Section 1: 10-Q (10-Q)

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 March 31, 2019

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit 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	☐	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 May 3, 2019, the registrant had 21,341,494 shares common stock, $1.00 par value per share, outstanding.

Title of each class	Trading Symbol(s)	Name of each exchange on which registered

Common Stock, par value, $1.00 per share	ABTX	NASDAQ Global Market

ALLEGIANCE BANCSHARES, INC.
INDEX TO FORM 10-Q
March 31, 2019

PART I—FINANCIAL INFORMATION

ITEM 1. INTERIM CONSOLIDATED FINANCIAL STATEMENTS

ALLEGIANCE BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2019	December 31, 2018
	(Dollars in thousands, except share data)	
ASSETS		
Cash and due from banks	$ 169,975	$ 118,771
Interest-bearing deposits at other financial institutions	88,868	150,176
Total cash and cash equivalents	258,843	268,947
Available for sale securities, at fair value	345,716	337,293
Loans held for investment	3,806,161	3,708,306
Less: allowance for loan losses	(27,123)	(26,331)
Loans, net	3,779,038	3,681,975
Accrued interest receivable	16,194	17,010
Premises and equipment, net	60,327	41,717
Other real estate owned	1,152	630
Federal Home Loan Bank stock	14,365	10,941
Bank owned life insurance	26,639	26,480
Goodwill	223,642	223,125
Core deposit intangibles, net	25,409	26,587
Other assets	17,477	20,544
TOTAL ASSETS	$ 4,768,802	$ 4,655,249
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Noninterest-bearing	$ 1,181,920	$ 1,209,300
Interest-bearing		
Demand	328,961	366,905
Money market and savings	901,773	879,840
Certificates and other time	1,367,407	1,206,491
Total interest-bearing deposits	2,598,141	2,453,236
Total deposits	3,780,061	3,662,536
Accrued interest payable	4,511	2,812
Borrowed funds	201,995	225,493
Subordinated debt	48,959	48,899
Other liabilities	29,499	12,525
Total liabilities	4,065,025	3,952,265
COMMITMENTS AND CONTINGENCIES (See Note 13)		
SHAREHOLDERS' EQUITY:		
Preferred stock, $1 par value; 1,000,000 shares authorized; no shares issued or outstanding	—	—
Common stock, $1 par value; 80,000,000 shares authorized; 21,483,972 shares issued and outstanding at March 31, 2019 and 21,937,740 shares issued and outstanding at December 31, 2018	21,484	21,938
Capital surplus	556,184	571,803
Retained earnings	123,094	112,131
Accumulated other comprehensive income (loss)	3,015	(2,888)
Total shareholders' equity	703,777	702,984
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 4,768,802	$ 4,655,249

See condensed notes to interim consolidated financial statements.

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

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
	(Dollars in thousands, except per share data)	
INTEREST INCOME:		
Loans, including fees	$ 54,189	$ 30,117
Securities:		
Taxable	982	599
Tax-exempt	1,290	1,459
Deposits in other financial institutions	688	216
Total interest income	57,149	32,391
INTEREST EXPENSE:		
Demand, money market and savings deposits	3,728	976
Certificates and other time deposits	6,256	2,785
Borrowed funds	1,827	1,036
Subordinated debt	735	705
Total interest expense	12,546	5,502
NET INTEREST INCOME	44,603	26,889
Provision for loan losses	1,002	653
Net interest income after provision for loan losses	43,601	26,236
NONINTEREST INCOME:		
Nonsufficient funds fees	162	176
Service charges on deposit accounts	325	223
Gain on sale of other real estate	1	—
Bank owned life insurance income	159	141
Rebate from correspondent bank	896	444
Other	1,746	662
Total noninterest income	3,289	1,646
NONINTEREST EXPENSE:		
Salaries and employee benefits	19,684	12,794
Net occupancy and equipment	2,078	1,272
Depreciation	753	407
Data processing and software amortization	1,597	1,053
Professional fees	599	469
Regulatory assessments and FDIC insurance	728	534
Core deposit intangibles amortization	1,178	195
Communications	430	248
Advertising	704	330
Acquisition and merger-related expenses	1,173	—
Other	2,191	1,415
Total noninterest expense	31,115	18,717
INCOME BEFORE INCOME TAXES	15,775	9,165
Provision for income taxes	3,097	1,454
NET INCOME	$ 12,678	$ 7,711
EARNINGS PER SHARE:		
Basic	$ 0.58	$ 0.58
Diluted	$ 0.58	$ 0.57

See condensed notes to interim consolidated financial statements.

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

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
	(Dollars in thousands)	
Net income	$ 12,678	$ 7,711
Other comprehensive income (loss), before tax:		
Unrealized gain (loss) on securities:		
Change in unrealized holding gain (loss) on available for sale securities during the period	7,462	(5,082)
Total other comprehensive income (loss)	7,462	(5,082)
Deferred tax (expense) benefit related to other comprehensive income	(1,559)	1,139
Other comprehensive income (loss), net of tax	5,903	(3,943)
Comprehensive income	$ 18,581	$ 3,768

See condensed notes to interim consolidated financial statements.

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

	Common Stock		Capital	Retained	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Surplus	Earnings	Income (Loss)	Equity
			(in thousands, except share data)			
BALANCE AT JANUARY 1, 2018	13,226,826	$ 13,227	$ 218,408	$ 74,894	$ 336	$ 306,864
Net income				7,711		7,711
Other comprehensive loss					(3,943)	(3,943)
Reclassification of amounts within AOCI to retained earnings due to tax reform				(72)		(72)
Common stock issued in connection with the exercise of stock options and restricted stock awards	75,636	75	914			989
Stock based compensation expense			438			438
BALANCE AT MARCH 31, 2018	13,302,462	$ 13,302	$ 219,760	$ 82,533	$ (3,607)	$ 311,988
BALANCE AT JANUARY 1, 2019	21,937,740	$ 21,938	$ 571,803	$ 112,131	$ (2,888)	702,984
Cumulative effect of change in accounting principle related to ASU 2017-08				(1,715)		(1,715)
Total shareholders' equity at beginning of period, as adjusted (See Note 1)	21,937,740	21,938	571,803	110,416	(2,888)	701,269
Net income				12,678		12,678
Other comprehensive income					5,903	5,903
Common stock issued in connection with the exercise of stock options and restricted stock awards	32,647	32	632			664
Repurchase of common stock	(486,415)	(486)	(16,858)			(17,344)
Stock based compensation expense			607			607
BALANCE AT MARCH 31, 2019	21,483,972	$ 21,484	$ 556,184	$ 123,094	$ 3,015	$ 703,777

See condensed notes to interim consolidated financial statements.

Table of Contents

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

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
	(Dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 12,678	$ 7,711
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and core deposit intangibles amortization	1,931	602
Provision for loan losses	1,002	653
Net amortization of premium on investments	934	832
Excess tax benefit related to the exercise of stock options	(420)	(224)
Bank owned life insurance	(159)	(141)
Net accretion of discount on loans	(2,678)	(60)
Net accretion of discount on subordinated debt	28	27
Net accretion of discount on certificates of deposit	(287)	(3)
Net gain on the sale or write down of premises, equipment and other real estate	(1)	—
Federal Home Loan Bank stock dividends	(58)	(67)
Stock based compensation expense	607	438
Net change in lease right-of-use assets	11	—
Decrease in accrued interest receivable and other assets	2,177	1,116
Increase in accrued interest payable and other liabilities	3,860	499
Net cash provided by operating activities	19,625	11,383
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities and principal paydowns of available for sale securities	554,829	501,653
Purchase of available for sale securities	(558,438)	(505,363)
Net change in total loans	(51,357)	(19,232)
Purchase of bank premises and equipment	(415)	(1,076)
Net purchases of Federal Home Loan Bank stock	(3,366)	(1,199)
Net cash paid for the LoweryBank branch acquisition	(32,867)	—
Net cash used in investing activities	(91,614)	(25,217)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (decrease) increase in noninterest-bearing deposits	(41,260)	11,770
Net increase in interest-bearing deposits	143,323	59,061
Paydowns on borrowed funds	(23,498)	(50,000)
Proceeds from the issuance of common stock, stock option exercises, restricted stock awards and the ESPP	664	988
Repurchase of treasury stock	(17,344)	—
Net cash provided by financing activities	61,885	21,819
NET CHANGE IN CASH AND CASH EQUIVALENTS	(10,104)	7,985
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	268,947	182,103
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 258,843	$ 190,088
SUPPLEMENTAL CASH FLOW INFORMATION:		
Income taxes paid	$ —	$ 1,900
Interest paid	10,847	4,900
Operating lease cash flows	931	—
SUPPLEMENTAL NONCASH DISCLOSURE:		
Lease right-of-use asset and liability	$ 15,266	—
Loans transferred to other real estate	522	—

See condensed notes to interim consolidated financial statements.

ALLEGIANCE BANCSHARES, INC.
CONDENSED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019
(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 individual customers. The Company operated 27 full-service banking locations, with 26 bank offices and one loan production office in the Houston metropolitan area and one bank office location in Beaumont, just outside of the Houston metropolitan area as of March 31, 2019. 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, 2018. Operating results for the three months ended March 31, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019.

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, 2018.

New Accounting Standards

Adoption of New Accounting Standards

ASU 2016-02, "Leases (Topic 842)." ASU 2016-02 requires 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 became effective for the Company on January 1, 2019. The Company adopted the standard through the required modified retrospective approach by applying the allowed transition method whereby comparative periods were not restated and a cumulative effect adjustment to the opening balance of retained earnings was recognized as of January 1, 2019. Topic 842 requires the recognition of a lease liability measured as the present value of unpaid lease payments for operating leases where the Company is the lessee, and a corresponding right-of-use (ROU) asset for the right to use the leased properties. The Company elected not to reassess whether contracts are or contain leases, lease classification or initial direct costs for existing leases, a set of practical expedients for transition provided by ASU 2016-12. Further, the Company elected the practical expedient to use hindsight in determining the lease term and assessing impairment. The election of the hindsight practical expedient resulted in longer lease terms for a limited number of strategic locations based on relevant factors as of the adoption date. The Company implemented a lease management system to assist in centralizing, maintaining and accounting for all leases to ensure the Company meets the ASU's reporting and disclosure requirements. Prior comparable periods are presented in accordance with previous guidance under Accounting Standards Codification (ASC) 840, "Leases." As of January 1, 2019, right-of-use assets and related lease liabilities totaled $15.3 million and $15.7 million, respectively. See Note 6 – Leases for further information regarding the Company's leases on certain properties and equipment under operating leases.

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 became effective for the Company on January 1, 2019. Upon adoption, the Company recognized a cumulative effect reduction in retained earnings totaling $1.7 million.

Newly Issued But Not Yet Effective Accounting Standards

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 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.

2. ACQUISITIONS

Acquisitions are accounted for using the acquisition method of accounting. Accordingly, the assets and liabilities of an acquired entity are recorded at their fair value at the acquisition date. The excess of the purchase price over the estimated fair value of the net assets is recorded as goodwill. The results of operations for an acquisition have been included in the Company's consolidated financial results beginning on the respective acquisition date.

The measurement period for the Company to determine the fair values of acquired identifiable assets and assumed liabilities will end at the earlier of (1) twelve months from the date of the acquisition or (2) as soon as the Company receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. The following acquisitions were completed on the dates indicated below:

2018 Acquisition

Acquisition of Post Oak Bancshares, Inc.—On October 1, 2018, the Company completed the acquisition of Post Oak Bancshares, Inc. ("Post Oak") and its wholly-owned subsidiary Post Oak Bank, N.A. headquartered in Houston, Texas. Post Oak operated thirteen bank offices, twelve located throughout the greater Houston metropolitan area and one in Beaumont, just outside of the Houston metropolitan area. The Company acquired Post Oak to further expand its Houston, Texas area market. Goodwill resulted from a combination of expected operational synergies and an enhanced branching network. Goodwill is not expected to be deductible for tax purposes.

Pursuant to the merger agreement, the Company issued 8,402,010 shares of Company common stock for all outstanding shares of Post Oak common stock and paid $21 thousand in cash for any fractional shares held by Post Oak shareholders. Additionally, all outstanding Post Oak options were assumed by Allegiance and converted using the 0.7017 exchange ratio to 299,352 options at a weighted average exercise price of $12.83 per option. Based on the $41.70 per share closing price of Allegiance common stock on September 28, 2018, the total transaction value was approximately $359.0 million. The acquisition was accounted for under the acquisition method of accounting in accordance with ASC Topic 805, Business Combinations. The Company recognized goodwill of $183.7 million which is calculated as the excess of both the consideration exchanged and liabilities assumed as compared to the fair value of identifiable assets acquired, none of which is expected to be deductible for tax purposes. The intangible assets recognized in the transaction will be amortized utilizing an accelerated method over their ten year estimated useful lives.

As of October 1, 2018, the Company recorded a preliminary valuation of all assets and liabilities acquired. The initial accounting for the acquisition has not been completed because the fair values of the assets acquired and liabilities assumed have not yet been finalized. A summary of the purchase price allocation is as follows (in thousands):

Fair value of consideration paid:		
Common shares issued (8,402,010 shares)	$	350,364
Stock options issued (299,352)		8,639
Cash in lieu of fractional shares		21
Total consideration paid	$	359,024
Fair value of assets acquired:		
Cash and cash equivalents	$	230,416
Investment securities		42,779
Loans		1,164,279
Premises and equipment		21,988
Core deposit intangibles		25,128
Other assets		18,078
Total assets acquired	$	1,502,668
Fair value of liabilities assumed:		
Deposits	$	1,291,310
Other borrowed funds		30,000
Other liabilities		6,070
Total liabilities assumed		1,327,380
Fair value of net assets acquired	$	175,288
Goodwill resulting from acquisition	$	183,736

ALLEGIANCE BANCSHARES, INC.
CONDENSED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019
(Unaudited)

The fair value of net assets acquired includes fair value adjustments to certain acquired loans that were not considered impaired as of the acquisition date. The fair value adjustments were determined using discounted contractual cash flows. The following presents details of all loans acquired as of October 1, 2018:

	Contractual Balance	Fair Value	Discount
	(Dollars in thousands)		
Commercial and industrial	$ 221,098	$ 217,204	$ (3,894)
Real estate:			
Commercial real estate (including multi-family residential)	450,947	443,512	(7,435)
Commercial real estate construction and land development	167,386	165,387	(1,999)
1-4 family residential (including home equity)	288,304	285,099	(3,205)
Residential construction	23,812	23,812	—
Consumer and other	29,684	29,267	(417)
Total loans	$ 1,181,231	$ 1,164,281	$ (16,950)

In connection with the Post Oak acquisition, the Company acquired loans both with and without evidence of credit quality deterioration since origination. The acquired loans were initially recorded at fair value with no carryover of any allowance for loan losses. Acquired loans were segregated between those considered to be purchased credit impaired ("PCI") loans and those without credit impairment at acquisition.

The Company incurred approximately $1.2 million of pre-tax acquisition and merger-related expenses reflected on the Company's income statement during the three months ended March 31, 2019 related to the Post Oak acquisition. The measurement period for the Post Oak acquisition remains open at March 31, 2019.

2019 Acquisition

Acquisition of LoweryBank Branch—On February 1, 2019, the Bank completed the previously announced acquisition of LoweryBank, the Sugar Land location of Huntington State Bank. The Bank paid $32.9 million in cash to acquire certain assets which included approximately $45.0 million in loans and assumed approximately $16.0 million in customer deposits. The Bank consolidated its existing Sugar Land bank office into this new bank office location, which was less than one mile away. The acquisition of LoweryBank was accounted for under the acquisition method of accounting in accordance with ASC Topic 805, Business Combinations. The Company recognized goodwill of $578 thousand which is calculated as the excess of both the consideration exchanged and liabilities assumed as compared to the fair value of identifiable assets acquired, which is expected to be deductible for tax purposes. Income and expense generated from acquired assets and liabilities assumed would not have a material impact, therefore, proforma numbers are not presented. The initial accounting for the acquisition has not been completed because the fair values of the assets acquired and liabilities assumed have not yet been finalized.

ALLEGIANCE BANCSHARES, INC.
CONDENSED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019
(Unaudited)

3. 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, 2018	$ 39,389	$ 3,274
Acquisition of Post Oak Bancshares, Inc.	183,736	25,128
Amortization	—	(1,815)
Balance as of December 31, 2018	$ 223,125	$ 26,587
Acquisition of LoweryBank branch	578	—
Measurement period adjustment	(61)	—
Amortization	—	(1,178)
Balance as of March 31, 2019	$ 223,642	$ 25,409

Goodwill is recorded on the acquisition date of an entity. During the measurement period, the Company may record subsequent adjustments to goodwill for provisional amounts recorded at the acquisition date. There was a $61 thousand measurement period adjustment recorded during the first quarter 2019 related to the Post Oak Bank acquisition.

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 March 31, 2019, 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 March 31, 2019 is as follows (dollars in thousands):

Remaining 2019	$ 3,534
2020	3,922
2021	3,296
2022	3,003
2023	2,323
Thereafter	9,331
Total	$ 25,409

4. SECURITIES

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

	March 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available for Sale				
U.S. Government and agency securities	$ 7,404	$ 213	$ (23)	$ 7,594
Municipal securities	215,002	4,105	(384)	218,723
Agency mortgage-backed pass-through securities	73,525	629	(553)	73,601
Corporate bonds and other	45,958	64	(224)	45,798
Total	$ 341,889	$ 5,011	$ (1,184)	$ 345,716

ALLEGIANCE BANCSHARES, INC.
CONDENSED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019
(Unaudited)

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available for Sale				
U.S. Government and agency securities	$ 8,570	$ 161	$ (46)	$ 8,685
Municipal securities	219,068	1,258	(3,541)	216,785
Agency mortgage-backed pass-through securities	66,987	237	(1,029)	66,195
Corporate bonds and other	46,303	15	(690)	45,628
Total	$ 340,928	$ 1,671	$ (5,306)	$ 337,293

As of March 31, 2019, the Company's management did 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 March 31, 2019, management believed 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 March 31, 2019, 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	$ 17,764	$ 17,748
Due after one year through five years	75,987	76,074
Due after five years through ten years	85,974	87,962
Due after ten years	88,639	90,331
Subtotal	268,364	272,115
Agency mortgage-backed pass through securities	73,525	73,601
Total	$ 341,889	$ 345,716

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

	March 31, 2019					
	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	$ —	$ —	$ 1,319	$ (23)	$ 1,319	$ (23)
Municipal securities	898	(2)	58,846	(382)	59,744	(384)
Agency mortgage-backed pass-through securities	10,180	(25)	24,888	(528)	35,068	(553)
Corporate bonds and other	2,184	(6)	31,841	(218)	34,025	(224)
Total	$ 13,262	$ (33)	$ 116,894	$ (1,151)	$ 130,156	$ (1,184)

ALLEGIANCE BANCSHARES, INC.
CONDENSED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019
(Unaudited)

	December 31, 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	$ 999	$ —	$ 1,417	$ (46)	$ 2,416	$ (46)
Municipal securities	10,140	(29)	136,934	(3,512)	147,074	(3,541)
Agency mortgage-backed pass-through securities	17,168	(209)	22,819	(820)	39,987	(1,029)
Corporate bonds and other	13,634	(35)	29,014	(655)	42,648	(690)
Total	$ 41,941	$ (273)	$ 190,184	$ (5,033)	$ 232,125	$ (5,306)

There were no securities sold during the three months ended March 31, 2019 and 2018. At March 31, 2019 and 2018, 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 $27.2 million at March 31, 2019 and $28.9 million at December 31, 2018, respectively. The majority of the securities were pledged to collateralize public fund deposits.

5. 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:

	March 31, 2019	December 31, 2018
	(Dollars in thousands)	
Commercial and industrial	$ 699,471	$ 702,037
Mortgage warehouse	36,742	48,274
Real estate:		
Commercial real estate (including multi-family residential)	1,771,890	1,650,912
Commercial real estate construction and land development	396,162	430,128
1-4 family residential (including home equity)	658,261	649,311
Residential construction	201,314	186,411
Consumer and other	42,321	41,233
Total loans	3,806,161	3,708,306
Allowance for loan losses	(27,123)	(26,331)
Loans, net	$ 3,779,038	$ 3,681,975

ALLEGIANCE BANCSHARES, INC.
CONDENSED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019
(Unaudited)

Acquired Loans

PCI loans

The carrying amount of PCI loans included in the consolidated balance sheet and the related outstanding balance owed at March 31, 2019 are presented in the table below (dollars in thousands):

PCI loans:		
Outstanding balance at March 31, 2019	$	24,337
Less: Discount		(2,916)
Recorded investment at March 31, 2019	$	21,421

Changes in the accretable yield for PCI loans for the quarter ended March 31, 2019 were as follows (in thousands):

Balance at beginning of period	$	436
Measurement period adjustment		2,674
Reclassifications from nonaccretable		234
Accretion		(703)
Balance at March 31, 2019	$	2,641

Nonaccrual and Past Due Loans

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

	March 31, 2019					
	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	$ 4,625	$ —	$ 4,625	$ 11,221	$ 683,625	$ 699,471
Mortgage warehouse	—	—	—	—	36,742	36,742
Real estate:						
Commercial real estate (including multi-family residential)	10,818	—	10,818	17,531	1,743,541	1,771,890
Commercial real estate construction and land development	1,250	—	1,250	818	394,094	396,162
1-4 family residential (including home equity)	4,372	—	4,372	2,928	650,961	658,261
Residential construction	305	—	305	—	201,009	201,314
Consumer and other	55	—	55	172	42,094	42,321
Total loans	$ 21,425	$ —	$ 21,425	$ 32,670	$ 3,752,066	$ 3,806,161

ALLEGIANCE BANCSHARES, INC.
CONDENSED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019
(Unaudited)

	December 31, 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	$ 1,951	$ —	$ 1,951	$ 10,861	$ 689,225	$ 702,037
Mortgage warehouse	—	—	—	—	48,274	48,274
Real estate:						
Commercial real estate (including multi-family residential)	3,502	—	3,502	17,776	1,629,634	1,650,912
Commercial real estate construction and land development	1,300	—	1,300	974	427,854	430,128
1-4 family residential (including home equity)	3,643	—	3,643	3,201	642,467	649,311
Residential construction	—	—	—	—	186,411	186,411
Consumer and other	91	—	91	141	41,001	41,233
Total loans	$ 10,487	$ —	$ 10,487	$ 32,953	$ 3,664,866	$ 3,708,306

ALLEGIANCE BANCSHARES, INC.
CONDENSED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019
(Unaudited)

Impaired Loans

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

	As of March 31, 2019		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in thousands)		
With no related allowance recorded:			
Commercial and industrial	$ 5,520	$ 6,131	$ —
Mortgage warehouse	—	—	—
Real estate:			
Commercial real estate (including multi-family residential)	11,974	11,974	—
Commercial real estate construction and land development	671	671	—
1-4 family residential (including home equity)	1,231	1,231	—
Residential construction	—	—	—
Consumer and other	39	39	—
Total	19,435	20,046	—
With an allowance recorded:			
Commercial and industrial	8,287	8,682	3,558
Mortgage warehouse	—	—	—
Real estate:			
Commercial real estate (including multi-family residential)	10,338	10,338	2,390
Commercial real estate construction and land development	3,114	3,114	191
1-4 family residential (including home equity)	1,240	1,240	270
Residential construction	—	—	—
Consumer and other	—	—	—
Total	22,979	23,374	6,409
Total:			
Commercial and industrial	13,807	14,813	3,558
Mortgage warehouse	—	—	—
Real estate:			
Commercial real estate (including multi-family residential)	22,312	22,312	2,390
Commercial real estate construction and land development	3,785	3,785	191
1-4 family residential (including home equity)	2,471	2,471	270
Residential construction	—	—	—
Consumer and other	39	39	—
	$ 42,414	$ 43,420	$ 6,409

ALLEGIANCE BANCSHARES, INC.
CONDENSED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019
(Unaudited)

	As of December 31, 2018		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in thousands)		
With no related allowance recorded:			
Commercial and industrial	$ 4,354	$ 4,771	$ —
Mortgage warehouse	—	—	—
Real estate:			
Commercial real estate (including multi-family residential)	11,322	11,322	—
Commercial real estate construction and land development	1,326	1,326	—
1-4 family residential (including home equity)	2,742	2,741	—
Residential construction	—	—	—
Consumer and other	3	3	—
Total	19,747	20,163	—
With an allowance recorded:			
Commercial and industrial	9,150	9,545	3,898
Mortgage warehouse	—	—	—
Real estate:			
Commercial real estate (including multi-family residential)	11,542	11,542	2,641
Commercial real estate construction and land development	3,114	3,114	190
1-4 family residential (including home equity)	—	—	—
Residential construction	—	—	—
Consumer and other	—	—	—
Total	23,806	24,201	6,729
Total:			
Commercial and industrial	13,504	14,316	3,898
Mortgage warehouse	—	—	—
Real estate:			
Commercial real estate (including multi-family residential)	22,864	22,864	2,641
Commercial real estate construction and land development	4,440	4,440	190
1-4 family residential (including home equity)	2,742	2,741	—
Residential construction	—	—	—
Consumer and other	3	3	—
	$ 43,553	$ 44,364	$ 6,729

ALLEGIANCE BANCSHARES, INC.
CONDENSED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019
(Unaudited)

The following table presents average impaired loans and interest recognized on impaired loans for the three months ended March 31, 2019 and 2018:

	Three Months Ended March 31,			
	2019		2018	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
Commercial and industrial	$ 14,352	$ 92	$ 11,461	$ 94
Mortgage warehouse	—	—	—	—
Real estate:				
Commercial real estate (including multi-family residential)	22,499	95	18,967	141
Commercial real estate construction and land development	3,786	31	209	3
1-4 family residential (including home equity)	2,495	4	927	4
Residential construction	—	—	—	—
Consumer and other	40	—	—	—
Total	$ 43,172	$ 222	$ 31,564	$ 242

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.

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.

ALLEGIANCE BANCSHARES, INC.
CONDENSED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019
(Unaudited)

Based on the most recent analysis performed, the risk category of loans by class of loan at March 31, 2019 is as follows:

	Pass	Watch	Special Mention	Substandard	Doubtful	Total
			(Dollars in thousands)			
Commercial and industrial	$ 653,383	$ 8,716	$ 15,207	$ 22,165	$ —	$ 699,471
Mortgage warehouse	36,742	—	—	—	—	36,742
Real estate:						
Commercial real estate (including multi-family residential)	1,692,524	28,098	8,846	42,422	—	1,771,890
Commercial real estate construction and land development	390,494	895	1,760	3,013	—	396,162
1-4 family residential (including home equity)	637,410	3,832	5,481	11,538	—	658,261
Residential construction	195,013	2,662	3,639	—	—	201,314
Consumer and other	41,764	29	319	209	—	42,321
Total loans	$ 3,647,330	$ 44,232	$ 35,252	$ 79,347	$ —	$ 3,806,161

The following table presents the risk category of loans by class of loan at December 31, 2018:

	Pass	Watch	Special Mention	Substandard	Doubtful	Total
			(Dollars in thousands)			
Commercial and industrial	$ 656,783	$ 9,696	$ 13,874	$ 21,684	$ —	$ 702,037
Mortgage warehouse	48,274	—	—	—	—	48,274
Real estate:						
Commercial real estate (including multi-family residential)	1,570,243	29,702	7,101	43,866	—	1,650,912
Commercial real estate construction and land development	424,460	729	2,149	2,790	—	430,128
1-4 family residential (including home equity)	629,657	3,797	4,216	11,641	—	649,311
Residential construction	186,411	—	—	—	—	186,411
Consumer and other	40,673	31	301	228	—	41,233
Total loans	$ 3,556,501	$ 43,955	$ 27,641	$ 80,209	$ —	$ 3,708,306

Allowance for Loan Losses

The following table presents the activity in the allowance for loan losses by portfolio type for the three months ended March 31, 2019 and 2018:

	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 December 31, 2018	$ 8,351	$ —	$ 11,901	$ 2,724	$ 2,242	$ 1,040	$ 73	$ 26,331
Provision for loan losses	803	—	(85)	(435)	653	84	(18)	1,002
Charge-offs	(246)	—	(80)	—	—	—	—	(326)
Recoveries	91	—	3	—	—	—	22	116
Net charge-offs	(155)	—	(77)	—	—	—	22	(210)
Balance March 31, 2019	$ 8,999	$ —	$ 11,739	$ 2,289	$ 2,895	$ 1,124	$ 77	$ 27,123
Allowance for loan losses:								
Three Months Ended								
Balance December 31, 2017	$ 7,694	$ —	$ 10,253	$ 2,525	$ 2,140	$ 942	$ 95	$ 23,649
Provision for loan losses	1,440	—	(963)	20	160	4	(8)	653
Charge-offs	(367)	—	(40)	—	—	—	—	(407)
Recoveries	631	—	102	—	—	—	—	733
Net recoveries	264	—	62	—	—	—	—	326
Balance March 31, 2018	$ 9,398	$ —	$ 9,352	$ 2,545	$ 2,300	$ 946	$ 87	$ 24,628

The following table presents the balance of the allowance for loan losses by portfolio type based on the impairment method as of March 31, 2019 and December 31, 2018:

	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:								
March 31, 2019								
Individually evaluated for impairment	$ 3,558	$ —	$ 2,390	$ 191	$ 270	$ —	$ —	$ 6,409
Collectively evaluated for impairment	5,441	—	9,349	2,098	2,625	1,124	77	20,714
Total allowance for loan losses	$ 8,999	$ —	$ 11,739	$ 2,289	$ 2,895	$ 1,124	$ 77	$ 27,123
December 31, 2018								
Individually evaluated for impairment	$ 3,898	$ —	$ 2,641	$ 190	$ —	$ —	$ —	$ 6,729
Collectively evaluated for impairment	4,453	—	9,260	2,534	2,242	1,040	73	19,602
Total allowance for loan losses	$ 8,351	$ —	$ 11,901	$ 2,724	$ 2,242	$ 1,040	$ 73	$ 26,331

ALLEGIANCE BANCSHARES, INC.
CONDENSED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019
(Unaudited)

The following table presents the recorded investment in loans held for investment by portfolio type based on the impairment method as of March 31, 2019 and December 31, 2018:

	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:								
March 31, 2019								
Individually evaluated for impairment	$ 13,807	$ —	$ 22,312	$ 3,785	$ 2,471	$ —	$ 39	$ 42,414
Collectively evaluated for impairment	685,664	36,742	1,749,578	392,377	655,790	201,314	42,282	3,763,747
Total loans evaluated for impairment	$ 699,471	$ 36,742	$ 1,771,890	$ 396,162	$ 658,261	$ 201,314	$ 42,321	$ 3,806,161
December 31, 2018								
Individually evaluated for impairment	$ 13,504	$ —	$ 22,864	$ 4,440	$ 2,742	$ —	$ 3	$ 43,553
Collectively evaluated for impairment	688,533	48,274	1,628,048	425,688	646,569	186,411	41,230	3,664,753
Total loans evaluated for impairment	$ 702,037	$ 48,274	$ 1,650,912	$ 430,128	$ 649,311	$ 186,411	$ 41,233	$ 3,708,306

Troubled Debt Restructurings

As of March 31, 2019 and December 31, 2018, the Company had a recorded investment in troubled debt restructurings of $33.4 million and $33.1 million, respectively. The Company allocated $5.1 million and $3.0 million of specific reserves for troubled debt restructurings at March 31, 2019 and December 31, 2018, respectively.

The following tables present information regarding loans modified in a troubled debt restructuring during the three months ended March 31, 2019 and 2018:

	Three Months Ended March 31,					
	2019			2018		
	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	6	$ 511	$ 511	6	$ 337	$ 337
Mortgage warehouse	—	—	—	—	—	—
Real estate:						
Commercial real estate (including multi-family residential)	—	—	—	—	—	—
Commercial real estate construction and land development	—	—	—	—	—	—
1-4 family residential (including home equity)	1	397	397	—	—	—
Residential construction	—	—	—	—	—	—
Consumer and other	1	38	38	—	—	—
Total	8	$ 946	$ 946	6	$ 337	$ 337

There were no charge-offs on troubled debt restructurings during the three months ended March 31, 2019. Troubled debt restructurings resulted in charge-offs of $17 thousand during the three months ended March 31, 2018.

As of March 31, 2019, a $3.4 million loan was modified under a troubled debt restructuring during the previous twelve month period that subsequently defaulted during the three months ended March 31, 2019. As of March 31, 2018, there were no defaults on any loans that were modified as troubled debt restructurings during the preceding 12 months. 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 to troubled debt restructured loans for the three months ended March 31, 2019 and 2018. During the three months ended March 31, 2019, the Company added $946 thousand in new troubled debt restructurings, of which $902 thousand were still outstanding on March 31, 2019. During the three months ended March 31, 2018, the Company added $337 thousand in new troubled debt restructurings, of which $314 thousand were still outstanding on March 31, 2018.

6. LEASES

Lease payments over the expected term are discounted using our incremental borrowing rate for borrowings of similar terms. Generally, the Company cannot be reasonably certain about whether or not it will renew a lease until such time as the lease is within the last two years of the existing lease term. When the Company is reasonably certain that a renewal option will be exercised, it measures/remeasures the right-of-use asset and related lease liability using the lease payments specified for the renewal period or, if such amounts are unspecified, the Company generally assumes an increase (evaluated on a case-by-case basis in light of prevailing market conditions) in the lease payment over the final period of the existing lease term.

There were no sale and leaseback transactions, leveraged leases, or lease transactions with related parties during the three months ended March 31, 2019.

At March 31, 2019, the Company leased 15 branch locations and office space along with equipment. On the March 31, 2019 balance sheet, the right-of-use asset is classified within premises and equipment and the lease liability is included in other liabilities. All leases were classified as operating leases. Leases with an initial term of 12 months or less are not recorded on the balance sheet and the related lease expense is recognized on a straight-line basis over the lease term. Included in operating lease costs of $942 thousand classified as occupancy and equipment expense for the three months ended March 31, 2019 were short-term lease costs of $235 thousand.

Certain leases include options to renew, with renewal terms that can extend the lease term from one to five years. Lease assets and liabilities include related options that are reasonably certain of being exercised. The depreciable life of leased assets are limited by the expected lease term.

Supplemental lease information at or for the three months ended March 31, 2019 is as follows (dollars in thousands):

Balance Sheet:		
Operating lease asset classified as premises and equipment	$	15,259
Operating lease liability classified as other liabilities		15,666
Income Statement:		
Operating lease cost classified as occupancy and equipment expense	$	942
Weighted average lease term, in years		7.69
Weighted average discount rate		3.64%

ALLEGIANCE BANCSHARES, INC.
CONDENSED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019
(Unaudited)

A maturity analysis of the Company’s lease liabilities at March 31, 2019 is as follows (dollars in thousands):

Lease payments due:		
Within one year	$	2,878
After one but within two years		2,851
After two but within three years		2,591
After three but within four years		2,188
After four but within five years		1,579
After five years		6,682
Total lease payments	$	18,769
Discount on cash flows		3,103
Total lease liability	$	15,666

7. 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.

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.

ALLEGIANCE BANCSHARES, INC.
CONDENSED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019
(Unaudited)

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

	As of March 31, 2019				
	Carrying Amount	Estimated Fair Value			
		Level 1	Level 2	Level 3	Total
	(Dollars in thousands)				
Financial assets					
Cash and cash equivalents	$ 258,843	$ 258,843	$ —	$ —	$ 258,843
Available for sale securities	345,716	—	345,716	—	345,716
Loans held for investment, net of allowance	3,779,038	—	—	3,774,440	3,774,440
FHLB stock	14,365	N/A	N/A	N/A	N/A
Accrued interest receivable	16,194	17	3,857	12,320	16,194
Financial liabilities					
Deposits	$ 3,780,061	$ —	$ 3,775,860	$ —	$ 3,775,860
Accrued interest payable	4,511	—	4,511	—	4,511
Borrowed funds	201,995	—	203,369	—	203,369
Subordinated debt	48,959	—	49,696	—	49,696

	As of December 31, 2018				
	Carrying Amount	Estimated Fair Value			
		Level 1	Level 2	Level 3	Total
	(Dollars in thousands)				
Financial assets					
Cash and cash equivalents	$ 268,947	$ 268,947	$ —	$ —	$ 268,947
Available for sale securities	337,293	—	337,293	—	337,293
Loans held for investment, net of allowance	3,681,975	—	—	3,674,241	3,674,241
FHLB stock	10,941	N/A	N/A	N/A	N/A
Accrued interest receivable	17,010	65	3,498	13,447	17,010
Financial liabilities					
Deposits	$ 3,662,536	$ —	$ 3,653,244	$ —	$ 3,653,244
Accrued interest payable	2,812	—	2,812	—	2,812
Borrowed funds	225,493	—	230,445	—	230,445
Subordinated debt	48,899	—	49,663	—	49,663

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

	March 31, 2019			
	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
Available for sale securities:				
U.S. Government and agency securities	$ —	$ 7,594	$ —	$ 7,594
Municipal securities	—	218,723	—	218,723
Agency mortgage-backed pass-through securities	—	73,601	—	73,601
Corporate bonds and other	—	45,798	—	45,798
Total	$ —	$ 345,716	$ —	$ 345,716

ALLEGIANCE BANCSHARES, INC.
CONDENSED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019
(Unaudited)

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
Available for sale securities:				
U.S. Government and agency securities	$ —	$ 8,685	$ —	$ 8,685
Municipal securities	—	216,785	—	216,785
Agency mortgage-backed pass-through securities	—	66,195	—	66,195
Corporate bonds and other	—	45,628	—	45,628
Total	$ —	$ 337,293	$ —	$ 337,293

There were no liabilities measured at fair value on a recurring basis as of March 31, 2019 or December 31, 2018. There were no transfers between levels during the three months ended March 31, 2019 or 2018.

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.

	As of March 31, 2019		
	Level 1	Level 2	Level 3
	(Dollars in thousands)		
Impaired loans:			
Commercial and industrial	$ —	$ —	$ 5,124
Commercial real estate (including multi-family residential)	—	—	7,948
Commercial real estate construction and land development	—	—	2,923
1-4 family residential (including home equity)	—	—	970
Other real estate owned	—	—	1,152
	$ —	$ —	$ 18,117

	As of December 31, 2018		
	Level 1	Level 2	Level 3
	(Dollars in thousands)		
Impaired loans:			
Commercial and industrial	$ —	$ —	$ 5,647
Commercial real estate (including multi-family residential)	—	—	8,901
Commercial real estate construction and land development	—	—	2,924
Other real estate owned	—	—	630
	$ —	$ —	$ 18,102

Impaired Loans with Specific Allocation of Allowance

During the three months ended March 31, 2019 and the year ended December 31, 2018, certain impaired loans were reevaluated and reported at fair value through a specific allocation of the allowance for loan losses. At March 31, 2019, the total reported fair value of impaired loans of $17.0 million based on collateral valuations utilizing Level 3 valuation inputs had a carrying value of $23.4 million that was reduced by specific allowance allocations totaling $6.4 million. At December 31, 2018, the total reported fair value of impaired loans of $17.5 million based on collateral valuations utilizing Level 3 valuation inputs had a carrying value of $24.2 million that was reduced by specific allowance allocations totaling $6.7 million.

Other Real Estate Owned

At March 31, 2019, the $1.2 million balance of other real estate owned consisted of two foreclosed commercial real estate properties recorded as a result of obtaining the physical possession of the property. The Company had $630 thousand of other real estate owned at December 31, 2018.

8. DEPOSITS

Time deposits that met or exceeded the Federal Deposit Insurance Corporation insurance limit of $250 thousand at March 31, 2019 and December 31, 2018 were $466.8 million and $509.3 million, respectively.

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

Within one year	$ 882,578
After one but within two years	228,106
After two but within three years	88,650
After three but within four years	126,372
After four but within five years	41,701
Total	$ 1,367,407

The Company had $418.2 million and $235.1 million of brokered deposits as of March 31, 2019 and December 31, 2018, respectively. There were no major concentrations of deposits with any one depositor at March 31, 2019 and December 31, 2018.

9. 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 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 March 31, 2019, the Company had a total borrowing capacity of $1.63 billion, of which $1.33 billion was available and $300.1 million was outstanding. FHLB advances of $197.0 million were outstanding at March 31, 2019, at a weighted average interest rate of 2.55%. Letters of credit were $103.1 million at March 31, 2019, of which $7.0 million expired in April 2019, $65.1 million will expire during the remaining months of 2019 and $31.0 will expire in 2020.

On December 28, 2018, the Company amended its revolving credit agreement to increase the maximum commitment to advance funds to $45.0 million which will reduce annually by $7.5 million beginning in December 2020 and on each December 22nd for the following years thereafter. The Company is required to repay any outstanding balance in excess of the then-current maximum commitment amount. The revised agreement will mature in December 2025 and is secured by 100% of the capital stock of the Bank. At March 31, 2019, the balance of the revolving credit agreement was $3.4 million. The credit agreement contains certain restrictive covenants. At March 31, 2019, the Company believes it was in compliance with all such debt covenants and had not been made aware of any noncompliance by the lender. The interest rate on the debt is the Prime Rate minus 25 basis points, or 5.25%, at March 31, 2019, and is paid quarterly.

10. 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.

The Company assumed the junior subordinated debentures with an aggregate original principal amount of $11.3 million and a current fair value at March 31, 2019 of $9.4 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 March 31, 2019, 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 March 31, 2019 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
				$ 11,341	

(1) The 3-month LIBOR in effect as of March 29, 2019 was 2.6057%.
(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.

11. 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 months ended March 31, 2019 income tax expense was $3.1 million compared with $1.5 million for the three months ended March 31, 2018. The effective income tax rate for the three months ended March 31, 2019 was 19.6% compared to 15.9% for the three months ended March 31, 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 months ended March 31, 2019. The Company is no longer subject to examination by the U.S. Federal Tax Jurisdiction for the years prior to 2015.

12. STOCK BASED COMPENSATION

At March 31, 2019, the Company had two stock-based employee compensation plans with awards outstanding. In connection with the acquisition of Post Oak Bancshares, Inc. on October 1, 2018, the Company assumed the Post Oak Bancshares, Inc. Stock Option Plan, under which no additional awards will be issued. During 2019, the Company's Board of Directors and shareholders approved the 2019 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. Under the Plan, the Company is authorized to issue a maximum aggregate of 3,200,000 shares of stock, up to 1,800,000 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 $607 thousand for the three months ended March 31, 2019 and $438 thousand for the three months ended March 31, 2018.

Stock Options

Options to purchase a total of 1,309,231 shares of Company stock have been granted as of March 31, 2019. Under the Plan, options are exercisable for 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 plans during the three months ended March 31, 2019 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, 2019	802	$ 18.88	4.61	$ 10,830
Options granted	—	—		
Options exercised	(43)	15.38		
Options forfeited	—	—		
Options outstanding, March 31, 2019	759	$ 19.09	4.41	$ 11,114
Options vested and exercisable, March 31, 2019	667	$ 17.75	3.99	$ 10,660

As of March 31, 2019, there was $791 thousand of total unrecognized compensation cost related to nonvested stock options granted under the Plan. The cost is expected to be recognized over a weighted-average period of 1.16 years.

Restricted Stock Awards

During the three months ended March 31, 2019, the Company issued 1,045 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.

A summary of the activity of the nonvested shares of restricted stock during the three months ended March 31, 2019 is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
	(Shares in thousands)	
Nonvested share awards outstanding, January 1, 2019	143	$ 37.48
Share awards granted	1	32.92
Share awards vested	(6)	23.32
Unvested share awards forfeited or cancelled	(11)	38.71
Nonvested share awards outstanding, March 31, 2019	127	$ 38.04

As of March 31, 2019, there was $4.4 million of total unrecognized compensation cost related to the restricted stock awards which is expected to be recognized over a weighted-average period of 3.40 years.

13. 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:

	March 31, 2019		December 31, 2018	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
	(Dollars in thousands)			
Commitments to extend credit	$ 489,161	$ 632,872	$ 471,440	$ 530,546
Standby letters of credit	14,536	7,270	14,217	9,067
Total	$ 503,697	$ 640,142	$ 485,657	$ 539,613

Commitments to make loans are generally made for an approval period of 120 days or fewer. As of March 31, 2019, the funded fixed rate loan commitments had interest rates ranging from 1.25% to 8.70% with a weighted average maturity and rate of 2.88 years and 5.31%, respectively. As of March 31, 2018, the funded fixed rate loan commitments had interest rates ranging from 1.75% to 7.50% with a weighted average maturity and rate of 2.16 years and 5.01%, respectively.

ALLEGIANCE BANCSHARES, INC.
CONDENSED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019
(Unaudited)

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.

14. 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 were fully phased in on 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 reached 2.5% on January 1, 2019. Management believes as of March 31, 2019 and December 31, 2018 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.

ALLEGIANCE BANCSHARES, INC.
CONDENSED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019
(Unaudited)

The following is a summary of the Company's and the Bank's actual and required capital ratios at March 31, 2019 and December 31, 2018:

	Actual		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 March 31, 2019								
Total Capital (to risk weighted assets)	$ 527,793	13.28%	$ 317,862	8.00%	$ 417,193	10.500%	N/A	N/A
Common Equity Tier 1 Capital (to risk weighted assets)	451,711	11.37%	178,797	4.50%	278,129	7.000%	N/A	N/A
Tier 1 Capital (to risk weighted assets)	461,152	11.61%	238,396	6.00%	337,728	8.500%	N/A	N/A
Tier 1 Capital (to average tangible assets)	461,152	10.25%	179,909	4.00%	179,909	4.000%	N/A	N/A
As of December 31, 2018								
Total Capital (to risk weighted assets)	$ 531,453	13.70%	$ 310,295	8.00%	$ 383,020	9.875%	N/A	N/A
Common Equity Tier 1 Capital (to risk weighted assets)	456,223	11.76%	174,541	4.50%	247,266	6.375%	N/A	N/A
Tier 1 Capital (to risk weighted assets)	465,637	12.01%	232,721	6.00%	305,446	7.875%	N/A	N/A
Tier 1 Capital (to average tangible assets)	465,637	10.61%	175,621	4.00%	175,621	4.000%	N/A	N/A
ALLEGIANCE BANK								
As of March 31, 2019								
Total Capital (to risk weighted assets)	$ 529,994	13.34%	$ 317,722	8.00%	$ 417,011	10.500%	$ 397,153	10.00%
Common Equity Tier 1 Capital (to risk weighted assets)	463,353	11.67%	178,719	4.50%	278,007	7.000%	258,150	6.50%
Tier 1 Capital (to risk weighted assets)	463,353	11.67%	238,292	6.00%	337,580	8.500%	317,722	8.00%
Tier 1 Capital (to average tangible assets)	463,353	10.31%	179,693	4.00%	179,693	4.000%	224,616	5.00%
As of December 31, 2018								
Total Capital (to risk weighted assets)	$ 524,660	13.53%	$ 310,179	8.00%	$ 382,877	9.875%	$ 387,724	10.00%
Common Equity Tier 1 Capital (to risk weighted assets)	458,844	11.83%	174,476	4.50%	247,174	6.375%	252,021	6.50%
Tier 1 Capital (to risk weighted assets)	458,844	11.83%	232,634	6.00%	305,333	7.875%	310,179	8.00%
Tier 1 Capital (to average tangible assets)	458,844	10.45%	175,552	4.00%	175,552	4.000%	219,440	5.00%

15. 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 March 31,			
	2019		2018	
	Amount	Per Share Amount	Amount	Per Share Amount
	(Amounts in thousands, except per share data)			
Net income attributable to shareholders	$ 12,678		$ 7,711	
Basic:				
Weighted average shares outstanding	21,733	$ 0.58	13,262	$ 0.58
Diluted:				
Add incremental shares for:				
Dilutive effect of stock option exercises	307		280	
Total	22,040	$ 0.58	13,542	$ 0.57

Stock options for 52 thousand and 19 thousand shares were not considered in computing diluted earnings per common share as of March 31, 2019 and 2018, respectively, because they were antidilutive.

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, or MSA, and the Beaumont-Port Arthur MSA as the "Houston region."

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 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 verbs such as "will," "should," "would," "may" and "could" are generally forward-looking in nature and not historical facts, although 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 region, 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 region;
- 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 bank office 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;
- 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 for the quarter ended March 31, 2019 and in our Annual Report on Form 10-K for the year ended December 31, 2018 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 region, 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 the unemployment rate, 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 region. 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 region 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 region 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 region 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, 2018. We believe that of our accounting policies, the following may involve a higher degree of judgment and complexity:

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 $12.7 million, or $0.58 per diluted share, for the first quarter 2019 compared to $7.7 million, or $0.57 per diluted share, for the first quarter 2018. The first quarter of 2019 included $1.2 million of pre-tax acquisition and merger-related expenses. Annualized returns on average assets, average shareholders' equity and average tangible shareholders' equity were 1.08%, 7.27% and 11.22%, respectively, compared to 1.09%, 9.55% and 11.71%, respectively, for the three months ended March 31, 2019 and 2018, respectively. Average return on tangible shareholders' equity is a non-GAAP financial measure. See the GAAP to non-GAAP reconciliation table provided for a more detailed analysis. The efficiency ratio decreased to 64.97% for the first quarter 2019 from 65.59% for the first quarter 2018. 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 Interest Income

Three months ended March 31, 2019 compared with three months ended March 31, 2018. Net interest income before the provision for loan losses for the three months ended March 31, 2019 was $44.6 million compared with $26.9 million for the three months ended March 31, 2018, an increase of $17.7 million, or 65.9%. The increase in net interest income was primarily due to the increase in average interest-earning asset balances from the acquisition of Post Oak, as well as, organic growth for the year.

Interest income was $57.1 million for the three months ended March 31, 2019, an increase of $24.8 million, or 76.4%, compared with the three months ended March 31, 2018, primarily due to an increase of $24.1 million of interest income and fees on loans as a result of the Post Oak acquisition, organic growth and increased yield on loans. Average loans outstanding increased $1.49 billion, or 65.8%, for the same period. The average yield on loans also increased to 5.86% for the three months ended March 31, 2019 from 5.40% for the same period in 2018. Additionally, interest income during the three months ended March 31, 2019 and 2018 included acquisition accounting loan discount accretion of $2.7 million and $67 thousand, respectively.

Interest expense was $12.5 million for the three months ended March 31, 2019, an increase of $7.0 million, or 128.0%, compared to the three months ended March 31, 2018. This increase was primarily due to higher funding costs on FHLB borrowings and interest-bearing deposits, as well as, the increase in average interest-bearing liabilities. The cost of average interest-bearing liabilities increased to 178 basis points for the three months ended March 31, 2019 compared to 118 basis points for the same period in 2018. Average interest-bearing liabilities increased $969.6 million for the three months ended March 31, 2019 compared to the three months ended March 31, 2018 primarily due to deposits acquired in the Post Oak acquisition and organic growth.

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 March 31, 2019 was 4.31%, an increase of 11 basis points compared to 4.20% for the three months ended March 31, 2018. The increase in the net interest margin on a tax equivalent basis was primarily due to the impact of net acquisition accounting adjustments partially offset by the increase in funding costs on interest-bearing deposits and borrowed funds. Excluding the impact of acquisition accounting adjustments, the net interest margin on a tax equivalent basis for the first quarter of 2019 would have been 4.03% compared to 4.20% for the first quarter of 2018, primarily due to the increase in funding costs on interest-bearing liabilities. The average yield on interest-earning assets and the average rate paid on interest-bearing liabilities for the first quarter 2019 increased over the same period in 2018. The average yield on interest-earning assets, 5.50%, and the average rate paid on interest-bearing liabilities, 1.78%, as of March 31, 2019, 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% federal tax rate for the three months ended March 31, 2019 and 2018, thus making tax-exempt yields comparable to taxable asset yields.

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 March 31,					
	2019			2018		
	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	$ 3,747,234	$ 54,189	5.86%	$ 2,260,119	$ 30,117	5.40%
Securities	346,686	2,272	2.66%	312,769	2,058	2.67%
Deposits in other financial institutions	118,749	688	2.35%	49,897	216	1.75%
Total interest-earning assets	4,212,669	$ 57,149	5.50%	2,622,785	$ 32,391	5.01%
Allowance for loan losses	(26,760)			(23,949)		
Noninterest-earning assets	559,763			272,430		
Total assets	$ 4,745,672			$ 2,871,266		
Liabilities and Shareholders' Equity						
Interest-bearing Liabilities:						
Interest-bearing demand deposits	$ 338,193	$ 963	1.16%	$ 232,375	$ 317	0.55%
Money market and savings deposits	880,138	2,765	1.27%	552,396	659	0.48%
Certificates and other time deposits	1,302,958	6,256	1.95%	800,343	2,785	1.41%
Borrowed funds	283,566	1,827	2.61%	250,414	1,036	1.68%
Subordinated debt	48,925	735	6.09%	48,684	705	5.87%
Total interest-bearing liabilities	2,853,780	$ 12,546	1.78%	1,884,212	$ 5,502	1.18%
Noninterest-bearing Liabilities:						
Noninterest-bearing demand deposits	1,167,172			669,258		
Other liabilities	17,054			8,251		
Total liabilities	4,038,006			2,561,721		
Shareholders' equity	707,666			309,545		
Total liabilities and shareholders' equity	$ 4,745,672			$ 2,871,266		
Net interest rate spread			3.72%			3.83%
Net interest income and margin(1)		$ 44,603	4.29%		$ 26,889	4.16%
Net interest income and margin (tax equivalent)(2)		$ 44,805	4.31%		$ 27,174	4.20%

(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% for the three months ended March 31, 2019 and 2018, respectively, and other applicable effective tax rates.

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-earnings 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 March 31, 2019 vs. 2018		
	Increase (Decrease) Due to Change in		
	Volume	Rate	Total
	(Dollars in thousands)		
Interest-earning Assets:			
Loans	$ 19,778	$ 4,294	$ 24,072
Securities	224	(10)	214
Deposits in other financial institutions	297	175	472
Total increase in interest income	20,299	4,459	24,758
Interest-bearing Liabilities:			
Interest-bearing demand deposits	144	502	646
Money market and savings deposits	388	1,718	2,106
Certificates and other time deposits	1,747	1,724	3,471
Borrowed funds	137	654	791
Subordinated debt	3	27	30
Total increase in interest expense	2,419	4,625	7,044
Increase (decrease) in net interest income	$ 17,880	$ (166)	$ 17,714

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 was $27.1 million at March 31, 2019 and $26.3 million at December 31, 2018, representing 0.71% and 0.71% of total loans, respectively. We recorded a $1.0 million and $653 thousand provision for loan losses for the three months ended March 31, 2019 and 2018, respectively. The increase in the provision for the three months ended March 31, 2019 compared to the three months ended March 31, 2018 was primarily due to an increase in organic loan growth.

Noninterest Income

Our primary sources of noninterest income are service charges on deposit accounts, nonsufficient funds fees, rebates from correspondent banks and debit card 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 March 31, 2019 compared with three months ended March 31, 2018. Noninterest income totaled $3.3 million for the three months ended March 31, 2019 compared with $1.6 million for the same period in 2018, an increase of $1.6 million, or 99.8%, due to increased other income, rebates from correspondent bank and increased noninterest income driven primarily from increased deposit and loan balances.

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

	For the Three Months Ended March 31, 2019	For the Three Months Ended March 31, 2018	Increase (Decrease)
	(Dollars in thousands)		
Nonsufficient funds fees	$ 162	$ 176	$ (14)
Service charges on deposit accounts	325	223	102
Gain on sale of other real estate	1	—	1
Bank owned life insurance income	159	141	18
Debit card and ATM card income	450	269	181
Rebate from correspondent bank	896	444	452
Other(1)	1,296	393	903
Total noninterest income	$ 3,289	$ 1,646	$ 1,643

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

Noninterest Expense

Three months ended March 31, 2019 compared with three months ended March 31, 2018. Noninterest expense was $31.1 million for the three months ended March 31, 2019 compared to $18.7 million for the three months ended March 31, 2018, an increase of $12.4 million, or 66.2%. This increase over the first quarter 2018 was primarily due to additional expenses related to increased headcount and bank offices from the Post Oak acquisition and acquisition and merger-related expenses of $1.2 million.

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

	For the Three Months Ended March 31, 2019	For the Three Months Ended March 31, 2018	Increase (Decrease)
	(Dollars in thousands)		
Salaries and employee benefits(1)	$ 19,684	$ 12,794	$ 6,890
Net occupancy and equipment	2,078	1,272	806
Depreciation	753	407	346
Data processing and software amortization	1,597	1,053	544
Professional fees	599	469	130
Regulatory assessments and FDIC insurance	728	534	194
Core deposit intangibles amortization	1,178	195	983
Communications	430	248	182
Advertising	704	330	374
Acquisition and merger-related expenses	1,173	—	1,173
Other real estate expense	96	92	4
Printing and supplies	203	69	134
Other	1,892	1,254	638
Total noninterest expense	$ 31,115	$ 18,717	$ 12,398

(1) Total salaries and employee benefits includes $607 thousand and $438 thousand for the three months ended March 31, 2019 and 2018, respectively, in stock based compensation expense.

Salaries and employee benefits. Salaries and benefits increased $6.9 million, or 53.9%, for the three months ended March 31, 2019 compared to the same period in 2018. We experienced a significant increase in the total size of our workforce between these periods as our full-time equivalent employees were 584 at March 31, 2019 compared to 375 as of March 31, 2018. The primary increase in headcount was from employees added through the Post Oak acquisition and to support organic growth.

Data Processing and software amortization. Data processing and software amortization increased $544 thousand, or 51.7%, for the three months ended March 31, 2019 compared to the same period in 2018 primarily due to expenses from added scale as a result of the Post Oak acquisition and to increase efficiencies.

Acquisition and merger-related expenses. Acquisition and merger-related expenses are primarily legal, advisory and accounting fees associated with the Post Oak acquisition. These expenses also include data processing conversion costs, severance and contract termination costs.

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. We calculate our efficiency ratio by dividing total noninterest expense by the sum of net interest income plus total noninterest income, excluding net gains and losses on the sale of loans, securities and assets. 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 64.97% and 65.59% for the three months ended March 31, 2019 and 2018, 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 increased $1.6 million, or 113.0%, to $3.1 million for the three months ended March 31, 2019 compared with $1.5 million for the same period in 2018. Our effective tax rate was 19.6% for the three months ended March 31, 2019 compared to 15.9% for the three months ended March 31, 2018. Our effective tax rate increased for the three months ended March 31, 2019 compared to the same period in 2018 as municipal securities and BOLI represent smaller portions of our revenue mix.

Financial Condition

Loan Portfolio

At March 31, 2019, total loans were $3.81 billion, an increase of $97.9 million, or 2.6%, compared with December 31, 2018, primarily due to organic growth within our loan portfolio and the loans acquired in the LoweryBank acquisition.

Total loans as a percentage of deposits were 100.7% and 101.3% as of March 31, 2019 and December 31, 2018, respectively. Total loans as a percentage of assets were 79.8% and 79.7% as of March 31, 2019 and December 31, 2018, 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 region.

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

	March 31, 2019		December 31, 2018	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Commercial and industrial	$ 699,471	18.3%	$ 702,037	18.9%
Mortgage warehouse	36,742	1.0%	48,274	1.3%
Real estate:				
Commercial real estate (including multi-family residential)	1,771,890	46.6%	1,650,912	44.6%
Commercial real estate construction and land development	396,162	10.4%	430,128	11.6%
1-4 family residential (including home equity)	658,261	17.3%	649,311	17.5%
Residential construction	201,314	5.3%	186,411	5.0%
Consumer and other	42,321	1.1%	41,233	1.1%
Total loans	3,806,161	100.0%	3,708,306	100.0%
Allowance for Loan Losses	(27,123)		(26,331)	
Loans, net	$ 3,779,038		$ 3,681,975	

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 $2.6 million, or 0.4%, to $699.5 million as of March 31, 2019 from $702.0 million as of December 31, 2018.

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 $11.5 million, or 23.9%, to $36.7 million as of March 31, 2019 from $48.3 million at December 31, 2018.

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 March 31, 2019 and December 31, 2018, 51.4% and 51.4%, respectively, of our commercial real estate loans were owner-occupied. Our commercial real estate loan portfolio increased $121.0 million, or 7.3%, to $1.77 billion as of March 31, 2019 from $1.65 billion as of December 31, 2018, as a result of organic loan growth. Included in our commercial real estate portfolio are multi-family residential loans. Our multi-family loans increased to $83.4 million as of March 31, 2019 from $78.4 million as of December 31, 2018. We had 141 multi-family loans with an average loan size of $584 thousand as of March 31, 2019.

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 decreased $34.0 million, or 7.9%, to $396.2 million as of March 31, 2019 compared to $430.1 million as of December 31, 2018.

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 $9.0 million, or 1.4%, to $658.3 million as of March 31, 2019 from $649.3 million as of December 31, 2018. The home equity, home improvement and home equity lines of credit portion of our residential real estate portfolio increased $12.5 million, or 13.1%, to $108.0 million as of March 31, 2019 from $95.4 million as of December 31, 2018.

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 $14.9 million, or 8.0% to $201.3 million as of March 31, 2019 from $186.4 million as of December 31, 2018.

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 increased $1.1 million, or 2.6%, to $42.3 million as of March 31, 2019 from $41.2 million as of December 31, 2018.

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 $32.7 million and $33.0 million in nonperforming loans as of March 31, 2019 and December 31, 2018, respectively.

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

	As of March 31, 2019	As of December 31, 2018
	(Dollars in thousands)	
Nonaccrual loans:		
Commercial and industrial	$ 11,221	$ 10,861
Mortgage warehouse	—	—
Real estate:		
Commercial real estate (including multi-family residential)	17,531	17,776
Commercial real estate construction and land development	818	974
1-4 family residential (including home equity)	2,928	3,201
Residential construction	—	—
Consumer and other	172	141
Total nonaccrual loans	32,670	32,953
Accruing loans 90 or more days past due	—	—
Total nonperforming loans	32,670	32,953
Other real estate	1,152	630
Other repossessed assets	—	—
Total nonperforming assets	$ 33,822	$ 33,583
Restructured loans(1)	$ 13,512	$ 13,894
Nonperforming assets to total assets	0.71%	0.71%
Nonperforming loans to total loans	0.86%	0.89%

(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.

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 March 31, 2019 and December 31, 2018, we had $15.0 million and $16.0 million, respectively, in loans of this type which are not included in any of the nonaccrual or 90 days past due loan categories. At March 31, 2019, potential problem loans consisted of twenty-two credit relationships. Of the total outstanding balance at March 31, 2019, 40.8% related to nine customers in the hospitality industry, 20.9% related to two customers in the consumer services industry, 16.2% related to one customer in the residential rental real estate industry, 8.0% related to one customer in the manufacturing industry, 5.4% related to one customer in the restaurant industry, 4.6% related to three customers in the commercial services industry, 2.8% related to one customer in the convenience store industry, 1.0% related to three customers in the freight transportation industry and 0.3% related to one customer in the construction services 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 March 31, 2019 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.

Under accounting standards for business combinations, acquired loans are recorded at fair value on the date of acquisition. This fair value adjustment eliminates any of the seller's allowance associated with such loans as of the purchase date as any credit exposure associated with such loans is incorporated into the fair value adjustment. A provision for loan losses is recorded for the emergence of new incurred and estimable losses on acquired loans after the acquisition date in excess of the recorded discount.

All loans acquired from Post Oak and LoweryBank were recorded at fair value without a carryover of the allowance for loan losses. The discount recognized on acquired loans is prospectively accreted, increasing our basis in such loans. Due to acquisition accounting, our allowance for loan losses to total loans may not be comparable to our peers particularly as it relates to the allowance to gross loan percentage and the allowance to nonperforming loans. Recognizing that acquired purchased credit impaired loans have been de minimis, we monitor credit quality trends on a post-acquisition basis with an emphasis on past due, charge-off, classified loan and nonperforming trends. The amount of discount recorded by the Company on the acquisition date of the Post Oak acquisition was $17.0 million, or 1.43%, on loans acquired. The amount of discount recorded by the Company on the acquisition date of the LoweryBank branch acquisition was $573 thousand, or 1.30%, on loans acquired. The remaining discount on the balance of acquired loans as of March 31, 2019 was $11.8 million. The discount on purchased loans considers anticipated credit losses on that portfolio; therefore, no allowance for credit losses was established on the acquisition date. The unaccreted discount represents additional protection against potential losses and is presented as a reduction of the recorded investment in the loans rather than an allowance for loan losses. We will continue to look at the portfolio for credit deterioration and establish additional allowances over the remaining discount as needed.

At March 31, 2019, our allowance for loan losses amounted to $27.1 million, or 0.71%, of total loans compared with $26.3 million, or 0.71%, as of December 31, 2018. The slight increase in the allowance of $792 thousand as of March 31, 2019 as compared to the year ended December 31, 2018 was primarily due to the required reserve associated with organic growth. We believe that the allowance for loan losses at March 31, 2019 and December 31, 2018 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 0.02% for the three months ended March 31, 2019 compared to annualized net recoveries of 0.06% for the three months ended March 31, 2018 and 0.06% for the year ended December 31, 2018.

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 Three Months Ended March 31,	
	2019	2018
	(Dollars in thousands)	
Average loans outstanding	$ 3,747,234	$ 2,260,119
Gross loans outstanding at end of period	3,806,161	2,290,494
Allowance for loan losses at beginning of period	26,331	23,649
Provision for loan losses	1,002	653
Charge-offs:		
Commercial and industrial loans	(246)	(367)
Mortgage warehouse	—	—
Real estate:		
Commercial real estate (including multi-family residential)	(80)	(40)
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	(326)	(407)
Recoveries:		
Commercial and industrial loans	91	631
Mortgage warehouse	—	—
Real estate:		
Commercial real estate (including multi-family residential)	3	102
Commercial real estate construction and land development	—	—
1-4 family residential (including home equity)	—	—
Residential construction	—	—
Consumer and other	22	—
Total recoveries for all loan types	116	733
Net (charge-offs) recoveries	(210)	326
Allowance for loan losses at end of period	$ 27,123	$ 24,628
Allowance for loan losses to total loans	0.71%	1.08%
Net charge-offs to average loans (1)	0.02%	(0.06)%
Allowance for loan losses to nonperforming loans	83.02%	184.16%

(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 March 31, 2019, the carrying amount of investment securities totaled $345.7 million, an increase of $8.4 million, or 2.5%, compared with $337.3 million as of December 31, 2018. Securities represented 7.2% of total assets as of March 31, 2019 and December 31, 2018.

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.

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

	March 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available for Sale				
U.S. Government and agency securities	$ 7,404	$ 213	$ (23)	$ 7,594
Municipal securities	215,002	4,105	(384)	218,723
Agency mortgage-backed pass-through securities	73,525	629	(553)	73,601
Corporate bonds and other	45,958	64	(224)	45,798
Total	$ 341,889	$ 5,011	$ (1,184)	$ 345,716

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available for Sale				
U.S. Government and agency securities	$ 8,570	$ 161	$ (46)	$ 8,685
Municipal securities	219,068	1,258	(3,541)	216,785
Agency mortgage-backed pass-through securities	66,987	237	(1,029)	66,195
Corporate bonds and other	46,303	15	(690)	45,628
Total	$ 340,928	$ 1,671	$ (5,306)	$ 337,293

As of March 31, 2019, 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 March 31, 2019, management believes any impairment in our securities is temporary, and no impairment loss has been realized in our consolidated statements of income.

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.

	March 31, 2019									
	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%	$ 5,415	3.30%	$ —	0.00%	$ 1,989	2.74%	$ 7,404	3.15%
Municipal securities	2,744	2.08%	44,754	2.04%	84,974	2.86%	82,530	3.37%	215,002	2.88%
Agency mortgage-backed pass-through securities	—	0.00%	31	4.07%	12,908	2.97%	60,586	3.27%	73,525	3.22%
Corporate bonds and other	15,021	2.51%	25,817	2.51%	1,000	8.00%	4,120	4.18%	45,958	2.78%
Total	$ 17,765	2.44%	$ 76,017	2.29%	$ 98,882	2.93%	$149,225	3.35%	$ 341,889	2.94%

	December 31, 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	$ 999	2.37%	$ 5,399	3.30%	$ —	0.00%	$ 2,172	2.74%	$ 8,570	3.05%
Municipal securities	3,772	2.06%	37,422	2.03%	86,391	3.05%	91,483	3.84%	219,068	3.19%
Agency mortgage-backed pass-through securities	—	0.00%	34	4.05%	13,466	2.92%	53,487	3.21%	66,987	3.15%
Corporate bonds and other	10,106	2.36%	30,854	2.56%	1,000	8.00%	4,343	4.17%	46,303	2.78%
Total	$ 14,877	2.29%	$ 73,709	2.34%	$ 100,857	3.09%	$ 151,485	3.61%	$340,928	3.12%

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 March 31, 2019 and December 31, 2018, 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 2.66% during the three months ended March 31, 2019 compared with 2.67% for the three months ended March 31, 2018.

Goodwill and Core Deposit Intangible Assets

Our goodwill as of March 31, 2019 was $223.6 million compared to $223.1 million as of December 31, 2018 due to goodwill resulting from the acquisition of the LoweryBank branch in February 2019. 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 March 31, 2019 and December 31, 2018, was $25.4 million and $26.6 million, respectively. Core deposit intangible assets are amortized using a straight-line amortization method over its estimated useful life of seven to ten years.

Premises and Equipment, net

Premises and equipment, net increased by $18.6 million, or 44.6%, to $60.3 million at March 31, 2019 from $41.7 million at December 31, 2018, primarily due to the adoption of ASU 2016-02, Leases (Topic 842), on January 1, 2019, which resulted in the Company recognizing a right of use asset of $15.3 million.

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 engage in both a lending and deposit relationship with us.

Total deposits at March 31, 2019 were $3.78 billion, an increase of $117.5 million, or 3.2%, compared with $3.66 billion at December 31, 2018. Noninterest-bearing deposits at March 31, 2019 were $1.18 billion, a decrease of $27.4 million, or 2.3%, compared with $1.21 billion at December 31, 2018. Interest-bearing deposits at March 31, 2019 were $2.60 billion, an increase of $144.9 million, or 5.9%, compared with $2.45 billion at December 31, 2018.

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 March 31, 2019, we had a total borrowing capacity of $1.63 billion, of which $1.33 billion was available and $300.1 million was outstanding. FHLB advances of $197.0 million were outstanding at March 31, 2019, at a weighted average interest rate of 2.55%. Letters of credit were $103.1 million at March 31, 2019, of which $7.0 million expired in April 2019, $65.1 million will expire during the remaining months of 2019 and $31.0 million will expire in 2020.

Credit Agreement

On December 28, 2018, we amended our revolving credit agreement to increase the maximum commitment to advance funds to $45.0 million which will reduce annually by $7.5 million beginning in December 2020 and on each December 22nd for the following years thereafter. We are required to repay any outstanding balance in excess of the then-current maximum commitment amount. The revised agreement will mature in December 2025 and is secured by 100% of the capital stock of the Bank.

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. The interest rate on the debt is the Prime Rate minus 25 basis points, or 5.25%, at March 31, 2019, and is paid quarterly. At March 31, 2019, we believe we were in compliance with our debt covenants and had not been made aware of any noncompliance by the lender.

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 March 31, 2019 and December 31, 2018, we had outstanding $1.12 billion and $1.00 billion, respectively, in commitments to extend credit and $21.8 million and $23.3 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 three months ended March 31, 2019 and the year ended December 31, 2018, our liquidity needs have been primarily met by deposits, borrowed funds, 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 $1.49 billion, or 65.8%, for the three months ended March 31, 2019 compared with the three months ended March 31, 2018. 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 6.3 years and modified duration of 5.2 years at March 31, 2019, and a weighted average life of 6.1 years and modified duration of 5.1 years at December 31, 2018.

As of March 31, 2019 and December 31, 2018, we had no exposure to future cash requirements associated with known uncertainties or capital expenditures of a material nature.

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 phased in over a multi-year schedule, and were fully phased in on 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 reached 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 March 31, 2019 and December 31, 2018, the Bank was well capitalized.

Total shareholder's equity was $703.8 million at March 31, 2019, compared with $703.0 million at December 31, 2018, a slight increase of $793 thousand. This increase was primarily the result of net income of $12.7 million and an increase in accumulated other comprehensive income of $5.9 million offset by the repurchase and cancellation of common stock during the three months ended March 31, 2019.

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
Allegiance Bancshares, Inc. (Consolidated)				
As of March 31, 2019				
Total capital (to risk weighted assets)	13.28%	8.00%	10.500%	N/A
Common equity Tier 1 capital (to risk weighted assets)	11.37%	4.50%	7.000%	N/A
Tier 1 capital (to risk weighted assets)	11.61%	6.00%	8.500%	N/A
Tier 1 capital (to average assets)	10.25%	4.00%	4.000%	N/A
As of December 31, 2018				
Total capital (to risk weighted assets)	13.70%	8.00%	9.875%	N/A
Common equity Tier 1 capital (to risk weighted assets)	11.76%	4.50%	6.375%	N/A
Tier 1 capital (to risk weighted assets)	12.01%	6.00%	7.875%	N/A
Tier 1 capital (to average assets)	10.61%	4.00%	4.000%	N/A
Allegiance Bank				
As of March 31, 2019				
Total capital (to risk weighted assets)	13.34%	8.00%	10.500%	10.00%
Common equity Tier 1 capital (to risk weighted assets)	11.67%	4.50%	7.000%	6.50%
Tier 1 capital (to risk weighted assets)	11.67%	6.00%	8.500%	8.00%
Tier 1 capital (to average assets)	10.31%	4.00%	4.000%	5.00%
As of December 31, 2018				
Total capital (to risk weighted assets)	13.53%	8.00%	9.875%	10.00%
Common equity Tier 1 capital (to risk weighted assets)	11.83%	4.50%	6.375%	6.50%
Tier 1 capital (to risk weighted assets)	11.83%	6.00%	7.875%	8.00%
Tier 1 capital (to average assets)	10.45%	4.00%	4.000%	5.00%

GAAP Reconciliation and Management's Explanation of Non-GAAP Financial Measures

We identify certain financial measures discussed in this Quarterly Report on Form 10-Q as being "non-GAAP financial measures." In accordance with the SEC's rules, we classify a financial measure as being a non-GAAP financial measure if that financial measure excludes or includes amounts, or is subject to adjustments that have the effect of excluding or including amounts, that are included or excluded, as the case may be, in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles as in effect from time to time in the United States in our statements of income, balance sheet or statements of cash flows. Non-GAAP financial measures do not include operating and other statistical measures or ratios or statistical measures calculated using exclusively either financial measures calculated in accordance with GAAP, operating measures or other measures that are not non-GAAP financial measures or both.

The non-GAAP financial measures that we discuss in this Quarterly Report on Form 10-Q should not be considered in isolation or as a substitute for the most directly comparable or other financial measures calculated in accordance with GAAP. Moreover, the manner in which we calculate the non-GAAP financial measures that we discuss in this Quarterly Report on Form 10-Q may differ from that of other companies reporting measures with similar names. You should understand how such other banking organizations calculate their financial measures similar or with names similar to the non-GAAP financial measures we have discussed in this Quarterly Report on Form 10-Q when comparing such non-GAAP financial measures.

Our management uses these non-GAAP financial measures in its analysis of our performance:

- ***"Tangible Shareholders' Equity"*** is a non-GAAP measure generally used by financial analysts and investment bankers to evaluate financial institutions. Tangible shareholders' equity is defined as total shareholders' equity reduced by goodwill and core deposit intangibles, net of accumulated amortization. This measure is important to investors interested in changes from period to period in shareholders' equity, exclusive of changes in intangible assets. For tangible shareholders' equity, the most directly comparable financial measure calculated in accordance with GAAP is total shareholders' equity. Goodwill and other intangible assets have the effect of increasing total shareholders' equity while not increasing our tangible shareholders' equity.
- ***"Tangible Book Value Per Share"*** is a non-GAAP measure generally used by financial analysts and investment bankers to evaluate financial institutions. Tangible book value per share is defined as total shareholders' equity reduced by goodwill and core deposit intangibles, net of accumulated amortization, divided by total shares outstanding. This measure is important to investors interested in changes from period to period in book value per share, exclusive of changes in intangible assets. For tangible book value per share, the most directly comparable financial measure calculated in accordance with GAAP is our book value per share.
- ***"Tangible Equity to Tangible Assets"*** is a non-GAAP measure generally used by financial analysts and investment bankers to evaluate financial institutions. Tangible equity to tangible assets is defined as total shareholders' equity reduced by goodwill and core deposit intangibles, net of accumulated amortization, divided by tangible assets, which are total assets reduced by goodwill and core deposit intangibles, net of accumulated amortization. This measure is important to investors interested in changes from period to period in equity and total assets, each exclusive of changes in intangible assets. For tangible equity to tangible assets, the most directly comparable financial measure calculated in accordance with GAAP is total shareholders' equity to total assets. Goodwill and other intangible assets have the effect of increasing both total shareholders' equity and assets while not increasing our tangible common equity or tangible assets.

We believe these non-GAAP financial measures provide useful information to management and investors that is supplementary to our financial condition, results of operations and cash flows computed in accordance with GAAP; however, we acknowledge that our non-GAAP financial measures have a number of limitations. As such, you should not view these disclosures as a substitute for results determined in accordance with GAAP, and they are not necessarily comparable to non-GAAP financial measures that other companies use. The following reconciliation tables provide a more detailed analysis of these non-GAAP financial measures:

	Three Months Ended March 31,	
	2019	2018
	(Dollars and share amounts in thousands, except per share data)	
Total Shareholders' equity	$ 703,777	$ 311,988
Less: Goodwill and core deposit intangibles, net	249,051	42,468
Tangible shareholders' equity	$ 454,726	$ 269,520
Shares outstanding at end of period	21,484	13,302
Tangible book value per share	$ 21.17	$ 20.26
Net income	$ 12,678	$ 7,711
Average shareholders' equity	$ 707,666	$ 309,545
Less: Average goodwill and core deposit intangibles, net	249,277	42,589
Average tangible shareholders' equity	$ 458,389	$ 266,956
Return on average tangible shareholders' equity(1)	11.22%	11.71%
Total assets	$ 4,768,802	$ 2,886,484
Less: Goodwill and core deposit intangibles, net	249,051	42,468
Tangible assets	$ 4,519,751	$ 2,844,016
Tangible equity to tangible assets	10.06%	9.48%

(1) Interim periods annualized.

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.

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 March 31, 2019	As of December 31, 2018	As of March 31, 2019	As of December 31, 2018
+300	0.8%	0.9%	1.3%	0.2%
+200	0.7%	0.9%	1.6%	0.9%
+100	0.4%	0.6%	1.3%	1.0%
Base	0.0%	0.0%	0.0%	0.0%
-100	(0.5)%	(1.1)%	(2.7)%	(2.7)%

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

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 and in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, 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 March 31, 2019, there were no material changes to the risk factors disclosed in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 and in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

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.

Table of Contents

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.
3.2	Amended and Restated Bylaws of Allegiance Bancshares, Inc. (incorporated herein by reference to the Company's Registration Statement on Form S-1 (Registration No. 333-206536) (the "Registration Statement"))
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registration Statement)
10.1	Form of indemnification agreement (incorporated herein by reference to Exhibit 10.4 to the Company's Registration Statement on Form S-1 (Registration No. 333-206536))
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.

Table of Contents

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: May 6, 2019	/s/ George Martinez George Martinez Chairman and Chief Executive Officer
Date: May 6, 2019	/s/ Paul P. Egge Paul P. Egge Chief Financial Officer

(Back To Top)

Section 2: EX-3.1 (EX-3.1)

Exhibit 3.1

RESTATED

CERTIFICATE OF FORMATION
(WITH AMENDMENTS)
OF
ALLEGIANCE BANCSHARES, INC.

Allegiance Bancshares, Inc. (the "Corporation"), pursuant to the provisions of Sections 3.051, 3.057, 3.059 and 21.056 of the Texas Business Organizations Code (the "TBOC"), hereby adopts this Restated Certificate of Formation (with Amendments) (the "Restated Certificate"), which accurately states the Corporation's existing certificate of formation and all amendments thereto that are in effect as of the date hereof (the "Original Certificate"), as further amended by this Restated Certificate. The Restated Certificate does not contain any other change except for information permitted to be omitted by Section 3.059(b) of the TBOC.

1. The name of the Corporation is Allegiance Bancshares, Inc.

2. The amendment made by this Restated Certificate has been made in accordance with the provisions of the TBOC.

3. The amendment made by this Restated Certificate has been approved in the manner required by the TBOC and the constituent documents of the Corporation.

4. Article III of the Original Certificate is amended and restated in its entirety to read as set forth in Article III of the Restated Certificate.

5. Section 5.1 of the Original Certificate is amended and restated in its entirety to read as set forth in Section 5.1 of the Restated Certificate.

6. The Original Certificate and all amendments and supplements thereto are hereby superseded by the following Restated Certificate:

AMENDED AND RESTATED
CERTIFICATE OF FORMATION
OF
ALLEGIANCE BANCSHARES, INC.

The undersigned, for purposes of incorporating a corporation under the provisions of the Texas Business Organizations Code (the "TBOC"), does hereby certify as follows:

ARTICLE I
ENTITY NAME AND TYPE

The filing entity being formed is a for-profit corporation. The name of the entity is Allegiance Bancshares, Inc. (the "Corporation").

ARTICLE II
PURPOSE

The purpose for which the Corporation is formed is to engage in the transaction of any and all lawful business for which a for-profit corporation may be organized under the TBOC.

ARTICLE III
REGISTERED AGENT AND REGISTERED OFFICE

The registered agent is an individual resident of the state whose name is Shanna Kuzdzal. The business address of the registered agent and the registered office is 8847 W. Sam Houston Parkway N, Suite 200, Houston, Texas 77040.

ARTICLE IV
[RESERVED]

[Reserved]

ARTICLE V
AUTHORIZED SHARES

Section 5.1 Authorized Shares. The aggregate number of all classes of stock which the Corporation has authority to issue is 81,000,000 shares divided into (A) one class of 80,000,000 shares of Common Stock with a par value of $1.00 per share, and (B) one class of 1,000,000 shares of Preferred Stock with a par value of $1.00 per share, which may be divided into and issued in series as set forth in this Article V.

Section 5.2 Authorization of Directors to Determine Certain Rights of Preferred Stock. The shares of Preferred Stock may be divided into and issued in series. The Board of Directors shall have the authority to establish series of unissued shares of Preferred Stock by fixing and determining the relative rights and preferences of the shares of any series so established, and to increase or decrease the number of shares within each such series; provided, however, that the Board of Directors may not decrease the number of shares within a series of Preferred Stock to less than the number of shares within such series that are then issued. The Preferred Stock of each such series shall have such designations, preferences, limitations, or relative rights, including voting rights, as shall be set forth in the resolution or resolutions establishing such series adopted by the Board of Directors, including, but without limiting the generality of the foregoing, the following:

(a) The distinctive designation of, and the number of shares of Preferred Stock that shall constitute, such series, which number (except where otherwise provided by the Board of Directors in the resolution establishing such series) may be increased or decreased (but not below the number of shares of such series then outstanding) from time to time by like action of the Board of Directors;

(b) The rights in respect of dividends, if any, of such series of Preferred Stock, the extent of the preference or relation, if any, of such dividends to the dividends payable on any other class or classes or any other series of the same or other class or classes of capital stock of the Corporation and whether such dividends shall be cumulative or noncumulative;

(c) The right, if any, of the holders of such series of Preferred Stock to convert the same into, or exchange the same for, shares of any other class or classes or of any other series of the same or any other class or classes of capital stock, obligations, indebtedness, rights to purchase securities or other securities of the Corporation or other entities, domestic or foreign, or for other property or for any combination of the foregoing, and the terms and conditions of such conversion or exchange;

(d) Whether or not shares of such series of Preferred Stock shall be subject to redemption, and the redemption price or prices and the time or times at which, and the terms and conditions on which, shares of such series of Preferred Stock may be redeemed;

(e) The rights, if any, of the holders of such series of Preferred Stock upon the voluntary or involuntary liquidation, dissolution or winding up of the Corporation or in the event of any merger or consolidation of or sale of assets by the Corporation;

(f) The terms of any sinking fund or redemption or repurchase or purchase account, if any, to be provided for shares of such series of Preferred Stock;

(g) The voting powers, if any, of the holders of any series of Preferred Stock generally or with respect to any particular matter, which may be less than, equal to or greater than one vote per share, and which may, without limiting the generality of the foregoing, include the right, voting as a series of Preferred Stock as a class, to elect one or more directors of the Corporation generally or under such specific circumstances and on such conditions, as shall be provided in the resolution or resolutions of the Board of Directors adopted pursuant hereto, including, without limitation, in the event there shall have been a default in the payment of dividends on or redemption of any one or more series of Preferred Stock; and

(h) Such other powers, preferences and relative, participating, optional and other special rights, and the qualifications, limitations and restrictions thereof, as the Board of Directors shall determine.

Section 5.3 Preferences, Limitations and Relative Rights of All Classes of Capital Stock.

(a) General. All shares of Common Stock shall have rights identical to those of all other such shares. Except as they may vary among series established pursuant to Section 5.2 of this Article V, all shares of Preferred Stock shall have preferences, limitations, and relative rights identical to those of all other such shares.

(b) Liquidation Preference. In the event of dissolution, liquidation, or winding up of the Corporation (whether voluntary or involuntary), after payment or provision for payment of debts but before any distribution to the holders of Common Stock, the holders of each series of Preferred Stock then outstanding shall be entitled to receive the amount fixed by the Board of Directors pursuant to Section 5.2 of this Article V and no more. All remaining assets shall be distributed pro rata among the holders of Common Stock. If the assets distributable among the holders of Preferred Stock are insufficient to permit full payment to them, the entire assets shall be distributed among the holders of the Preferred Stock in proportion to their respective liquidation preferences unless otherwise provided by the Board of Directors pursuant to Section 5.2 of this Article V. Neither the consolidation, merger, or reorganization of the Corporation with any other entity, nor the sale of all or substantially all the assets of the Corporation, nor the purchase or redemption by the Corporation of any of its outstanding shares shall be deemed to be a dissolution, liquidation, or winding up within the meaning of this paragraph.

(c) Redemption.

(i) Right; Method. All or any part of any one or more series of Preferred Stock may be redeemed at any time or times at the option of the Corporation, by resolution of the Board of Directors, in accordance with the terms and conditions of this Article V and those fixed by the Board of Directors pursuant to Section 5.2 of this Article V. The Corporation may redeem shares of any one or more series without redeeming shares of any other series. If less than all the shares of any series are to be redeemed, the shares of the series to be redeemed shall be selected ratably or by lot or by any other equitable method determined by the Board of Directors.

(ii) Notice. Notice shall be given to the holders of shares to be redeemed, either personally or by mail, not less than twenty nor more than fifty days before the date fixed for redemption.

(iii) Payment. Holders of redeemed shares shall be paid in cash the amount fixed by the Board of Directors pursuant to Section 5.2 of this Article V.

(iv) Provision for Payment. On or before the date fixed for redemption, the Corporation may provide for payment of a sum sufficient to redeem the shares called for redemption either (a) by setting aside the sum, separate from its other funds, in trust for the benefit of the holders of the shares to be redeemed, or (b) by depositing such sum in a bank or trust company (either one in Texas having capital and surplus of at least $10,000,000 according to its latest statement of condition, or one anywhere in the United States duly appointed and acting as transfer agent of the Corporation) as a trust fund, with irrevocable instructions and authority to the bank or trust company to give or complete the notice of redemption and to pay to the holders of the shares to be redeemed, on or after the date fixed for redemption, the redemption price on surrender of their respective share certificates. The holders of shares to be redeemed may be evidenced by a list certified by the Corporation (by its President or a Vice President and by its Secretary or an Assistant Secretary) or by its transfer agent. If the Corporation so provides for payment, then from and after the date fixed for redemption (a) the shares shall be deemed to be redeemed, (b) dividends thereon shall cease to accrue, (c) such setting aside or deposit shall be deemed to constitute full payment for the shares, (d) the shares shall no longer be deemed to be outstanding, (e) the holders thereof shall cease to be shareholders with respect to such shares, and (f) the holders shall have no rights with respect thereto except the right to receive (without interest) their proportionate shares of the funds so set aside or deposited upon surrender of their respective certificates, and any right to convert such shares which may exist. Any interest accrued on funds so set aside or deposited shall belong to the Corporation. If the holders of the shares do not, within six years after such deposit, claim any amount so deposited for redemption thereof, the bank or trust company shall upon demand pay over to the Corporation the balance of the funds so deposited, and the bank or trust company shall thereupon be relieved of all responsibility to such holders.

(v) Status of Redeemed Shares. Shares of Preferred Stock which are redeemed shall be canceled and shall be restored to the status of authorized but unissued shares.

(d) Purchase. Except as fixed by the Board of Directors pursuant to Section 5.2 of this Article V or as otherwise expressly provided by law, nothing herein shall limit the right of the Corporation to purchase any of its outstanding shares in accordance with law, by public or private transaction.

(e) Denial of Preemptive Rights. No holder of any shares of any class of stock of the Corporation shall, as such holder, have any preemptive or preferential right to receive, purchase, or subscribe to (1) any unissued or treasury shares of any class of stock (whether now or hereafter authorized) of the Corporation, (2) any obligations, evidences of indebtedness, or other securities of the Corporation convertible into or exchangeable for, or carrying or accompanied by any rights to receive, purchase, or subscribe to, any such unissued or treasury shares, (3) any right of subscription to or to receive, or any warrant or option for the purchase of, any of the foregoing securities, (4) any other securities that may be issued or sold by the Corporation, other than such (if any) as the Board of Directors of the Corporation, in its sole and absolute discretion, may determine from time to time.

(f) Denial of Cumulative Voting. Cumulative voting shall not be permitted.

ARTICLE VI
DIRECTORS

The business and affairs of the Corporation shall be managed by or under the direction of a Board of Directors. Except as fixed by the Board of Directors pursuant to Section 5.2, the number of directors shall be fixed from time to time exclusively by resolution of the Board of Directors.

Section 6.1 Term. The full Board of Directors, other than those who may be elected by the holders of any class or series of stock established by the Board of Directors pursuant to Section 5.2, shall be divided into three classes, with respect to the time for which they severally hold office, designated Class I, Class II, and Class III. Each class shall consist, as nearly as may be possible, of one-third of the total number of directors constituting the full Board of Directors. The initial division of the Board of Directors following the effective date of the Certificate of Formation shall be as follows:

The Class I directors will initially consist of the following individuals, and their term shall expire at the annual meeting of shareholders to be held in 2016:

Daryl D. Bohls	8727 W Sam Houston Parkway N, Suite 100 Houston, Texas 77040
Lawrence G. Fraser	8727 W Sam Houston Parkway N, Suite 100 Houston, Texas 77040
Matthew H. Hartzell	8727 W Sam Houston Parkway N, Suite 100 Houston, Texas 77040
James J. Kearney	8727 W Sam Houston Parkway N, Suite 100 Houston, Texas 77040
P. Michael Mann, MD	8727 W Sam Houston Parkway N, Suite 100 Houston, Texas 77040

The Class II directors will initially consist of the following individuals, and their term shall expire at the annual meeting of shareholders to be held in 2017:

John B. Beckworth	8727 W Sam Houston Parkway N, Suite 100 Houston, Texas 77040
Frances H. Jeter	8727 W Sam Houston Parkway N, Suite 100 Houston, Texas 77040
George Martinez	8727 W Sam Houston Parkway N, Suite 100 Houston, Texas 77040
David B. Moulton	8727 W Sam Houston Parkway N, Suite 100 Houston, Texas 77040
Thomas A. Reiser	8727 W Sam Houston Parkway N, Suite 100 Houston, Texas 77040

The Class III directors will initially consist of the following individuals, and their term shall expire at the annual meeting of shareholders to be held in 2018:

William S. Nichols III	8727 W Sam Houston Parkway N, Suite 100 Houston, Texas 77040
Steven F. Retzloff	8727 W Sam Houston Parkway N, Suite 100 Houston, Texas 77040
Raimundo Riojas E.	8727 W Sam Houston Parkway N, Suite 100 Houston, Texas 77040
Fred S. Robertson	8727 W Sam Houston Parkway N, Suite 100 Houston, Texas 77040
Ramon A. Vitulli III	8727 W Sam Houston Parkway N, Suite 100 Houston, Texas 77040

A director shall hold office until the annual meeting of shareholders for the year in which his or her respective three-year term expires and until his or her respective successor shall be elected and shall be qualified or until his or her earlier death, resignation, retirement, disqualification or removal from office. Except as fixed by the Board of Directors pursuant to Section 5.2, (i) at each succeeding annual meeting of shareholders beginning in 2016, successors to the class of directors whose term expires at that meeting shall be elected for a three-year term and (ii) if the number of directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of directors in each class to as nearly as possible to one-third of the total number of directors, but in no case will a decrease in the number of directors shorten the term of any incumbent director. In any election of directors, the persons receiving a plurality of the votes cast, up to the number of directors to be elected in such election, shall be deemed elected. Directors need not be shareholders of the Corporation.

Section 6.2 Vacancies. Except as fixed by the Board of Directors pursuant to Section 5.2, any vacancy occurring in the Board of Directors, including any vacancy created by reason of an increase in the number of directors, may be filled by the affirmative vote of a majority of the directors then in office or by a sole remaining director, and any director so chosen shall hold office for the remainder of the term to which the director has been selected and until such director's successor shall have been elected and qualified.

Section 6.3 Removal. Subject to the rights of any class or series of stock established by the Board of Directors pursuant to Section 5.2, any director (including persons elected by the directors to fill vacancies in the Board of Directors) may be removed from office only for cause and only by the affirmative vote of a majority of the votes entitled to be cast by the shares of the then outstanding capital stock of the Corporation present in person or represented by proxy and entitled to vote generally in the election of directors at a duly constituted meeting of shareholders.

ARTICLE VII
LIABILITY OF DIRECTORS

No director of the Corporation shall be personally liable to the Corporation or its shareholders for monetary damages for breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation thereof is not permitted under the TBOC as the same now exists or may hereafter be amended. Any amendment, modification, or repeal of the foregoing sentence shall not adversely affect any right or protection of a director of the Corporation existing hereunder with respect to any act or omission prior to such amendment, modification, or repeal.

ARTICLE VIII
INDEMNIFICATION

In addition to the mandatory indemnification provisions of Chapter 8 of the TBOC, as permitted by Chapter 8 of the TBOC or any successor statute (the "Indemnification Article"), the Corporation hereby:

1. makes mandatory the indemnification permitted under Section 8.101 of the Indemnification Article as contemplated by Section 8.103 thereof;

2. makes mandatory its payment or reimbursement of the reasonable expenses incurred by a former or present director, officer or employee who was, is, or is threatened to be made a named defendant or respondent in a proceeding upon such director's compliance with the requirements of Section 8.104 of the Indemnification Article; and

3. extends the mandatory indemnification and the mandatory payment or reimbursement of expenses referred to above (a) to all former or present officers of the Corporation and (b) to all persons who are or were serving at the request of the Corporation as a director, officer, partner, agent or trustee of another foreign or domestic corporation, partnership, joint venture, trust or employee benefit plan, to the same extent that the Corporation is obligated to indemnify and pay or reimburse expenses to directors.

The indemnification provided by this Article shall not be deemed exclusive of any other rights to which the person indemnified may be entitled under any bylaw, agreement, authorization of shareholders or disinterested directors or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall enure to the benefit of such person's heirs and legal representatives.

The Corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, or agent of the Corporation or who is or was serving at the request of the Corporation as a director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another business, foreign, domestic or non-profit corporation, partnership, joint venture, sole proprietorship, trust or other enterprise or employee benefit plan, against any liability asserted against such person and incurred by such person in such a capacity or arising out of such person's status as such a person, whether or not the Corporation would have the power to indemnify such person against that liability under the provisions of this Article or the TBOC.

Notwithstanding any other provision of this Article, the Corporation shall pay or reimburse expenses incurred by any director, officer, employee or agent in connection with such person's appearance as a witness or other participation in a proceeding at a time when such person is not a named defendant or respondent in such proceeding.

ARTICLE IX
INTERESTED TRANSACTIONS

No contract or other transaction between the Corporation and one or more of its directors, officers or shareholders or between the Corporation and another corporation, partnership, joint venture, trust or other enterprise of which one or more of the Corporation's directors, officers or shareholders are members, officers, shareholders, directors or employees or in which they are otherwise interested, directly or indirectly, shall be invalid solely because of such relationship, or solely because such a director, officer or shareholder is present at or participates in the meeting of the Board of Directors or committee thereof which authorizes the contract or other transaction, or solely because his or their votes are counted for such purpose, if (i) the material facts as to his relationship or interest and as to the contract or other transaction are known or disclosed to the Board of Directors or committee thereof, and such board or committee in good faith, authorizes the contract or other transaction by the affirmative vote of a majority of the disinterested directors even though the disinterested directors be less than a quorum, or (ii) the material facts as to his relationship or interest and as to the contract or other transaction are known or disclosed to the shareholders entitled to vote thereon, and the contract or other transaction is approved in good faith by vote of the shareholders, or (iii) the contract or other transaction is fair as to the Corporation as of the time it is entered into.

ARTICLE X
SPECIAL MEETINGS

A special meeting of the shareholders of the Corporation may be called at any time by the president, the board of directors or the holders of not less than fifty percent of all shares entitled to vote at such meeting.

ARTICLE XI
AMENDMENT OF BYLAWS

The board of directors of the Corporation shall have the power to amend, modify or repeal any bylaw or adopt new bylaws. The shareholders of the Corporation shall not have the power to adopt, amend or repeal the bylaws of the Corporation.

ARTICLE XII
EFFECTIVENESS OF FILING

This document becomes effective when the document is filed by the Secretary of State of the State of Texas.

ARTICLE XIII
EXCLUSIVE JURISDICTION

Any state or federal court located in Harris County in the State of Texas shall be the sole and exclusive forum for (a) any actual or purported derivative action or proceeding brought on behalf of the Corporation, (b) any action asserting a claim of breach of a fiduciary duty owed by any director or officer of the Corporation to the Corporation or the Corporation's shareholders or creditors, (c) any action asserting a claim against the Corporation or any director or officer of the Corporation arising pursuant to any provision of the TBOC, the Certificate of Formation or the Bylaws of the Corporation, or (d) any action asserting a claim against the Corporation or any director or officer of the Corporation governed by the internal affairs doctrine.

ARTICLE XIV
SERIES A AND SERIES B PREFERRED STOCK

Section 14.1 Series A. The Statement of Designations of Fixed Rate Cumulative Perpetual Preferred Stock, Series A of the Corporation filed with the Texas Secretary of State on December 29, 2014 is hereby referred to and incorporated herein in its entirety.

Section 14.2 Series B. The Statement of Designations of Fixed Rate Cumulative Perpetual Preferred Stock, Series B of the Corporation filed with the Texas Secretary of State on December 29, 2014 is hereby referred to and incorporated herein in its entirety.

[*Signature Page Immediately Follows*]

IN WITNESS WHEREOF, I have hereunto set my hand, this 10th day of October, 2018.

/s/ George Martinez
Name: George Martinez
Title: Chairman and CEO

[Signature Page to Amended and Restated Certificate of Formation of Allegiance Bancshares, Inc.]

(Back To Top)

Section 3: EX-31.1 (EX-31.1)

Exhibit 31.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, George Martinez, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Allegiance Bancshares, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 6, 2019

/s/ George Martinez
George Martinez
Chairman and Chief Executive Officer

(Back To Top)

Section 4: EX-31.2 (EX-31.2)

Exhibit 31.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Paul P. Egge, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Allegiance Bancshares, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 6, 2019

/s/ Paul P. Egge
Paul P. Egge
Chief Financial Officer

(Back To Top)

Section 5: EX-32.1 (EX-32.1)

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 (AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)

In connection with the Quarterly Report of Allegiance Bancshares, Inc. (the “Company”) on Form 10-Q for the period ending March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, George Martinez, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and operating results of the Company as

of the dates and for the periods expressed in the Report.

IN WITNESS WHEREOF, the undersigned has executed this Certificate, effective as of May 6, 2019.

/s/ George Martinez
George Martinez
Chairman and Chief Executive Officer

(Back To Top)

Section 6: EX-32.2 (EX-32.2)

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 (AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)

In connection with the Quarterly Report of Allegiance Bancshares, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Paul P. Egge, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and operating results of the Company as of the dates and for the periods expressed in the Report.

IN WITNESS WHEREOF, the undersigned has executed this Certificate, effective as of May 6, 2019.

/s/ Paul P. Egge
Paul P. Egge
Chief Financial Officer

(Back To Top)