MidWestOne Financial Group, Inc.

2016 Third Quarter Earnings Conference Call

October 28, 2016 at 12:00 p.m. Eastern

CORPORATE PARTICIPANTS

Charles Funk, *President & Chief Executive Officer*

Kent Jehle, , *Chief Credit Officer*

Katie Lorenson, *Chief Financial Officer*

PRESENTATION

Operator
Good day and welcome to the MidWestOne Third Quarter 2016 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then 1 on your touchtone phone. To withdraw your question, please press star, then 2. Please note this event is being recorded.

I would now like to turn the conference over to Charlie Funk, President & CEO. Please go ahead, sir.

Charles Funk
Thank you very much, Carrie. Good morning, everybody, and thank you for joining us on the call. As I always do, I want to give the forward-looking statement, which simply says this presentation contains forward-looking statements relating to the financial condition, results of operations, and business of MidWestOne Financial Group. Forward-looking statements generally include words such as "believes," "expects," "anticipates," and other similar expressions. Actual results could differ materially from those indicated, and among the important factors that could cause actual results to differ materially are interest rates, changes in the mix of the company's business, competitive pressures, general economic conditions, and the risk factors detailed in the company's periodic reports and registration statements filed with the SEC. MOFG undertakes no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances after the date of this presentation.

With that, I will get started and talk quite a bit about the third quarter, and then at the end of my prepared remarks, maybe give a little bit of guidance for the fourth quarter and for 2017. Even though it may be limited, there will be some guidance.

There's no doubt, and I indicated this in my opening commentary in the earnings release, that we were disappointed with the third quarter earnings per share. That said, I think there are a lot of reasons for optimism in our company, which I will cover in these remarks.

We had one-time items that actually offset each other, even though they may not have been reported that way, and during the quarter, we of course had the sale of our Davenport office, which was offset by two items that were somewhat extraordinary. We had a roughly $200,000 wire loss at the beginning of the quarter that we recognized during the quarter, which simply came as a result of employees not following proper policies and procedures, so we endured that, and we also had a $400,000 write-down on OREO, and that was as a result of a development loan that was made, I believe, in 2010, so the appraisal came in, we took the write-down, and when you put those things together, they essentially offset each other.

As we indicated, we lost a little over $30 million in loans when we sold the Davenport office. We replaced about $10 million of the $30 million as of the end of the third quarter, and today, as we near the end of October, we've probably replaced another $7 [million] to $10 million, depending on the day, so we are in the process of replacing those loans.

I think the exciting thing, and we talked at length in the last earnings call about how the pipeline had gotten sparse, we have a very, very, what I would call, robust pipeline of loans, well in excess of expected paydowns. You know, the trick is to get the loans closed. They've been, for the most part, approved, and in November and December, I would think we should see very, very good months in terms of getting these loans closed. The question always comes, "Where are these loans coming from?" The answer is not much different than it's been in prior quarters, the Twin Cities market, especially the closer you get to Minneapolis and its suburbs — Minneapolis/Saint Paul and its suburbs — continues to be very, very strong. The Iowa City market has seen good activity as well, with one large construction loan that's been approved and will come on over time.

If you look toward year end, it's always a guessing game, because you don't always anticipate paydowns, but I'll give you a range of $2 billion, 170 [hundred million] to $2 billion, 190 [hundred million] in terms of where we think we should be at December 31, but, again, that's affected by how quickly these loans close and also the related paydowns that we can't always predict.

One other thing that I commented on — Katie can comment in more detail if you like, but the accretion income that we've been receiving, especially in the third quarter, and it will continue on into the fourth quarter, has been a little bit less than it would have otherwise have been, because of the impact of writing down the FDIC receivable, more perhaps than we had anticipated. The good news is that the accretion should become more of a tailwind as we get into 2017, and the FDIC receivable is essentially written off.

In terms of deposits, deposits have been okay. We've talked at length about our treasury management focus, and we've talked about that for roughly 18 months. There's a good pipeline of anticipated deposits that we think are going to continue to come on. We've had a couple of large deposit payoffs, and you get this with large-deposit customers. In one case, the customer changed its investment strategy and moved a large sum out of the bank, and then we had another large customer this week that moved money, but, again, these things are just in the ebb and flow of business, and I think the most important thing is that there are lots of calls being made, and we think that, you know, deposit generation will be easier and better than it has been in the past.

We talk about non-interest income. You know, our wealth management unit is down year to year. Most of that is in the brokerage area, and I think many of you know that we clear through LPL, so we get good market data and industry data from LPL, and it's interesting to me that even though the stock market's having a reasonably good year this year, that bank brokerage commissions are down throughout the industry, and it would appear to me, based on the data I've seen, that ours are down about the same amount that other banks' brokerage commissions are down. We've hired one broker for the Twin Cities footprint, and we're hopeful over the next six months that we'll be able to hire more in that footprint, but at this point in time, we don't have signed agreements in place. That leaves our trust and insurance units and wealth management, and their results are relatively flat with a year ago, and we've been crystal clear with all three of these units that we need growth in topline revenues, and that will be a focus as we move into 2017.

Mortgage had a good quarter, and the fourth quarter is starting well. We typically get a slowdown as we approach the holidays. The MSR write-downs continue to be an issue that drag on that business. That's just part of the business you're in if you're going to service mortgage loan portfolios, but we are hopeful at this level of interest rates that it will be a positive adjustment for the fourth quarter, although we really can't estimate that, because we don't know what the interest rates will be as the quarter progresses.

On expenses, I think it's a good story on expenses. We've talked ad nauseam about the need to reduce expenses, and I would tell you that we are probably a little bit ahead of our schedule, and the salary numbers should continue to come down as time goes by. Katie can talk more in detail about that if you like in the Q&A. It took a while, but we're beginning to see some of the data processing savings come into the income statement as the contracts get signed and the savings become realized.

We've talked about the consultants that we hired, and yesterday we actually had the final meeting, and it was a very good meeting. It's really too soon to talk about the opportunities that we think we have in 2017, but I'm more than confident, I'm certain, that there will be more progress that comes to the bottom line as a result of these recommendations, and I thought that they did a very good job, as did our employees in working with them. I think when all is said and done, the biggest positive will be hard to measure, but there are a lot of processes that we had both at Central Bank, which, when it merged with MidWestOne, was a billion, two [hundred million], and at MidWestOne, which was a billion, seven [hundred million] when we merged, and when you have a $3 billion bank, you need different processes. You also have to have the ability to scale going forward, and I think there's going to be a lot of refinement there that will only make us a better and more efficient company.

A few words about asset quality — very stable. You see that the net charge-offs, 8 basis points, that's very, very good. We've talked at length for the last four to five quarters about a large loan that is on non-accrual. It's an Iowa City area loan. I think it's fair to say it's a little closer to resolution, but I wouldn't want to predict resolution in the fourth quarter, but we are moving down a path there, but, as with all of these things, it's hard to predict when you can actually get that wrapped up.

The crop report, which plays into our agricultural loan portfolio, is — the crop report is incredible, and for those of you who are familiar with the words "bin buster," this is probably a bin-buster crop if there ever was one, and we are hearing throughout our footprint — probably the worst we hear is average yields, but in many cases, they're seeing all-time highs in terms of yields, and even throwing out in portions of fields, 300 bushels an acre, which, ten years ago, 200 bushels was a very, very good harvest. So that doesn't totally make up for the low crop prices, but it helps, because there's more crop to sell, and so I think our borrowers do get a little bit of a break in terms of most of them are seeing very, very good yields.

I think — and we always say this on the third quarter call, and the questions will come, "How many downgrades do you see in all of that?" Well, the next 90 days we will begin the renewal season, and we are going to try to expedite the renewal season as much as we can with our borrowers so that we can get a good idea of just where they stand. I don't think there's any question we'll see some credit downgrades, but I think we'll have a much better idea of what this means for our income statement by January, when we host that earnings call. Be assured we are proactive, and that, I don't think that there's much of an income statement impact for the foreseeable future, but, as I've said many times, the longer this goes on, the more stress it causes, and inevitably you may see some charge-offs. We have reserved quite aggressively for our ag portfolio within our loan loss reserve, and at this point in time, I think it fairly states what the credit quality is, but it will be interesting to see as we go through the renewal season, just how many credits are downgraded.

A word about capital. I think capital's fine. I think we're on target in terms of our projections. We should be over 8 percent tangible common, which has been our goal, by the end of the year. I would remind everybody that we do analyze the dividend at our January Board meeting, and I think probably there's — there's a good prospect for an increase. What it is, I don't know. We really haven't given too much thought to that just yet.

In terms of M&A, there's certainly nothing imminent, but there have been discussions, and I would characterize most of them as preliminary discussions at this point, but more and more, you're seeing banks that are in the hundred-to-billion dollar range, I think, just wondering what their long-term future is with the incredible amount of regulation we have, and I think the longer this low-interest rate environment goes on, that has an effect on it as well.

The growth, as I said, in Quarter 4 and in 2017, I think, really have to come mainly from Iowa City and the Twin Cities. I feel good about our prospects there. I also think we have to understand that roughly a quarter — 20 to 25 percent of our footprint are in rural markets, and the rural markets, if they're not in recession, they're in very, very slow economies, because if they're driven by agriculture, the people in agriculture are not spending the money — they don't have the discretionary income to spend that they've had in prior years, so to expect much growth out of that part of our footprint is probably not realistic, but, again, I think we're very, very fortunate to be in Iowa City and to be in the Twin Cities, because those economies are very, very strong.

I think one other thing that is not financial, but it's very clear to me, and I think it's very clear to everyone on our senior management team that within each month that passes, that we are working more and more as one team. The morale is better, and I think as much as anything, that adds to my confidence level, because companies can't succeed with poor morale, and I don't sense that there's much evidence of poor morale at this point in our footprint, and that makes me feel very, very good.

In terms of 2017, a couple of words. When talking about 2017, in retrospect, as I look back, we did not do a very good job of budgeting in 2016. In some ways, that's understandable, and I think as we look back to a year ago when everything was coming together with the merger of the banks, we just missed a few things in our budget, but I'm very, very confident and certain that we've learned from our mistakes. We've focused a little more effort on 2017 earlier than we have in past years, because people have been asking, and I appreciate that. And the only thing I would say about 2017 is that as I look at the estimates that are out there, I am confident that the estimates that are out there are accurate. I think this is the first quarter in three or four quarters on this call that I could speak with a real sense of optimism, but I feel like that there will be progress made in the fourth quarter of 2016, and I think 2017 becomes a pretty good year, and I feel good about our ability to lay out what has been projected for us.

The only thing I would say in concluding is that as disappointed as we were our return on tangible equity was over 12 percent, and I think we have the ability to do better than that, and I also am encouraged that the efficiency is coming down. I think the efficiency has come down primarily because of the past expense reductions and the current expense reductions that we've been able to enact. I think to get our efficiency below 60 percent and to sustain that, that revenue growth has to come in a little bit more than it did this year, and, again, I think that we should be able to do that.

In terms of our margin, our margin is, as those of you who follow our income statement know, it bounces around a little bit because of the amount of the intangibles and the amortization and the discount accretion that comes in, so we look at our core margin and pay a lot of attention to that, and I think that the best we can come up with right now is probably 1 to 2 basis points a quarter of narrowing in the core margin, because our loan portfolio tends to just come down a basis point or two a quarter, and it looks like, to us, that our cost of funds has probably bottomed out a little bit. There may be a little bit of opportunity there. We will get rid of some high-cost Federal Home Loan Bank borrowings that mature as we go on, but, by and large, I think our cost of funds has pretty much hit bottom, and if we could keep it around these levels, that will more than likely be a good achievement.

So with that, I think that's all I have to offer this morning in the prepared remarks, and, Carrie, I would turn it back over to you for the Q&A. And we do have in the room Katie Lorenson, our Chief Financial Officer, and Kent Jehle, our Chief Credit Officer, available to answer questions. So, Carrie, I'll turn it back to you.

QUESTIONS AND ANSWERS

Operator
Sure. We will now begin the question-and-answer session. To ask a question, you may press star, then 1 on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then 2. At this time, we will pause momentarily to assemble our roster.

Our first question comes from Jeff Rulis of D.A. Davidson. Please go ahead.

Jeff Rulis
Thank you. Good morning.

Charles Funk
Good morning.

Jeff Rulis
A question on honing in on the costs. First of all, the $200,000 in merger costs. Was that centered in any one line item or items? Just trying to map where that would come out of.

Katie Lorenson
I believe that was in the data processing. This is Katie, Jeff. That was in the data processing line item for the most part.

Jeff Rulis
Okay. Great. So if you back that out and you get to a low 20 [million] — call it a $20.2 [million] or something million at run rate, and then expectations of further improvement, could you talk about, one, is that run rate — do you anticipate just some modest improvement as we roll into '17 and ultimately where you're kind of cutting into bone or where it stops from that basis?

Katie Lorenson
Sure. Yep, I'll take that one. So we do anticipate further reductions in that non-interest expense line item. As you'll recall, our cost savings goal is to get that to about $19 million per quarter, and we do look for, again, further decreases in Q4 and then continued drops in 2017 to get us to that goal.

Jeff Rulis
And so the goal is to maybe hit that $19 [million] at Q4 of next year?

Katie Lorenson

No, I would say that the $19 [million], just to be very clear, the $19 million is $19 million excluding the amortization expense, and we anticipate hitting that goal in Q4 of this year or coming close to it and then getting there for sure in 2017.

Jeff Rulis
Okay. Gotcha. And then maybe just circling back on that margin, what was the core margin, if you reported it was 372?

Katie Lorenson
The core margin for the quarter was 361. The purchase accounting for the quarter was about $800,000.

Jeff Rulis
Okay. So what was the purchase accounting? So you had 11 basis points this quarter. What was that in Q2?

Katie Lorenson
In Q2, the core margin was 369,with purchase accounting of about a million dollars.

Jeff Rulis
Great. And, okay, that is helpful. And then just my last one on the tax rate. Any commentary about how you closed the year and maybe into ’17, any estimates there?

Katie Lorenson
Yes, we are seeing the tax rate increase from where it was with the historical MidWestOne Financial Group, and, of course, we had the historical tax credits in the prior year, so that does appear that that’s going to be closer to the 30 percent range, which is a couple of basis points higher than it had been in the past.

Jeff Rulis
Okay. Thank you.

Katie Lorenson
Uh-huh.

Charles Funk
Thank you.

Operator
Once again, if you have a question, you can press star, then 1.

Our next question comes from Andrew Liesch of Sandler O’Neill. Please go ahead.

Andrew Liesch

Hey, guys — everyone.

Charles Funk
Good morning, Andrew.

Andrew Liesch

A question on your efficiency ratio targets. It seems like some of that's going to be from lower expenses but also higher revenues. Is that correct?

Charles Funk
Yes.

Andrew Liesch
And on the revenue side, I'm just curious what you think is going to be driving that. Is that going to be better fee income, loan growth, a better margin next year because of less write-down of the receivable? If you can just give some direction there.

Katie Lorenson
Well, I think, Andrew, it's all of the above. We have been writing down the FDIC receivable or amortizing that receivable, and most of that amortization does relate to improved credit quality, so that means more accretion will be used for future income than it will be used for absorbing credit losses. So that certainly impacts the efficiency ratio going forward, and then we do look, as Charlie alluded to in his opening comments, additional topline review growth from our well management, mortgage, trusts, and then, again, that non-interest expense continuing to come down in 2017 will all attribute to dropping that ratio to our goal.

Charles Funk
Yes, we have to see, I just would add, we have to make sure that we returned a little bit more balance sheet growth, and I think the growth on the balance sheet will contribute to that as well. Again, we do have a little bit of a headwind, as I said, because of our locations that are located primarily in rural Iowa that it's not realistic to expect growth where we're just trying to maintain and make sure we keep credit quality, but we do think that Iowa City, the Twin Cities, and to a little lesser extent, Cedar Falls and Waterloo, can help us in terms of the revenue growth, to offset that in rural Iowa.

Andrew Liesch
Okay. Great. Thanks. That's my only question.

Operator
Our next question comes from Daniel Cardenas of Raymond James. Please go ahead.

Daniel Cardenas
Good morning, guys.

Katie Lorenson
Good morning.

Charles Funk
Good morning.

Daniel Cardenas
Maybe just a quick question on what line utilization looked like this quarter versus last quarter?

Kent Jehle
Yes, Dan, this is Kent, I can answer that. The line utilization was up in the third quarter, primarily driven along that construction side as we continued through the construction season. I will add, though, as we look into the fourth quarter, we're starting to see that turn the other

direction on ag. As we get into the harvest season, we're seeing, obviously, current year operating loans, a portion of those being paid back as our clients are selling grain right out of the fields and then paying down their debt. So we look at that, and the gain we picked up in the third quarter, we're starting to see that erode into fourth quarter and won't lean on that for our loan growth as we look at the fourth quarter.

Daniel Cardenas
Thanks. Fair enough. And then maybe just a quick question on the ag portfolio. A while back, you guys stress tested that portfolio, and I think you indicated that you felt if there were losses, they would come in at the lower end of your range. Do you still feel that way, given where commodity prices and yields are shaking out right now, or is there a change in your overall concern about the portfolio?

Kent Jehle
Dan, Kent again, I'll answer that as well, and I would say that we still are in the same position as when we looked at how it was stressed prior. As Charlie alluded to, the yields are coming in very strong, and, actually, when you look at the yields in Iowa, they're above the national average and the averages around the surrounding states, so, again, that gives us the commodities to move forward with. The key is going to be the marketing as we go through the rest of the season, as we only saw about 15 percent of the current year's crop price prior to going into the harvest season, so we are subject to the current market prices we see today, but, again, we'll be working closely with our clients to get their take on how they're going to market the grain over the upcoming months and into next year. So the good news is, again, we're ahead of the game when it comes to the yields, and what we have to sell, we just need to work through the marketing piece.

Daniel Cardenas
Gotcha. Okay. That makes sense. And then as you look at loan growth in the Twin Cities and Iowa City, which market is — and I'm sure they're both very competitive, but are the yields coming out of the Twin Cities substantially lower than what we're seeing in Iowa City?

Charles Funk
I'd say they're very comparable. I'd say they're very, very comparable. I think the nature of the competition's a little bit different, but I think where it all falls out, that I don't see a whole lot of difference.

Kent Jehle
Yes, the only thing I would add to that, Dan, is we've talked in the past. We did dip under 4 percent on our commercial real estate rate to 3¾. That did get us back in the game on quite a few conversations and is part of what's driving the pipeline that we're experiencing right now, and that is for both markets, as Charlie's alluded to.

Charles Funk
Yes, we just approved a nice loan yesterday. It was a variable-rate loan, and it was priced at 350 variable, and we thought that was pretty good terms to get the variability, so it's out there, and you just have to make sure that you don't compromise too much on terms, because there is still a whole bunch of compromising on terms going on. At least we see that in our loan presentations that we hear from our commercial bankers.

Daniel Cardenas

Okay. All right. And then just a couple of more questions here. As we think about the margin and thank you for the guidance that you gave — have you priced in any rate hikes for 2017 in that margin assumption?

Charles Funk
No, we typically don't, but our Treasurer, Jim Cantrell, would tell you that a rate hike is a good thing for our company, so we probably would get a little bit of a boost there, I think, as many banks would if they were to raise rates.

Daniel Cardenas
Okay. And then last question, how should we be thinking about your provision expense going forward?

Charles Funk
That's a great question, and I'll look to our Chief Credit Officer.

Kent Jehle
Well, there's two components to that, and I'll have Katie add to this as well. For our existing portfolio, how we traditionally look at it, we would look at that comparable to what we have in the past, so no real changes, but obviously the purchase accounting aspect of that does come into play, so with that, I will defer to Katie to look at what the all-in number would be as we look forward.

Katie Lorenson
Uh-huh. Thank you. And I think, based on what we're seeing as far as projecting out when we can with renewals and such, I think the provision would stay at about the same pace as it has been in the past few quarters.

Kent Jehle
Dan, the only thing I would qualify is, obviously, if we have a hiccup on the credit side, that we would need to identify and realize the impairment, that would come into play, and the only thing I would share that we do have one credit's that in the 30-to-89 day category that we're watching very closely to see where we sort out with that one, and that will occur in this quarter if there is anything that's going to be needed above and beyond what we normally look at, but, again, obviously, we've always got to mention it if there's anything that would come up as a surprise that we would need to deal with.

Daniel Cardenas
Okay. Great. Thank you, guys.

Charles Funk
Yes, thank you, Dan.

Operator
Our next question comes from Brian Martin of FIG Partners. Please go ahead.

Brian Martin
Good morning.

Katie Lorenson
Morning.

Charles Funk
Good morning, Brian.

Kent Jehle
Good morning, Brian.

Brian Martin
Maybe just a couple of things here, just, Charlie, it seemed like last quarter you were fairly bullish, if you will, on loan growth and just the momentum that you had, and I realize you had the Davenport sale this quarter, but just we've also heard from some of your competitors that there's been a little bit of a slowdown in C&I demand in some of the markets, and just trying to get a sense for have you guys changed, or maybe you have different thoughts on the growth outlook on a net basis going forward as you look at '17. It sounds like the pipelines are strong to carry a good fourth quarter based on the range you gave, but how are you thinking about 2017 at this point, and is there anything with ag being a little bit slower now, there's maybe some C&I slowdown? I guess are you guys seeing that, and does that temper your outlook on loan growth for next year?

Charles Funk
Well, there's still a lot that's out there, and there's a lot of calling efforts, and I think that we typically don't project 6, 7, 8 percent loan growth as a company, and I think we've been pretty consistent in the past, that we just expect 4 to 5 percent, and I think, given the markets we're in, some markets will be over that, and some markets will be under that, but I'm still — I'm still in the 4-to-5 percent range for loans and maybe 3 to 4 percent for deposits. I think that's a realistic expectation. Again, I think if there's a good surprise for us, I think it's that our treasury management area could come in ahead of what we think and produce higher deposit growth. So we probably say the same things every fall when we talk about the next year, but we've never been one to forecast double-digit loan growth, but I think we should be able to deliver 4 to 5.

Brian Martin
Okay. Perfect. That's helpful. And then I know you mentioned some of the non-recurring items that were in that other line, in fee income, but when you guys look at the current quarter as a core run rate for fee income and you net out some of those items, is it kind of what the reported number was, the 57, 56 type of number? Is that a clean number as you guys look at it, or is there something I'm missing in there?

Katie Lorenson
Hi, Brian, this is Katie. No, I think you're right. The 56, 57, because we did have the Davenport gain offset by the other real estate loss, but then also in there is the MSR write-down, and that was about $200,000 for the quarter, so in that 55, 56, 57 range should be a run rate going forward.

Brian Martin
Okay. Perfect. And then maybe one more for you, Katie. It was in the press release, when you guys spell out the core — the accretion income, you talked about it being — I thought you said 800 or so this quarter. In the release, I know there's some of the tax — you talk about a 600 number. The differential, did I miss that in the tax? Is there also something there that talks the other piece to get to the 800, or —

Katie Lorenson
Yes, sorry. There's 600 in the loan interest income, and then there's $200,000, which is coming to the end in the deposit mark-to-market. That's a positive on a positive impact on the interest expense, so those two combined are the purchase accounting entries that are entering into the net interest income and net interest margin.

Brian Martin
Okay. Perfect. And that 200 that you're getting on the deposit side, do you also talk about that in the release? Maybe I just missed it.

Katie Lorenson
I think we did not talk about that in the release, and next quarter, I think that's going to be less than $100,000, and then that's the end of the deposit mark-to-market for purchase accounting.

Brian Martin
I gotcha. Okay. That's perfect. And then maybe just the last thing is, can you guys remind me where your CRE concentration levels are today, relative to the 300 and 100 guidance? Where do you stand on that?

Kent Jehle
Yes, Brian, this is Kent, and we are under 250 percent, closer to 225 percent of the capital number when you look at that category.

Brian Martin
Okay. And then just the way to think about this is, you're comfortable with that, and your intent is to not go over those limits, or what's the bigger picture as you look forward?

Kent Jehle
I would put a range that we'd be in the 225-to-275 percent range. Again, the regulatory threshold is 300 percent, and I would see us staying, certainly, under the 300 percent as we look at things today.

Brian Martin
Okay. Perfect. Okay. And I think that's it. You guys said that the tax rate, you're thinking 30 percent's a good run rate to use going forward? That's —

Charles Funk
It is unless we buy more municipal bonds.

Katie Lorenson
Right. Right.

Brian Martin
Okay. And the cost savings, Charlie, just to be clear, the numbers that you guys are talking about on the expense side, I think it was a $20 million number depending on how you guys handle the amortization expense, but are the consultants that you've brought in to make some changes or at least give you some suggestions, the $20 million number, the target that you've got out there, does that include or exclude their recommendations? I assume it's got nothing of their recommendations in that number right now so that we could think about it in the sense that it could potentially be better if you implement some of their recommendations?

Charles Funk
Yes, Brian. Thank you for asking that question, because that was in my remarks, and I skipped right over it. That does not include anything from these recommendations, so anything that we would get there would be over and above, because we didn't know what to expect, and, as I said, I'm still trying to get my arms around the whole thing, so I can't really offer any guidance on that number. Just know that we didn't put that in our forecast for '17 yet.

Brian Martin
Okay. Yes, that's all I was wondering, and then just maybe to the amortization of intangibles, Katie, do you know, ballpark, is this run rate of 970, I guess does that tail off a bit in '17, or does it stay at this level for a bit? Just so we're thinking about managing to the numbers you're talking about on the expense side.

Katie Lorenson
Yes, it does tail off in '17. I think the number for '17 is about $3.2 million, and in '16, it will end up closer to $4 [million].

Brian Martin
Okay. So $3.2 million for full-year '17?

Katie Lorenson
Right, and that declines every quarter, so —

Brian Martin
Yes. Okay. I gotcha. Okay, I appreciate you guys taking the questions. Thanks.

Katie Lorenson
Thank you**.**

Charles Funk
Thanks, Brian**.**

Operator
This concludes the question-and-answer session. I would like to turn the conference back over to Charlie Funk for any closing remarks.

CONCLUSION

Charles Funk
I'll just say thank you to everyone who joined us on the call, and if anyone has any follow-up questions, please call either Katie or myself, and we'll be happy to try to assist. I hope everybody has a great day and a good weekend.

.

Operator
The conference is now concluded. Thank you for attending today's presentation. You may now disconnect your lines. Have a great day.