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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Allegiance Bancshares third-quarter 2016 earnings conference call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the conference over to Ms. Courtney Theriot. Ms. Theriot, you may begin.

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 and Interim CEO; and Ray Vitulli, Executive Vice President and President of Allegiance Bank.

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 with 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 also have provided a supplemental presentation on our website under the Investor Relations tab. 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 up the lines and allow time for questions.

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

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

Thank you, Courtney. Good morning, everyone. We welcome all of you to the Allegiance Bancshares earnings call.

Our third-quarter performance is highlighted by a return to the extraordinary organic growth of loans and deposits, increased core earnings and, the continued addition of relationship bankers. Our 4.4% organic growth of loans, which equates to a 17.6% annualized growth rate, reflects more market share gains.

This supports our view of the marketplace opportunity that we have identified as we remain focused on a super-community bank strategy. The entire Allegiance team deserves recognition as we forge deeper and broader relationships in the community and as we advance our central platform and processes in anticipation of future growth.

Liquidity and capital ratios remain strong as we mark the one-year anniversary of our IPO on October 7. The Houston Business Journal recently named Allegiance Bank as number 23 on the list of Best Places to Work in Houston, which reflects our culture and the values that attract great new bankers.

In fact, during the quarter we hired four new lenders. Year-to-date, the total is 10 new lenders plus one treasury management sales specialist. Our team now consists of 70 lenders.

Our superior loan and deposit growth results from both the expanding portfolios of our legacy lenders and the traction being experienced by the expanding team. All of these lenders are ably led by experienced bank office presidents who are responsible for their respective bank locations.

Our asset quality remains strong. We have experienced very few chargeoffs and actually had a small amount of net recoveries for the quarter. However, we prudently increased the allowance for loan losses both in dollars and as a percentage of loans as we manage the loan portfolio through this economic cycle impacted by reduced oil prices. Ray and Steve will provide you more specifics on asset quality.

Record levels were once again reached as total assets increased during the third quarter by $94 million or 4% to a record high of $2.46 billion. Also, total loans reached a record high of $1.83 billion, increasing $77 million in the third quarter.

Deposits ended the third quarter at an all-time high of $1.9 billion, an increase of $58 million over the second quarter or 3.1%. Net income after taxes for the quarter was $5.5 million, which exceeds the $5.3 million in the second quarter.

Although it is below the $6.4 million recorded for the first quarter, you will recall that earnings during the first quarter included a $1.3 million after-tax gain on the sale of two out-of-market branches. From an operational earnings perspective, the third quarter set a new high.

Our efficiency ratio for the quarter was 60.3%. This was little changed from the prior quarter of 60.1%, which was the best recorded to date.

We ended the quarter with 315 full-time employees, a net increase of five over the previous quarter. Overall, the third-quarter represents consistent performance, excellent growth, and provides strong momentum as we approach the remainder of 2016.

I will now turn it over to Ray, who will provide additional detail on these results.

Ray Vitulli - *Allegiance Bancshares, Inc. - EVP, President & COO - Allegiance Bank*

Thanks, George. Core loans, which exclude our mortgage warehouse loans, increased during the third quarter by $76.5 million or 4.6% compared to our second-quarter core loan growth of $46.8 million or 2.9%. This increased growth continues to be fully organic.

We believe the annualized core loan growth rate of 18.2% in the third quarter reflects not only the strength of our growing team and market share but also that there continues to be demand within the Houston market. Our period-end mortgage warehouse loans were little changed on a linked-quarter basis, increasing by $489,000 to $76 million.

Total year-to-date net loan growth has been $149.7 million, for an annualized growth rate of 11.9%. Once again, we enjoyed a significant increase in our gross new loan originations.

During the third quarter, new loans with total commitments of $226 million were completed; that funded to a level of $148 million by September 30. This compares to the second quarter, when $196 million of loan commitments were generated, which funded to a level of $116 million by June 30; or to the first quarter, when we closed $154 million of total commitments, which funded $96 million by March 31.

The weighted average interest rate charged on these new third-quarter core loans was 5.1%. As a result, excluding FAS 91 fees, anomalies, or acquisition accounting, the period-end weighted average interest rate charged on the entire portfolio of core loans was 5.21% based on the funded balances of each loan as of September 30. This compares to prior quarter-end rates of 5.23%, 5.24%, and 5.24% for June 30, March 31, and December 31, respectively.

The slightly reduced average rate for the new core loans is indicative of the competitive nature of market share gains. The average size of the loans produced during the quarter was $411,000 committed and $270,000 funded, which is in line with the average funded loan size in the portfolio of $290,000 and reflects our continued focus on the small to medium-sized business sector. However, despite the 2 basis point core rate compression, the yield on the total loan portfolio increased slightly on the linked-quarter basis.

The mix of new loans, based on third-quarter funded levels, was led by commercial term loans at 19.9%; 1- to 4-family residential real estate loans at 19%; non-owner-occupied commercial real estate at 18.8%; construction and development loans at 11.8%; and commercial credit lines at 8.5%. The four commercial loan categories represent 56.6% of the new funded loan production.

The period-end concentration of owner-occupied commercial real estate loans was 23.7% of total loans or 51% of CRE at September 30. Mortgage warehouse loans remained at 4.2% of the total loan portfolio on a linked-quarter basis.

Period-end securities investments increased only slightly during the third quarter, from $303 million at June 30 to $310 million at September 30, as we maintained a measured ALCO strategy.

As George stated, total deposits increased during the quarter by $58 million, ending September 30 at $1.9 billion. Year-to-date total deposits have increased $141.7 million, which is an annualized growth rate of 10.7%.

The noninterest-bearing deposit ratio decreased to 31.9% at September 30 compared to 34.2% at June 30. The decline of $26.4 million was much the result of a single customer who shifted in excess of $30 million from checking to money market during the quarter.

Asset quality remains very strong and well managed. Based on our monitoring, stress testing, and other assessment criteria, nonperforming assets increased to 69 basis points of total assets at September 30 compared to 37 basis points at June 30.

This was primarily the result of two loan relationships totaling $8.1 million being placed on nonaccrual. Both are well collateralized by real estate with no anticipated loss.

We also reduced ORE by $259,000 by selling a property for a slight gain.

Our classified loans increased during the third quarter from 2.59% to 3.3% of period-end funded loans as we downgraded a hotel loan and others, including several loans which we categorized as being oil related, which I will review shortly.

We had net recoveries of $54,000 during the quarter. For the nine months, net chargeoffs were $482,000, which represents a very low annualized rate of 4 basis points year-to-date.

Steve will describe the allowance provision in his report. The allowance coverage ratio to nonperforming assets declined to 108.2%, which we consider manageable, particularly given the collateral positions of these loans.

Although the domestic oil and gas industry has seen signs of a gradual recovery, as would be indicated by oil prices now reaching the $50 a barrel range, and the US rig count is slowly on the increase at over 500, significant stress remains in the industry. The benefits to Allegiance from our low direct exposure to the sector has been well established, as we do not participate in the reserve-based lending; and furthermore our loan portfolio consists of smaller, locally generated credits.

Our loans which we categorize as being sensitive to oil and gas prices ended the third quarter at a funded level of $68.1 million compared to $60.5 million at June 30. During the third quarter, we categorized two additional prior loan relationships into the oil and gas bucket for a total of $7.5 million. Both relationships are real estate holding companies.

We funded four new loans into the category for a total of $1.4 million to customers involved in the equipment leasing as well as mid- and downstream services. Eight loans paid off completely; and other net changes from the existing portfolio reduced the funded balance by $1.3 million.

We now categorize 139 loans as being oil and gas related, a decrease of one from 140 as of June 30. The September 30 total funded balance for the oil and gas category is 3.7% of total loans, up slightly from the 3.4% as of June 30.

The reserve associated with these loans remains at 2.5% at the end of the third quarter. As previously stated, these credits are well collateralized and 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. We further categorize these loans into industry sectors which shows their revenue dependency as 54% upstream, 19% midstream, 11% downstream, and 16% mixed, touching two or more of the sectors.

We closely monitor and stress test all of these relationships. During the third quarter, this focus resulted in both new listings and further downgraded adjustments to our oil and gas watchlist credits.

As of September 30, we had classified 53 of the 139 oil and gas loans for a total amount of $31.9 million, up by $8.9 million compared to June 30. Of these $31.9 million of classified oil bucket loans, $15.2 million were considered impaired as of September 30 compared to $10.8 million as of June 30.

The increase was primarily the result of one loan being placed on nonaccrual. However, due to strong collateral positions, our impairment analysis of the portfolio results in a relatively low anticipated loss position, with a specific reserve of $323,000.

As of September 30, four of the 139 loans in our oil and gas list were past due over 30 days; and 10 relationships with a total loan balance of $12.6 million are currently troubled debt restructurings, compared to $8.9 million on six relationships at June 30.

65% of the oil and gas loans that are on our watchlist are secured by real estate with an overall average LTV of 54%. All of these loans are personally guaranteed.

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.

Our loan portfolio in the third quarter consisted of $849 million of commercial real estate, which was 46% of total loans, with an average loan size of $701,000. Commercial construction represented 9.2% of the portfolio, or $167.9 million in the third quarter, with an average size of $503,000. The remainder of the loan portfolio is 22% C&I with an average size of $159,000; 12.5% of 1- to 4-family residential with an average size of $198,000; 5.1% of residential construction with an average size of $383,000; 4.2% mortgage warehouse with an average size of $4.4 million; and 0.7% consumer with an average size of $70,000.

Based on the Texas Workforce Commission data, the Greater Houston Partnership report indicates that over the 12 months ending August 2016 the Houston MSA gained 14,200 jobs, compared to 46,400 for the year ending August of 2015. Although still positive, the job growth continues to be hurt by the 2014 oil price downturn. On the positive side, Houston represents the fourth-largest GDP among the US metro economies at $503 billion and continues to grow.

Building permits for the Houston MSA as of August 2016 are down 11.7% from a year ago, but still at $1.17 billion. Home sales increased in August of 2016 over August of 2015 by 8.2%. Along with that, average home prices have increased 4.2%.

The August 2016 PMI for Houston is in the contraction range at 46.1%, but up from 44.2% in April. Year-to-date, Houston office absorption is negative; multifamily is soft due to new deliveries; but industrial space continues to remain steady.

Last quarter, we indicated that we anticipated to achieve market share growth during the third quarter, which was the case, and we reiterate that expectation for the coming quarter. I will now turn it over to Steve.

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

Thanks, Ray, and I also welcome everyone to the call this morning. Third-quarter 2016 net income and net income to common increased on a linked-quarter basis to $5.5 million or $0.42 per share diluted. Net interest income for the third quarter was $23.4 million compared to $21.9 million for the second quarter, for an increase of $1.5 million.

Average earning assets were up $97 million. Average loans outstanding were up $60 million, which contributed about $800,000 more income, while average investments were up $40 million, which contributed approximately $230,000 more income than last quarter.

Interest income also benefited from $167,000 from a recovery on a prior nonaccrual loan that paid in full. Additionally, we recognized gains on agencies that were called during the quarter.

As stated by Ray, the amount of period-end security is little changed from the prior quarter as we have reached our presently targeted concentration of securities investments to total assets. Cash flows from existing securities are being reinvested to achieve targeted duration and yields as managed by our ALCO committee.

In addition to these items, there was one more day in the third quarter than the second, which added approximately $250,000 to net interest income. These increases were partially offset by the decrease in net accretion income on acquisition accounting adjustments of $72,000 in the third quarter.

Within the quarter, accretion increased loan income by $309,000, and reduced CD expense by $53,000, and it increased the expense on subdebt by $27,000 for a total positive effect on the net interest income of $335,000 versus $407,000 last quarter. This quarter's accretion leaves $1.1 million in the loan mark, $22,000 in the CD mark, and $2.2 million in the subdebt mark.

Funding cost increased due to deposit growth, mix, and rate changes. Noninterest-bearing deposits declined by 3.3% of total liabilities, which resulted in a 2 basis point increase to overall cost of funds. The cost of interest-bearing liabilities increased 1 basis point due to both rate and mix, from 75 basis points to 76 basis points.

Money market rates increased due to increased high-yield accounts. CD rates increased due to the mix and less reduction in the CD mark.

Borrowing costs increased due to subdebt rate reset. Overall funding cost increase from 51 to 54 basis points during the quarter.

The tax-equivalent net interest margin for the third quarter was 4.39% compared to 4.32% in the second quarter. The net interest margin excluding the net accretion income on acquisition accounting adjustments was 4.33% for the third quarter versus 4.24% in the second quarter.

Total noninterest income was $1.3 million for the third quarter versus $1.2 million for the second quarter, primarily due to the $60,000 gain on the sale of ORE during the quarter. Total noninterest expense was $14.9 million, up from $13.9 million for the second quarter.

Total salaries and benefits increased $604,000 linked-quarter, as we fully absorbed new bankers that were hired during the latter part of the second quarter and as we hired additional bankers in the third quarter. We also paid recruiting fees and increased the bonus accrual as pre-provision net income increased.

The efficiency ratio increased slightly this quarter to 60.3% as noninterest income improved and noninterest expenses increased.

The provision for loan losses was $2.2 million for the third quarter, driven by loan growth and a 20% increase in the classified loans due to re-evaluations and downgrades primarily to three loan relationships. Net recoveries this quarter were $54,000, which makes the year-to-date net chargeoffs total just $480,000.

The ending allowance is $17.2 million. It is 94 basis points of total loans.

I already mentioned the $1.1 million in loan mark remaining on the purchased loans. And as you know, we don't carry an allowance on the $76 million of mortgage warehouse loans outstanding at the end of September. If you include the loan mark and exclude the mortgage warehouse loans, the ratio is a little over 104 basis points compared to 97 basis points at June 30.

The effective tax rate for the third quarter declined to 27.8% primarily due to higher total income on tax-free securities. Additionally, employees exercised a higher number of stock options than normal in the third quarter.

For the third quarter, the return on average assets was 0.9%. The return on average common equity was 7.77%, and the return on average tangible equity was 9.2%.

Then finally, the book value per common share rose to 21.78%, and the tangible book value per common share rose to 18.40% at September 30, 2016. I will now turn the call back over to George.

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

Yes. Now we're happy to answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Bryce Rowe, Baird.

Bryce Rowe - *Robert W. Baird & Company, Inc. - Analyst*

Great; thanks. Good morning. Hey, Ray, I just wanted to ask about -- I think we had talked about it last quarter as well. But clearly good hiring trends in the third quarter; wanted to get a feel for your outlook for continued hiring in the fourth quarter and then into 2017.

Ray Vitulli - *Allegiance Bancshares, Inc. - EVP, President & COO - Allegiance Bank*

Sure. We feel the outlook is similar to what we've experienced in the first three quarters as far as hiring. The flow of candidates remains strong and we're talking to folks on a regular basis. So I don't expect that to slow down.

Bryce Rowe - *Robert W. Baird & Company, Inc. - Analyst*

Great; that's helpful. Then, Steve for you, wanted to ask about the provision here this quarter. You talked about some portion of it going to -- with the increase in classified credits.

So maybe you could help quantify what the classified credit portion driving the loan-loss provision, and then what the outlook would be going forward in terms of the allowance-to-loans ratio. Thanks.

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

Yes, you know, I think we made some pretty good adjustments this quarter just in classifying loans that -- we went through a lot of internal loan reviews in the quarter, reset that bar. I feel like we made a lot of progress in that regard; and that should be done.

When look at the allowance model that we have and the $2.2 million, about 1% more or less of the loan growth, the $76 million in loan growth, about 1% of that would have been an allowance. So that would've been about $760,000.

Really for the most part, you had a little bit of some loans that were renewed that were purchased loans that reduced that pool. But the rest of it was really the migration. The model is very sensitive to loans being classified; and as they increase in those categories, we put a significant amount of reserve against those loans. Even the loans where there's not an impairment reserve that comes out, you end up with a very -- a larger piece of -- the largest portion of that $2.2 million was the migration on the watchlist.

As far as going forward, it doesn't appear to me that there is any expectation for it to grow for reasons due to qualitative factors. I certainly don't expect there to be any migration on the watchlist, although it can happen. So it would really be more driven by loan growth and just keeping up.

I think the 104 basis points on an adjusted basis that we ended up in the quarter is solid for the granularity of the Bank and the well-collateralized positions we're in. I think we feel pretty good about where we are. It's pretty well managed.

Bryce Rowe - *Robert W. Baird & Company, Inc. - Analyst*

Yes, that's great. That's helpful. Thank you very much.

Operator

Matt Olney, Stephens.

Matt Olney - *Stephens Inc. - Analyst*

Hey, thanks; good morning, guys. Wanted to ask you about the level of operating expenses. I think we're up about 7% on the expense levels year-over-year. I'm trying to think about the right way to forecast this going forward, if you continue to recruit as you have over the last year.

Can you just talk about your outlook for the operating expenses over the next year or so?

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

Yes. This was a pretty big adjustment this particular quarter as we absorbed a lot of those hires that we had in the second quarter, and we had them for a portion of that quarter; but obviously they were here the whole time in the third. Plus new hires in the third; we spent $100,000 on recruiting expenses in the quarter, once you add to that.

And then we had a significant amount of bonuses and salaries. On noninterest expenses, we had a write-down of some ORE of $100,000. So there are some lumpy little pieces in there that will probably be absorbed more evenly in the fourth quarter.

So just as you absorb these people, they'll start producing revenue, too, so you'll get to that shift in the relationship between the revenue and the expense from an efficiency perspective. But it was primarily driven by salaries and bonuses.

We had a good earnings quarter, so we had increases there, too. So don't see the fourth quarter changing too much in terms of where we're starting, from the end of the third quarter. But as far as the growth in the noninterest expenses, it probably wouldn't grow near as much as the third did unless we hire a lot of people.

Matt Olney - *Stephens Inc. - Analyst*

Sure; okay, that's helpful. Thanks. Then I also want to ask about the tax rate from here, a little bit low in the quarter. Sounds like part of that may stick if you have higher investments in the securities book. What's the outlook on, I think, the tax rate from here?

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

A big piece of that tax rate was affected by stock options being exercised as well, which really moved it quite a bit. Then we also had some calls on some securities that caused some other changes.

I would think it would probably moderate back to just the weighted portion for the tax-free municipals closer to the 30% instead of the 28% rate that is reflected in the third quarter.

Matt Olney - *Stephens Inc. - Analyst*

Okay. Thanks, guys.

Operator

Brad Milsaps, Sandler O'Neill.

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

Hey, good morning, guys. Hey, just wanted to follow-up, maybe tax rate related and margin related. In the securities book it looked like the yield was up from 2.29% to 2.70%. I know that's the follow-through from all the munis that you guys have been purchasing.

But is that really it? And is that rate on the securities book in your view sustainable? Or is that maybe due for some pressure?

Just curious how that plays into your margin outlook and what happened this quarter.

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

Go ahead.

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

It's abnormally high this quarter. It will be coming back down.

What happened is that some agencies that we had got called, and it generated additional interest income that is not part of the coupon. So we expect that those rates will adjust back to where they were before.

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

Okay. Sorry if I missed that, if you guys went through that earlier; I joined a couple minutes late. Then just one follow-up maybe for Ray.

I was writing quickly, but can you give me the numbers on the portfolios for the lenders with less than one year of service versus your more tenured folks? I think the average is like $31 million and $4 million last quarter. Just curious -- and I'm sorry if I missed it -- where that was during the third quarter.

Ray Vitulli - *Allegiance Bancshares, Inc. - EVP, President & COO - Allegiance Bank*

I will -- Brad, I'll have to get you that. It hasn't changed very much from the numbers from the previous quarter.

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

Okay.

Ray Vitulli - *Allegiance Bancshares, Inc. - EVP, President & COO - Allegiance Bank*

Yes. Now we have seen a really nice -- we talked about the market share gain. A lot of that's coming from the new lenders.

In the third quarter, the loans that we originated that were new were almost 67% of the total that were -- new because they were originated, new customers, to new customers, 33% to existing. We historically have been around a 50-50 in that category, so that's certainly being driven by our new lenders that have come onboard.

Bryce Rowe - *Robert W. Baird & Company, Inc. - Analyst*

Okay, great. So still a lot of runway there for the new folks?

Ray Vitulli - *Allegiance Bancshares, Inc. - EVP, President & COO - Allegiance Bank*

Yes.

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

Okay, thank you, guys.

Operator

(Operator Instructions) Brady Gailey, KBW.

Brady Gailey - *Keefe, Bruyette & Woods, Inc. - Analyst*

Hey, good morning, guys. Just to circle back on the increase in NPLs, the two loans that total $8 million that pushed that bucket up, those are real estate related, but they are also oil and gas related?

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

No, one of them -- well, yes. One is oil related, and -- do you want to explain the type of business they are in?

Ray Vitulli - *Allegiance Bancshares, Inc. - EVP, President & COO - Allegiance Bank*

Right, one is more of a machine shop that provides parts that are supplying the offshore industry. So we have -- that's owner-occupied real estate plus some equipment.

The other is also a machine shop. That one is owner-occupied real estate. There is no equipment on that one; it's just a straight-up owner-occupied real estate loan.

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

So both are collateralized by real estate, in a pretty significant way. So the loss expectation on those is very low.

Brady Gailey - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay. But both, the reason they are hitting trouble is related to the whole energy issue?

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

Yes.

Ray Vitulli - *Allegiance Bancshares, Inc. - EVP, President & COO - Allegiance Bank*

Correct.

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

Their revenues are definitely off, and there cash flows are definitely off, and we decided we needed to put them on nonaccrual. But we know that we've got really strong collateral as we work with those customers.

Brady Gailey - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay, okay. All right. Then there wasn't much end-of-period growth in the bond book. I think the average came up a little bit linked-quarter. But the bond book is now around 14% of average earning assets.

I know you all talked about over time maybe getting that up to something closer to 20%. But for now, for the near term, you think the bond book of a little over $300 million is an appropriate size?

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

Yes. I'm not sure where that 20% came from, Brady. The book is around 13% to 14%, is kind of the number right now. We're managing the Bank towards neutrality on asset liability, and that blends in very nicely at that 13% with our loan and our duration on our loans and our duration on our liabilities.

So this is the right mix for us. As we grow the Bank we would keep that percentage unless some other strategy comes into mind. But for the time being, this 13% to 14% feels like the right number. Certainly calculates that way in our ALCO modeling.

Brady Gailey - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay. Then is it right to think about you guys as being more organic growth focused than M&A? Is M&A really on the back burner for now, you all?

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

We don't have burners. George? I'll let George answer that one.

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

Well, M&A comes when it comes and we're always ready for that. But it's not something that we can go out and create.

It usually is the seller that decides when a transaction happens. So we stay in touch with the banks that might be interested in selling in the Houston market. But so far the expectations of price are still fairly high, and so it might take a while longer.

But in the meantime, our growth is not dependent on that at all. We depend totally on the organic growth, and then the M&A is just additional.

Brady Gailey - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay. Okay, then lastly for me, just curious where you all finished the quarter on a commercial real estate to capital ratio, relative to that 300% regulatory threshold.

Ray Vitulli - *Allegiance Bancshares, Inc. - EVP, President & COO - Allegiance Bank*

Probably around 260%, 265%.

Brady Gailey - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay. Would you all be comfortable crossing the 300% over time?

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

We probably wouldn't target that. We've never exceeded 300% at this Bank. Maybe one time years ago -- maybe six, seven years ago, when we were really small and the numbers were jumping around.

But in recent years, 300% has never been a place where we actually even crossed. We could probably manage well at 310% or 315%, but there is no intent to get there.

Brady Gailey - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay. All right, great. Thanks for the color.

Operator

Thank you. I'm showing no further questions in the queue at this time. I would like to turn the conference back over to Mr. George Martinez for closing remarks.

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

Well, I want to thank everyone for joining us today, and we look forward to being with you to report our fourth-quarter results in January. Thank you.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program and you may now disconnect. Everyone have a great day.
