Allegiance Bancshares, Inc.
Form 10-Q
August 03, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2018
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO
COMMISSION FILE NUMBER: 001-37585

Allegiance Bancshares, Inc.
(Exact name of registrant as specified in its charter)

Texas	26-3564100
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

8847 West Sam Houston Parkway, N., Suite 200
Houston, Texas 77040
(Address of principal executive offices, including zip code)
(281) 894-3200
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No
As of August 1, 2018, there were 13,367,590 outstanding shares of the registrant's Common Stock, par value $1.00 per share.

ALLEGIANCE BANCSHARES, INC.
INDEX TO FORM 10-Q
JUNE 30, 2018

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PART I—FINANCIAL INFORMATION
ITEM 1. INTERIM CONSOLIDATED FINANCIAL STATEMENTS
ALLEGIANCE BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2018	December 31, 2017
	(Dollars in thousands, except share data)	
ASSETS		
Cash and due from banks	$153,537	$133,124
Interest-bearing deposits at other financial institutions	47,108	48,979
Total cash and cash equivalents	200,645	182,103
Available for sale securities, at fair value	300,897	309,615
Loans held for investment	2,358,675	2,270,876
Less: allowance for loan losses	(23,831)	(23,649)
Loans, net	2,334,844	2,247,227
Accrued interest receivable	12,413	12,194
Premises and equipment, net	19,049	18,477
Other real estate owned	1,710	365
Federal Home Loan Bank stock	16,806	12,862
Bank owned life insurance	22,701	22,422
Goodwill	39,389	39,389
Core deposit intangibles, net	2,883	3,274
Other assets	15,089	12,303
TOTAL ASSETS	$2,966,426	$2,860,231
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Noninterest-bearing	$749,787	$683,110
Interest-bearing		
Demand	174,665	215,499
Money market and savings	495,214	554,051
Certificates and other time	894,120	761,314
Total interest-bearing deposits	1,563,999	1,530,864
Total deposits	2,313,786	2,213,974
Accrued interest payable	977	610
Borrowed funds	275,569	282,569
Subordinated debt	48,779	48,659
Other liabilities	7,427	7,554
Total liabilities	2,646,538	2,553,366
COMMITMENTS AND CONTINGENCIES (See Note 11)		
SHAREHOLDERS' EQUITY:		
Preferred stock, $1 par value; 1,000,000 shares authorized; no shares issued or outstanding	—	—

Common stock, $1 par value; 40,000,000 shares authorized; 13,340,919 shares issued and outstanding at June 30, 2018 and 13,226,826 shares issued and outstanding at December 31, 2017	13,341	13,227
Capital surplus	220,665	218,408
Retained earnings	90,089	74,894
Accumulated other comprehensive (loss) income	(4,207)	336
Total shareholders’ equity	319,888	306,865
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$2,966,426	$2,860,231

See condensed notes to interim consolidated financial statements.

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ALLEGIANCE BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(Dollars in thousands, except per share data)			
INTEREST INCOME:				
Loans, including fees	$31,846	$26,736	$61,963	$51,996
Securities:				
Taxable	646	503	1,245	1,001
Tax-exempt	1,451	1,591	2,910	3,215
Deposits in other financial institutions	250	157	466	287
Total interest income	34,193	28,987	66,584	56,499
INTEREST EXPENSE:				
Demand, money market and savings deposits	887	702	1,863	1,356
Certificates and other time deposits	3,284	2,283	6,069	4,240
Borrowed funds	1,472	761	2,508	1,414
Subordinated debt	734	134	1,439	254
Total interest expense	6,377	3,880	11,879	7,264
NET INTEREST INCOME	27,816	25,107	54,705	49,235
Provision for loan losses	631	3,007	1,284	4,350
Net interest income after provision for loan losses	27,185	22,100	53,421	44,885
NONINTEREST INCOME:				
Nonsufficient funds fees	214	184	390	383
Service charges on deposit accounts	106	205	329	400
Gain on sale of other real estate	1	—	1	—
Bank owned life insurance income	138	146	279	294
Rebate from correspondent bank	564	336	1,008	569
Other	782	606	1,444	1,172
Total noninterest income	1,805	1,477	3,451	2,818
NONINTEREST EXPENSE:				
Salaries and employee benefits	12,778	10,415	25,572	20,977
Net occupancy and equipment	1,367	1,302	2,639	2,729
Depreciation	433	398	840	798
Data processing and software amortization	1,356	719	2,409	1,414
Professional fees	1,126	987	1,595	1,882
Regulatory assessments and FDIC insurance	509	569	1,043	1,158
Core deposit intangibles amortization	196	196	391	391
Communications	259	233	507	480
Advertising	342	288	672	551
Other	1,494	1,354	2,909	2,630
Total noninterest expense	19,860	16,461	38,577	33,010
INCOME BEFORE INCOME TAXES	9,130	7,116	18,295	14,693
Provision for income taxes	1,574	1,721	3,028	3,251
NET INCOME	$7,556	$5,395	$15,267	$11,442

EARNINGS PER SHARE:				
Basic	$0.57	$0.41	$1.15	$0.88
Diluted	$0.55	$0.40	$1.12	$0.85

See condensed notes to interim consolidated financial statements.

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ALLEGIANCE BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(Dollars in thousands)			
Net income	$7,556	$5,395	$15,267	$11,442
Other comprehensive (loss) income, before tax:				
Unrealized (loss) gain on securities:				
Change in unrealized holding (loss) gain on available for sale securities during the period	(759)	4,183	(5,841)	5,380
Total other comprehensive (loss) income	(759)	4,183	(5,841)	5,380
Deferred tax benefit (expense) related to other comprehensive (loss) income	159	(1,465)	1,298	(1,884)
Other comprehensive (loss) income, net of tax	(600)	2,718	(4,543)	3,496
Comprehensive income	$6,956	$8,113	$10,724	$14,938

See condensed notes to interim consolidated financial statements.

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ALLEGIANCE BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS’ EQUITY
(Unaudited)

	Common Stock		Capital	Retained	Accumulated Other Comprehensive	Treasury	Total Shareholders’
	Shares	Amount	Surplus	Earnings	Income (Loss)	Stock	Equity
	(In thousands, except share data)						
BALANCE AT JANUARY 1, 2017	12,958,341	$12,958	$212,649	$57,262	$ (3,052)	$ —	$ 279,817
Net income				11,442			11,442
Other comprehensive income					3,496		3,496
Common stock issued in connection with the exercise of stock options and restricted stock awards	194,712	195	2,712				2,907
Stock based compensation expense			797				797
BALANCE AT JUNE 30, 2017	13,153,053	$13,153	$216,158	$68,704	$ 444	$ —	$ 298,459
BALANCE AT JANUARY 1, 2018	13,226,826	$13,227	$218,408	$74,894	$ 336	$ —	$ 306,865
Net income				15,267			15,267
Other comprehensive loss					(4,543)		(4,543)
Reclassification of amounts within AOCI to retained earnings due to tax reform (See Note 1)				(72)			(72)
Common stock issued in connection with the exercise of stock options and restricted stock awards	114,093	114	1,422				1,536
Stock based compensation expense			835				835
BALANCE AT JUNE 30, 2018	13,340,919	$13,341	$220,665	$90,089	$ (4,207)	$ —	$ 319,888

See condensed notes to interim consolidated financial statements.

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ALLEGIANCE BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2018	2017
	(Dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$15,267	$11,442
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and core deposit intangibles amortization	1,231	1,189
Provision for loan losses	1,284	4,350
Excess tax benefit related to the exercise of stock options	(325)	(959)
Net amortization of premium on investments	1,627	1,678
Bank owned life insurance	(279)	(294)
Net accretion of discount on loans	(207)	(408)
Net amortization of discount on subordinated debentures	55	53
Net amortization of discount on certificates of deposit	(3)	(3)
Net gain on sale of other real estate	(1)	—
Federal Home Loan Bank stock dividends	(149)	(118)
Stock based compensation expense	835	797
Increase in accrued interest receivable and other assets	(1,745)	(3,004)
Increase in accrued interest payable and other liabilities	630	1,973
Net cash provided by operating activities	18,220	16,696
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities and principal paydowns of available for sale securities	1,813,074	2,004,385
Proceeds from sales of available for sale securities	—	9,000
Purchase of available for sale securities	(1,811,824)	(2,014,496)
Net change in total loans	(90,038)	(222,722)
Purchase of bank premises and equipment	(1,446)	(1,057)
Net purchases of Federal Home Loan Bank stock	(3,795)	(3,382)
Net cash used in investing activities	(94,029)	(228,272)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in noninterest-bearing deposits	66,677	68,776
Net increase in interest-bearing deposits	33,138	160,286
Proceeds from borrowed funds	—	25,000
Paydowns on borrowed funds	(7,000)	—
Proceeds from the issuance of common stock, stock option exercises, restricted stock awards and the ESPP	1,536	2,907
Net cash provided by financing activities	94,351	256,969
NET CHANGE IN CASH AND CASH EQUIVALENTS	18,542	45,393
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	182,103	142,098
CASH AND CASH EQUIVALENTS, END OF PERIOD	$200,645	$187,491
SUPPLEMENTAL INFORMATION:		
Income taxes paid	$3,300	$3,100
Interest paid	6,010	7,080

See condensed notes to interim consolidated financial statements.

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ALLEGIANCE BANCSHARES, INC.
CONDENSED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018
(Unaudited)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Nature of Operations-Allegiance Bancshares, Inc. ("Allegiance") and its wholly-owned subsidiary, Allegiance Bank, (the "Bank", and together with Allegiance, collectively referred to as the "Company") provide commercial and retail loans and commercial banking services. The Company derives substantially all of its revenues and income from the operation of the Bank. The Company is focused on delivering a wide variety of relationship-driven commercial banking products and community-oriented services tailored to meet the needs of small to medium-sized businesses, professionals and individuals through its 16 offices and one loan production office in Houston, Texas and the surrounding region. The Bank provides its customers with a variety of banking services including checking accounts, savings accounts and certificates of deposit, and its primary lending products are commercial, personal, automobile, mortgage and home improvement loans. The Bank also offers safe deposit boxes, automated teller machines, drive-through services and 24-hour depository facilities.

Basis of Presentation-The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and in accordance with guidance provided by the Securities and Exchange Commission. Accordingly, the condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments considered necessary for a fair presentation of the financial position, results of operations and cash flows of the Company on a consolidated basis, and all such adjustments are of a normal recurring nature. Transactions with Allegiance have been eliminated. The condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017. Operating results for the three and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

Significant Accounting and Reporting Policies

The Company's significant accounting and reporting policies can be found in Note 1 of the Company's annual financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

New Accounting Standards

Adoption of New Accounting Standards

ASU 2014-09 "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 supersedes the revenue recognition requirements in Revenue Recognition (Topic 605), and most industry-specific guidance throughout the Industry Topics of the Codification. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company records revenue from contracts with customers in accordance with Accounting Standards Codification Topic 606, "Revenue from Contracts with Customers" ("Topic 606"). Under Topic 606, the Company must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when (or as) the Company satisfies a performance obligation. Significant revenue has not been recognized in the current reporting period that results from performance obligations satisfied in previous periods. The Company's primary sources of revenue are derived from interest and dividends earned on loans, investment securities and other financial instruments that are not within the scope of ASU 2014-09. The Company has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the Consolidated Statements of Income was not necessary. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed, charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment

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involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers. The new standard was effective for the Company on January 1, 2018 and did not have a significant impact on its consolidated financial statements and related disclosures.
ASU No. 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition of Financial Assets and Financial Liabilities." ASU 2016-01 makes targeted amendments to fair value measurement and disclosure guidance. ASU 2016-01 requires equity investments (other than equity method investments) to be measured at fair value with changes in fair value recognized in net income. This change is only applied if a readily determinable fair value can be obtained. The update also requires the use of exit prices to measure fair value for disclosure purposes as well as other enhanced disclosure requirements. ASU 2016-01 was effective for the Company on January 1, 2018 and did not have a significant impact on its financial statements and related disclosures. See Note 5 – Fair Value Disclosures for further information.
ASU 2016-15, “Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments." ASU 2016-15 provides guidance related to certain cash flow issues in order to reduce the current and potential future diversity in practice. Among other things, the update clarifies the appropriate classification for proceeds from settlement of bank owned life insurance (BOLI) policies. The guidance is effective for public companies for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted with retrospective application. ASU 2016-15 was effective for the Company on January 1, 2018 and did not have a significant impact on its financial statements and related disclosures.

ASU 2018-02, “Income Statement - Reporting Comprehensive Income (Topic 220) - Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” ASU 2018-02 amends ASC 220, Income Statement - Reporting Comprehensive Income, to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. On December 22, 2017, the United States enacted tax reform legislation commonly known as the Tax Cuts and Jobs Act (the “Tax Act”), resulting in significant modifications to existing law. Authoritative guidance and interpretation by regulatory bodies is ongoing, and as such, the accounting for the effects of the Tax Act is not final and the full impact of the new regulation is still being evaluated. ASU 2018-02 is effective on January 1, 2019, with early adoption permitted. The Company early adopted and recognized a decrease to retained earnings of $72 thousand due to a reclassification on January 1, 2018.
Newly Issued But Not Yet Effective Accounting Standards

ASU 2016-02 “Leases (Topic 842)." ASU 2016-02 will, among other things, require lessees to recognize a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model and ASC Topic 606, “Revenue from Contracts with Customers.” ASU 2016-02 will be effective for the Company on January 1, 2019 and will require transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Early application of this ASU is permitted for all entities. Adoption of ASU 2016-02 is not expected to have a material impact on the Company’s financial statements. The Company leases certain properties and equipment under operating leases that will result in the recognition of lease assets and lease liabilities on the Company’s balance sheet under the ASU. While the Company is currently evaluating the impact of adopting ASU 2016-02, it is aware that the adoption will result in an increase in right-of-use assets and lease liabilities recorded on our balance sheet.

ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” Among other things, ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better form their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, ASU 2016-13 amends the accounting for credit losses on available for sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 is effective for the Company on January 1, 2020 and must be applied using the modified retrospective approach with limited exceptions. Early adoption is permitted for fiscal years, and interim periods within those years, beginning after December 15, 2018. While the Company is

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currently unable to reasonably estimate the impact of adopting ASU 2016-13, the Company expects that the impact of adoption will be significantly influenced by the composition, characteristics and quality of its loan and securities portfolios as well as the prevailing economic conditions and forecasts as of the adoption date. The Company has formed a cross functional team and with the assistance of a third-party provider is assessing the Company's data and system needs to evaluate the impact that adoption of this standard will have on the financial condition and results of operations of the Company.

ASU No. 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,” ASU 2017-04 eliminates Step 2 from the goodwill impairment test which required entities to compute the implied fair value of goodwill. Under ASU 2017-04, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04 will be effective for the Company on January 1, 2020, with earlier adoption permitted and is not expected to have a significant impact on the Company's financial statements.

ASU 2017-08,“Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20) - Premium Amortization on Purchased Callable Debt Securities.” ASU 2017-08 shortens the amortization period for certain callable debt securities held at a premium to require such premiums to be amortized to the earliest call date unless applicable guidance related to certain pools of securities is applied to consider estimated prepayments. Under prior guidance, entities were generally required to amortize premiums on individual, non-pooled callable debt securities as a yield adjustment over the contractual life of the security. ASU 2017-08 does not change the accounting for callable debt securities held at a discount. ASU 2017-08 will be effective for the Company on January 1, 2019, with early adoption permitted. The Company is currently evaluating the potential impact of ASU 2017-08 on its financial statements.

2. GOODWILL AND CORE DEPOSIT INTANGIBLE ASSETS

Changes in the carrying amount of the Company’s goodwill and core deposit intangible assets were as follows:

	Goodwill	Core Deposit Intangibles
	(Dollars in thousands)	
Balance as of January 1, 2017	$39,389	$ 4,055
Amortization	—	(781)
Balance as of December 31, 2017	39,389	3,274
Amortization	—	(391)
Balance as of June 30, 2018	$39,389	$ 2,883

Goodwill is recorded on the acquisition date of an entity. Management performs an evaluation annually, and more frequently if a triggering event occurs, of whether any impairment of the goodwill and other intangible assets has occurred. If any such impairment is determined, a write-down is recorded. As of June 30, 2018, there were no impairments recorded on goodwill and other intangible assets.

The estimated aggregate future amortization expense for core deposit intangible assets remaining as of June 30, 2018 is as follows (dollars in thousands):

Remaining 2018	$390
2019	781
2020	744

2021	484
2022	484
Thereafter	—
Total	$2,883

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ALLEGIANCE BANCSHARES, INC.
CONDENSED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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3. SECURITIES

The amortized cost and fair value of investment securities were as follows:

	June 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available for Sale				
U.S. Government and agency securities	$6,290	$ 101	$ (70)	$6,321
Municipal securities	220,407	1,022	(4,556)	216,873
Agency mortgage-backed pass-through securities	41,078	55	(1,163)	39,970
Corporate bonds and other	38,446	—	(713)	37,733
Total	$306,221	$ 1,178	$ (6,502)	$300,897

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available for Sale				
U.S. Government and agency securities	$8,507	$ 232	$ (24)	$8,715
Municipal securities	222,330	2,470	(1,842)	222,958
Agency mortgage-backed pass-through securities	32,014	159	(361)	31,812
Corporate bonds and other	46,247	62	(179)	46,130
Total	$309,098	$ 2,923	$ (2,406)	$309,615

As of June 30, 2018, the Company’s management does not expect to sell any securities classified as available for sale with material unrealized losses, and the Company believes it is more likely than not it will not be required to sell any of these securities before their anticipated recovery, at which time the Company will receive full value for the securities. The fair value is expected to recover as the securities approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of June 30, 2018, management believes the unrealized losses in the previous table are temporary and no other than temporary impairment loss has been realized in the Company’s consolidated statements of income.

The amortized cost and fair value of investment securities at June 30, 2018, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations at any time with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(Dollars in thousands)	
Due in one year or less	$7,185	$7,159
Due after one year through five years	68,002	67,086
Due after five years through ten years	90,960	89,533
Due after ten years	98,996	97,149
Subtotal	265,143	260,927

Agency mortgage-backed pass through securities	41,078	39,970
Total	$306,221	$300,897

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ALLEGIANCE BANCSHARES, INC.
CONDENSED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018
(Unaudited)

Securities with unrealized losses segregated by length of time such securities have been in a continuous loss position are as follows:

	June 30, 2018					
	Less than 12 Months		More than 12 Months		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(Dollars in thousands)					
Available for Sale						
U.S. Government and agency securities	$1,318	$(38)	$524	$(32)	$1,842	$(70)
Municipal securities	98,358	(1,988)	59,303	(2,568)	157,661	(4,556)
Agency mortgage-backed pass-through securities	24,333	(609)	10,524	(554)	34,857	(1,163)
Corporate bonds and other	36,733	(713)	—	—	36,733	(713)
Total	$160,742	$(3,348)	$70,351	$(3,154)	$231,093	$(6,502)

	December 31, 2017					
	Less than 12 Months		More than 12 Months		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(Dollars in thousands)					
Available for Sale						
U.S. Government and agency securities	$3,110	$(9)	$595	$(15)	$3,705	$(24)
Municipal securities	42,249	(517)	56,483	(1,325)	98,732	(1,842)
Agency mortgage-backed pass-through securities	13,238	(105)	8,921	(256)	22,159	(361)
Corporate bonds and other	30,203	(179)	—	—	30,203	(179)
Total	$88,800	$(810)	$65,999	$(1,596)	$154,799	$(2,406)

No securities were sold during the three and six months ended June 30, 2018. During the three and six months ended June 30, 2017, the Company sold $9.0 million of corporate bonds with a minimal gain recognized. At June 30, 2018 and December 31, 2017, the Company did not own securities of any one issuer, other than the U.S government and its agencies, in an amount greater than 10% of consolidated shareholders’ equity at such respective dates.

The carrying value of pledged securities was $3.0 million at June 30, 2018 and $5.0 million at December 31, 2017, respectively. The securities are pledged to further collateralize letters of credit issued by the Bank but confirmed by another financial institution.

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4. LOANS AND ALLOWANCE FOR LOAN LOSSES

The loan portfolio balances, net of unearned income and fees, consist of various types of loans primarily made to borrowers located within Texas and are classified by major type as follows:

	June 30, 2018	December 31, 2017
	(Dollars in thousands)	
Commercial and industrial	$452,307	$457,129
Mortgage warehouse	51,552	69,456
Real estate:		
Commercial real estate (including multi-family residential)	1,134,903	1,080,247
Commercial real estate construction and land development	270,965	243,389
1-4 family residential (including home equity)	330,053	301,219
Residential construction	109,962	109,116
Consumer and other	8,933	10,320
Total loans	2,358,675	2,270,876
Allowance for loan losses	(23,831)	(23,649)
Loans, net	$2,334,844	$2,247,227

Nonaccrual and Past Due Loans

An aging analysis of the recorded investment in past due loans, segregated by class of loans, is as follows:

	June 30, 2018					
	Loans Past Due and Still Accruing					
	30-89 Days	90 or More Days	Total Past Due Loans	Nonaccrual Loans	Current Loans	Total Loans
	(Dollars in thousands)					
Commercial and industrial	$1,662	$ —	$ 1,662	$ 5,983	$444,662	$452,307
Mortgage warehouse	—	—	—	—	51,552	51,552
Real estate:						
Commercial real estate (including multi-family residential)	4,222	—	4,222	4,917	1,125,764	1,134,903
Commercial real estate construction and land development	1,350	—	1,350	—	269,615	270,965
1-4 family residential (including home equity)	1,594	—	1,594	1,237	327,222	330,053
Residential construction	1,593	—	1,593	—	108,369	109,962
Consumer and other	30	—	30	—	8,903	8,933
Total loans	$10,451	$ —	$ 10,451	$ 12,137	$2,336,087	$2,358,675

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	December 31, 2017					
	Loans Past Due and Still Accruing					
	30-89 Days	90 or More Days	Total Past Due Loans	Nonaccrual Loans	Current Loans	Total Loans
	(Dollars in thousands)					
Commercial and industrial	$1,069	$ —	$ 1,069	$ 6,437	$449,623	$457,129
Mortgage warehouse	—	—	—	—	69,456	69,456
Real estate:						
Commercial real estate (including multi-family residential)	4,932	—	4,932	6,110	1,069,205	1,080,247
Commercial real estate construction and land development	5,274	—	5,274	—	238,115	243,389
1-4 family residential (including home equity)	924	—	924	781	299,514	301,219
Residential construction	674	—	674	—	108,442	109,116
Consumer and other	74	—	74	—	10,246	10,320
Total loans	$12,947	$ —	$ 12,947	$ 13,328	$2,244,601	$2,270,876

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Impaired Loans
Impaired loans by class of loans are set forth in the following tables.

	June 30, 2018		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in thousands)		
With no related allowance recorded:			
Commercial and industrial	$4,798	$ 5,310	$ —
Mortgage warehouse	—	—	—
Real estate:			
Commercial real estate (including multi-family residential)	15,949	15,949	—
Commercial real estate construction and land development	—	—	—
1-4 family residential (including home equity)	1,189	1,189	—
Residential construction	—	—	—
Consumer and other	—	—	—
Total	21,936	22,448	—
With an allowance recorded:			
Commercial and industrial	7,440	7,835	2,741
Mortgage warehouse	—	—	—
Real estate:			
Commercial real estate (including multi-family residential)	1,260	1,446	160
Commercial real estate construction and land development	—	—	—
1-4 family residential (including home equity)	—	—	—
Residential construction	—	—	—
Consumer and other	—	—	—
Total	8,700	9,281	2,901
Total:			
Commercial and industrial	12,238	13,145	2,741
Mortgage warehouse	—	—	—
Real estate:			
Commercial real estate (including multi-family residential)	17,209	17,395	160
Commercial real estate construction and land development	—	—	—
1-4 family residential (including home equity)	1,189	1,189	—
Residential construction	—	—	—
Consumer and other	—	—	—
	$30,636	$ 31,729	$ 2,901

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	December 31, 2017		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in thousands)		
With no related allowance recorded:			
Commercial and industrial	$5,792	$6,666	$ —
Mortgage warehouse	—	—	—
Real estate:			
Commercial real estate (including multi-family residential)	12,155	12,155	—
Commercial real estate construction and land development	209	209	—
1-4 family residential (including home equity)	948	948	—
Residential construction	—	—	—
Consumer and other	—	—	—
Total	19,104	19,978	—
With an allowance recorded:			
Commercial and industrial	5,600	5,652	1,640
Mortgage warehouse	—	—	—
Real estate:			
Commercial real estate (including multi-family residential)	8,009	8,194	716
Commercial real estate construction and land development	—	—	—
1-4 family residential (including home equity)	—	—	—
Residential construction	—	—	—
Consumer and other	—	—	—
Total	13,609	13,846	2,356
Total:			
Commercial and industrial	11,392	12,318	1,640
Mortgage warehouse	—	—	—
Real estate:			
Commercial real estate (including multi-family residential)	20,164	20,349	716
Commercial real estate construction and land development	209	209	—
1-4 family residential (including home equity)	948	948	—
Residential construction	—	—	—
Consumer and other	—	—	—
	$32,713	$33,824	$ 2,356

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The following table presents average impaired loans and interest recognized on impaired loans for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,			
	2018		2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
Commercial and industrial	$12,426	$ 103	$16,758	$ 95
Mortgage warehouse	—	—	—	—
Real estate:				
Commercial real estate (including multi-family residential)	17,281	175	16,239	103
Commercial real estate construction and land development	—	—	210	4
1-4 family residential (including home equity)	1,194	1	571	—
Residential construction	—	—	—	—
Consumer and other	—	—	159	1
Total	$30,901	$ 279	$33,937	$ 203

	Six Months Ended June 30,			
	2018		2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
Commercial and industrial	$12,585	$ 197	$17,004	$ 234
Mortgage warehouse	—	—	—	—
Real estate:				
Commercial real estate (including multi-family residential)	17,373	316	16,338	180
Commercial real estate construction and land development	—	3	315	4
1-4 family residential (including home equity)	1,209	5	572	1
Residential construction	—	—	—	—
Consumer and other	—	—	160	1
Total	$31,167	$ 521	$34,389	$ 420

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, including factors such as: current financial information, historical payment experience, credit documentation, public information and current economic trends. The Company analyzes loans individually by classifying the loans by credit risk. As part of the ongoing monitoring of the credit quality of the Company's loan portfolio and methodology for calculating the allowance for credit losses, management assigns and tracks risk ratings to be used as credit quality indicators.

The following is a general description of the risk ratings used:

Pass—Loans classified as pass are loans with low to average risk and not otherwise classified as watch, special mention, substandard or doubtful. In addition, the guaranteed portion of SBA loans are considered pass risk rated loans.

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Watch—Loans classified as watch loans may still be of high quality, but have an element of risk added to the credit such as declining payment history, deteriorating financial position of the borrower or a decrease in collateral value.
Special Mention—Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.
Substandard—Loans classified as substandard have well-defined weaknesses on a continuing basis and are inadequately protected by the current net worth and paying capacity of the borrower, impaired or declining collateral values, or a continuing downturn in their industry which is reducing their profits to below zero and having a significantly negative impact on their cash flow. These classified loans are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.
Doubtful—Loans classified as doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values highly questionable and improbable.
Based on the most recent analysis performed, the risk category of loans by class of loan at June 30, 2018 is as follows:

	Pass	Watch	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)					
Commercial and industrial	$426,434	$7,955	$3,790	$ 14,128	$ —	$452,307
Mortgage warehouse	51,552	—	—	—	—	51,552
Real estate:						
Commercial real estate (including multi-family residential)	1,071,586	25,429	5,145	32,743	—	1,134,903
Commercial real estate construction and land development	266,252	1,042	1,361	2,310	—	270,965
1-4 family residential (including home equity)	323,592	2,983	1,135	2,343	—	330,053
Residential construction	108,408	569	—	985	—	109,962
Consumer and other	8,893	40	—	—	—	8,933
Total loans	$2,256,717	$38,018	$11,431	$ 52,509	$ —	$2,358,675

The following table presents the risk category of loans by class of loan at December 31, 2017:

	Pass	Watch	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)					
Commercial and industrial	$427,336	$10,274	$ 2,195	$ 17,324	$ —	$457,129
Mortgage warehouse	69,456	—	—	—	—	69,456
Real estate:						
Commercial real estate (including multi-family residential)	1,016,831	23,039	4,685	35,692	—	1,080,247
Commercial real estate construction and land development	231,536	4,397	—	7,456	—	243,389
1-4 family residential (including home equity)	295,744	2,696	785	1,994	—	301,219
Residential construction	103,611	5,505	—	—	—	109,116
Consumer and other	10,207	111	—	2	—	10,320
Total loans	$2,154,721	$46,022	$ 7,665	$ 62,468	$ —	$2,270,876

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Allowance for Loan Losses
The following table presents the activity in the allowance for loan losses by portfolio type for the three and six months ended June 30, 2018 and 2017:

	Commercial and industrial	Mortgage warehouse	Commercial real estate (including multi-family residential)	Commercial real estate construction and land development	1-4 family residential (including home equity)	Residential construction	Consumer and other	Total
	(Dollars in thousands)							
Allowance for loan losses:								
Three Months Ended								
Balance March 31, 2018	$9,398	$ —	$ 9,352	$ 2,545	$ 2,300	$ 946	$ 87	$24,628
Provision for loan losses	1,183	—	(148)	(257)	(111)	(32)	(4)	631
Charge-offs	(1,521)	—	(1)	—	—	—	—	(1,522)
Recoveries	94	—	—	—	—	—	—	94
Net charge-offs	(1,427)	—	(1)	—	—	—	—	(1,428)
Balance June 30, 2018	$9,154	$ —	$ 9,203	$ 2,288	$ 2,189	$ 914	$ 83	$23,831
Allowance for loan losses:								
Six Months Ended								
Balance December 31, 2017	$7,694	$ —	$ 10,253	$ 2,525	$ 2,140	$ 942	$ 95	$23,649
Provision for loan losses	2,623	—	(1,111)	(237)	49	(28)	(12)	1,284
Charge-offs	(1,888)	—	(41)	—	—	—	—	(1,929)
Recoveries	725	—	102	—	—	—	—	827
Net charge-offs	(1,163)	—	61	—	—	—	—	(1,102)
Balance June 30, 2018	$9,154	$ —	$ 9,203	$ 2,288	$ 2,189	$ 914	$ 83	$23,831

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	Commercial and industrial	Mortgage warehouse	Commercial real estate (including multi-family residential)	Commercial real estate construction and land development	1-4 family residential (including home equity)	Residential construction	Consumer and other	Total
	(Dollars in thousands)							
Allowance for loan losses:								
Three Months Ended								
Balance March 31, 2017	$5,284	$ —	$ 9,158	$ 1,608	$ 1,846	$ 737	$ 54	$18,687
Provision for loan losses	1,692	—	170	276	142	98	629	3,007
Charge-offs	(1,108)	—	—	—	—	—	—	(1,108)
Recoveries	414	—	—	10	—	—	—	424
Net charge-offs	(694)	—	—	10	—	—	—	(684)
Balance June 30, 2017	$6,282	$ —	$ 9,328	$ 1,894	$ 1,988	$ 835	$ 683	$21,010
Allowance for loan losses:								
Six Months Ended								
Balance December 31, 2016	$5,059	$ —	$ 8,950	$ 1,217	$ 1,876	$ 748	$ 61	$17,911
Provision for loan losses	2,498	—	378	667	102	87	618	4,350
Charge-offs	(1,735)	—	—	—	—	—	—	(1,735)
Recoveries	460	—	—	10	10	—	4	484
Net charge-offs	(1,275)	—	—	10	10	—	4	(1,251)
Balance June 30, 2017	$6,282	$ —	$ 9,328	$ 1,894	$ 1,988	$ 835	$ 683	$21,010

The following table presents the balance of the allowance for loan losses by portfolio type based on the impairment method as of June 30, 2018 and December 31, 2017:

	Commercial and industrial	Mortgage warehouse	Commercial real estate (including multi-family residential)	Commercial real estate construction and land development	1-4 family residential (including home equity)	Residential construction	Consumer and other	Total
	(Dollars in thousands)							
Allowance for loan losses related to:								
June 30, 2018								
Individually evaluated for impairment	$2,741	$ —	$ 160	$ —	$ —	$ —	$ —	$2,901
Collectively evaluated for impairment	6,413	—	9,043	2,288	2,189	914	83	20,930

Total allowance for loan losses	$9,154	$ —	$ 9,203	$ 2,288	$ 2,189	$ 914	$ 83	$23,831
December 31, 2017								
Individually evaluated for impairment	$1,640	$ —	$ 716	$ —	$ —	$ —	$ —	$2,356
Collectively evaluated for impairment	6,054	—	9,537	2,525	2,140	942	95	21,293
Total allowance for loan losses	$7,694	$ —	$ 10,253	$ 2,525	$ 2,140	$ 942	$ 95	$23,649

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The following table presents the recorded investment in loans held for investment by portfolio type based on the impairment method as of June 30, 2018 and December 31, 2017:

	Commercial and industrial	Mortgage warehouse	Commercial real estate (including multi-family residential)	Commercial real estate construction and land development	1-4 family residential (including home equity)	Residential construction	Consumer and other	Total
	(Dollars in thousands)							
Recorded investment in loans:								
June 30, 2018								
Individually evaluated for impairment	$ 12,238	$ —	$ 17,209	$ —	$ 1,189	$ —	$ —	$ 30,636
Collectively evaluated for impairment	440,069	51,552	1,117,694	270,965	328,864	109,962	8,933	2,328,039
Total loans evaluated for impairment	$ 452,307	$ 51,552	$ 1,134,903	$ 270,965	$ 330,053	$ 109,962	$ 8,933	$ 2,358,675
December 31, 2017								
Individually evaluated for impairment	$ 11,392	$ —	$ 20,164	$ 209	$ 948	$ —	$ —	$ 32,713
Collectively evaluated for impairment	445,737	69,456	1,060,083	243,180	300,271	109,116	10,320	2,238,163
Total loans evaluated for impairment	$ 457,129	$ 69,456	$ 1,080,247	$ 243,389	$ 301,219	$ 109,116	$ 10,320	$ 2,270,876

Troubled Debt Restructurings

As of June 30, 2018 and December 31, 2017, the Company had a recorded investment in troubled debt restructurings of $26.0 million and $25.6 million, respectively. The Company allocated $1.9 million and $2.2 million of specific reserves for troubled debt restructurings at June 30, 2018 and December 31, 2017, respectively.

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The following tables present information regarding loans modified in a troubled debt restructuring during the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,					
	2018			2017		
	Number of Contracts	Pre-modification of Outstanding Recorded Investment	Post-modification of Outstanding Recorded Investment	Number of Contracts	Pre-modification of Outstanding Recorded Investment	Post-modification of Outstanding Recorded Investment
	(Dollars in thousands)					
Troubled Debt Restructurings						
Commercial and industrial	2	1,260	1,260	2	1,604	1,604
Mortgage warehouse	—	—	—	—	—	—
Real estate:						
Commercial real estate (including multi-family residential)	—	—	—	1	6,953	6,953
Commercial real estate construction and land development	—	—	—	1	210	210
1-4 family residential (including home equity)	—	—	—	—	—	—
Residential construction	—	—	—	—	—	—
Consumer and other	—	—	—	—	—	—
Total	2	1,260	1,260	4	8,767	8,767

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	Six Months Ended June 30,					
	2018			2017		
	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification of Outstanding Recorded Investment	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification of Outstanding Recorded Investment
	(Dollars in thousands)					
Troubled Debt Restructurings						
Commercial and industrial	8	1,597	1,597	3	1,920	1,920
Mortgage warehouse						—
Real estate:						
Commercial real estate (including multi-family residential)	—	—	—	2	8,281	8,281
Commercial real estate construction and land development	—	—	—	1	210	210
1-4 family residential (including home equity)	—	—	—	1	86	86
Residential construction	—	—	—	—	—	—
Consumer and other	—	—	—	—	—	—
Total	8	1,597	1,597	7	10,497	10,497

Troubled debt restructurings resulted in charge-offs of $17 thousand during the six months ended June 30, 2018. There were no charge-offs from troubled debt restructurings during the three months ended June 30, 2018. Troubled debt restructurings resulted in charge-offs of $12 thousand and $407 thousand during the three and six months ended June 30, 2017, respectively.

As of June 30, 2018, a $41 thousand loan was modified under a troubled debt restructuring during the previous twelve month period that subsequently defaulted during the six months ended June 30, 2018. As of June 30, 2017, a $12 thousand loan was modified under a troubled debt restructuring during the previous twelve month period that subsequently defaulted and was charged-off during the six months ended June 30, 2017. Default is determined at 90 or more days past due. The modifications primarily related to extending the amortization periods of the loans. The Company did not grant principal reductions on any restructured loans. There were no commitments to lend additional amounts for the three and six months ended June 30, 2018 and 2017. During the six months ended June 30, 2018, the Company added $1.6 million in new troubled debt restructurings, of which all were still outstanding on June 30, 2018.

5. FAIR VALUE

The Company uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Fair value represents the exchange price that would be received from selling an asset or paid to transfer a liability, otherwise known as an “exit price,” in the principal or most advantageous market available to the entity in an orderly transaction between market participants on the measurement date.

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Fair Value Hierarchy

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company groups financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1—Quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2—Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3—Significant unobservable inputs that reflect management's judgment and assumptions that market participants would use in pricing an asset or liability that are supported by little or no market activity.

The carrying amounts and estimated fair values of financial instruments that are reported on the balance sheet are as follows:

	As of June 30, 2018				
	Carrying	Estimated Fair Value			
	Amount	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)				
Financial assets					
Cash and cash equivalents	$200,645	$200,645	$—	$ —	$200,645
Available for sale securities	300,897	—	300,897	—	300,897
Loans held for investment, net of allowance	2,334,844	—	—	2,326,839	2,326,839
FHLB stock	16,806	N/A	N/A	N/A	N/A
Accrued interest receivable	12,413	57	3,396	8,960	12,413
Financial liabilities					
Deposits	$2,313,786	$—	$2,304,623	$ —	$2,304,623
Accrued interest payable	977	—	977	—	977
Borrowed funds	275,569	—	280,419	—	280,419
Subordinated debt and subordinated debentures	48,779	—	48,779	—	48,779

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	As of December 31, 2017				
	Carrying	Estimated Fair Value			
	Amount	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)				
Financial assets					
Cash and cash equivalents	$182,103	$182,103	$—	$—	$182,103
Available for sale securities	309,615	—	309,615	—	309,615
Loans held for investment, net of allowance	2,247,227	—	—	2,238,721	2,238,721
FHLB stock	12,862	N/A	N/A	N/A	N/A
Accrued interest receivable	12,194	3	3,296	8,895	12,194
Financial liabilities					
Deposits	$2,213,974	$—	$2,209,111	$—	$2,209,111
Accrued interest payable	610	—	610	—	610
Borrowed funds	282,569	—	288,887	—	288,887
Subordinated debt and subordinated debentures	48,659	—	48,659	—	48,659

The following tables present fair values for assets measured at fair value on a recurring basis:

	As of June 30, 2018			
	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
Available for sale securities:				
U.S. Government and agency securities	$—	$6,321	$—	$6,321
Municipal securities	—	216,873	—	216,873
Agency mortgage-backed pass-through securities	—	39,970	—	39,970
Corporate bonds and other	—	37,733	—	37,733
Total	$—	$300,897	$—	$300,897

	As of December 31, 2017			
	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
Available for sale securities:				
U.S. Government and agency securities	$—	$8,715	$—	$8,715
Municipal securities	—	222,958	—	222,958
Agency mortgage-backed pass-through securities	—	31,812	—	31,812
Corporate bonds and other	—	46,130	—	46,130
Total	$—	$309,615	$—	$309,615

There were no liabilities measured at fair value on a recurring basis as of June 30, 2018 or December 31, 2017. There were no transfers between levels during the six months ended June 30, 2018 or 2017.

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances such as evidence of impairment.

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	As of June 30, 2018		
	Level 1	Level 2	Level 3
	(Dollars in thousands)		
Impaired loans:			
Commercial and industrial	$ —	$ —	$ 5,094
Commercial real estate (including multi-family residential)	—	—	1,286
Other real estate owned	—	—	1,710
	$ —	$ —	$ 8,090

	As of December 31, 2017		
	Level 1	Level 2	Level 3
	(Dollars in thousands)		
Impaired loans:			
Commercial and industrial	$ —	$ —	$ 4,012
Commercial real estate (including multi-family residential)	—	—	7,478
Other real estate owned	—	—	365
	$ —	$ —	$ 11,855

Impaired Loans with Specific Allocation of Allowance

During the six months ended June 30, 2018 and the year ended December 31, 2017, certain impaired loans were reevaluated and reported at fair value through a specific allocation of the allowance for loan losses. At June 30, 2018, the total reported fair value of impaired loans of $6.4 million based on collateral valuations utilizing Level 3 valuation inputs had a carrying value of $9.3 million that was reduced by specific allowance allocations totaling $2.9 million. At December 31, 2017, the total reported fair value of impaired loans of $11.5 million based on collateral valuations utilizing Level 3 valuation inputs had a carrying value of $13.8 million that was reduced by specific allowance allocations totaling $2.4 million.

6. DEPOSITS

Time deposits that meet or exceed the Federal Deposit Insurance Corporation Insurance limit of $250 thousand at June 30, 2018 and December 31, 2017 were $282.6 million and $227.4 million, respectively.

Scheduled maturities of time deposits for the next five years are as follows (dollars in thousands):

Within one year	$ 536,535
After one but within two years	132,392
After two but within three years	64,273
After three but within four years	55,079
After four but within five years	105,841
Total	$ 894,120

The Company has $269.3 million and $314.8 million of brokered deposits as of June 30, 2018 and December 31, 2017, respectively. Included in these amounts are reciprocal deposits that the Company has placed through the Certificates of Deposits Account Registry Service (CDARS) Network which totaled $55.1 million and $68.4 million, at June 30, 2018 and December 31, 2017, respectively. There are no major concentrations of deposits with any one depositor at June 30, 2018 and December 31, 2017.

7. BORROWINGS AND BORROWING CAPACITY

The Company has an available line of credit with the Federal Home Loan Bank ("FHLB") of Dallas, which allows the Company to borrow on a collateralized basis. FHLB advances are used to manage liquidity as needed. The advances are

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secured by a blanket lien on certain loans. Maturing advances are replaced by drawing on available cash, making additional borrowings or through increased customer deposits. At June 30, 2018, the Company had a total borrowing capacity of $1.01 billion, of which $655.0 million was available and $356.0 million was outstanding. FHLB advances of $275.0 million were outstanding at June 30, 2018, at a weighted average interest rate of 2.02%. Letters of credit were $81.0 million at June 30, 2018, of which $7.0 million will expire in September 2018, $32.1 million will expire in October 2018, $13.1 million will expire in December 2018, $1.7 million will expire in January 2019, $3.1 million will expire in February 2019, $7.1 million will expire in July 2019, $15.0 million will expire in August 2019, $300 thousand will expire in December 2019 and $1.6 million will expire in January 2020.

In 2015, the Company borrowed $18.0 million under its credit agreement with another financial institution, which was in addition to the $10.1 million of indebtedness incurred under the same credit agreement in 2014. The maximum commitment to advance funds under the credit agreement was originally $30.0 million, which has been and will continue to be reduced by $4.285 million on each December 22nd, beginning on December 22, 2015. The credit agreement matures in December 2021. The Company is required to repay any outstanding balance in excess of the then-current maximum commitment amount. After giving effect to the annual reductions, the unused borrowing capacity of the revolving credit agreement was $17.1 million at June 30, 2018. The Company used the funds borrowed in 2015 to repay debt that F&M Bancshares, Inc. owed and used the funds borrowed in 2014 to pay off a previous borrowing with another financial institution that had been entered into during 2013 in conjunction with the acquisition of Independence Bank. In October 2015, the Company paid down $27.5 million of the credit agreement with a portion of the proceeds from the initial public offering of Allegiance common stock. The credit agreement includes certain restrictive covenants. At June 30, 2018, the Company believes it is in compliance with its debt covenants and had not been made aware of any noncompliance by the lender. The interest rate on the outstanding debt under the revolving credit agreement is the Prime rate minus 25 basis points, or 5.00%, at June 30, 2018, and is paid quarterly. Scheduled principal maturities are as follows (dollars in thousands):

Remaining 2018	$—
2019	—
2020	—
2021	569
Total	$569

8. SUBORDINATED DEBT

Junior Subordinated Debentures

On January 1, 2015, the Company acquired F&M Bancshares and assumed Farmers & Merchants Capital Trust II and Farmers & Merchants Capital Trust III. Each of these trusts is a capital or statutory business trust organized for the sole purpose of issuing trust securities and investing the proceeds in the Company’s junior subordinated debentures. The preferred trust securities of each trust represent preferred beneficial interests in the assets of the respective trusts and are subject to mandatory redemption upon payment of the junior subordinated debentures held by the trust. The common securities of each trust are wholly owned by the Company. Each trust’s ability to pay amounts due on the trust preferred securities is solely dependent upon the Company making payment on the related junior subordinated debentures. The debentures, which are the only assets of each trust, are subordinate and junior in right of payment to all of the Company’s present and future senior indebtedness. The Company has fully and unconditionally guaranteed each trust’s obligations under the trust securities issued by such trust to the extent not paid or made by such trust, provided such trust has funds available for such obligations.

Under the provisions of each issue of the debentures, the Company has the right to defer payment of interest on the debentures at any time, or from time to time, for periods not exceeding five years. If interest payments on either issue of the debentures are deferred, the distributions on the applicable trust preferred securities and common securities will also be deferred.

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The Company assumed the junior subordinated debentures with an aggregate original principal amount of $11.3 million and a carrying fair value at June 30, 2018 of $9.3 million. At acquisition, the Company recorded a discount of $2.5 million on the debentures. The difference between the carrying value and contractual balance will be recognized as a yield adjustment over the remaining term for the debentures. At June 30, 2018, the Company had $11.3 million outstanding in junior subordinated debentures issued to the Company's unconsolidated subsidiary trusts. The junior subordinated debentures are included in tier 1 capital under current regulatory guidelines and interpretations.

A summary of pertinent information related to the Company's issues of junior subordinated debentures outstanding at June 30, 2018 is set forth in the table below:

Description	Issuance Date	Trust Preferred Securities Outstanding	Interest Rate(1)	Junior Subordinated Debt Owed to Trusts	Maturity Date(2)
(Dollars in thousands)					
Farmers & Merchants Capital Trust II	November 13, 2003	$ 7,500	3 month LIBOR + 3.00%	$ 7,732	November 8, 2033
Farmers & Merchants Capital Trust III	June 30, 2005	3,500	3 month LIBOR + 1.80%	3,609	July 7, 2035

(1) The 3-month LIBOR in effect as of June 30, 2018 was 2.3303%.
(2) All debentures are currently callable.

Subordinated Notes

In December 2017, the Bank completed the issuance, through a private placement, of $40.0 million aggregate principal amount of Fixed-to-Floating Rate Subordinated Notes (the "Notes") due December 15, 2027. The Notes were issued at a price equal to 100% of the principal amount, resulting in net proceeds to the Bank of $39.4 million. The Bank intends to use the net proceeds from the offering to support its growth and for general corporate purposes. The Notes are intended to qualify as tier 2 capital for bank regulatory purposes.

The Notes bear a fixed interest rate of 5.25% per annum until (but excluding) December 15, 2022, payable semi-annually in arrears. From December 15, 2022, the Notes will bear a floating rate of interest equal to 3-Month LIBOR + 3.03% until the Notes mature on December 15, 2027, or such earlier redemption date, payable quarterly in arrears. The Notes will be redeemable by the Bank, in whole or in part, on or after December 15, 2022 or, in whole but not in part, upon the occurrence of certain specified tax events, capital events or investment company events. Any redemption will be at a redemption price equal to 100% of the principal amount of Notes being redeemed, plus accrued and unpaid interest, and will be subject to, and require, prior regulatory approval. The Notes are not subject to redemption at the option of the holders.

9. INCOME TAXES

The amount of the Company's federal and state income tax expense is influenced by the amount of pre-tax income, the amount of tax-exempt income and the amount of other nondeductible items. For the three and six months ended June 30, 2018 income tax expense was $1.6 million and $3.0 million, respectively, compared with $1.7 million and $3.3 million, respectively, for the three and six months ended June 30, 2017. The effective income tax rate for the three and six months ended June 30, 2018 was 17.2% and 16.6%, respectively, compared to 24.2% and 22.1%, respectively, for the three and six months ended June 30, 2017. The decrease in income tax expense and the effective tax rate year over year was primarily attributable to the Tax Act enacted on December 22, 2017, which reduced the U.S. federal statutory income tax rate from 35% to 21% effective January 1, 2018.

Interest and penalties related to tax positions are recognized in the period in which they begin accruing or when the entity claims the position that does not meet the minimum statutory thresholds. The Company does not have any uncertain tax positions and does not have any interest and penalties recorded in the income statement for the three and six months ended

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June 30, 2018 and 2017. The Company is no longer subject to examination by the U.S. Federal Tax Jurisdiction for the years prior to 2014.

10. STOCK BASED COMPENSATION

During 2015, the Company's Board of Directors and shareholders approved the 2015 Amended and Restated Stock Awards and Incentive Plan (the "Plan") covering certain awards of stock-based compensation to key employees and directors of the Company. The Plan was amended in 2017 as the shareholders authorized a maximum aggregate of 1,900,000 shares of stock to be issued, any or all of which may be issued through incentive stock options. The Company accounts for stock based employee compensation plans using the fair value-based method of accounting. The Company recognized total stock based compensation expense of $397 thousand and $835 thousand for the three and six months ended June 30, 2018, respectively, and $456 thousand and $797 thousand for the three and six months ended June 30, 2017, respectively.

Stock Options

Options to purchase a total of 1,309,231 shares of Company stock have been granted as of June 30, 2018. Under the Plan, options are exercisable up to 10 years from the date of the grant and are generally fully vested 4 years after the date of grant. The fair value of stock options granted is estimated at the date of grant using the Black-Scholes option-pricing model.

A summary of the activity in the stock option plan during the six months ended June 30, 2018 is set forth below:

	Number of Options (In thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Options outstanding, January 1, 2018	775	$ 19.94	5.72	$ 13,718
Options granted	4	40.40		
Options exercised	(101)	15.10		
Options forfeited	(28)	28.69		
Options outstanding, June 30, 2018	650	$ 20.47	5.47	$ 14,879
Options vested and exercisable, June 30, 2018	478	$ 18.08	4.61	$ 12,085

Restricted Stock Awards

During the six months ended June 30, 2018, the Company issued 12,672 shares of restricted stock. The forfeiture restrictions on restricted stock shares generally lapse over a period of 4 years, and the shares are considered outstanding at the date of issuance. The Company accounts for restricted stock grants by recording the fair value of the grant on the award date as compensation expense over the vesting period.

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A summary of the activity of the nonvested shares of restricted stock during the six months ended June 30, 2018 is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
	(Shares in thousands)	
Nonvested share awards outstanding, January 1, 2018	41	$ 30.46
Share awards granted	13	40.77
Share awards vested	(18)	30.03
Unvested share awards forfeited	—	—
Nonvested share awards outstanding, June 30, 2018	36	$ 33.19

11. OFF-BALANCE SHEET ARRANGEMENTS, COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company enters into various transactions, which, in accordance with accounting principles generally accepted in the United States, are not included in the Company's consolidated balance sheets. The Company enters into these transactions to meet the financing needs of its customers. These transactions include commitments to extend credit and standby letters of credit, which involve to varying degrees elements of credit risk and interest rate risk in excess of the amounts recognized in the consolidated balance sheets. The Company uses the same credit policies in making commitments and conditional obligations as it does for on balance sheet instruments.

The contractual amounts of financial instruments with off-balance sheet risk are as follows:

	June 30, 2018		December 31, 2017	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
	(Dollars in thousands)			
Commitments to extend credit	$416,973	$278,873	$369,573	$250,467
Standby letters of credit	12,393	1,900	15,445	1,725
Total	$429,366	$280,773	$385,018	$252,192

Commitments to make loans are generally made for an approval period of 120 days or fewer. As of June 30, 2018, the funded fixed rate loan commitments had interest rates ranging from 1.95% to 7.75% with a weighted average maturity and rate of 2.25 years and 4.62%, respectively.

Litigation

From time to time, the Company is subject to claims and litigation arising in the ordinary course of business. In the opinion of management, the Company is not party to any legal proceedings the resolution of which it believes would have a material adverse effect on the Company's business, prospects, financial condition, liquidity, results of operation, cash flows or capital levels. However, one or more unfavorable outcomes in any claim or litigation against the Company could have a material adverse effect for the period in which such claim or litigation is resolved. In addition, regardless of their merits or their ultimate outcomes, such matters are costly, divert management's attention and may materially adversely affect the Company's reputation, even if resolved in its favor. The Company intends to defend itself vigorously against any future claims or litigation.

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12. REGULATORY CAPITAL MATTERS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Capital adequacy guidelines, and for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities and certain off balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings and other factors. Failure to meet minimum capital requirements can cause regulators to initiate actions that, if undertaken, could have a direct material effect on the Company’s consolidated financial statements. The final rules implementing Basel Committee on Banking Supervision's capital guideline for U.S. Banks (Basel III Rules) became effective for the Company on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Starting in January 2016, the implementation of the capital conservation buffer was effective for the Company starting at the 0.625% level and increasing 0.625% each year thereafter, until it reaches 2.5% on January 1, 2019. Management believes as of June 30, 2018 and December 31, 2017 the Company and the Bank met all capital adequacy requirements to which they were then subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If less than well capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required.

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The following is a summary of the Company's and the Bank's actual and required capital ratios at June 30, 2018 and December 31, 2017:

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required Plus Capital Conservation Buffer		To Be Categorized As Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)							
ALLEGIANCE BANCSHARES, INC. (Consolidated)								
As of June 30, 2018								
Total Capital (to risk weighted assets)	$345,933	13.41 %	$206,421	8.00 %	$254,801	9.875 %	N/A	N/A
Common Equity Tier 1 Capital (to risk weighted assets)	273,323	10.59 %	116,112	4.50 %	164,492	6.375 %	N/A	N/A
Tier 1 Capital (to risk weighted assets)	282,682	10.96 %	154,816	6.00 %	203,196	7.875 %	N/A	N/A
Tier 1 Capital (to average tangible assets)	282,682	9.78 %	115,629	4.00 %	115,629	4.000 %	N/A	N/A
As of December 31, 2017								
Total Capital (to risk weighted assets)	$336,829	13.43 %	$200,687	8.00 %	$232,044	9.250 %	N/A	N/A
Common Equity Tier 1 Capital (to risk weighted assets)	264,521	10.54 %	112,886	4.50 %	144,244	5.750 %	N/A	N/A
Tier 1 Capital (to risk weighted assets)	273,825	10.92 %	150,515	6.00 %	181,872	7.250 %	N/A	N/A
Tier 1 Capital (to average tangible assets)	273,825	9.84 %	111,274	4.00 %	111,274	4.00 %	N/A	N/A
ALLEGIANCE BANK								
As of June 30, 2018								
Total Capital (to risk weighted assets)	$347,659	13.48 %	$206,322	8.00 %	$254,679	9.875 %	$ 257,902	10.00 %
Common Equity Tier 1 Capital (to risk weighted assets)	284,408	11.03 %	116,056	4.50 %	164,413	6.375 %	167,637	6.50 %
Tier 1 Capital (to risk weighted assets)	284,408	11.03 %	154,741	6.00 %	203,098	7.875 %	206,322	8.00 %
Tier 1 Capital (to average tangible assets)	284,408	9.84 %	115,581	4.00 %	115,581	4.000 %	144,477	5.00 %
As of December 31, 2017								
Total Capital (to risk weighted assets)	$331,872	13.24 %	$200,596	8.00 %	$231,939	9.250 %	$ 250,745	10.00 %
Common Equity Tier 1 Capital (to risk weighted assets)	268,868	10.72 %	112,835	4.50 %	144,179	5.750 %	162,985	6.50 %
Tier 1 Capital (to risk weighted assets)	268,868	10.72 %	150,447	6.00 %	181,790	7.250 %	200,596	8.00 %
Tier 1 Capital (to average tangible assets)	268,868	9.67 %	111,230	4.00 %	111,230	4.000 %	139,037	5.00 %

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13. EARNINGS PER COMMON SHARE

Diluted earnings per common share is computed using the weighted-average number of common shares determined for the basic earnings per common share computation plus the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock using the treasury stock method. Outstanding stock options issued by the Company represent the only dilutive effect reflected in diluted weighted average shares. Restricted shares are considered outstanding at the date of grant, accounted for as participating securities and included in basic and diluted weighted average common shares outstanding.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2018		2017		2018		2017	
	Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount
	(Amounts in thousands, except per share data)							
Net income attributable to common shareholders	$7,556		$5,395		$15,267		$11,442	
Basic:								
Weighted average common shares outstanding	13,327	$ 0.57	13,125	$ 0.41	13,294	$ 1.15	13,073	$ 0.88
Diluted:								
Add incremental shares for:								
Dilutive effect of stock option exercises	307		346		294		352	
Total	13,634	$ 0.55	13,471	$ 0.40	13,588	$ 1.12	13,425	$ 0.85

There were no antidilutive shares as of June 30, 2018. Stock options for 14 thousand shares were not considered in computing diluted earnings per common share as of June 30, 2017 because they were antidilutive.

14. ACQUISITION

On April 30, 2018, Allegiance announced the signing of a definitive merger agreement with Post Oak Bancshares, Inc. (“Post Oak”), the holding company of Post Oak Bank, N.A., whereby Post Oak will be merged with and into Allegiance. Post Oak operates thirteen (13) banking locations: twelve (12) located throughout the greater Houston MSA and one in Beaumont, just outside of the Houston MSA. Under the terms of the definitive agreement, Allegiance will issue 0.7017 shares of Allegiance common stock for each outstanding share of, and option to purchase a share of, Post Oak capital stock, subject to certain conditions and potential adjustments. The transaction is expected to close during the fourth quarter of 2018 and is subject to certain customary closing conditions, including the approval by Allegiance and Post Oak shareholders and customary regulatory approvals.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Except where the context otherwise requires or where otherwise indicated, in this Quarterly Report on Form 10-Q the terms “we,” “us,” “our,” “Company” and “our business” refer to Allegiance Bancshares, Inc. and our wholly-owned banking subsidiary, Allegiance Bank, a Texas banking association, and the terms “Allegiance Bank” or the “Bank” refer to Allegiance Bank. In this Quarterly Report on Form 10-Q, we refer to the Houston-The Woodlands-Sugar Land metropolitan statistical area as the “Houston metropolitan area.”

Cautionary Notice Regarding Forward-Looking Statements

Statements and financial discussion and analysis contained in this Quarterly Report on Form 10-Q that are not historical facts are forward-looking statements and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. We also may make forward-looking statements in our other documents filed with or furnished to

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the SEC. In addition, our senior management may make forward-looking statements orally to investors, analysts, representatives of the media and others. Statements preceded by, followed by or that otherwise include the words "believes," "expects," "anticipates," "intends," "projects," "estimates," "plans" and similar expressions or future or conditional such as "will," "should," "would," "may" and "could" are generally forward-looking in nature and not historical facts, althougl not all forward-looking statements include the foregoing. Forward-looking statements are based on assumptions and involve a number of risks and uncertainties, many of which are beyond our control. Many possible events or factors could affect our future financial results and performance and could cause such results or performance to differ materially from those expressed in our forward-looking statements.

While there is no assurance that any list of risks and uncertainties or risk factors is complete, below are certain factors which could cause our actual results to differ from those in our forward-looking statements:

- risks related to the concentration of our business in the Houston metropolitan area, including risks associated with volatility or decreases in oil and gas prices or prolonged periods of lower oil and gas prices;
- general market conditions and economic trends nationally, regionally and particularly in the Houston metropolitan area;
- our ability to retain executive officers and key employees and their customer and community relationships;
- our ability to recruit and retain successful bankers that meet our expectations in terms of customer and community relationships and profitability;
- risks related to our strategic focus on lending to small to medium-sized businesses;
- our ability to implement our growth strategy, including through the identification of acquisition candidates that will be accretive to our financial condition and results of operations, as well as permitting decision-making authority at the branch level;
- risks related to any businesses we acquire in the future, including exposure to potential asset and credit quality risks and unknown or contingent liabilities, the time and costs associated with integrating systems, technology platforms, procedures and personnel, the need for additional capital to finance such transactions and possible failures in realizing the anticipated benefits from such acquisitions;
- risks associated with our owner-occupied commercial real estate loan and other commercial real estate loan portfolios, including the risks inherent in the valuation of the collateral securing such loans;
- risks associated with our commercial and industrial loan portfolio, including the risk for deterioration in value of the general business assets that generally secure such loans;
- the accuracy and sufficiency of the assumptions and estimates we make in establishing reserves for potential loan losses and other estimates;
- risk of deteriorating asset quality and higher loan charge-offs, as well as the time and effort necessary to resolve nonperforming assets;
- potential changes in the prices, values and sales volumes of commercial and residential real estate securing our real estate loans;
- changes in market interest rates that affect the pricing of our loans and deposits and our net interest income;
- potential fluctuations in the market value and liquidity of the securities we hold for sale;
- risk of impairment of investment securities, goodwill, other intangible assets or deferred tax assets;
- the effects of competition from a wide variety of local, regional, national and other providers of financial, investment and insurance services, which may adversely affect our pricing and terms;
- risks associated with negative public perception of the Company;
- our ability to maintain an effective system of disclosure controls and procedures and internal controls over financial reporting;

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- risks associated with fraudulent and negligent acts by our customers, employees or vendors;
- our ability to keep pace with technological change or difficulties when implementing new technologies;
- risks associated with system failures or failures to protect against cybersecurity threats, such as breaches of our network security;
- our ability to comply with privacy laws and properly safeguard personal, confidential or proprietary information;
- risks associated with data processing system failures and errors;
- potential risk of environmental liability related to owning or foreclosing on real property;
- the institution and outcome of litigation and other legal proceeding against us or to which we become subject;
- our ability to maintain adequate liquidity and to raise necessary capital to fund our acquisition strategy and operations or to meet increased minimum regulatory capital levels;
- our ability to comply with various governmental and regulatory requirements applicable to financial institutions;
- the impact of recent and future legislative and regulatory changes, including changes in banking, securities and tax laws and regulations and their application by our regulators, such as the further implementation of the Dodd-Frank Act;
- governmental monetary and fiscal policies, including the policies of the Federal Reserve;
- our ability to comply with supervisory actions by federal and state banking agencies;
- changes in the scope and cost of FDIC insurance and other coverage;
- systemic risks associated with the soundness of other financial institutions;
- the effects of war or other conflicts, acts of terrorism (including cyberattacks) or other catastrophic events, including storms, droughts, tornadoes and flooding, that may affect general economic conditions; and
- other risks and uncertainties listed from time to time in our reports and documents filed with the SEC.

Further, these forward-looking statements speak only as of the date on which they were made and we undertake no obligation to update or revise any forward-looking statements to reflect events or circumstances after the date on which any such statement is made or to reflect the occurrence of unanticipated events, unless required to do so under the federal securities laws. Other factors not identified above, including those described under the headings “Risk Factors”, "Quantitative and Qualitative Disclosures about Market Risk" and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2017 may also cause actual results to differ materially from those described in our forward-looking statements. Most of these factors are difficult to anticipate and are generally beyond our control. You should consider these factors in connection with considering any forward-looking statements that may be made by us.

Overview

We generate most of our revenues from interest income on loans, service charges on customer accounts and interest income from investments in securities. We incur interest expense on deposits and other borrowed funds and noninterest expenses such as salaries and employee benefits and occupancy expenses. Net interest income is the difference between interest income on earning assets such as loans and securities and interest expense on liabilities such as deposits and borrowings that are used to fund those assets. Net interest income is our largest source of revenue. To evaluate net interest income, we measure and monitor (1) yields on our loans and other interest-earning assets, (2) the interest expenses of our deposits and other funding sources, (3) our net interest spread and (4) our net interest margin. Net interest spread is the difference between rates earned on interest-earning assets and rates paid on interest-bearing liabilities. Net interest margin is calculated as net interest income divided by average interest-earning assets. Because noninterest-bearing sources of funds, such as noninterest-bearing deposits and shareholders’ equity, also fund interest-earning assets, net interest margin includes the benefit of these noninterest-bearing sources.

Our net interest income is affected by changes in the amount and mix of interest-earning assets and interest-bearing liabilities, referred to as a “volume change.” Periodic changes in the volume and types of loans in our loan portfolio are affected by, among other factors, economic and competitive conditions in Texas and specifically in the Houston metropolitan area, as well as developments affecting the real estate, technology, financial services, insurance, transportation, manufacturing and energy sectors within our target market and throughout the state of Texas.

Our net interest income is also affected by changes in yields earned on interest-earning assets and rates paid on interest-bearing deposits and other borrowed funds, referred to as a “rate change.” Fluctuations in market interest rates are driven by many factors, including governmental monetary policies, inflation, deflation, macroeconomic developments, changes in unemployment, the money supply, political and international conditions and conditions in domestic and foreign financial markets.

Our objective is to grow and strengthen our community banking franchise by deploying our super-community banking strategy and pursuing select strategic acquisitions in the Houston metropolitan area. We have positioned ourselves to be a leading provider of personalized commercial banking services by emphasizing the strength and capabilities of local bank office management and by providing superior customer service. We have made the strategic decision to focus on the Houston metropolitan area because of our deep roots and experience operating through a variety of economic cycles in this large and vibrant market.

Super-community banking strategy. Our super-community banking strategy emphasizes local delivery of the excellent customer service associated with community banking combined with the products, efficiencies and scale associated with larger banks. By empowering our personnel to make certain business decisions at a local level in order to respond quickly to customers' needs, we are able to establish and foster strong relationships with customers through superior service. We operate full-service bank offices and employ lenders with strong underwriting credentials who are authorized to make loan and underwriting decisions up to prescribed limits at the bank office level. We support bank office operations with a centralized credit approval process for larger credit relationships, loan operations, information technology, core data processing, accounting, finance, treasury and treasury management support, deposit operations and executive and board oversight. We emphasize lending to and banking with small to medium-sized businesses, with which we believe we can establish stronger relationships through excellent service and provide lending that can be priced on terms that are more attractive to us than would be achieved by lending to larger businesses. We believe this approach produces a clear competitive advantage by delivering an extraordinary customer experience and fostering a culture dedicated to achieving both superior external and internal service levels.

We plan to continue to emphasize the super-community banking strategy to organically grow our presence in the Houston metropolitan area through:

- increasing the productivity of existing bankers, as measured by loans, deposits and fee income per banker, while enhancing profitability by leveraging our existing operating platform;
- focusing on local and individualized decision-making, allowing us to provide customers with rapid decisions on loan requests, which we believe allows us to effectively compete with larger financial institutions;
- identifying and hiring additional seasoned bankers in the Houston metropolitan area who will thrive within our super-community banking model, and opening additional branches where we are able to attract seasoned bankers; and
- developing new products designed to serve the increasingly diversified Houston economy, while preserving our strong culture of risk management.

Select strategic acquisitions. We intend to continue to expand our market position in the Houston metropolitan area through organic growth, including the development of de novo branch locations, and a disciplined acquisition strategy. We focus on like-minded community banks with similar lending strategies to our own when evaluating acquisition opportunities. We believe that our management’s experience in assessing, executing and integrating target institutions will allow us to capitalize on acquisition opportunities.

Critical Accounting Policies

Our accounting policies are integral to understanding our results of operations. Our accounting policies are described in detail in Note 1 to our Annual Report on Form 10-K for the year ended December 31, 2017. We believe that of our accounting policies, the following may involve a higher degree of judgment and complexity:

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Securities

Debt securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value. Unrealized gains and losses are excluded from earnings and reported, net of tax, as a separate component of shareholders' equity until realized. Securities within the available for sale portfolio may be used as part of our asset/liability strategy and may be sold in response to changes in interest rate risk, prepayment risk or other similar economic factors.

Interest earned on these assets is included in interest income. Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates debt securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: (1) OTTI related to credit loss, which must be recognized in the income statement, and (2) OTTI related to other factors, which is recognized in other comprehensive income, net of applicable taxes. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the security.

Nonperforming and Past Due Loans

Loans are placed on nonaccrual status when payment in full of principal or interest is not expected or upon which principal or interest has been in default for a period of 90 days or more unless the asset is both well secured and in the process of collection. If the decision is made to continue accruing interest on the loan, periodic reviews are made to confirm the accruing status of the loan. Nonaccrual loans and loans past due 90 days include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

When available information confirms that specific loans, or portions thereof, are uncollectible, these amounts are charged off against the allowance. All loan types are considered delinquent after 30 days past due and are typically charged off or charged down no later than 120 days past due, with consideration of, but not limited to, the following criteria in determining the need and optional timing of the charge-off or charge-down: (1) the Bank is in the process of repossession or foreclosure and there appears to be a likely deficiency, (2) the collateral securing the loan has been sold and there is an actual deficiency, (3) the Bank is proceeding with lengthy legal action to collect its balance, (4) the borrower is unable to be located or (5) the borrower has filed bankruptcy. Events requiring charge-offs occur when a shortfall is identified between the recorded investment in the loan and the underlying value of the collateral.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance that is established through charges to income in the form of a provision for loan losses. The amount of the allowance for loan losses is affected by the following: (1) charge-offs of loans that decrease the allowance, (2) subsequent recoveries on loans previously charged off that increase the allowance and (3) provisions for loan losses charged to income that increase the allowance.

Throughout the year, management estimates the probable incurred losses in the loan portfolio to determine if the allowance for loan losses is adequate to absorb such losses. The allowance for loan losses consists of specific and general components. The specific component relates to loans that are individually classified as impaired. We follow a loan review program to evaluate the credit risk in the loan portfolio. Loans that have been identified as impaired are reviewed on a quarterly basis in order to determine whether a specific reserve is required. The general component covers non-impaired loans and is based on industry and our specific historical loan loss experience, volume, growth and composition of the loan portfolio, the evaluation of our loan portfolio through our internal loan review process, general current economic conditions both internal and external to us that may affect the borrower’s ability to pay, value of collateral and other qualitative relevant risk factors. Based on a review of these estimates, we adjust the allowance for loan losses to a level determined by management to be adequate. Estimates of loan losses are inherently subjective as they involve an exercise of judgment.

Our allowance for loan losses, both in dollars and as a percentage of total loans, is impacted by acquisition accounting. As part of acquisition accounting, acquired loans are initially recognized at fair value with no corresponding allowance for loan losses. Initial fair value of the loans includes consideration of expected credit losses. Loans for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and therefore classified as impaired. Subsequent to identification as a troubled debt restructuring, such loans are then evaluated for impairment on an individual basis whereby we determine the amount of reserve in accordance with the accounting policy for the impaired loans as part of our allowance for loan losses calculation. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

Goodwill

Goodwill resulting from business combinations is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill is assessed annually for impairment or when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Goodwill acquired in a purchase business combination that is determined to have an indefinite useful life, is not amortized, but tested for impairment. We perform our annual impairment test on October 1st. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

Recently Issued Accounting Pronouncements

We have evaluated new accounting pronouncements that have recently been issued and have determined that there are no new accounting pronouncements that should be described in this section that will impact the Company's operations, financial condition or liquidity in future periods. Refer to Note 1 of the Company's audited consolidated financial statements for a discussion of recent accounting pronouncements that have been adopted by the Company or that will require enhanced disclosures in the Company's financial statements in future periods.

Results of Operations

Net income was $7.6 million, or $0.55 per diluted share, for the second quarter 2018 compared to $5.4 million, or $0.40 per diluted share, for the second quarter 2017. The second quarter 2018 results include $1.1 million and $625 thousand of core system conversion and merger related expenses, respectively. Annualized returns on average assets and average equity were 1.03% and 9.55%, respectively, compared to 0.81% and 7.32%, respectively, for the the three months ended June 30, 2018 and 2017, respectively. The efficiency ratio increased to 67.05% for the second quarter 2018 from 61.92% for the second quarter 2017. The efficiency ratio is calculated by dividing total noninterest expense by the sum of net interest income plus noninterest income, excluding net gains and losses on the sale of loans, securities and assets. Additionally, taxes and provision for loan losses are not part of this calculation.

Net income was $15.3 million, or $1.12 per diluted share, for the six months ended June 30, 2018 compared to $11.4 million, or $0.85 per diluted share, for the six months ended June 30, 2017. The six months ended June 30, 2018 results include $1.5 million and $625 thousand of core system conversion and merger related expenses, respectively. Annualized returns on average assets and average equity were 1.06% and 9.82%, respectively, for the six months ended June 30, 2018 compared to 0.89% and 7.95%, respectively, for the six months ended June 30, 2017. The efficiency ratio increased to 66.33% for the six months ended June 30, 2018 compared to 63.41% for the six months ended June 30, 2017.

Net Interest Income

Three months ended June 30, 2018 compared with three months ended June 30, 2017. Net interest income before the provision for loan losses for the three months ended June 30, 2018 was $27.8 million compared with $25.1 million for the three months ended June 30, 2017, an increase of $2.7 million, or 10.8%. The increase in net interest income was primarily due to the increase in average interest-earning assets primarily due to organic loan growth partially offset by increased interest expense on interest-bearing liabilities driven in part by the subordinated debt that was issued in December 2017.

Interest income was $34.2 million for the three months ended June 30, 2018, an increase of $5.2 million, or 18.0%, compared with the three months ended June 30, 2017, primarily due to an increase in interest income and fees on loans as a result of an increase of $270.3 million, or 13.2%, in average loans for the same periods.

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Interest expense was $6.4 million for the three months ended June 30, 2018, an increase of $2.5 million, or 64.4%, compared to the three months ended June 30, 2017. This increase was primarily due to an increase in funding costs on interest-bearing liabilities and average interest-bearing liabilities. The cost of average interest-bearing liabilities increased to 137 basis points for the three months ended June 30, 2018 compared to 90 basis points for the same period in 2017. Additionally, average interest-bearing liabilities increased $132.3 million, or 7.6%, for the three months ended June 30, 2018 compared to the three months ended June 30, 2017. The increase in average interest-bearing liabilities for the three months ended June 30, 2018 compared to the three months ended June 30, 2017 was primarily due to the increase in average interest-bearing deposits of $85.8 million and the increase in average subordinated debt of $39.5 million. The increase in average interest-bearing deposits for the three months ended June 30, 2018 compared to the three months ended June 30, 2017 was primarily due to the increase in average certificates and other time deposits of $42.7 million, or 5.4%, and the increase in money market and savings deposits of $23.0 million, or 4.6%, for the same period.

Tax equivalent net interest margin, defined as net interest income adjusted for tax-free income divided by average interest-earning assets, for the three months ended June 30, 2018 was 4.21%, a decrease of 8 basis points compared to 4.29% for the three months ended June 30, 2017 primarily due to interest expense on the subordinated debt issuance and certificates of deposit. The average yield on interest-earning assets and the average rate paid on interest-bearing liabilities for the second quarter 2018 increased over the same period in 2017. The average yield on interest-earning assets, 5.12%, and the average rate paid on interest-bearing liabilities, 1.37%, as of June 30, 2018, were primarily impacted by changes in market interest rates as well as changes in the volume and relative mix of the underlying assets and liabilities. Tax equivalent adjustments to net interest margin are the result of increasing income from tax-free securities by an amount equal to the taxes that would have been paid if the income were fully taxable based on a 21% and 35% federal tax rate for the three months ended June 30, 2018 and 2017, respectively, thus making tax-exempt yields comparable to taxable asset yields.

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The following table presents, for the periods indicated, the total dollar amount of average balances, interest income from average interest-earning assets and the annualized resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed in both dollars and rates. Any nonaccruing loans have been included in the table as loans carrying a zero yield.

	Three Months Ended June 30,					
	2018			2017		
	Average Balance	Interest Earned/ Interest Paid	Average Yield/ Rate	Average Balance	Interest Earned/ Interest Paid	Average Yield/ Rate
	(Dollars in thousands)					
Assets						
Interest-earning Assets:						
Loans	$2,312,725	$31,846	5.52 %	$2,042,460	$26,736	5.25 %
Securities	315,198	2,097	2.67 %	326,388	2,094	2.57 %
Deposits in other financial institutions	50,227	250	2.00 %	49,703	157	1.26 %
Total interest-earning assets	2,678,150	$34,193	5.12 %	2,418,551	$28,987	4.81 %
Allowance for loan losses	(24,753)			(19,253)		
Noninterest-earning assets	280,852			261,668		
Total assets	$2,934,249			$2,660,966		
Liabilities and Shareholders' Equity						
Interest-bearing Liabilities:						
Interest-bearing demand deposits	$157,588	$208	0.53 %	$137,507	$118	0.34 %
Money market and savings deposits	522,381	679	0.52 %	499,335	584	0.47 %
Certificates and other time deposits	827,897	3,284	1.59 %	785,194	2,283	1.17 %
Borrowed funds	311,185	1,472	1.90 %	304,184	761	1.00 %
Subordinated debt	48,746	734	6.04 %	9,232	134	5.83 %
Total interest-bearing liabilities	1,867,797	$6,377	1.37 %	1,735,452	$3,880	0.90 %
Noninterest-bearing Liabilities:						
Noninterest-bearing demand deposits	741,266			624,100		
Other liabilities	7,778			5,890		
Total liabilities	2,616,841			2,365,442		
Shareholders' equity	317,408			295,524		
Total liabilities and shareholders' equity	$2,934,249			$2,660,966		
Net interest rate spread			3.75 %			3.91 %
Net interest income and margin[(1)]		$27,816	4.17 %		$25,107	4.16 %
Net interest income and margin (tax equivalent)[(2)]		$28,086	4.21 %		$25,862	4.29 %

(1) The net interest margin is equal to annualized net interest income divided by average interest-earning assets.

(2) In order to make pretax income and resultant yields on tax-exempt investments and loans comparable to those on taxable investments and loans, a tax-equivalent adjustment has been computed using a federal income tax rate of 21% and 35% for the three months ended June 30, 2018 and June 30, 2017, respectively, and other applicable effective tax rates.

Six months ended June 30, 2018 compared with six months ended June 30, 2017. Net interest income before the provision for loan losses for the six months ended June 30, 2018 was $54.7 million compared with $49.2 million for the six months ended June 30, 2017, an increase of $5.5 million, or 11.1%. The increase in net interest income was primarily due to organic loan growth partially offset by the increased interest expense on interest-bearing liabilities.

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Interest income was $66.6 million for the six months ended June 30, 2018, an increase of $10.1 million, or 17.8%, compared with the six months ended June 30, 2017, primarily due to an increase of $287.2 million, or 12.2%, in average interest-earning assets.

Interest expense was $11.9 million for the six months ended June 30, 2018, an increase of $4.6 million, or 63.5%, compared to the six months ended June 30, 2017. This increase was primarily due to the subordinated debt issuance and rising expenses associated with higher costs on FHLB borrowings and certificates of deposit. The cost of average interest-bearing liabilities increased to 128 basis points for the six months ended June 30, 2018 compared to 86 basis points for the same period in 2017. Additionally, the increase in interest expense was attributable to the increase in average interest-bearing liabilities of $179.1 million, or 10.6%, for the six months ended June 30, 2018 compared to the six months ended June 30, 2017. The increase in average interest-bearing liabilities was primarily due to an increase in average interest-bearing deposits of $183.5 million and the increase in average subordinated debt of $39.5 million for the six months ended June 30, 2018 compared to the six months ended June 30, 2017.

Tax equivalent net interest margin for the six months ended June 30, 2018 was 4.20%, a decrease of 13 basis points compared to 4.33% for the six months ended June 30, 2017 primarily due to the increase in interest expense on interest-bearing liabilities driven in part by the subordinated debt issuance in December 2017.

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The following table presents, for the periods indicated, the total dollar amount of average balances, interest income from average interest-earning assets and the annualized resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed in both dollars and rates. Any nonaccruing loans have been included in the table as loans carrying a zero yield.

	Six Months Ended June 30,					
	2018			2017		
	Average Balance	Interest Earned/ Interest Paid	Average Yield/ Rate	Average Balance	Interest Earned/ Interest Paid	Average Yield/ Rate
	(Dollars in thousands)					
Assets						
Interest-earning Assets:						
Loans	$2,286,567	$61,963	5.46 %	$1,985,712	$51,996	5.28 %
Securities	313,990	4,155	2.67 %	326,151	4,216	2.61 %
Deposits in other financial institutions	50,063	466	1.88 %	51,511	287	1.12 %
Total interest-earning assets	2,650,620	$66,584	5.07 %	2,363,374	$56,499	4.82 %
Allowance for loan losses	(24,353)			(18,729)		
Noninterest-earning assets	276,664			260,497		
Total assets	$2,902,931			$2,605,142		
Liabilities and Shareholders' Equity						
Interest-bearing Liabilities:						
Interest-bearing demand deposits	$194,774	$525	0.54 %	$134,226	$218	0.33 %
Money market and savings deposits	537,305	1,338	0.50 %	493,092	1,138	0.47 %
Certificates and other time deposits	814,196	6,069	1.50 %	735,458	4,240	1.16 %
Borrowed funds	280,967	2,508	1.80 %	324,901	1,414	0.88 %
Subordinated debt	48,716	1,439	5.96 %	9,218	254	5.56 %
Total interest-bearing liabilities	1,875,958	$11,879	1.28 %	1,696,895	$7,264	0.86 %
Noninterest-bearing Liabilities:						
Noninterest-bearing demand deposits	705,461			612,120		
Other liabilities	8,014			5,891		
Total liabilities	2,589,433			2,314,906		
Shareholders' equity	313,498			290,236		
Total liabilities and shareholders' equity	$2,902,931			$2,605,142		
Net interest rate spread			3.79 %			3.96 %
Net interest income and margin[(1)]		$54,705	4.16 %		$49,235	4.20 %
Net interest income and margin (tax equivalent)[(2)]		$55,260	4.20 %		$50,770	4.33 %

(1) The net interest margin is equal to annualized net interest income divided by average interest-earning assets.
(2)

In order to make pretax income and resultant yields on tax-exempt investments and loans comparable to those on taxable investments and loans, a tax-equivalent adjustment has been computed using a federal income tax rate of 21% and 35% for the six months ended June 30, 2018 and June 30, 2017, respectively, and other applicable effective tax rates.

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The following table presents information regarding the dollar amount of changes in interest income and interest expense for the periods indicated for each major component of interest-earning assets and interest-bearing liabilities and distinguishes between the changes attributable to changes in volume and changes in interest rates. For purposes of this table, changes attributable to both rate and volume that cannot be segregated have been allocated to rate.

	For the Three Months Ended June 30, 2018 vs. 2017 Increase (Decrease) Due to Change in			For the Six Months Ended June 30, 2018 vs. 2017 Increase (Decrease) Due to Change in		
	Volume	Rate	Total	Volume	Rate	Total
	(Dollars in thousands)					
Interest-earning Assets:						
Loans	$3,535	$1,575	$5,110	$7,873	$2,094	$9,967
Securities	(74)	77	3	(152)	91	(61)
Deposits in other financial institutions	2	91	93	(9)	188	179
Total increase in interest income	3,463	1,743	5,206	7,712	2,373	10,085
Interest-bearing Liabilities:						
Interest-bearing demand deposits	16	74	90	101	206	307
Money market and savings deposits	29	66	95	114	86	200
Certificates and other time deposits	125	876	1,001	444	1,385	1,829
Borrowed funds	17	694	711	(188)	1,282	1,094
Subordinated debt	575	25	600	1,089	96	1,185
Total increase in interest expense	762	1,735	2,497	1,560	3,055	4,615
Increase (decrease) in net interest income	$2,701	$8	$2,709	$6,152	$(682)	$5,470

Provision for Loan Losses

Our allowance for loan losses is established through charges to income in the form of the provision in order to bring our allowance for loan losses to a level deemed appropriate by management. The allowance for loan losses at June 30, 2018 and December 31, 2017 was $23.8 million and $23.6 million, respectively, representing 1.01% and 1.04% of total loans as of such dates. We recorded a $631 thousand provision for loan losses for the quarter ended June 30, 2018 and a $3.0 million provision for the quarter ended June 30, 2017. We recorded a $1.3 million provision for loan losses for the six months ended June 30, 2018 and a $4.4 million provision for the six months ended June 30, 2017. The decreases in the provision for the three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017 were primarily due to the revaluation and reduction of our Hurricane Harvey reserve that was created in the third quarter 2017 and an overall improvement in asset quality.

Noninterest Income

Our primary sources of noninterest income are service charges on deposit accounts, nonsufficient funds fees, rebates from correspondent banks and debit and ATM card income. Noninterest income does not include loan origination fees, which are recognized over the life of the related loan as an adjustment to yield using the interest method.

Three months ended June 30, 2018 compared with three months ended June 30, 2017. Noninterest income totaled $1.8 million for the three months ended June 30, 2018 compared with $1.5 million for the same period in 2017, an increase of $328 thousand, or 22.2%.

Six months ended June 30, 2018 compared with six months ended June 30, 2017. Noninterest income totaled $3.5 million for the six months ended June 30, 2018 compared with $2.8 million for the same period in 2017, an increase of $633 thousand, or 22.5%.

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The following table presents, for the periods indicated, the major categories of noninterest income:

	For the Three Months Ended June 30,		Increase	For the Six Months Ended June 30,		Increase
	2018	2017	(Decrease)	2018	2017	(Decrease)
	(Dollars in thousands)					
Nonsufficient funds fees	$214	$184	$ 30	$390	$383	$ 7
Service charges on deposit accounts	106	205	(99)	329	400	(71)
Gain on sale of other real estate	1	—	1	1	—	1
Bank owned life insurance income	138	146	(8)	279	294	(15)
Debit card and ATM card income	289	232	57	558	437	121
Rebate from correspondent bank	564	336	228	1,008	569	439
Other(1)	493	374	119	886	735	151
Total noninterest income	$1,805	$1,477	$ 328	$3,451	$2,818	$ 633

(1) Other includes wire transfer and letter of credit fees, among other items.

Noninterest Expense

Three months ended June 30, 2018 compared with three months ended June 30, 2017. Noninterest expense was $19.9 million for the three months ended June 30, 2018 compared to $16.5 million for the three months ended June 30, 2017, an increase of $3.4 million, or 20.6%. This increase over the second quarter 2017 was primarily due to expenses of $1.1 million related to the core system conversion and $625 thousand of merger-related expenses incurred during the second quarter 2018.

Six months ended June 30, 2018 compared with six months ended June 30, 2017. Noninterest expense totaled $38.6 million for the six months ended June 30, 2018 compared with $33.0 million for the same period in 2017, an increase of $5.6 million, or 16.9%. This increase over the six months ended June 30, 2017 was primarily due to expenses related to the core system conversion of $1.5 million and merger-related expenses of $625 thousand during the six months ended June 30, 2018.

The following table presents, for the periods indicated, the major categories of noninterest expense:

	For the Three Months Ended June 30,		Increase	For the Six Months Ended June 30,		Increase
	2018	2017	(Decrease)	2018	2017	(Decrease)
	(Dollars in thousands)					
Salaries and employee benefits(1)	$12,778	$10,415	$ 2,363	$25,572	$20,977	$ 4,595
Net occupancy and equipment	1,367	1,302	65	2,639	2,729	(90)
Depreciation	433	398	35	840	798	42
Data processing and software amortization	1,356	719	637	2,409	1,414	995
Professional fees	1,126	987	139	1,595	1,882	(287)
Regulatory assessments and FDIC insurance	509	569	(60)	1,043	1,158	(115)
Core deposit intangibles amortization	196	196	—	391	391	—
Communications	259	233	26	507	480	27
Advertising	342	288	54	672	551	121
Other real estate expense	51	61	(10)	143	189	(46)
Printing and supplies	116	58	58	184	127	57
Other	1,327	1,235	92	2,582	2,314	268
Total noninterest expense	$19,860	$16,461	$ 3,399	$38,577	$33,010	$ 5,567

(1) Total salaries and employee benefits includes $397 thousand and $456 thousand for the three months ended June 30, 2018 and 2017, respectively, and $835 thousand and $797 thousand for the six months ended June 30, 2018 and 2017, respectively, in stock based compensation expense.

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Salaries and employee benefits. Salaries and benefits increased $2.4 million, or 22.7%, for the three months ended June 30, 2018 compared to the same period in 2017 and increased $4.6 million, or 21.9%, for the six months ended June 30, 2018 compared to the six months ended June 30, 2017. These increase were primarily attributable to additional employees hired to support our growth.

Data Processing and software amortization. Data processing and software amortization increased $637 thousand, or 88.6%, for the three months ended June 30, 2018 compared to the same period in 2017 and increased $995 thousand, or 70.4%, for the six months ended June 30, 2018 compared to the same period in 2017 primarily due to expenses incurred to complete our core system conversion during 2018.

Efficiency Ratio

The efficiency ratio is a supplemental financial measure utilized in management's internal evaluation of our performance and is not calculated based on generally accepted accounting principles. A GAAP-based efficiency ratio is calculated by dividing total noninterest expense, excluding credit loss provisions, by net interest income plus total noninterest income, as shown in the Consolidated Statements of Income. We calculate our efficiency ratio by excluding from noninterest income the net gains and losses on the sale of securities, which can vary widely from period to period. Additionally, taxes and provision for loan losses are not included in this calculation. An increase in the efficiency ratio indicates that more resources are being utilized to generate the same volume of income and/or being invested to generate future income, while a decrease would indicate a more efficient allocation of resources. Our efficiency ratio was 67.05% and 66.33% for the three and six months ended June 30, 2018, respectively, compared to 61.92% and 63.41% for the three and six months ended June 30, 2017, respectively.

We monitor the efficiency ratio in comparison with changes in our total assets and loans, and we believe that maintaining or reducing the efficiency ratio during periods of growth over the long-term will demonstrate the scalability of our operating platform. We expect to continue to benefit from our scalable platform in future periods as we continue to monitor overhead expenses necessary to support our growth.

Income Taxes

The amount of federal and state income tax expense is influenced by the amount of pre-tax income, the amount of tax-exempt income and the amount of other nondeductible expenses. Income tax expense decreased $147 thousand, or 8.5%, to $1.6 million for the three months ended June 30, 2018 compared with $1.7 million for the same period in 2017. Income tax expense decreased $223 thousand, or 6.9%, to $3.0 million for the six months ended June 30, 2018 compared with $3.3 million for the same period in 2017. Our effective tax rates were 17.2% and 16.6% for the three and six months ended June 30, 2018, respectively, compared to 24.2% and 22.1% for the three and six months ended June 30, 2017, respectively. Our effective tax rate decreased for the three and six months ended June 30, 2018 compared to the same periods in 2017 primarily due to the reduction in the U.S. federal statutory income tax rate from 35% to 21% under the Tax Act enacted on December 22, 2017.

Financial Condition

Loan Portfolio

At June 30, 2018, total loans were $2.36 billion, an increase of $87.8 million, or 3.9%, compared with December 31, 2017, primarily due to organic growth within our loan portfolio.

Total loans as a percentage of deposits were 101.9% and 102.6% as of June 30, 2018 and December 31, 2017, respectively. Total loans as a percentage of assets were 79.5% and 79.4% as of June 30, 2018 and December 31, 2017, respectively.

Lending activities originate from the efforts of our lenders, with an emphasis on lending to small to medium-sized businesses and companies, professionals and individuals located in the Houston metropolitan area.

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The following table summarizes our loan portfolio by type of loan as of the dates indicated
:

	June 30, 2018		December 31, 2017	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Commercial and industrial	$452,307	19.2 %	$457,129	20.1 %
Mortgage warehouse	51,552	2.2 %	69,456	3.1 %
Real estate:				
Commercial real estate (including multi-family residential)	1,134,903	48.0 %	1,080,247	47.5 %
Commercial real estate construction and land development	270,965	11.5 %	243,389	10.7 %
1-4 family residential (including home equity)	330,053	14.0 %	301,219	13.3 %
Residential construction	109,962	4.7 %	109,116	4.8 %
Consumer and other	8,933	0.4 %	10,320	0.5 %
Total loans	2,358,675	100.0%	2,270,876	100.0%
Allowance for loan losses	(23,831)		(23,649)	
Loans, net	$2,334,844		$2,247,227	

The principal categories of our loan portfolio are discussed below:
Commercial and Industrial. We make commercial and industrial loans in our market area that are underwritten primarily on the basis of the borrower's ability to service the debt from income. Our commercial and industrial loan portfolio decreased by $4.8 million, or 1.1%, to $452.3 million as of June 30, 2018 from $457.1 million as of December 31, 2017.
Our exposure to oil and gas exploration and production companies is roughly 2.6% of our total loan portfolio as of June 30, 2018. We define these customers as those on whom the prices of oil and gas have a significant operational or financial impact. These loans carry an overall allowance of 3.4% at June 30, 2018. The collateral on these loans includes industrial commercial real estate, working capital assets, machining equipment, drilling equipment, general industrial equipment, vehicles, airplanes, ranch property, insurance policies, notes receivable and a hotel. In addition, these loans are all personally guaranteed by the owners of the borrower.
Mortgage Warehouse. We make loans to unaffiliated mortgage loan originators collateralized by mortgage promissory notes which are segregated in our mortgage warehouse portfolio. These promissory notes originated by our mortgage warehouse customers carry terms and conditions as would be expected in the competitive permanent mortgage market and serve as collateral under a traditional mortgage warehouse arrangement whereby such promissory notes are warehoused under a revolving credit facility to allow for the end investor (or purchaser) of the note to receive a complete loan package and remit funds to the bank. For mortgage promissory notes secured by residential property, the warehouse time is normally 10 to 20 days. For mortgage promissory notes secured by commercial property, the warehouse time is normally 40 to 50 days. The funded balance of the mortgage warehouse portfolio can have significant fluctuation based upon market demand for the product, level of home sales and refinancing activity, market interest rates, and velocity of end investor processing times. Volumes of the portfolio tend to peak at the end of each month. Our mortgage warehouse portfolio decreased $17.9 million, or 25.8%, to $51.6 million as of June 30, 2018 from $69.5 million at December 31, 2017.
Commercial Real Estate (Including Multi-Family Residential). We make loans collateralized by owner-occupied, nonowner-occupied and multi-family real estate to finance the purchase or ownership of real estate. As of June 30, 2018 and December 31, 2017, 51.4% of our commercial real estate loans were owner-occupied. Our commercial real estate loan portfolio increased $54.7 million, or 5.1%, to $1.13 billion as of June 30, 2018 from $1.08 billion as of December 31, 2017, as a result of organic loan growth. Included in our commercial real estate portfolio are multi-family residential loans. Our multi-family loans decreased slightly to $62.7 million as of June 30, 2018 from $67.2 million as of December 31, 2017. We had 99 multi-family loans with an average loan size of $725 thousand as of June 30, 2018.

Commercial Real Estate Construction and Land Development. We make commercial real estate construction and land development loans to fund commercial construction, land acquisition and real estate development construction. Commercial real estate construction and land development loans increased $27.6 million, or 11.3%, to $271.0 million as of June 30, 2018 compared to $243.4 million as of December 31, 2017 as a result of organic loan growth.

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1-4 Family Residential (Including Home Equity). Our residential real estate loans include the origination of 1-4 family residential mortgage loans (including home equity and home improvement loans and home equity lines of credit) collateralized by owner-occupied residential properties located in our market area. Our residential real estate portfolio (including home equity) increased $28.8 million, or 9.6%, to $330.1 million as of June 30, 2018 from $301.2 million as of December 31, 2017. The home equity, home improvement and home equity lines of credit portion of our residential real estate portfolio increased $4.9 million, or 11.2%, to $48.7 million as of June 30, 2018 from $43.8 million as of December 31, 2017.

Residential Construction. We make residential construction loans to home builders and individuals to fund the construction of single-family residences with the understanding that such loans will be repaid from the proceeds of the sale of the homes by builders or with the proceeds of a mortgage loan. These loans are secured by the real property being built and are made based on our assessment of the value of the property on an as-completed basis. Our residential construction loans portfolio increased slightly to $110.0 million as of June 30, 2018 from $109.1 million as of December 31, 2017.

Consumer and Other. Our consumer and other loan portfolio is made up of loans made to individuals for personal purposes. Our consumer and other loan portfolio decreased $1.4 million, or 13.4%, to $8.9 million as of June 30, 2018 from $10.3 million as of December 31, 2017.

Asset Quality

Nonperforming Assets

We have procedures in place to assist us in maintaining the overall quality of our loan portfolio. We have established underwriting guidelines to be followed by our officers and monitor our delinquency levels for any negative or adverse trends.

We had $12.1 million and $13.3 million in nonperforming loans as of June 30, 2018 and December 31, 2017, respectively.

The following table presents information regarding nonperforming assets as of the dates indicated.

	As of June 30, 2018	As of December 31, 2017
	(Dollars in thousands)	
Nonaccrual loans:		
Commercial and industrial	$5,983	$6,437
Mortgage warehouse	—	—
Real estate:		
Commercial real estate (including multi-family residential)	4,917	6,110
Commercial real estate construction and land development	—	—
1-4 family residential (including home equity)	1,237	781
Residential construction	—	—
Consumer and other	—	—
Total nonaccrual loans	12,137	13,328
Accruing loans 90 or more days past due	—	—
Total nonperforming loans	12,137	13,328
Other real estate	1,710	365
Repossessed assets	740	205
Total nonperforming assets	$14,587	$13,898
Restructured loans[(1)]	$18,091	$17,526
Nonperforming assets to total assets	0.49 %	0.49 %
Nonperforming loans to total loans	0.51 %	0.59 %

(1) Restructured loans represent the balance at the end of the respective period for those loans modified in a troubled debt restructuring that are not already presented as a nonperforming loan.

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Potential problem loans are included in the loans that are classified as substandard and consist of accruing, restructured and impaired loans that are performing in accordance with contractual terms but for which management has concerns about the ability of an obligor to continue to comply with repayment terms because of the obligor's potential operating or financial difficulties. Management monitors these loans closely and reviews their performance on a regular basis. Potential problem loans contain potential weaknesses that could improve, persist or further deteriorate. At June 30, 2018 and December 31, 2017, we had $18.5 million and $17.9 million, respectively, in loans of this type which are not included in any of the nonaccrual or 90 days past due loan categories. At June 30, 2018, potential problem loans consisted of nineteen credit relationships. Of the total outstanding balance at June 30, 2018, 43.4% related to one customer in the hospitality industry, 28.3% related to 8 customers in an energy-related industry, 13.4% related to one customer in the residential leasing industry, 6.6% related to one customer in the manufacturing industry, 3.9% related to three customers in the commercial services industry, 2.4% related to one customer in the convenience store industry, 1.7% related to one customer in the consumer services industry and 0.3% related to three customers in the freight transportation industry. Weakness in these organizations' operating performance, financial condition and borrowing base deficits for certain energy-related credits, among other factors, have caused us to heighten the attention given to these credits. As such, all of the loans identified as potential problem loans at June 30, 2018 were graded as substandard accruing loans. Potential problem loans impact the allocation of our allowance for loan losses as a result of the specific reserve assigned to each loan.

Allowance for Credit Losses

The allowance for loan losses is a valuation allowance that is established through charges to earnings in the form of a provision for loan losses. The amount of the allowance for loan losses is affected by the following: (1) charge-offs of loans that decrease the allowance, (2) subsequent recoveries on loans previously charged-off that increase the allowance and (3) provisions for loan losses charged to income that increase the allowance.

At June 30, 2018, our allowance for loan losses amounted to $23.8 million, or 1.01%, of total loans compared with $23.6 million, or 1.04%, as of December 31, 2017. The increase in the allowance of $182 thousand as of June 30, 2018 as compared to the year ended December 31, 2017 was primarily due to an increase in the required reserve associated with organic loan growth. We believe that the allowance for loan losses at June 30, 2018 and December 31, 2017 was adequate to cover probable incurred losses in the loan portfolio as of such dates. The ratio of annualized net charge-offs to average loans outstanding was 0.06% for the six months ended June 30, 2018 compared to annualized net charge-offs of 0.13% for the six months ended June 30, 2017 and 0.36% for the year ended December 31, 2017.

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The following table presents, as of and for the periods indicated, an analysis of the allowance for loan losses and other related data:

	As of and for the Six Months Ended June 30,	
	2018	2017
	(Dollars in thousands)	
Average loans outstanding	$2,286,567	$1,985,712
Gross loans outstanding at end of period	2,358,675	2,114,652
Allowance for loan losses at beginning of period	23,649	17,911
Provision for loan losses	1,284	4,350
Charge-offs:		
Commercial and industrial loans	(1,888)	(1,735)
Mortgage warehouse	—	—
Real estate:		
Commercial real estate (including multi-family residential)	(41)	—
Commercial real estate construction and land development	—	—
1-4 family residential (including home equity)	—	—
Residential construction	—	—
Consumer and other	—	—
Total charge-offs for all loan types	(1,929)	(1,735)
Recoveries:		
Commercial and industrial loans	725	460
Mortgage warehouse	—	—
Real estate:		
Commercial real estate (including multi-family residential)	102	—
Commercial real estate construction and land development	—	10
1-4 family residential (including home equity)	—	10
Residential construction	—	—
Consumer and other	—	4
Total recoveries for all loan types	827	484
Net charge-offs	(1,102)	(1,251)
Allowance for loan losses at end of period	$23,831	$21,010
Allowance for loan losses to total loans	1.01%	0.99%
Net charge-offs to average loans[1]	0.06%	0.13%
Allowance for loan losses to nonperforming loans	196.35%	108.69%

(1) Interim periods annualized.

Available for Sale Securities

We use our securities portfolio to provide a source of liquidity, to provide an appropriate return on funds invested, to manage interest rate risk and to meet pledging and regulatory capital requirements. As of June 30, 2018, the carrying amount of investment securities totaled $300.9 million, a decrease of $8.7 million, or 2.8%, compared with $309.6 million as of December 31, 2017. Securities represented 10.1% and 10.8% of total assets as of June 30, 2018 and December 31, 2017, respectively.

All of the securities in our securities portfolio are classified as available for sale. Securities classified as available for sale are measured at fair value in the financial statements with unrealized gains and losses reported, net of tax, as accumulated comprehensive income or loss until realized. Interest earned on securities is included in interest income.

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The following table summarizes the amortized cost and fair value of the securities in our securities portfolio as of the dates shown:

	June 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available for Sale				
U.S. Government and agency securities	$6,290	$ 101	$ (70)	$6,321
Municipal securities	220,407	1,022	(4,556)	216,873
Agency mortgage-backed pass-through securities	41,078	55	(1,163)	39,970
Corporate bonds and other	38,446	—	(713)	37,733
Total	$306,221	$ 1,178	$ (6,502)	$300,897
	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available for Sale				
U.S. Government and agency securities	$8,507	$ 232	$ (24)	$8,715
Municipal securities	222,330	2,470	(1,842)	222,958
Agency mortgage-backed pass-through securities	32,014	159	(361)	31,812
Corporate bonds and other	46,247	62	(179)	46,130
Total	$309,098	$ 2,923	$ (2,406)	$309,615

As of June 30, 2018, we did not expect to sell any securities classified as available for sale with material unrealized losses; and management believes that we more likely than not will not be required to sell any securities before their anticipated recovery, at which time we will receive full value for the securities. The unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. Management does not believe any of the securities are impaired due to reasons of credit quality. The fair value is expected to recover as the securities approach their maturity date or repricing date or if market yields for such investments decline. Accordingly, as of June 30, 2018, management believes any impairment in our securities is temporary, and no impairment loss has been realized in our consolidated statements of income.

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The following table summarizes the contractual maturity of securities and their weighted average yields as of the dates indicated. The contractual maturity of a mortgage-backed security is the date at which the last underlying mortgage matures. Available for sale securities are shown at amortized cost. For purposes of the table below, municipal securities are calculated on a tax equivalent basis.

	June 30, 2018									
	Within One Year		After One Year but Within Five Years		After Five Years but Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total	Yield
	(Dollars in thousands)									
Available for Sale										
U.S. government and agency securities	$—	0.00%	$2,530	3.33%	$1,404	3.44%	$2,356	2.75%	$6,290	3.14%
Municipal securities	1,963	2.20%	35,244	2.03%	86,560	2.96%	96,640	3.82%	220,407	3.18%
Agency mortgage-backed pass-through securities	—	0.00%	—	0.00%	5,133	2.33%	35,945	3.03%	41,078	2.95%
Corporate bonds and other	5,222	2.39%	30,228	2.44%	2,996	4.30%	—	0.00%	38,446	2.58%
Total	$7,185	2.34%	$68,002	2.26%	$96,093	2.98%	$134,941	3.59%	$306,221	3.07%

	December 31, 2017									
	Within One Year		After One Year but Within Five Years		After Five Years but Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total	Yield
	(Dollars in thousands)									
Available for Sale										
U.S. government and agency securities	$2,018	1.46%	$2,516	3.33%	$1,396	3.44%	$2,577	2.75%	$8,507	2.73%
Municipal securities	1,263	2.56%	26,841	2.37%	82,981	3.21%	111,245	4.48%	222,330	3.74%
Agency mortgage-backed pass-through securities	—	0.00%	—	0.00%	5,074	2.29%	26,940	2.90%	32,014	2.81%
Corporate bonds and other	7,552	2.19%	29,538	2.45%	9,157	2.99%	—	0.00%	46,247	2.51%
Total	$10,833	2.10%	$58,895	2.45%	$98,608	3.14%	$140,762	4.15%	$309,098	3.43%

The contractual maturity of mortgage-backed securities and collateralized mortgage obligations is not a reliable indicator of their expected life because borrowers may have the right to prepay their obligations. Mortgage-backed securities and collateralized mortgage obligations are typically issued with stated principal amounts and are backed by pools of mortgage loans with varying maturities. The term of the underlying mortgages and loans may vary significantly due to the ability of a borrower to prepay and, in particular, monthly pay downs on mortgage-backed securities tend to cause the average life of the securities to be much different than the stated contractual maturity. During a period of increasing interest rates, fixed rate mortgage-backed securities do not tend to experience heavy prepayments of principal and, consequently, the average life of this security will be lengthened. If interest rates begin to fall, prepayments may increase, thereby shortening the estimated life of this security.

As of June 30, 2018 and December 31, 2017, we did not own securities of any one issuer (other than the U.S. government and its agencies or sponsored entities) for which the aggregate adjusted cost exceeded 10% of our consolidated shareholders' equity.

The average yield of our securities portfolio was 2.67% during the six months ended June 30, 2018 compared with 2.61% for the six months ended June 30, 2017. The increase in average yield during the first six months of 2018 compared to the same period in 2017 was primarily due to our increased investment in longer-term securities. This investment in higher-yielding securities replaced lower-yielding securities that matured or were called or prepaid.

Goodwill and Core Deposit Intangible Assets

Our goodwill as of June 30, 2018 and December 31, 2017 was $39.4 million for both periods. Goodwill resulting from business combinations represents the excess of the consideration paid over the fair value of the net assets acquired and liabilities assumed. Goodwill is assessed annually for impairment or when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

Our core deposit intangible assets, net as of June 30, 2018 and December 31, 2017, was $2.9 million and $3.3 million, respectively. Core deposit intangible assets are amortized using a straight-line amortization method over its estimated useful life of seven to nine years.

Deposits

Our lending and investing activities are primarily funded by deposits. We offer a variety of deposit accounts having a wide range of interest rates and terms including demand, savings, money market and certificates and other time accounts. We rely primarily on convenient locations, personalized service and our customer relationships to attract and retain these deposits. We seek customers that will both engage in a lending and deposit relationship with us.

Total deposits at June 30, 2018 were $2.31 billion, an increase of $99.8 million, or 4.5%, compared with $2.21 billion at December 31, 2017. Noninterest-bearing deposits at June 30, 2018 were $749.8 million, an increase of $66.7 million, or 9.8%, compared with $683.1 million at December 31, 2017. Interest-bearing deposits at June 30, 2018 were $1.56 billion, an increase of $33.1 million, or 2.2%, compared with $1.53 billion at December 31, 2017.

Borrowings

We have an available line of credit with the Federal Home Loan Bank ("FHLB") of Dallas, which allows us to borrow on a collateralized basis. FHLB advances are used to manage liquidity as needed. The advances are secured by a blanket lien on certain loans. Maturing advances are replaced by drawing on available cash, making additional borrowings or through increased customer deposits. At June 30, 2018, we had a total borrowing capacity of $1.01 billion, of which $655.0 million was available and $356.0 million was outstanding. FHLB advances of $275.0 million were outstanding at June 30, 2018, at a weighted average interest rate of 2.02%. Letters of credit were $81.0 million at June 30, 2018 of which $7.0 million will expire in September 2018, $32.1 million will expire in October 2018, $13.1 million will expire in December 2018, $1.7 million will expire in January 2019, $3.1 million will expire in February 2019, $7.1 million will expire in July 2019, $15.0 million will expire in August 2019, $300 thousand will expire in December 2019 and $1.6 million will expire in January 2020.

Credit Agreement

In January 2015, we borrowed $18.0 million under our credit agreement with another financial institution, which was in addition to the $10.1 million of indebtedness incurred under the same credit agreement in 2014. We used the funds borrowed in 2015 to repay debt that F&M Bancshares owed and used the funds borrowed in 2014 to pay off a previous borrowing with another financial institution that had been entered into during 2013 in conjunction with the acquisition of Independence Bank. In October 2015, we paid down $27.5 million of the credit agreement with a portion of the proceeds from the initial public offering of Allegiance common stock. The interest rate on the outstanding debt under the revolving credit agreement is the Prime rate minus 25 basis points, or 5.00%, at June 30, 2018, and is paid quarterly. As of June 30, 2018 and December 31, 2017, we had $569 thousand of indebtedness owed under the credit agreement. Our revolving credit agreement matures in December 2021 and is secured by 100% of the capital stock of the Bank.

The maximum commitment to advance funds under our credit agreement was originally $30.0 million, which has been and will continue to be reduced by $4.285 million on each December 22nd, beginning on December 22, 2015. We are required to repay any outstanding balance in excess of the then-current maximum commitment amount. After giving effect to the annual reductions, the unused borrowing capacity of the revolving credit agreement was $17.1 million at June 30, 2018.

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Our credit agreement contains certain restrictive covenants, including limitations on our ability to incur additional indebtedness or engage in certain fundamental corporate transactions, such as mergers, reorganizations and recapitalizations. Additionally, the Bank is required to maintain a “well-capitalized” rating, a minimum return on assets of 0.65%, measured quarterly, a ratio of loan loss reserve to nonperforming loans equal to or greater than 75%, measured quarterly, and a ratio of nonperforming assets to aggregate equity plus loan loss reserves minus intangible assets of less than 35%, measured quarterly. At June 30, 2018, we believe we are in compliance with our debt covenants and have not been made aware of any noncompliance by the lender.

Junior Subordinated Debentures

In connection with the F&M Bancshares acquisition, we assumed junior subordinated debentures with an aggregate original principal amount of $11.3 million and a current fair value at June 30, 2018 of $9.3 million. At acquisition, we recorded a discount of $2.5 million on the debentures. The difference between the carrying value and contractual balance will be recognized as a yield adjustment over the remaining term for the debentures.

Subordinated Notes

In December 2017, the Bank completed the issuance, through a private placement, of $40.0 million aggregate principal amount of Fixed-to-Floating Rate Subordinated Notes (the "Notes") due December 15, 2027. The Notes were issued at a price equal to 100% of the principal amount, resulting in net proceeds to the Bank of $39.4 million. The Bank intends to use the net proceeds from the offering to support its growth and for general corporate purposes. The Notes are intended to qualify as tier 2 capital for bank regulatory purposes.

The Notes bear a fixed interest rate of 5.25% per annum until (but excluding) December 15, 2022, payable semi-annually in arrears. From December 15, 2022, the Notes will bear a floating rate of interest equal to 3-Month LIBOR + 3.03% until the Notes mature on December 15, 2027, or such earlier redemption date, payable quarterly in arrears. The Notes will be redeemable by the Bank, in whole or in part, on or after December 15, 2022 or, in whole but not in part, upon the occurrence of certain specified tax events, capital events or investment company events. Any redemption will be at a redemption price equal to 100% of the principal amount of Notes being redeemed, plus accrued and unpaid interest, and will be subject to, and require, prior regulatory approval. The Notes are not subject to redemption at the option of the holders.

Contractual Obligations

The following tables summarize our contractual obligations and other commitments to make future payments as of June 30, 2018 and December 31, 2017 (other than deposit obligations), which consist of our future cash payments associated with our contractual obligations pursuant to our non-cancelable operating leases and our indebtedness owed to another financial institution. Payments related to leases are based on actual payments specified in underlying contracts.

	As of June 30, 2018				
	1 year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
	(Dollars in thousands)				
Bank loan	$—	$ —	$ 569	$—	$569
Operating leases	1,300	1,700	2,201	5,489	10,690
Total	$1,300	$ 1,700	$ 2,770	$5,489	$11,259

	As of December 31, 2017				
	1 year or less	More than 1 year but less than 3 years	3 years or more but less than 5 years	5 years or more	Total
	(Dollars in thousands)				
Bank loan	$—	$ —	$ —	$569	$569
Operating leases	1,806	1,030	1,950	4,673	9,459
Total	$1,806	$ 1,030	$ 1,950	$5,242	$10,028

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Off-Balance Sheet Items

In the normal course of business, we enter into various transactions, which, in accordance with accounting principles generally accepted in the United States, are not included in our consolidated balance sheets. We enter into these transactions to meet the financing needs of our customers. These transactions include commitments to extend credit and standby and commercial letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in our consolidated balance sheets.

Commitments to Extend Credit. We enter into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Substantially all of our commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of loan funding. We minimize our exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures. The amount and type of collateral obtained, if considered necessary by us, upon extension of credit, is based on management’s credit evaluation of the customer. Management assesses the credit risk associated with certain commitments to extend credit in determining the level of the allowance for loan losses.

Standby Letters of Credit. Standby letters of credit are conditional commitments issued by us to guarantee the performance of a customer to a third party. If the customer does not perform in accordance with the terms of the agreement with the third party, we would be required to fund the commitment and we would have the rights to the underlying collateral. The maximum potential amount of future payments we could be required to make is represented by the contractual amount of the commitment. Our policies generally require that standby letter of credit arrangements contain security and debt covenants similar to those contained in loan agreements.

As of June 30, 2018 and December 31, 2017, we had outstanding $695.8 million and $620.0 million, respectively, in commitments to extend credit and $14.3 million and $17.2 million, respectively, in commitments associated with outstanding letters of credit. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the total outstanding may not necessarily reflect the actual future cash funding requirements.

Liquidity and Capital Resources

Liquidity

Liquidity is the measure of our ability to meet the cash flow requirements of depositors and borrowers, while at the same time meeting our operating, capital, strategic cash flow needs and to maintain reserve requirements to operate on an ongoing basis and manage unexpected events, all at a reasonable cost. During the six months ended June 30, 2018 and the year ended December 31, 2017, our liquidity needs have been primarily met by core deposits, borrowings, security and loan maturities and amortizing investment and loan portfolios. The Bank has access to purchased funds from correspondent banks and advances from the FHLB are available under a security and pledge agreement to take advantage of investment opportunities.

Our largest source of funds is deposits, and our largest use of funds is loans. Our average loans increased $300.9 million, or 15.2%, for the six months ended June 30, 2018 compared with the six months ended June 30, 2017. We predominantly invest excess deposits in Federal Reserve Bank of Dallas balances, securities, interest-bearing deposits at other banks or other short-term liquid investments until the funds are needed to fund loan growth. Our securities portfolio had a weighted average life of 6.6 years and modified duration of 5.5 years at June 30, 2018, and a weighted average life of 6.5 years and modified duration of 5.5 years at December 31, 2017.

As of June 30, 2018 and December 31, 2017, we had no exposure to future cash requirements associated with known uncertainties or capital expenditures of a material nature.

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Capital Resources

Capital management consists of providing equity to support our current and future operations. We are subject to capital adequacy requirements imposed by the Federal Reserve, and the Bank is subject to capital adequacy requirements imposed by the FDIC. Both the Federal Reserve and the FDIC have adopted risk-based capital requirements for assessing bank holding company and bank capital adequacy. These standards define capital and establish minimum capital requirements in relation to assets and off-balance sheet exposure, adjusted for credit risk. The risk-based capital standards currently in effect are designed to make regulatory capital requirements more sensitive to differences in risk profiles among bank holding companies and banks, to account for off-balance sheet exposure and to minimize disincentives for holding liquid assets. Assets and off-balance sheet items are assigned to broad risk categories, each with appropriate relative risk weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items.

Under current guidelines, the minimum ratio of total capital to risk-weighted assets (which are primarily the credit risk equivalents of balance sheet assets and certain off-balance sheet items such as standby letters of credit) is 8.0%. At least half of total capital must be composed of tier 1 capital, which includes common shareholders’ equity (including retained earnings), less goodwill, other disallowed intangible assets, and disallowed deferred tax assets, among other items. The Federal Reserve also has adopted a minimum leverage ratio, requiring tier 1 capital of at least 4.0% of average quarterly total consolidated assets, net of goodwill and certain other intangible assets, for all but the most highly rated bank holding companies. The federal banking agencies have also established risk-based and leverage capital guidelines that FDIC-insured depository institutions are required to meet. These regulations are generally similar to those established by the Federal Reserve for bank holding companies.

Under the Federal Deposit Insurance Act, the federal bank regulatory agencies must take “prompt corrective action” against undercapitalized U.S. depository institutions. U.S. depository institutions are assigned one of five capital categories: “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” and “critically undercapitalized,” and are subjected to different regulation corresponding to the capital category within which the institution falls. A depository institution is deemed to be “well capitalized” if the banking institution has a total risk-based capital ratio of 10.0% or greater, a tier 1 risk-based capital ratio of 8.0% or greater, a common equity tier 1 capital ratio of 6.5% and a leverage ratio of 5.0% or greater, and the institution is not subject to an order, written agreement, capital directive or prompt corrective action directive to meet and maintain a specific level for any capital measure. Under certain circumstances, a well-capitalized, adequately capitalized or undercapitalized institution may be treated as if the institution were in the next lower capital category. In addition, the final rules implementing Basel Committee on Banking Supervision's capital guideline for U.S. Banks (Basel III Rules) became effective for us on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Starting in January 2016, the implementation of the capital conservation buffer was effective for us starting at the 0.625% level and increasing 0.625% each year thereafter, until it reaches 2.5% on January 1, 2019.

Failure to meet capital guidelines could subject the institution to a variety of enforcement remedies by federal bank regulatory agencies, including: termination of deposit insurance by the FDIC, restrictions on certain business activities, and appointment of the FDIC as conservator or receiver. As of June 30, 2018 and December 31, 2017, the Bank was well capitalized.

Total shareholder’s equity was $319.9 million at June 30, 2018, compared with $306.9 million at December 31, 2017, an increase of $13.0 million, or 4.2%. This increase was primarily the result of net income of $15.3 million for the six months ended June 30, 2018.

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The following table provides a comparison our leverage and risk-weighted capital ratios as of the dates indicated to the minimum and well-capitalized regulatory standards, as well as with the capital conservation buffer:

	Actual Ratio	Minimum Required For Capital Adequacy Purposes	Minimum Required Plus Capital Conservation Buffer	To Be Categorized As Well Capitalized Under Prompt Corrective Action Provisions
The Company				
As of June 30, 2018				
Total capital (to risk weighted assets)	13.41%	8.00%	9.875%	N/A
Common equity Tier 1 capital (to risk weighted assets)	10.59%	4.50%	6.375%	N/A
Tier 1 capital (to risk weighted assets)	10.96%	6.00%	7.875%	N/A
Tier 1 capital (to average assets)	9.78%	4.00%	4.000%	N/A
As of December 31, 2017				
Total capital (to risk weighted assets)	13.43%	8.00%	9.250%	N/A
Common equity Tier 1 capital (to risk weighted assets)	10.54%	4.50%	5.750%	N/A
Tier 1 capital (to risk weighted assets)	10.92%	6.00%	7.250%	N/A
Tier 1 capital (to average assets)	9.84%	4.00%	4.000%	N/A
The Bank				
As of June 30, 2018				
Total capital (to risk weighted assets)	13.48%	8.00%	9.875%	10.00%
Common equity Tier 1 capital (to risk weighted assets)	11.03%	4.50%	6.375%	6.50%
Tier 1 capital (to risk weighted assets)	11.03%	6.00%	7.875%	8.00%
Tier 1 capital (to average assets)	9.84%	4.00%	4.000%	5.00%
As of December 31, 2017				
Total capital (to risk weighted assets)	13.24%	8.00%	9.250%	10.00%
Common equity Tier 1 capital (to risk weighted assets)	10.72%	4.50%	5.750%	6.50%
Tier 1 capital (to risk weighted assets)	10.72%	6.00%	7.250%	8.00%
Tier 1 capital (to average assets)	9.67%	4.00%	4.000%	5.00%

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Asset/Liability Management and Interest Rate Risk

Our asset liability and interest rate risk policy provides management with the guidelines for effective balance sheet management. We have established a measurement system for monitoring our net interest rate sensitivity position. It is our objective to manage our sensitivity position within our established guidelines.

As a financial institution, a component of the market risk that we face is interest rate volatility. Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on most of our assets and liabilities, and the market value of all interest-earning assets and interest-bearing liabilities, other than those which have a short term to maturity. Interest rate risk is the potential for economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a loss of current fair market values. The objective is to measure the effect on net interest income and to adjust the balance sheet to minimize the inherent risk while at the same time maximizing income.

We have not entered into instruments such as leveraged derivatives, interest rate swaps, financial options, financial future contracts or forward delivery contracts for the purpose of reducing interest rate risk. Based upon the nature of our operations, we are not subject to foreign exchange rate or commodity price risk. We do not own any trading assets. We manage our exposure to interest rates by structuring our balance sheet in the ordinary course of a community banking business.

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Our exposure to interest rate risk is managed by our Asset Liability Committee (“ALCO”), which is composed of certain members of our board of directors and Bank management, in accordance with policies approved by our Board of Directors. The ALCO formulates strategies based on appropriate levels of interest rate risk. In determining the appropriate level of interest rate risk, the ALCO considers the impact on earnings and capital of the current outlook on interest rates, potential changes in interest rates, regional economies, liquidity, business strategies and other factors. The ALCO meets regularly to review, among other things, the sensitivity of assets and liabilities to interest rate changes, the book and market values of assets and liabilities, unrealized gains and losses, purchase and sale activities, commitments to originate loans and the maturities of investments and borrowings. Additionally, the ALCO reviews liquidity, cash flow flexibility, maturities of deposits, and consumer and commercial deposit activity.

We use an interest rate risk simulation model and shock analysis to test the interest rate sensitivity of net interest income and the balance sheet, respectively. All instruments on the balance sheet are modeled at the instrument level, incorporating all relevant attributes such as next reset date, reset frequency, and call dates, as well as prepayment assumptions for loans and securities, and decay rates for nonmaturity deposits. Assumptions based on past experience are incorporated into the model for nonmaturity deposit account decay rates. The assumptions used are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model’s simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and the application and timing of various management strategies.

We utilize static balance sheet rate shocks to estimate the potential impact on net interest income of changes in interest rates under various rate scenarios. This analysis estimates a percentage of change in the metric from the stable rate base scenario versus alternative scenarios of rising and falling market interest rates by instantaneously shocking a static balance sheet.

The following table summarizes the simulated change in net interest income and the economic value of equity over a 12-month horizon as of the dates indicated:

Change in Interest	Percent Change in Net Interest Income		Percent Change in Economic Value of Equity	
Rates (Basis Points)	As of June 30, 2018	As of December 31, 2017	As of June 30, 2018	As of December 31, 2017
+300	(5.1)%	(6.2)%	(2.6)%	(9.0)%
+200	(3.2)%	(4.1)%	(1.2)%	(5.4)%
+100	(1.6)%	(2.2)%	(0.2)%	(2.3)%
Base	0.0%	0.0%	0.0%	0.0%
-100	(1.1)%	(1.9)%	(2.3)%	(1.9)%

These results are primarily due to the duration of our loan and securities portfolio and the expected behavior of demand, money market and savings deposits during such rate fluctuations.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. As of the end of the period covered by this Quarterly Report on Form 10-Q, the Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures. In designing and evaluating the disclosure controls and procedures, management recognizes that controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply judgment in evaluating its controls and procedures. Based on this evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) were effective as of the end of the period covered by this report. See Exhibits 31.1 and 31.2 for the Certification statements issued by the Company’s Chief Executive Officer and Chief Financial Officer, respectively.

Changes in internal control over financial reporting. There were no changes in the Company’s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to

materially affect, the Company’s internal control over financial reporting.
PART II—OTHER INFORMATION

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ITEM 1. LEGAL PROCEEDINGS

From time to time, we are subject to claims and litigation arising in the ordinary course of business. In the opinion of management, we are not party to any legal proceedings the resolution of which we believe would have a material adverse effect on our business, prospects, financial condition, liquidity, results of operation, cash flows or capital levels. However, one or more unfavorable outcomes in any claim or litigation against us could have a material adverse effect for the period in which such claim or litigation is resolved. In addition, regardless of their merits or their ultimate outcomes, such matters are costly, divert management's attention and may materially adversely affect our reputation, even if resolved in our favor. We intend to defend ourselves vigorously against any future claims or litigation.

ITEM 1A. RISK FACTORS

In evaluating an investment in any of the Company's securities, investors should consider carefully, among other things, information under the heading "Cautionary Notice Regarding Forward-Looking Statements" in this Form 10-Q, the risk factors previously disclosed under the heading "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, and such other risk factors as the Company may disclose or has disclosed in other reports and statements filed with the Securities and Exchange Commission. As of June 30, 2018, there were no material changes to the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. Below are additional risk factors related to the recent announcement of our proposed acquisition of Post Oak Bancshares, Inc. and the proposed amendment to our amended and restated certificate of formation.

Risks Related to the Merger

Allegiance will incur significant transaction and integration costs in connection with the merger.

Allegiance expects to incur significant costs associated with completing the merger and integrating Post Oak's operations into Allegiance's operations and is continuing to assess the impact of these costs. Although Allegiance believes that the elimination of duplicate costs, as well as the realization of other efficiencies related to the integration of Post Oak's business with Allegiance's business, will offset incremental transaction and integration costs over time, this net benefit may not be achieved in the near term, or at all.

Combining the two companies may be more difficult, costly or time consuming than expected, and the anticipated benefits and cost savings of the merger may not be realized.

Allegiance and Post Oak have operated and, until the completion of the merger, will continue to operate, separately. The success of the merger, including anticipated benefits and cost savings, will depend, in part, on Allegiance's ability to successfully combine and integrate the businesses of Allegiance and Post Oak in a manner that permits growth opportunities and does not materially disrupt existing customer relations nor result in decreased revenues due to loss of customers. It is possible that the integration process could result in the loss of key employees, the disruption of either company's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the combined company's ability to maintain relationships with clients, customers, depositors, employees and other constituents or to achieve the anticipated benefits and cost savings of the merger. The loss of key employees could adversely affect Allegiance's ability to successfully conduct its business, which could have an adverse effect on Allegiance's financial results and the value of its common stock. If Allegiance experiences difficulties with the integration process, the anticipated benefits of the merger may not be realized fully or at all, or may take longer to realize than expected. As with any merger of financial institutions, there also may be business disruptions that cause Allegiance and/or Post Oak to lose customers or cause customers to remove their accounts from Allegiance and/or Post Oak and move their business to competing financial institutions. Integration efforts between the two companies will also divert management attention and resources. These integration matters could have an adverse effect on each of Post Oak and Allegiance during this transition period and on the combined company for an undetermined period after completion of the merger. In addition, the actual cost savings of the merger could be less than anticipated.

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Risk Related to the Allegiance Charter Amendment Proposal

If the proposed amendment to Allegiance's Amended and Restated Certificate of Formation is approved, Allegiance will be able to issue additional shares of its common stock in the future, which may adversely affect the market price of Allegiance common stock and dilute the holdings of existing shareholders.

The proposed amendment to Allegiance's Amended and Restated Certificate of Formation, if approved by Allegiance shareholders, will increase the number of authorized shares of Allegiance's common stock by 40,000,000 shares. In the future, Allegiance may issue additional shares of Allegiance common stock in connection with another acquisition, to increase its capital resources or to raise additional capital if Allegiance's or Allegiance Bank's capital ratios fall below or near the regulatory required minimums. Significant issuances of common stock may dilute the holdings of Allegiance's existing shareholders or reduce the market price of Allegiance common stock, or both. Holders of Allegiance common stock are not entitled to preemptive rights or other protections against dilution.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) None.

(b) None.

(c) None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

Exhibit Number	Description
2.1	Agreement and Plan of Reorganization by and between Allegiance Bancshares, Inc. and Post Oak Bancshares, Inc. dated April 30, 2018 (incorporated herein by reference to Exhibit 2.1 to the Company's Form 8-K filed on May 1, 2018)
3.1	Amended and Restated Certificate of Formation of Allegiance Bancshares, Inc. (incorporated herein by reference to Exhibit 3.1 to the Company’s Registration Statement on Form S-1 (Registration No. 333-206536) (the “Registration Statement”))
3.2	Amended and Restated Bylaws of Allegiance Bancshares, Inc. (incorporated herein by reference to Exhibit 3.2 to the Registration Statement)
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registration Statement)
10.1	Employment Agreement of Roland L. Williams (incorporated herein by reference to Exhibit 10.9 to the Company's Registration Statement on Form S-4 (Registration No. 333-225845))
31.1*	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended
31.2*	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended
32.1**	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document
101. SCH*	XBRL Taxonomy Extension Schema Document Exhibit
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed with this Quarterly Report on Form 10-Q.

** Furnished with this Quarterly Report on Form 10-Q.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Allegiance Bancshares, Inc.
(Registrant)

Date: August 3, 2018 /s/ George Martinez
George Martinez
Chairman and Chief Executive Officer

Date: August 3, 2018 /s/ Paul P. Egge
Paul P. Egge
Chief Financial Officer

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