE lending is producing, produces slightly higher yields than the static portfolio if you exclude factored receivables. So some of that contribution would come from there, Dan, I don't know if you have any additional thoughts.

Dan Karas
I would just add that of the $88 million increase in commercial finance, well 50 of that is in the factored receivables bucket. The balance are in equipment finance and ABL and both of those are higher-yielding than our traditional community bank loans, as well.

Gary Tenner
Okay, great and then, secondly, just on the factoring receivables, it looks like the average balance there was around 250 for the quarter, so pretty close to the March 31 level, and well below the period end June 30 level. So it sounds like your comments earlier on invoice size and utilization suggest that that 290 or the 293 period end numbers a good jumping off the point to possibly even grow above that from an average balance perspective in the third quarter?

Dan Karas
I believe it is.

Gary Tenner
Okay. Thanks, guys.

Aaron Graft
Thank you.

Operator
And again, if you would like to ask a question, please press star then one. At this time I'm showing no further questions. I would like to turn the conference back to Aaron Graft for any closing remarks.

CONCLUSION

Aaron Graft
Thank you, everyone, for joining us today. We look forward to speaking with you down the road.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.