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EDITED TRANSCRIPT

ABTX - Q4 2016 Allegiance Bancshares Inc Earnings Call

EVENT DATE/TIME: JANUARY 24, 2017 / 3:00PM GMT

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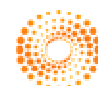

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PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the Allegiance Bancshares, Inc. Q4 2016 earnings conference call. (Operator Instructions) As a reminder to our audience, this conference is being recorded for replay purposes.

It is now my pleasure to hand the conference over to Ms. Courtney Theriot. Ma'am, please proceed.

Courtney Theriot - *Allegiance Bancshares, Inc. - SVP, Manager of Financial Reporting*

Thank you, operator. This morning's earnings call will be led by George Martinez, Chairman and CEO; Steve Retzloff, President; Ray Vitulli, Executive Vice President and President of Allegiance Bank; and Paul Egge, Executive Vice President and CFO.

First, I would like to address the safe harbor provisions. Some of the remarks made today will constitute forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995, as amended. We intend all such statements to be covered by the safe harbor provisions for forward-looking statements contained in the Act.

Also note that if we give guidance about future results, that guidance will only be a reflection of management's beliefs at the time the statement is made. Management beliefs relating to predictions are subject to change and the Company does not publicly update guidance.

Reconciliations to non-GAAP financial measures that are discussed are presented in accordance to GAAP in our earnings release. Please see the last page of the text in this morning's earnings release for additional information about the risk factors associated with forward-looking statements.

If needed, a copy of the earnings release is available at our website at allegiancebank.com or by calling Heather Robert at 281-517-6422 and she will email you a copy. We have also provided an earnings release slide presentation. Although it is not being used as a guide for today's comments, it is available for review at this time. At the conclusion of our remarks, we will open the lines and allow time for questions.

I now turn the call over to our CEO, George Martinez.

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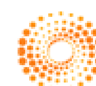

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George Martinez - *Allegiance Bancshares, Inc. - Chairman, CEO*

Thank you, Courtney, and we welcome all of you to this call. 2016 was another year of significant accomplishments for Allegiance in terms of robust loan growth, good credit quality and strong earnings growth.

Organic loan growth was 12.5% for the year, attributed to our excellent lending team. Core loan growth was 14.5%. We also added 12 lenders during the year so as to continue the market share growth of loans.

Average deposits grew 11% in 2016 after the sale of two branches in Central Texas, which held $27 million in deposits.

The quality of the loan portfolio expresses the ratio of nonperforming assets to total assets was 75 basis points. Our ratio of charge-offs to average loans for the year was 4 basis points.

Net income increased by 50% in 2016 compared to 2015. Excluding the gain on the sale of the two branches, the net income increased by 41%.

The average diluted common shares increased by 23% year over year primarily as a result of shares issued in the IPO in October of 2015. Growth in earnings per share increased 22% despite the large increase in number of shares. Excluding the gain on sale of the two branches, the earnings per share increased more than 15%.

We made a significant investment and we'll continue to make significant investment in hiring experienced bankers, including lenders and non-lenders, to position ourselves for growth in the future.

We ended 2016 with sufficient capital to continue our growth trajectory into 2017. However, we also filed a shelf registration Form S-3 recently for up to $150 million. We have no plans to raise any form of capital at the moment but wanted to prepare for possible future needs to fund opportunities to expand our presence in the Houston market.

Now Steve will describe our fourth-quarter results followed by Paul, who will explain some of the numbers behind Steve's narrative. Then we will open it up for questions. Steve?

Steve Retzloff - *Allegiance Bancshares, Inc. - President*

Thanks, George. I also welcome everyone to our fourth-quarter conference call. As George mentioned, our history of producing excellent loan growth continues while we also undertake a variety of initiatives that bolster our central support operations.

Based on the many talented bankers, both the many new and our long-time Allegiance calling officers, and with our experienced bank office presidents, we anticipate our momentum and market share gains to strengthen even further in 2017.

Core loans, which we define as loans held for investment excluding our mortgage warehouse loans, increased during the fourth quarter by $69.9 million or 4% over core loans at September 30. This compares to a third-quarter increase of $76.5 million or 4.6%. This continued growth is fully self-originated and organic. The annualized core loan growth rate was 16% in the fourth quarter.

Loan demand in our primary sector for small business is generously feeding our pipeline as we finish a strong year and move into 2017.

Mortgage warehouse loans declined in the fourth quarter by $9 million ending at $67 million. Fourth-quarter average balance, however, was up from $57.9 million in the third quarter to $60.4 million in the fourth. We continue to fund these bonds with short-term FHLB advances.

As George mentioned and I will add, despite a slow start to the year when we experienced total loan growth of only 2.2% in the first quarter, which was primarily from a temporary quarter-end surge in mortgage warehouse loans, we were able to complete the year with total loan growth of $210.6 million or 12.5%.

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Also, as you will recall, we sold $27.9 million of loans along with the two out-of-market branches. Replacing those, we grew core loans $230.5 million or 14.5% for the year.

Given the relatively short duration of our loan portfolio, these great net loan growth results had to overcome a predictably steady stream of payments and payoffs, yet we had the loan origination strength needed to [tune the bar].

During the fourth quarter, new loans with total commitments of $238 million were completed that funded to a level of $142 million by December 31. This compares to the third quarter when $226 million of new loan commitments were generated, which funded to a level of $148 million by September 30.

For the year, new core loan commitments of $814 million were closed compared to the 2015 total of $744 million. Allegiance bankers have repeatedly proven themselves to be an organic loan production machine.

The average size of the loans produced during the fourth quarter was $449,000 committed and $270,000 funded which is in line with the average funded loan size in the portfolio of $283,000 and reflects our continued focus on the small- to medium-sized business sector.

The weighted average interest rate charged on our new fourth-quarter core loans was 5%. As a result, excluding FAS 91 fees or acquisition accounting, the period-end, weighted average interest rate charged on our core loans declined from 5.21%, as of September 30, to 5.20% as of December 31. This compares to the period-end, weighted rate of 5.24% for December 31, 2015.

Including mortgage warehouse loans, the period-end, weighted rate on total loans was unchanged for the quarter at 5.12%. However, the loan yields declined in the fourth quarter to 5.22% from 5.36% in the third due to slightly less credit market accretion, less fee amortization and, more significantly, that the third quarter benefited from a $167,000 of interest recovery on our nonaccrual loan, $50,000 of nonrecurring [factoring] participation income and from favorable mix and timing.

Similar to the third quarter, the mix of new loans based on fourth-quarter funded levels was led by both non-owner-occupied commercial real estate at 19.3% and owner-occupied commercial real estate at 14.4%. Commercial credit lines were 6.1% and commercial term loans were 13.9%.

These four categories represented 53.7% of the new funded production compared to 56.6% for the third quarter. 1-4 family residential real estate loans contributed 15.5% of the new funded core loans and, finally, land and C&D loans contributed 16.7% of the new funded core loans during the quarter.

The period-end concentration of owner-occupied commercial real estate was 25% of total loans or 54% of commercial CRE at December 31. Mortgage warehouse loans remained at 4% of the overall ending mix of funded loans on a linked-quarter basis.

Period-end securities investments increased only slightly during the fourth quarter from $310 million at September 30 to $316 million at December 31 as we continued to maintain a measured ALCO strategy.

Total deposits decreased during the quarter by $30.7 million ending December 31 at $1.873 billion. The ratio of core loans to deposits increased from 92.3% to 97.6% compared to a targeted range of 90% to 95%.

The decrease in deposits resulted in large part from three separate large customer withdrawals used for the purpose of making annual bonus payments to employee, and one for a redirected investment of funds previously resulting from a gain on sale. Year-to-date total deposits have increased, however, $111 million or 6.3%. The non-interest-bearing deposits ratio held consistent during the quarter ending the year at 31.8%.

Asset quality remains very strong and well-managed. Nonperforming assets increased to 75 basis points of total assets at December 31 compared to 69 basis points at September 30 as ORE increased slightly and nonperforming loans increased marginally from 87 to 88 basis points.

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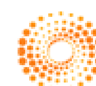

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However, for one loan relationship involving a multi-loan combination, the final documentation, customer signature and renewal was not completed until early January. This $911,000 renewal was temporarily considered accruing, but 90 or more days past due. But for this loan, the ratio of nonperforming loans would have decreased to 83.5 basis points.

ORE increased slightly. The one property, which carried over from September 30 for $1.138 million, is under contract. A second property was a foreclosure during the fourth quarter representing a recovery from a loan that had been partially charged off by Enterprise Bank prior to our merger in 2015. The $286,000 of ROA is machining equipment.

Our classified loans decreased during the second quarter from $60.6 million or 3.31% of total loans to $55.9 million or 2.95% of total loans. Criticized loans decreased $6.9 million during the fourth quarter and impaired loans decreased from $20.5 million to $18.4 million. The specific reserves for these impaired loans increased from 7.25% coverage to 8.52% during the fourth quarter.

We had net charge-offs of $174,000 during the quarter and $656,000 for the year, both representing a very low rate of 4 basis points. Paul will describe the allowance and provision in his report. The allowance coverage ratio to nonperforming loans ended the year at 107.26%, which is manageable, particularly given the collateral position of these loans.

Oil prices that are holding at or above $50 per barrel and new activity in West Texas is welcome news for the industry. According to the state of Texas, the Texas rig count continues to increase to over 320 by late December. The US rig count is now on the increase, near 600 [wells].

Allegiance has a number of customers active in the industry who have experienced increased volumes of orders and activity in recent months. This is all welcome news noting that our overall low direct exposure to this sector continues, and we reiterate that we do not participate in reserve-based lending.

Our loans, which we categorize as being sensitive to oil and gas prices, remained at 3.7% of total loans ending the fourth quarter at a funded level of $69.4 million compared to $68.1 million at September 30.

Having completed new loans to both existing and new customers in this sector, we now categorize 149 loans as being oil and gas related, an increase of 10 from 139 as of September 30. The reserves associated with these loans ended the year little changed at 2.44%.

As previously stated, these credits represent companies that provide various services and supplies to the industry or are made to individuals who derive a significant portion of their income from the industry. All of these loans are well collateralized.

Loans are categorized into industry sectors showing their revenue dependency being upstream as 53%, midstream as 17%, downstream as 10% and mixed [UMD] as 19%. We closely monitor and stress test all of these relationships.

During the third quarter, this focus resulted in both new listings and downgraded adjustments to our oil and gas watch list credit. As of September 30, 2016, we had classified $31.9 million or 47% of these loans. At December 31, the classified loans declined to $29.1 million or 42%.

Of these $29.1 million of classified oil bucket loans, $12.2 million were considered impaired at December 31, compared to $15.2 million as of September 30. The decrease was primarily the result of one loan being removed from nonaccrual due to new owners and capital.

However, due to strong collateral positions, our impairment analysis results in a relatively low anticipated loss position with a specific loss reserve of $386,000.

The slide deck provides added color regarding our overall mix of loans. The mix was little changed during the quarter in terms of concentrations or average size.

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The ending mix at December 31, 2016, was: commercial real estate $892 million or 47%; commercial construction, $159 million or 8.4%; C&I, $417 million, 22%; 1-4 family residential $247 million, or 13%; residential construction, $98.7 million; mortgage warehouse, $67 million or 4%; and consumer loans, $11 million, less than 1%.

Based on the Texas Workforce Commission data, the Greater Houston Partnership reports indicate that over the 12 months ending November 2016, the Houston MSA gained 16,100 jobs; this is a far cry from the 118,000 jobs created in 2014, but appears to be turning positive.

The Greater Houston Partnership publishes a Houston: Economy at a Glance. The lead story in the January 2017 publication is, quote, Home Sales Soar, end quote. Houston sold over 91,000 condos, townhomes, high-rise units, homes and residential lots in 2016, a new record. One reason cited for the robust volume is, they claim, the worst of the economic downturn is over.

A business indicator based on energy firms surveyed by the Federal Reserve Bank of Dallas indicate steadily improving numbers also. For example, the level of business activity surveyed has increased by quarter since Q1 of 2015 as follows: 13.9 was the volume at Q1; and 31.6 for Q2; 44.2 at Q3; and 51 at Q4. Other energy related statistics were similarly improving in the report.

Building permits for the city of Houston as of November 2016 are understandably down since a year ago by 18.5% to $6.2 billion.

The August 2016 PMI for Houston is in the expansion range at [50.7%], nicely up from earlier in 2016. Year to date, Houston office absorption remains negative with the effective office vacancy rate at 20.9%. Due to vast overbuilding, the glut is expected to remain for several years.

Multi-family is also soft due to new deliveries with overall occupancy down 2% from December 2015 to December 2016. Class A is the worst hit with occupancy at 79.6%.

In closing, from quarter to quarter, the efficiency ratio has been volatile over the past few years. The past quarter was an example of that as well. However, we expect improving efficiency as we get deeper into the 2017 year and that for the full year of 2017, the efficiency ratio will reflect improvement over 2016, which was itself a year of significant reduction from 65.27% for 2015 to 62.34% for 2016.

We recently have and are currently investing strategically, perhaps even boldly, in people, technology and systems in order to foster the controls, compliance, governance and risk optimization that are needed to support a continuation of our robust, historic, organic and acquisitive growth.

During the fourth quarter, we hired an additional 18 bankers including two lenders, five office support staff and 11 central support staff; this is expansionary stuff. With our leadership teams we have established and agreed on internal goals and visions that are attainable, but yet the goals are lofty enough to build excitement and energy. The commitment to extraordinary 2017 to 2020 performance is really quite remarkable.

With that, I confidently reiterate our expectation for market share gains in coming quarter and for 2017.

I will now turn it over to one of those new 18 bankers I just mentioned, our CFO, Paul.

Paul Egge - *Allegiance Bancshares, Inc. - EVP, CFO*

Thanks, Steve. Fourth-quarter 2016 net income and net income per common share increased on a linked-quarter basis to $5.8 million or $0.44 per diluted share from $5.5 million or $0.42 per share in the third quarter.

Average earning assets were up $42 million during the quarter. Of that, average loans outstanding were up $62 million, which contributed about $800,000 more to income while average investments were up $3 million which contributed slightly more income than last quarter.

As stated by Steve, the amount of period-end securities is little changed from the prior quarter as we have reached our presently targeted concentration of securities to total assets.

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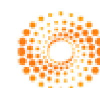

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Increased loan and securities income were partially offset by the decrease in net accretion income on acquisition accounting adjustments of $69,000 in the fourth quarter. Within the quarter, accretion increased loan income by $273,000, it reduced CD expense by $19,000, and it increased the expense on sub debt by $27,000, for a total positive effect on net interest income of $266,000 versus $335,000 last quarter. This quarter's accretion leaves $840,000 in the loan mark, $3,000 in the CD mark and $2.1 million in the sub debt mark.

The tax equivalent net interest margin for the fourth quarter was 4.32% compared to 4.39% in the third quarter. The net interest margin excluding the net accretion income on acquisition accounting adjustments was 4.27% for the quarter versus 4.33% in the third quarter.

Recall that third-quarter net interest income and margin benefited from $167,000 recovery on a previously nonaccrual loan that was paid in full, and approximately $150,000 in realized gains on securities that were called during the quarter.

Total noninterest income was $1.5 million for the fourth quarter versus $1.3 million for the third quarter. This was primarily due to a $206,000 gain on sale of ORE during the quarter.

Total noninterest expense was $16.2 million up from $14.9 million in the third quarter. Of this, total salaries and benefits were up $846,000 linked quarter as we fully absorbed the new bankers that were hired in the third quarter and had added headcount in the fourth quarter. We also paid recruiting fees and increased bonus accrual as pretax net income increased.

Additionally, professional fees increase as we focus on enhancing our systems and processes to prepare us for successful growth in the future. Accordingly, the efficiency ratio increased to 65.1% for the quarter with these increases in noninterest expenses.

The provision for loan losses was $900,000 for the fourth quarter driven primarily by loan growth. Net charge-offs this quarter were $175,000 which makes the year ended net charge-offs total just $656,000 or only 4 basis points on average loans for 2016.

The ending allowance at $17.9 million is 95 basis points of total loans. We mentioned the $840,000 in loan mark remaining on the purchased loans and, as you know, we don't carry an allowance on the $67 million of mortgage warehouse loans outstanding at the end of December.

So if you include loan mark and exclude mortgage warehouse loans, the ending allowance to total loans is a little over 103 basis points compared to 104 basis points at September 30.

The effective tax rate for the fourth quarter declined to 26.1%. This was primarily due to higher than normal stock option exercises during the quarter and increased income tax-free securities.

So bottom line, our fourth quarter produced a return on average assets of 93 basis points and a return on average tangible common equity of 9.79%, which compares favorably to the 90 basis point ROAA and 9.82% ROTCE we posted in the linked quarter 2016 and our 81 basis point ROAA and 8.19% return on tangible common equity during the fourth quarter of 2015.

Last, our book value per common share and tangible book value per common share decreased as compared to the third quarter, primarily due to the unrealized gain at September 30, 2016, on available-for-sale securities transitioning to an unrealized loss position during the fourth quarter.

Accumulated other comprehensive income, or AOCI, went from a positive $5.35 million in the third quarter to a negative $3.05 million at the end of the fourth quarter. As such, at year end, book value per share was $21.59 per share and tangible book value per share was $18.24.

Now I will turn the call back over to George.

George Martinez - *Allegiance Bancshares, Inc. - Chairman, CEO*

Thank you, Paul, and now we will open it up for questions.

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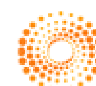

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QUESTIONS AND ANSWERS

Operator

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

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

Hey, good morning, guys. Welcome, Paul. The -- what I wanted to -- I was writing quickly; can you go over the new lending hire numbers for the quarter and how much that drove the expense number and what your outlook for expense growth from the fourth quarter might be?

Ray Vitulli - *Allegiance Bancshares, Inc. - EVP*

Sure, Brad; this is Ray. We hired two new lenders in the fourth quarter. Both of those were from regional banks in the business banking space and that added to the ten that were already hired for a total of 12 for the year.

Just on the loan side, the average portfolio for those 12 lenders, we finished the year at $4.5 million average portfolio size for those lenders, which is our expectation for new lenders when they come on for that first year. So, as far as the expense side, I will turn that over to Steve.

Steve Retzloff - *Allegiance Bancshares, Inc. - President*

Well, we had other expenses during the quarter and we are doing some things to improve some projects and we've hired some consultants to help us make some infrastructure, I guess we could call it, improvements. So those will continue probably through the first quarter, so kind of expect Q1 to resemble a little bit the fourth quarter, but revenue should grow continually based on the growth that we already had.

We are continuing to look to hire. We are trying to build both the back office and the production side at the same time and, with these new lenders that came on last year, we really do see some solid pipelines that force us to make sure that we have both back office and front office balance.

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

That is helpful. Just kind of curious, with the growth that you see out in front of you, how do you feel about capital? I know when you went public I think you kind of thought to kind of get to a 1 ROA, you would sort of be just under $3 billion in assets; you are awfully close.

I think you put a shelf out a few weeks ago. Just curious how you are thinking about capital and how that relates to your growth and profitability plans?

Paul Egge - *Allegiance Bancshares, Inc. - EVP, CFO*

Sure thing, Brad. We feel great about our capital position as it currently stands. The $150 million shelf is really just there from a good corporate governance perspective such that if the opportunity comes up where growth outpaces our capital, or something -- an external opportunity comes about for which we would need to fund it with external capital; this puts us in a good spot.

So as it currently stands, we don't see ourselves in a position where we need to address our capital position in the near or medium term.

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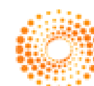

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Brad Milsaps - *Sandler O'Neill & Partners - Analyst*

Great. Thank you, guys.

Operator

Mike [Baums], KBW.

Mike Baums - *Keefe, Bruyette & Woods - Analyst*

Good morning, guys. Congratulations on the quarter; solid loan growth. I just wanted to get an update on your guys' thoughts or outlook for 2017; wanted to know if mid-teens is still an appropriate range.

Steve Retzloff - *Allegiance Bancshares, Inc. - President*

It certainly feels that way. With the momentum that we have from the new hires this year, as Ray said, those 12 lenders are only averaging about $4 million apiece and -- obviously, some came in later in the year and some came in earlier and their results run across the board, but the average lender in the bank is in the $30 million range for those that were here prior to -- or I'd say excluding those 12, so -- and that group gained considerably so.

By the end of the first -- or say 2017 -- we would expect that $4 million average to get to probably $10 million or $12 million on those lenders and so there is a lot of momentum from that. Plus the other offices that have what you might call legacy lenders are continuing to grow as well.

So we have got a strong pipeline; the economy around here seems to be turning into some positive territory, so we are feeling very good about the mid-teens.

Mike Baums - *Keefe, Bruyette & Woods - Analyst*

Awesome. Appreciate the color. I guess just one more for me, too. As you guys continue to demonstrate solid loan growth, what are your thoughts on the deposit base? Recognize that deposits can flow in and out and there could be some seasonality to that as well, but the loan-deposit ratio is kind of the higher end of your guys' range. Just wanted to get your thoughts on that as well.

Ray Vitulli - *Allegiance Bancshares, Inc. - EVP*

You are correct; it is in the higher end of our range. We would like to maintain it more in the 90% to 95% loan-to-deposit. There is some seasonality, but we do know that deposits normally follow our loan growth, and we had good loan growth in the third and fourth quarters and we expect the deposit growth to pick up -- to follow that.

In addition, we are always working on initiatives to increase our products, services in other ways to bring deposits to the bank that may not be from borrowing customers.

Steve Retzloff - *Allegiance Bancshares, Inc. - President*

Mike, this is Steve. Over the years -- and we have had a number of years of watching this pattern -- when we hire new lenders or open new offices, the lead thing that happens or the lead development is loan growth. They produce loan growth right out of the chute.

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And then what follows in the period subsequent -- six months, a year later -- they start building their deposit base, so we are seeing that pattern right now that we have been able to generate a lot of loan growth through some of these newer offices; our Clear Lake office is a good example of that.

And some of these new lenders and then -- the natural progression is that that will follow up with deposit growth as well, from an organic perspective, so there are a number of ways of addressing the deposit growth in 2017 and we are certainly cognizant of that.

Mike Baums - *Keefe, Bruyette & Woods - Analyst*

Got you. Well, appreciate the color and thanks for taking my questions.

Operator

Bryce Rowe, Baird.

Bryce Rowe - *Robert W. Baird - Analyst*

Thanks; good morning. Wanted to ask a little bit about loan pricing. You all noted the average yield on newer originations was roughly 5% for the fourth quarter, down a bit from the third quarter.

I recognize that the weighted average yield was primarily just down a basis point third quarter to fourth quarter, but curious what you are seeing from a pricing perspective, if you feel like you could maintain that 5% level on new production, or is competition heating up from a pricing perspective?

Ray Vitulli - *Allegiance Bancshares, Inc. - EVP*

We are still in a competitive environment. The loan growth that we had in the third and fourth quarter and the loans that were booked at that rate; there's loans that were approved in the fourth quarter that we would probably see come on in the first quarter similar to what you would see in the fourth.

We've updated our pricing model and currently pricing to market to where we should see -- at least our expectation is that we do not see too much in further deterioration.

Steve Retzloff - *Allegiance Bancshares, Inc. - President*

Yes, it's been a decline down into this level, and really with the rate hikes that we have seen, the pricing model implications, I think that it'll -- we would anticipate that gradually pull out and move up from here.

Bryce Rowe - *Robert W. Baird - Analyst*

Okay, okay.

Ray Vitulli - *Allegiance Bancshares, Inc. - EVP*

And, Bryce, we are still obtaining some market share growth, so that is a function of some of the pricing competitiveness. So in the fourth quarter, we were about 61% of the -- of what Steve mentioned in new loan originations -- 61% was to new customers.

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Third quarter was 67% to new customers, and for the whole year, we finished up about 60%/40% new to existing, so -- if we continue the market share gains, we will continue to see a little bit of that type pricing.

Bryce Rowe - *Robert W. Baird - Analyst*

Okay, that's good color. And then maybe a couple more questions. Wanted to maybe dig a little bit into the professional fees and some of the projects you have going on in back office; obviously a jump up in professional fees that you noted here in the fourth quarter.

Just curious what kind of timeline you expect for those projects and then what's the related level of professional fees? Will it remain this high or will it drop off at some point in 2017 when some of these projects are wrapped up?

Steve Retzloff - *Allegiance Bancshares, Inc. - President*

Well, that's a great question, and you're right. It is noticeable in the fourth quarter. Those are some projects that are very significant. I don't know if you are familiar with -- SharePoint was one of those; we have a few others. You have to hire some outside consultants to help you with those.

Probably those will continue on into the first quarter and I anticipate that somewhere in that second quarter they will taper off, so it is just a temporary surge -- as we talked about it in our prepared comments.

If we are now to get those departments where they need to be in terms of technology and capabilities, so just building for the future and it is something that we will see a little continuance into this quarter and maybe a little bleed over into next is the way I am seeing it right now.

Bryce Rowe - *Robert W. Baird - Analyst*

Okay, and then one more for Ray. Ray, you guys have clearly done a great job in hiring new lenders. Just curious what the pipeline for new lenders looks like today.

Ray Vitulli - *Allegiance Bancshares, Inc. - EVP*

It still looks good. I would say it is maybe a little bit less than what we saw in the middle of last year as far as flow, but it is still strong and if we -- the 12 is obviously one a month and I see that there is that kind of talent still out there to continue if we are able to -- we're still able to attract good talent on a similar pace.

George Martinez - *Allegiance Bancshares, Inc. - Chairman, CEO*

I think it is important to note that the number of applicants is considerably higher than the number that we select. We select them one by one and they are very, very well vetted. They are experienced and they are from this market but there are many, many applicants that we declined to hire because they are not quite to the level that we want.

Ray Vitulli - *Allegiance Bancshares, Inc. - EVP*

Just on the lenders side, those 12 were the result of 37 what I would call qualified interviews.

Bryce Rowe - *Robert W. Baird - Analyst*

That is great information. Thanks, guys.

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Operator

Matt Olney, Stephens.

Matt Sealy - *Stephens Inc. - Analyst*

Good morning, guys. This is Matt Sealy on for Olney. I want to start on the margin. So last quarter on the call we talked about security yields being a little bit elevated and that could come down in 4Q; we really didn't see that. Just curious on your outlook and if we could see that compression start to show up in the first half of 2017?

Paul Egge - *Allegiance Bancshares, Inc. - EVP, CFO*

On the securities yield, we may see some, but we -- as it currently stands -- we like where our securities yield is currently and we expect it to stay pretty consistent going forward.

Matt Sealy - *Stephens Inc. - Analyst*

Okay, great. And one thing on your rate sensitivities. So can you talk a little bit about the expected impact from fed fund moves on the NIM and NII? I believe disclosures ended up 100 basis point environment suggests a little bit liability sensitive, but could you give us some more details and any commentary around loan floors and what you are assuming for deposit cost?

Paul Egge - *Allegiance Bancshares, Inc. - EVP, CFO*

Certainly. The interest rate shock analysis does imply that we may be incrementally liability sensitive. Our goal is asset neutrality; neutrality in asset with respect to that sensitivity.

Inherent in our business is some asset sensitivity since we grow at such a rapid clip, so that is one of the main downfalls of the ALCO analyses that takes static shocks, is that it will imply that we are relatively more liability sensitive than we really are when you factor in the growth and the re-pricing of a lot of our fixed-rate loans.

Ray, maybe you can comment on the situation with respect to floors.

Steve Retzloff - *Allegiance Bancshares, Inc. - President*

The vast majority of our variable rate loans have floors on them right now and -- Ray?

Ray Vitulli - *Allegiance Bancshares, Inc. - EVP*

Yes, I don't have the exact number of when we'll bust through the floors -- but the current portfolio, there is some room there before we bust through, but we are currently pricing loans on a current -- new loan production is coming in at higher rates based on the prime increase.

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Matt Sealy - *Stephens Inc. - Analyst*

All right. Okay, that's helpful. And lastly on the margin-to-deposit cost, have you needed -- or seen any need -- to adjust deposit pricing products yet or do you expect to? And maybe what are some of the other banks doing in the Houston market? Just trying to understand what the competition for pricing is there?

George Martinez - *Allegiance Bancshares, Inc. - Chairman, CEO*

As far as we know, the pricing has been -- on deposits is holding at all the banks. In our particular situation, some of our initiatives about growing deposits may involve some pricing changes, but so far we haven't made any changes in the last two prime increases.

Matt Sealy - *Stephens Inc. - Analyst*

Okay, and one last one for me on the tax rate. It looked a little low in 4Q, and I know in your prepared remarks you mentioned or you attributed this to stock options and higher [median] income, but as far as the outlook in 1Q and for the full year of 2017, any thoughts to what that tax rate should drift towards?

Paul Egge - *Allegiance Bancshares, Inc. - EVP, CFO*

I think for the full year it should be more like 29% and it will be both the combination of the municipal securities and there are some 10-year options that are ending their maturities and, as a byproduct, you are going to have probably weighted towards the fourth quarter, a higher level of option exercises in 2017 and potentially 2018. We do also have BOLI.

Matt Sealy - *Stephens Inc. - Analyst*

Okay. That did it for me, guys. Thanks a lot.

Operator

Thank you. I'm showing no further questions in queue so now I would like to hand the conference back over to George Martinez, Chairman and Chief Executive Officer, for closing comments or remarks. Sir?

George Martinez - *Allegiance Bancshares, Inc. - Chairman, CEO*

Well, I want to thank everyone for being on the call and we look forward to being with you again next quarter. Thank you.

Operator

Ladies and gentlemen, thank you for your participation on today's conference. This does conclude the program and you may all disconnect. Everybody have a wonderful day.

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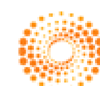

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