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PRESENTATION

Operator

Good morning, and welcome to the BancorpSouth Fourth Quarter 2017 Webcast and Conference Call. (Operator Instructions) Please note this event is being recorded. I would now like to turn the conference over to Mr. Will Fisackerly, Senior Vice President and Director of Corporate Finance. Please go ahead.

Will Fisackerly - *BancorpSouth Bank - SVP and Director of Corporate Finance*

Good morning, and thank you for being with us. I will begin by introducing the members of the senior management team participating today. We have Chairman and Chief Executive Officer, Dan Rollins; President and Chief Operating Officer, Chris Bagley; and Senior Executive Vice President and Chief Financial Officer, John Copeland.

Before the discussion begins, I'll remind you of certain forward-looking statements that may be made regarding the company's future results or future financial performance. Actual results could differ materially from those indicated in these forward-looking statements due to a variety of factors and/or risks. Information concerning certain of these factors can be found in BancorpSouth's 2016 Annual Report on Form 10-K.

Also during the call, certain non-GAAP financial measures may be discussed regarding the company's performance. If so, you can find the reconciliation of these measures in the company's fourth quarter 2017 earnings release.

Our speakers will be referring to prepared slides during the discussion. You can find these slides by going to bancorpsouth.com and clicking on our Investor Relations page, where you'll find them on the link to our webcast or you can view them at the exhibit to the 8-K that we filed earlier this morning. And now I'll turn to Dan Rollins for his comments on our financial results.

James D. Rollins - *BancorpSouth Bank - Chairman & CEO*

Thank you, Will. Good morning. Thank you for joining us today for BancorpSouth's fourth quarter 2017 conference call. I'll begin by making a few brief comments regarding the highlights for both the year and the fourth quarter. John will discuss the financial results, Chris will provide more color on our business development activities. After we conclude our prepared comments, our executive management team will be happy to answer questions.

Let's turn to the slide presentation.

Slide 2 contains our customary safe harbor statement with respect to certain forward-looking information in the presentation. Slide 3 covers the annual highlights for the year, which reflected continued improvement in profitability.

Before we get into the financial results, I'd like to go ahead and touch on our recent merger closings. We are all happy and pleased to finally have Ouachita Independent Bank and First State Bank Central Texas as a part of our team. These transactions are closed effective January 15, 2018. The transaction closings are the result of a lot of hard work and progress by our teammates as well as unwavering support and commitment from the management team, employees, directors and shareholders of our 2 partners. We believe these bankers, led by Clyde White and Kevin Coe in Louisiana, and Don Grabowski, Gary Campbell, Randy Ramsey and Richard Proctor in Texas, will be able to support our planned growth in 2018 and beyond. Looking ahead, we expect to complete the operational integration of OIB during the first quarter of this year and First State Bank during the second quarter of this year. While it's been a long path to the closing of these deals, we are excited about the value these 2 great banks add to our company. More importantly, we are pleased to be able to finally execute on our strategic plan.

As we look at the financial results for the year, we reported net -- we reported record annual net income for our company of $153 million or $1.67 per diluted share, which represents an increase of $0.26 per share or 18% compared to 2016.

We continue to harvest cost savings in order to pay for other investments, including technology and people. Our operating expense declined by $7.4 million for 2017 compared to 2016. This decline, combined with revenue growth, resulted in a 200 basis point decline in our operating efficiency ratio excluding MSR from 69.8% to 67.8%. While this level is still not acceptable to our team, we are obviously on the glad path toward more peer-like efficiency and we expect 2018 to reflect continued improvement.

Our net interest margin continues to benefit from the repricing of our loan and securities portfolios, combined with very stable funding cost. The net interest margin increased from 3.52% for 2016 to 3.54% for 2017. The next 2 bullets cover annual loan and deposit growth for the year. Both were approximately 2% for the year, which is not the level we would have liked to have seen. We believe the economy in 2018 will allow us to grow and expect mid to high single-digit growth in loans and deposits. Chris will cover our business development efforts more in a moment.

Nonoperating items were not material during 2017. Additionally, the positive MSR valuation adjustment net of tax was approximately $1 million for the year. Accordingly, net operating income excluding the MSR change was $152 million or $1.66 per diluted share, which represents an increase of $0.16 per share or 11% compared to 2016.

Finally, we continue our efforts to manage and deploy capital in the best interest of our shareholders. We repurchased almost 3.7 million shares of our company's stock during 2017 at a weighted average price of $29.94. Importantly, we were able to repurchase these shares with very minimal impact to our regulatory capital ratios year-over-year. Our board has authorized us to repurchase up to 6 million shares over the next 2 years and I would expect our team to execute this program opportunistically.

Slide 4 provides a view of our summary financial results over the past 5 years, both on a GAAP basis and operating basis. These results further reflect the trends I mentioned on the previous slide. We've driven consistent profitability improvement through growing net interest revenue, stable credit quality and continued declines in our operating expenses. These results reflect a compound operating EPS growth of 12% over the past 4 years, culminating with the record annual net income for our company in 2017.

Moving to Slide 5, I'd like to touch briefly on our fourth quarter financial highlights. Net income for the quarter was $37.5 million or $0.41 per diluted share. Earnings benefited from a positive mortgage servicing rights valuation adjustment of $2.4 million. Additionally, we had 2 other items impact the fourth quarter results that we consider to be nonoperating. First, we incurred merger expenses for around $700,000; and second, we recorded an additional income tax expense of approximately $600,000 to revalue our net deferred tax asset.

This adjustment was the result of the corporate tax rate changes enacted by the Tax Cuts and Jobs Act of 2017. We made several strategic tax planning decisions during the fourth quarter, including the pension contribution, which allowed us to minimize the impact of this adjustment. While this legislation resulted in a small negative impact for the quarter, it's a huge win for our shareholders and our company going forward.

John will cover the impact of the effective tax rate in a moment. I'd like to reiterate our announcement from earlier this month. The first investment we made as a result of this legislation was in our teammates. Our board and management believe the key to the success of our company is our people. Earlier this month, we announced the plan to share a portion of the tax savings for the large percentage of our teammates through salary increases and one-time bonuses. After adjusting for the items I've mentioned, fourth quarter net operating income, excluding MSR was $36.8 million or $0.41 per diluted share. This represents an increase of $0.08 per share or 24% compared to the fourth quarter of 2016.

Moving on to the other highlights. Deposit growth for the quarter was $139 million, almost $140 million or 4.7% annualized. While total deposit growth for the year was less than we desired, as I mentioned earlier, this growth represented a nice finish to the year. Chris will provide additional color, including geographical highlights, in a moment.

Finally, noninterest expense declined compared to both the third quarter of '17 and the fourth quarter of '16. As I mentioned earlier, we continue to be very disciplined in challenging our team on where we are spending money. I'll now turn to John and allow him to discuss our financial results in more detail. John?

John G. Copeland - *BancorpSouth Bank - CFO, Senior Executive VP & Treasurer*

Thanks, Dan, and good morning, all. If you will turn to Slide 6, you'll see our summary income statement. Net income, as Dan has already alluded to, was $37.5 million of $0.41 per diluted share for the fourth quarter. And while they weren't large items, Dan did mention 2 nonoperating items we had during the quarter, which were $700,000 in merger-related expenses and $600,000 in net additional tax expense, related to strategic tax planning and the deferred tax asset valuation adjustment. There were no material nonoperating items in results of either of the other 2 quarters presented here.

Additionally, we had a positive MSR valuation adjustment for the fourth quarter of $2.4 million. Accordingly, we reported net operating income, excluding MSR, of $36.8 million for the quarter or $0.41 per diluted share, compared to $39.6 million or $0.43 per diluted share for the third quarter of 2017 and $30.7 million or $0.33 per diluted share for the fourth quarter of 2016.

Net interest revenue increased 5.2% compared to the fourth quarter of '16 and 0.7% compared to third quarter of 2017. I'd like to spend just a moment on the dynamics of our net interest margin, which was flat at 3.58% compared to the third quarter of 2017, and up from 3.46% for the fourth quarter of '16. We continue to see a pickup in our margin from increasing loan yields and relatively stable funding costs. Loan yields increased to 4.36% compared to 4.33% for the third quarter, while our cost of deposits increased only 1 basis point over the same time period, from 26 -- 0.26% to 0.27%. We also saw some pickup in the yield of our securities portfolio during the fourth quarter.

From a margin perspective, the net benefit that I've described was somewhat offset by a balance sheet decision to add incremental borrowings and prefund additional securities purchases, that we anticipate using to restructure the securities portfolios that were acquired with the 2 mergers that closed earlier this month. This strategy did result in a positive spread that provided a slight benefit to net interest income, but it did hurt our net interest margin for the quarter by approximately 3 basis points. In other words, a slight dilution of that margin. And this action also pushed our year-end assets over $15 billion.

Before we move on to noninterest revenue and expense slides, I'd like to touch briefly on taxes as we look forward. Our combined effective tax rate for 2017 was around 34% to 35%. With the new federal statutory rate of 21%, we expect our combined effective tax rate for '18 to be between 23% and 25%.

If you'll turn to Slide 7, you'll see a detail of our noninterest revenue. Total noninterest revenue was $63.1 million for the quarter compared to $66 million for the third quarter of 2017 and $72 million for the fourth quarter of 2016. We experienced expected seasonal declines in our mortgage and insurance businesses. We have a more detailed slide dedicated to these product offerings that Chris will discuss in a moment. The other line items on this slide are relatively stable quarter-over-quarter.

Slide 8 presents a detail of noninterest expense. Total noninterest expense for the fourth quarter was $125.9 million compared to $126.9 million for the third quarter of 2017 and $130.5 million for the fourth quarter of 2016. As I mentioned earlier, the only nonoperating item that impacted noninterest expense was the $700,000 of merger-related expenses. We continue to have disciplined expense control across virtually all categories. We saw -- did see a decline in salaries and employee benefits in the fourth quarter compared to the third quarter. This decline was driven by a number of factors, including reaching FICA limits as well as seasonally lower commissions related to some of our noninterest product offerings. That concludes our review of the financials. Chris will now provide some color on our business development activities. Chris?

Chris A. Bagley - *BancorpSouth Bank - President, Interim CFO, COO & Treasurer*

Thank you, John. Slide 9 reflects our funding mix at year end compared to both the third quarter of 2017 and the fourth quarter of 2016. Total deposits and customer repos increased $136 million compared to September 30, 2017 and increased $191 million compared to December 31, 2016. The trends reflected in our fourth quarter results are similar to what we've reported for some time now. Disciplined pricing of our time deposits has provided a headwind to our overall deposit growth efforts. We continue to be pleased with the growth in our lower cost accounts. As Dan mentioned, this strategy has helped us hold our total cost of deposits in a very tight range. Additionally, the addition of First State Bank will help us from a liquidity perspective as their loan-to-deposit ratio at year-end was approximately 60%. As we look at geographical performance relating to deposits, we had 5 Community Bank divisions stand out this quarter for deposit growth. West Tennessee, Northeast Arkansas, West/South Arkansas, mid-Mississippi and North Central Alabama divisions all reported excellent results this quarter. Looking forward, we will continue to focus on growing our core relationship deposits across our entire footprint.

Moving to Slide 10, you'll see our loan portfolio as of December 31, compared to the third quarter of 2017 and the fourth quarter of 2016. While our loan portfolio is flat compared to September 30, 2017, loans are up $244 million or 2.3% compared to December 31, 2016. We believe that hurricane season, especially, Harvey and some uncertainty around the tax changes at the end of the year may have impacted our last half growth, while our pipelines indicated we are competing for deals all across the footprint and we remain confident in our ability to grow loans. As we look at our fourth quarter lending efforts from a geographical perspective, we had several divisions produce meaningful loan growth. Stand out divisions for the quarter were our Dallas, Texas, Houston, Texas, Missouri and Pine Pill divisions.

Slide 11 contains credit quality highlights. I'd like to touch briefly on a couple of these bullets. Our credit quality metrics remain strong across the border. We had a provision for credit losses of $500,000 for the fourth quarter compared with the provision of $500,000 for the third quarter of 2017 and a provision of $1 million for the fourth quarter of 2016. Our provision was $3 million for the -- full year of 2017. We continue to experience low levels of net charge offs, which were less than 10 basis points for both the fourth quarter annualizing for the full year.

Finally, we continue to see small fluctuations quarter-to-quarter. Total NPLs to net loans and leases have declined to 71 basis -- percent from 94% a year -- 0.94% a year ago and while NPAs to net loans and leases have declined from just over 1% to 0.76% over the same time period. And today, our other real estate ORE has an averaging -- $6 million which is very low and we're proud of that.

Moving on to the mortgage and insurance we tabled on Slide 12, provide a 5 quarter look at our results for each product offering. Our mortgage banking operation produced origination volume for the quarter totaling $308 million. Home purchased money volume was $219 million or 71% of our total volume for the quarter. Deliveries in the quarter were $367 million compared to $314 million in the third quarter of 2017 and $380 million in the fourth quarter of 2016. Production and servicing revenue, which excluded the MSR adjustment totaled $4.9 million for the quarter compared to $7 million for the third quarter of 2017 and $5.6 million for the fourth quarter of 2016. Our margin was 1.06% for the quarter, representing a decrease from 1.53% for the third quarter of 2017. This margin decrease is attributable to decline in the mortgage loan pipeline, as we are currently in a seasonally lower time of year for the home sales. Our pipeline was $194 million at December 31 compared to $233 million at September 30, 2017, as we move into the spring selling season, we would expect to see these trends reverse as we typically do in the first and second quarters of each year. Finally, as Dan mentioned earlier, the MSR valuation adjustment during the quarter was $2.4 million.

Moving on to insurance. Total commission revenue for the quarter was $25.8 million compared to $28.6 million for the third quarter of 2017 and $25.7 million for the fourth quarter of 2016. I would remind you again that fourth quarter is always our lowest quarter for commission revenue as a result of the seasonality and timing of renewals in the insurance book of business. The message related to our insurance business is really no different than it's been for some time. Our insurance teammates continue to report a very soft premium market. We have to grow our team and grow our customer base in order to generate revenue growth. I'm confident in the leadership of our insurance team and the actions they have taken already to help us achieve these goals. Now I will turn it back over to Dan for his concluding remarks.

James D. Rollins - *BancorpSouth Bank - Chairman & CEO*

Thank you, Chris. This is an exciting time for our company. Our ability to continue to reduce operating expenses, maintain strong credit quality and grow our balance sheet resulted in record earnings for our company in 2017. This is the same simple story that we've been sharing for several years now, but it continues to result in improved performance year after year. We started 2018 strong by closing the first 2 bank transactions our company has completed in over 10 years. These transactions will further enhance our ability to continue to improve our operating metrics. More importantly, as I mentioned earlier, we're happy to be able to execute our strategic plan in an effort to grow our company. Our board and management team couldn't be more pleased with the direction our company. Coming off of record earnings, these 2 transactions, the tax bill and the rising rate environment, positioned our company for continued success. Again, it's an exciting time to be part of BancorpSouth's team. With that, operator, I'd be happy to answer any questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Emlen Harmon with JMP Securities.

Emlen Briggs Harmon - *JMP Securities LLC, Research Division - MD and Senior Research Analyst of Regional Banks*

So on the new tax rate, aside from the comp changes, does the tax reform change your strategy at all, in terms of either investments you'd like to make or just capital planning?

James D. Rollins - *BancorpSouth Bank - Chairman & CEO*

Well clearly, it's going to show significant change to the bottom line for us because we were paying an effective tax rate at the top end of the bracket. And so there's a huge win for us. We clearly wanted to share some of that with our teammates and we've done that. We continue -- we've been investing for the last several years in technology, so I don't know that we changed our focus on that front. We were already there from a capital management perspective, and clearly, we're going to have more income. So, I think as we roll through the year and see the results of some of that. We're going to be looking at the stock buyback program that I talked about it, and we are going to be looking at our dividend rate.

Emlen Briggs Harmon - *JMP Securities LLC, Research Division - MD and Senior Research Analyst of Regional Banks*

You mentioned some of the part -- your prepared remarks you mentioned some of the positive economic impact -- potential positive economic impacts from tax reform. Are you starting to see that materialize at all in just loan production and loan demand?

James D. Rollins - *BancorpSouth Bank - Chairman & CEO*

Again, several -- John, you may want to back up on the tax impact from our side too. But Chris, on the loan side, I don't think we're seeing a whole lot of measurable change today or something that we could put our hat on and say, this is caused by the tax return, but there's a lot of optimism out there today and people are talking about what they want to in 2018 and that -- it feels different than it did a year ago.

Chris A. Bagley - *BancorpSouth Bank - President, Interim CFO, COO & Treasurer*

Or even several months ago. There was just some uncertainty. I think there was uncertainty in the fourth quarter, a lot of people were feeling that, that's gone away. And, like Dan suggested, I think there's some energy and that certainty helps people plan and go forward. But people probably still digesting the tax, how it impacts their individual situation, but given what we're seeing, I would hope it would generate activity in a number of places in our footprint.

Emlen Briggs Harmon - *JMP Securities LLC, Research Division - MD and Senior Research Analyst of Regional Banks*

And a last quick one for me. With the deals closed now, would you be willing to provide us just with your expectation on earnings accretion from those 2 transactions?

James D. Rollins - *BancorpSouth Bank - Chairman & CEO*

What you're talking about is what we see coming forward from the 2 transactions, how that impacts us?

Emlen Briggs Harmon - *JMP Securities LLC, Research Division - MD and Senior Research Analyst of Regional Banks*

Just impacts EPS, correct.

James D. Rollins - *BancorpSouth Bank - Chairman & CEO*

Yes, I don't know that we ever put out any EPS numbers off of the 2 transactions. From a cost savings perspective, we continue to believe we are in the same range, which is combined cost saved between the 2 at 20% plus. One of them, again, is new territory for us and we're going to see less opportunity for cost savings in one market over the other. We've got some branch overlap and some consolidation and some operational teams that we can consolidate, so we're still shooting in the 20% range.

Operator

The next question comes from Catherine Mealor with KBW.

Catherine Fitzhugh Summerson Mealor - *Keefe, Bruyette, & Woods, Inc., Research Division - MD and SVP*

I just wanted to followup to Emlen's question on the deal. Do you all have a sense as to whether these 2 deals will have any large impact on your margins this year? Either from an accretable yield standpoint or the core margins?

James D. Rollins - *BancorpSouth Bank - Chairman & CEO*

At this point, I don't know that we have anything that we've all ready to put out in a concrete manner. Our teams are continuing to measure through. We've done a lot of measurement. We've been working with the folks that we engaged to value the loan portfolios that will build that incredible society and I think its too premature for us to tell you how that's going to impact margin from a basis point spread. I think when you look at our core margin, John can talk about that further, but we continue to see upward pressure on our core margin, excluding the accretable yield from the purchase side.

John G. Copeland - *BancorpSouth Bank - CFO, Senior Executive VP & Treasurer*

Yes, that's right, Catherine, we do expect to continue to see, although, that's -- as we talked about, it was the effect of recent rate increases on repricing variable-rate loans was somewhat muted because of the balance sheet actions that we took, we do continue to see it. Some benefit from repricing as we go through time, and of course, that does exclude the impact of the 2 acquisitions and the accretion there.

Catherine Fitzhugh Summerson Mealor - *Keefe, Bruyette, & Woods, Inc., Research Division - MD and SVP*

Okay. And then on the buyback, how price sensitive are you to the buyback? Your stock now is about 20% or so higher than where you bought it back last year, but you're making more money, so you're accreting more capital. So, how do you balance where the stock price is versus using that capital in further M&A or on dividends?

John G. Copeland - *BancorpSouth Bank - CFO, Senior Executive VP & Treasurer*

Yes, I think clearly, price is a factor that gets built into that model and we're looking at what we want to do on that front. I think as you said, there's lots of positive behind the valuation and the earnings that are coming through behind. But price will play in, so again I want to use the word that I've used earlier, I think we want to be opportunistic with our buyback and we want to be prepared to play and so as we see opportunities, we're going to jump in the market.

Operator

The next question comes from David Feaster with [Raymond James].

David P. Feaster, Jr.

I just have one quick question on the $10 million of incremental employee expenses. Could you maybe break that out between how much is salary versus the one-time bonus? And just to confirm, the bonus part would occur in the first quarter and basically that expenses should come back down towards a more normalized run rate inclusive of the higher comp?

James D. Rollins - *BancorpSouth Bank - Chairman & CEO*

Yes, I think that's factually correct with what you said. Let me try that a different way, John, you can jump in here. So when we look at the one-time bonus numbers, that's going to run in the $1 million range for the first quarter and the $10 million run up in compensation cost for the year would be all-inclusive for our entire year of program. So $1 million of that is a first quarter event and the rest of it would be spread over the year's time. However, when you look at us on a go-forward basis, we picked up 400 new people, 10 days ago. And so the first quarter is going to be muddy and hard to see on some of that probably, but that's our current budgeting process. John?

John G. Copeland - *BancorpSouth Bank - CFO, Senior Executive VP & Treasurer*

Yes, as Dan said, that is really, really muddy and it was muddy when we worked it through our budget as well. The impact in that first quarter of the lump sum and then there were increases that will affect later periods as well in that $1 million, that Dan alluded to. And you throw in the new employees, the OIB and FSB coming on board, it all gets lost in a big total. But we would've had normal salary increases beginning in June, July anyway without the actions that we took resulting from the tax reform and sharing some of that with our employees. So we would've had roughly half of that anyway relative to salary increases through the year.

David P. Feaster, Jr.

And maybe as a follow-on, could you remind us how much FICA in payroll taxes that you expect in the first quarter?

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James D. Rollins - *BancorpSouth Bank - Chairman & CEO*

I don't know that we have a number for that. I don't have a number for that, David, sorry. I think you can look back over the last couple of years and look at compensation spend from one quarter to the next and model off of that. The other variable part of compensation for us is, is again, our insurance producers, that Chris talked about, they are commission-based and 1Q is always way high on production from the insurance side, that's a seasonality in the insurance book, which drives the commission comp in the first quarter, way high also. So first quarter compensation is going to be high, always has been. I would refer you to look at the history because it also looked very similar to what it always looked in the past. For us, it's a stand-alone entity.

David P. Feaster, Jr.

And one more for me. You talked about the need for hiring in insurance and you've been fairly aggressive in hiring on the mortgage origination -- originators over the past year. Can you just maybe talk about your hiring expectations both on the mortgage and insurance side as well as new bankers?

James D. Rollins - *BancorpSouth Bank - Chairman & CEO*

Yes Chris can jump in here with me. Our answer is, we're constantly searching for people that can produce business for us in any business line. I would add to the 3 that you mentioned, we're actively looking for equipment finance relationship builders, we're actively looking for wealth management relationship builders. Clearly, on the mortgage side that drops to the bottom line, there's production there. The insurance side. Markham McKnight runs our insurance team and does a fantastic job there. He's a good leader and I know he's out, actively looking for people on the insurance side.

Chris A. Bagley - *BancorpSouth Bank - President, Interim CFO, COO & Treasurer*

Yes, I'd go with Dan's comments, producers are more constantly recruiting and looking for additional producers. Any insurance world, just a little color there, that takes a little longer, there's a longer lead time to get one up from a production perspective because most insurance producers are under some type of nonsolicitation and noncompete with their existing firms. So, it takes you a little bit longer to get them productive then you would, say, a lender.

James D. Rollins - *BancorpSouth Bank - Chairman & CEO*

Unless you're growing your own and it still takes multiple years. So yes, insurance is a little bit longer lead.

Operator

The next question comes from Matthew Olney with Stephens Inc.

Matthew Covington Olney - *Stephens Inc., Research Division - MD*

This is Matthew Lee on for Olney. So I appreciate your commentary on the buyback outlook and wanting to remain opportunistic here, but what are your thoughts on additional M&A, now that we've got the deals closed?

James D. Rollins - *BancorpSouth Bank - Chairman & CEO*

Yes, I think that game is open for us, also. I think we feel like we've been working hard through the last several years to accomplish all the things that needed to happen to get us to the finish line with our friends in Texas and Louisiana. I think the door is open for us to continue to look for other opportunities. And as we look into 2018, we are hopeful that we'll be able to talk to some people that may want to join our team. From a timing perspective of that, I don't know that, that's this month or next month or this quarter or next quarter. But we want to continue to be opportunistic on that front also. So I've said, for some time, that the buyer doesn't get to set the timeline for bank mergers, the seller does. And so we want to be prepared and ready when opportunities are represented to us.

Matthew Covington Olney - *Stephens Inc., Research Division - MD*

And you mentioned, combined cost savings of 20%, but I'm assuming we've seen some attrition of both OIB and First State. Have any of these cost savings already been realized to-date?

James D. Rollins - *BancorpSouth Bank - Chairman & CEO*

Yes, you've got to go all the way back to 4 years ago, when we made the announcement. I remember, these deals were started, we were dancing and talking with these teams all the way back in the fall of 2013, they were both announced in January of '14. And certainly since that time, many things have been done on their side to assist us in growing earnings and being more efficient. When you look at both of those banks on a standalone basis, you've got to give a lot of credit to Kevin Coe and his management of the team in Louisiana. The bank was larger, more efficient, more profitable, healthier in almost any measure you want to look at from when we closed in January of '18 than it was in January of '14 and the exact same thing can be said about our friends in Texas. Don and Gary, Randy, Richard, the team in Texas, the bank was stronger, bigger, more profitable, more efficient. So all of those things played forward and helped us as a combined entity to be more efficient and more profitable. When you look at the ability to harvest synergies out of the mergers, I think we still feel like there's still opportunity there for us and our 20% number is going to hold today.

Matthew Covington Olney - *Stephens Inc., Research Division - MD*

And lastly on expenses. So, looks like your salary line item was down about $3 million sequentially in 4Q. But if I'm hearing you right, this will normalize and rebound backup in 1Q '18, as it seasonally does. Is that about right?

James D. Rollins - *BancorpSouth Bank - Chairman & CEO*

That's correct. Yes, you had a couple of moving items in there that impacted us there. Some of that is benefit cost. Are you comparing 4Q to 4Q or you are comparing 3Q to 4Q because there were different moving parts there. In 4Q of '16, we actually had some increased cost on our healthcare coverage that we did not incur and the year-end true-upping if it goes up. And on the other side, we had a true-up that saved us or benefited us in 2017 on our incentive plan measurements. But at the end of the day, I think you're going to see a normalized run rate throughout 2018, just as you did last year.

Operator

(Operator Instructions) The next question comes from John Rodis with FIG Partners.

John Lawrence Rodis - *FIG Partners, LLC, Research Division - Senior VP & Research Analyst*

Just to follow-up on your comment on loan and deposit growth, you said mid-to-high single digits this year. Now I'm sure that excludes the acquisitions, right?

James D. Rollins - *BancorpSouth Bank - Chairman & CEO*

That's correct. We're talking organic.

John Lawrence Rodis - *FIG Partners, LLC, Research Division - Senior VP & Research Analyst*

And coming off a year where you grew to 2.3%, what gives you confidence that you want to go out with mid to high single-digits? Is it the tax cuts? Is it -- I'm assuming that's part of that?

James D. Rollins - *BancorpSouth Bank - Chairman & CEO*

Yes, I think there is optimism out there. Our team is playing every day and we can make excuses about what happened in '17. But we've got a lot of confidence in the team, we've got out on the field and we're confident that we can play in the market. And I think when you look at all of the things that are out there today, to benefit from a growing economy, the shrinking unemployment. There is opportunity for us. There's growth out there and we believe in our footprint, that we can harvest that.

John Lawrence Rodis - *FIG Partners, LLC, Research Division - Senior VP & Research Analyst*

And is it also just paydown slowing going forward too?

James D. Rollins - *BancorpSouth Bank - Chairman & CEO*

Certainly, that was a headwind and we talked about that in early '17. First quarter '17, we identified some significant paydown headwinds that we incurred. I think that continued to play through the year for us. But yes, as the economy expands, there's going to be opportunity. I don't -- again, you follow a lot more than I do, but I feel a lot of folks talking that loan growth late in the year, just wasn't there for the economy as a whole. I think we're a piece of that. We cover 8 states across the South and I think we're feeling the same pressures that lots of others are. But when you look forward, there is economic tailwinds, I guess, that can help us in 2018.

John Lawrence Rodis - *FIG Partners, LLC, Research Division - Senior VP & Research Analyst*

That make sense. One other question for me. Just on the securities portfolio, you guys, obviously, leveraged it up, some in the quarter. How should we think about the securities portfolio with the acquisitions? What's the combined level going to be? Because it looks like the 2 banks combined have a securities portfolio of roughly $700 million...

James D. Rollins - *BancorpSouth Bank - Chairman & CEO*

Yes, so what we did there, we were kind of preplanning, so as we came into the end of the year, we were looking at their securities portfolio and our securities portfolio, looking at the type of assets that are coming forward from the 2 banks that were coming on board with us and we made the corporate decision to prepurchase or invest some of what we wanted to invest off of their side. So what you saw was some levering up at the end of the year, where we expanded our investment portfolio and the class of assets that want and like to hold. And now that we've closed the mergers, we will begin to divest some of the assets that were on their balance sheets. So by the end of the first quarter, I think, you'll see us back to really just put the 1 plus 1 plus 1 and take out the extra leverage that we put on at the end of the year that should be gone by the end of the first quarter.

John Lawrence Rodis - *FIG Partners, LLC, Research Division - Senior VP & Research Analyst*

So by -- Dan by my math, if I take the end of period September plus what the 2 banks have, that gets you to like $3.1 billion to $3.2 billion? Is that sort of a good ballpark?

James D. Rollins - *BancorpSouth Bank - Chairman & CEO*

Yes John is nodding his head. I think that's fair, plus or minus a $200,000.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Mr. Dan Rollins for any closing remarks.

James D. Rollins - *BancorpSouth Bank - Chairman & CEO*

All right. Thank you all very much for joining us today. If you need any additional information or have further questions, please don't hesitate to call us. Otherwise, we will look forward to speaking with you out on the road again soon. Thank you very much.

Operator

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