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Allegiance Bancshares, Inc.  
Form 10-K  
March 11, 2019  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 001-37585

Allegiance Bancshares, Inc.

(Exact name of registrant as specified in its charter)

Texas 26-3564100  
(State or other jurisdiction (I.R.S. Employer

of incorporation or organization) Identification No.)

8847 West Sam Houston Parkway, N., Suite 200

Houston, Texas 77040

(Address of principal executive offices, including zip code)

(281) 894-3200

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(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$1.00 per share	NASDAQ Global Market
(Title of each class)	(Name of each exchange on which is registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," 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

The aggregate market value of the shares of common stock held by non-affiliates based on the closing price per share of the registrant's common stock as reported on the NASDAQ Global Market on June 30, 2018 was approximately

\$505.8 million.

As of March 7, 2019, there were 21,671,955 shares of the registrant's common stock, \$1.00 par value, outstanding.

Documents Incorporated by Reference:

Portions of the Proxy Statement relating to the 2019 Annual Meeting of Shareholders of Allegiance Bancshares, Inc., which will be filed within 120 days after December 31, 2018, are incorporated by reference into Part III, Items 10-14 of this Annual Report on Form 10-K.

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ALLEGIANCE BANCSHARES, INC.

2018 ANNUAL REPORT ON FORM 10-K

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## PART I

Except where the context otherwise requires or where otherwise indicated, in this Annual Report on Form 10-K the term “Allegiance” refers to Allegiance Bancshares, Inc., 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 Annual Report on Form 10-K, we refer to the Houston-The Woodlands-Sugar Land metropolitan statistical area, or MSA, and the Beaumont-Port Arthur MSA as the “Houston region.”

### ITEM 1. BUSINESS

The disclosures set forth in this item are qualified by Item 1A. “Risk Factors,” and the section captioned “Cautionary Notice Regarding Forward-Looking Statements” in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this report and other cautionary statements set forth elsewhere in this Annual Report on Form 10-K.

#### General

Allegiance Bancshares, Inc. is a Texas corporation and registered bank holding company headquartered in Houston, Texas. Through our wholly-owned subsidiary, Allegiance Bank, we provide a diversified range of commercial banking services primarily to small to medium-sized businesses within the Houston region, professionals and individual customers. We believe the size, growth and increasing economic diversity of the Houston region, when combined with our super-community banking strategy, provides us with excellent opportunities for long-term, sustainable growth. Our super-community banking strategy, which is described in more detail below, is designed to foster strong customer relationships while benefitting from a platform and scale that is competitive with larger regional and national banks. We believe this strategy presents a significant market advantage when serving small to medium-sized business customers and further enables us to attract talented bankers.

As of December 31, 2018, we operated 28 full-service banking locations, with 27 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. We have experienced significant growth since we began banking operations in 2007, resulting from both organic growth, including de novo branching, and three whole-bank acquisitions, most recently Post Oak Bancshares, Inc. As of December 31, 2018, we had total assets of \$4.66 billion, total gross loans of \$3.71 billion, total deposits of \$3.66 billion and total shareholders’ equity of \$703.0 million.

#### Initial Public Offering

Allegiance consummated the underwritten initial public offering of its common stock in October 2015. Allegiance's common stock is traded on the NASDAQ Global Market under the ticker symbol "ABTX."

#### Business Strategy

The Company’s objective is to grow and strengthen its community banking franchise by deploying its super-community banking strategy and by pursuing select strategic acquisitions in the Houston region. 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. We are positioned 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.

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 bankers 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 the Company 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.

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We plan to continue to emphasize our super-community banking strategy to organically grow our presence in the Houston region 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, 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. The following table summarizes, with preacquisition historical balances, our three acquisitions to date, all of which were of Houston-based banks:

Institution acquired	Date Completed (Dollars in millions)	Acquired Assets	Acquired Loans	Acquired Deposits	Number of Branches
Independence Bank, N.A.	November 16, 2013	\$222.1	\$132.4	\$199.4	3
F&M Bancshares, Inc.	January 1, 2015	\$569.7	\$410.2	\$488.9	9*
Post Oak Bancshares, Inc.	October 1, 2018	\$1,490.4	\$1,180.0	\$1,289.6	13

\*On January 31, 2016, the Company completed the sale of two of the acquired branches of Farmers & Merchants, Inc. ("F&M Bancshares") located in Central Texas and their related assets.

The most recent and significant acquisition to date was the Post Oak acquisition completed in 2018. For additional information pertaining to the Post Oak acquisition, see Note 2 to the audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

### Competitive Strengths

We believe that we are well positioned to execute our super-community banking strategy as a result of the following competitive strengths:

- Experienced, growth-focused senior management team. Our senior management team has a demonstrated track record of managing profitable organic growth, improving operating efficiencies, maintaining a strong risk management culture, implementing a community and service-focused approach to banking and successfully executing and integrating acquisitions. The Company's Board of Directors has many years of combined experience in serving as directors and/or officers of financial institutions. The directors have a wide array of business experience and, since many are residents of our primary market area, participate in and support local community activities, which is a significant asset to our business development efforts and enables us to be responsive to the needs of our

customers.

Scalable banking and operational platform designed to foster and accommodate significant growth. We have built a capable and knowledgeable staff by utilizing the significant prior experience of our management team and employees. We have made extensive investments in the technology and systems necessary to build a scalable corporate infrastructure with the capacity to support continued growth. We believe that our strong capital and asset quality position will allow us to grow and that our scalable operating platform will effectively support expected growth, resulting in greater efficiency and enhanced profitability.

Community-focused, full service customer relationships. We believe that our super-community banking strategy facilitates strong relationships with our customers. We are focused on delivering a wide variety of high-quality, relationship-driven commercial and community-oriented banking products and services tailored to meet the needs of small to medium-sized businesses, professionals and individuals in the Houston region. We actively solicit the deposit business of our consumer and commercial loan customers and seek to further leverage these relationships by broadening customer relationships with additional products and services.

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Local decision making authority and Houston region focus. Recent acquisitions of local financial institutions in the Houston region by larger, more regionally focused competitors have led to a reduced number of locally-based competitors, and we believe this has created an underserved base of small to medium-sized businesses, professionals and individuals that are interested in banking with a company headquartered in, and with decision-making authority based in, the Houston region. We seek to develop comprehensive, long-term banking relationships with customers and offer an array of products and services to support our loan and deposit activities while delivering high quality customer service. Our products and services are tailored to address the needs of our targeted customers. We are exclusively focused on serving the greater Houston region, which we believe positions us well to compete effectively and build strong customer relationships.

Focus on seasoned bankers. We believe our management team's long-standing presence and experience in the Houston region gives us valuable insight into the local market and the ability to successfully develop and recruit talented bankers. Our team of seasoned bankers has been the driver of our organic growth. Our officer compensation structure, which includes equity grants, profit sharing and various incentive programs, attracts talented bankers and motivates them to increase the size of their loan and deposit portfolios and generate fee income while maintaining strong credit quality.

Disciplined underwriting and credit administration. Our management, bankers and credit administration team emphasize a strong culture of risk management that is supported by comprehensive policies and procedures for credit underwriting, funding and administration that enable us to maintain sound asset quality. The Company's underwriting methodology emphasizes analysis of global cash flow coverage, loan to collateral value and obtaining personal guaranties in all but a few well-secured cases. Our tiered underwriting structure includes progressive levels of individual loan authority, concurrence authority and senior loan committee approval. We intend to continue to emphasize and adhere to these procedures and controls, which we believe have helped to minimize our level of loan charge-offs.

Diversified loan portfolio. The Company's focus on loans to small to medium-sized businesses results in a more diffused and diversified portfolio of relatively smaller loan relationships, thus reducing the risks that result from a dependence on fewer but larger lending relationships. As of December 31, 2018, our average funded core loan size was approximately \$332 thousand. Although we operate in the Houston region, we do not lend directly to oil and gas exploration and production companies. As of December 31, 2018, 3.8% of our total loan portfolio was to customers in the oilfield services or oil-related industries. We define these customers as those on whom the prices of oil and gas have a significant operational or financial impact. These loans carry an overall allowance of 1.9% at December 31, 2018, have various types of collateral and are usually personally guaranteed by the owners of the borrower.

#### Allegiance Community Banking Services

#### Lending Activities

We offer a wide range of commercial and retail lending services, including commercial loans, loans to small businesses guaranteed by the Small Business Administration, mortgage loans, home equity loans, personal loans and automobile loans, among others, specifically designed for small to medium-sized businesses and companies, professionals and individuals generally located within Texas and primarily in the Houston region. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition—Loan Portfolio" for a more detailed discussion of the Company's lending activities.

#### Deposit Products

Deposits are our principal source of funds for use in lending and other general banking purposes. We offer a variety of deposit products and services with the goal of attracting a wide variety of customers, with an emphasis on small to medium-sized businesses. The types of deposit accounts that the Company offers are typical of most commercial banks and consist of checking accounts, commercial accounts, savings accounts and other time deposits of various types, ranging from daily money market accounts to longer-term certificates of deposit. We actively pursue business

checking accounts by offering our business customers competitive rates and convenient services such as telephone, mobile and online banking. Our deposits are insured by the Federal Deposit Insurance Corporation (the “FDIC”) to the fullest extent permitted by law. See Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition—Deposits” for a more detailed discussion of the Company’s deposit products.

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## Other Banking Services

We offer basic banking products and services, which we believe are attractively priced, easily understood, convenient and readily accessible to our customers. In addition to banking during normal business hours, we offer extended drive-through hours, ATMs, mobile banking and banking by telephone, mail and Internet. Customers can conveniently access their accounts by phone, through a mobile application for smartphones and tablets, as well as through Internet banking that allows customers to obtain account balances, make deposits, transfer funds, pay bills online and receive electronic delivery of statements. We also provide safe deposit boxes, debit cards, cash management and wire transfer services, night depository, direct deposits, cashier's checks, and letters of credit. We have established relationships with correspondent banks and other independent financial institutions to provide other services requested by customers, including loan participations sold where the requested loan amount exceeds the lending limits in our lending policies.

## Competition

We compete in the highly competitive commercial banking industry through the Bank and firmly believe that the Bank's presence in the community and philosophy of personalized service enhances our ability to attract and retain customers. The Bank faces strong direct competition for deposit funds, lending opportunities, talented bankers, acquisition candidates and other financial-related services. We compete with other commercial banks, thrifts and credit unions and other financial institutions.

We compete for loans primarily with other commercial banks, savings banks, savings and loan associations, credit unions, finance companies, mutual funds, insurance companies, brokerage and investment banking firms, asset-based nonbank lenders and certain other nonfinancial entities, including retail stores that may maintain their own credit programs and certain governmental organizations, all of which are actively engaged in providing various types of loans and other financial services that may offer more favorable financing than we are able to offer. Although some of our competitors are situated locally, others have statewide or nationwide presence. We believe that we are able to compete with other financial institutions because of our experienced banking professionals, the range and quality of products that we offer, our responsive decision-making with respect to loans and our emphasis on customer service, thereby establishing strong customer relationships and building customer loyalty that distinguishes us from our competitors.

We rely heavily on the continued business our Bank's bankers generate and the efforts of our officers and directors to solicit and refer potential customers, and we expect this reliance to continue for the foreseeable future. We believe that our recent market share gains in our geographic areas of operation are a reflection of our ability to compete with the larger banking franchises in our market.

## Employees

As of December 31, 2018, we employed approximately 569 full-time equivalent employees. None of our employees were represented by a collective bargaining unit or are party to a collective bargaining agreement. We believe that we have a good relationship with our employees.

## Available Information

The Company's website address is [www.allegiancebank.com](http://www.allegiancebank.com). We make available free of charge on or through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after such materials are electronically filed with or furnished to the Securities and Exchange Commission (the "SEC"). Information contained on our website is not incorporated by reference into this Annual Report on Form 10-K and is not part of this or any other report that we file

with or furnish to the SEC.

#### Regulation and Supervision

The U.S. banking industry is highly regulated under federal and state law. These laws and regulations affect the operations and performance of the Company and its subsidiaries.

Statutes, regulations and policies limit the activities in which we may engage and how we conduct certain permitted activities. Further, the bank regulatory system imposes reporting and information collection obligations. We incur significant costs related to compliance with these laws and regulations. Banking statutes, regulations and policies are continually under review by federal and state legislatures and regulatory agencies, and a change in them, including changes in how they are interpreted or implemented, could have a material adverse effect on our business.

The material statutory and regulatory requirements that are applicable to us and our subsidiaries are summarized below. The description below is not intended to summarize all laws and regulations applicable to us and our subsidiaries, and is based upon the

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statutes, regulations, policies, interpretive letters and other written guidance that are in effect as of the date of this Annual Report on Form 10-K.

### Bank and Bank Holding Company Regulation

The Bank is a Texas-chartered banking association, the deposits of which are insured by the FDIC's Deposit Insurance Fund ("DIF") up to applicable legal limits. The Bank is not a member of the Federal Reserve System; therefore, the Bank is subject to ongoing and comprehensive supervision, regulation, examination and enforcement by the Texas Department of Banking (the "TDB") and the FDIC.

Any entity that directly or indirectly controls a bank must be approved to become a bank holding company by the Federal Reserve under the Bank Holding Company Act of 1956, as amended (the "BHC Act"). Bank holding companies are subject to regulation, examination, supervision and enforcement by the Federal Reserve under the BHC Act. The Federal Reserve's jurisdiction also extends to any company that is directly or indirectly controlled by a bank holding company.

As a bank holding company, we are subject to ongoing and comprehensive supervision, regulation, examination and enforcement by the Federal Reserve. As a bank holding company of a Texas state chartered bank, the Company is also subject to supervision, regulation, examination and enforcement by the TDB.

### Broad Supervision, Examination and Enforcement Powers

A principal objective of the U.S. bank regulatory system is to protect depositors by ensuring the financial safety and soundness of banking organizations. To that end, the banking regulators have broad regulatory, examination and enforcement authority and regularly examine the operations of banking organizations.

The regulators have various remedies available if they determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of a banking organization's operations are unsatisfactory. The regulators may also take action if they determine that the banking organization or its management is violating or has violated any law or regulation. The regulators have the power to, among other things:

- require affirmative actions to correct any violation or practice;
- issue administrative orders that can be judicially enforced;
- direct increases in capital;
- direct the sale of subsidiaries or other assets;
- limit dividends and distributions;
- restrict growth;
- assess civil monetary penalties;
- remove officers and directors; and
- terminate deposit insurance.

Engaging in unsafe or unsound practices or failing to comply with applicable laws, regulations and supervisory agreements could subject us and our subsidiaries or their officers, directors and institution-affiliated parties to the remedies described above and other sanctions.

### The Dodd-Frank Act

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) was signed into law. The Dodd-Frank Act has had a broad impact on the financial services industry, and imposes significant regulatory and compliance requirements, including the designation of certain financial companies as systemically important financial companies; enhanced oversight of credit rating agencies; the imposition of increased capital, leverage, and liquidity requirements; and numerous other provisions designed to improve supervision and oversight of, and strengthen safety and soundness within, the financial services sector.

Additionally, the Dodd-Frank Act established a new framework of authority to conduct systemic risk oversight within the financial system to be distributed among federal regulatory agencies, including the Financial Stability Oversight Council, the Federal Reserve and the FDIC.

The following items provide a brief description of certain provisions of the Dodd-Frank Act that are most relevant to the Company and the Bank.

- Source of strength.** Under Federal Reserve policy, bank holding companies have historically been required to act as a source of financial and managerial strength to each of their banking subsidiaries, and the Dodd-Frank Act codified this policy as a statutory requirement. As a result of this requirement, in the future Allegiance could be required to provide financial assistance to the Bank should it experience financial distress.
  
- Mortgage loan origination.** The Dodd-Frank Act authorized the Consumer Financial Protection Bureau (the “CFPB”) to establish certain minimum standards for the origination of residential mortgages, including a determination of the borrower’s ability to repay a residential mortgage loan. Under the Dodd-Frank Act, financial institutions may not make a residential mortgage loan unless they make a “reasonable and good faith determination” that the consumer has a “reasonable ability” to repay the loan. The Dodd-Frank Act allows borrowers to raise certain defenses to foreclosure, but provides a full or partial safe harbor from such defenses for loans that are “qualified mortgages.” The CFPB has promulgated rules to, among other things, specify the types of income and assets that may be considered in the ability to repay determination, the permissible sources for verification and the required methods of calculating the loan’s monthly payments. The rules extend the requirement that creditors verify and document a borrower’s income and assets to include all information that creditors rely on in determining repayment ability. The rules also provide further examples of third party documents that may be relied on for such verification, such as government records and check cashing or funds transfer service receipts. The rules also define “qualified mortgages,” imposing both underwriting standards—for example, a borrower’s debt to income ratio may not exceed 43%—and limits on the terms of their loans. Points and fees are subject to a relatively stringent cap, and the terms include a wide array of payments that may be made in the course of closing a loan. Certain loans, including interest only loans and negative amortization loans, cannot be qualified mortgages.
  
- Risk retention.** On October 22, 2014, the federal regulators including the Federal Reserve, the FDIC and the SEC issued a final rule in connection with the risk retention requirement mandated by Section 941 of the Dodd-Frank Act. The risk retention requirement generally requires a securitizer to retain no less than 5% of the credit risk in assets it sells into a securitization and prohibits a securitizer from directly or indirectly hedging or otherwise transferring the credit risk that the securitizer is required to retain, subject to limited exemptions. One significant exemption is for securities entirely collateralized by “qualified residential mortgages” (“QRMs”), which are loans deemed to have a lower risk of default. The rule defines QRMs to have the same meaning as the term “qualified mortgage,” as defined by the CFPB. In addition, the rule provides for reduced risk retention requirements for qualifying commercial loan, commercial real estate loan and auto loan securitizations.
  
- Consumer Financial Protection Bureau.** The Dodd-Frank Act created the CFPB, which is tasked with establishing and implementing rules and regulations under certain federal consumer protection laws with respect to the conduct of providers of certain consumer financial products and services. The CFPB has rulemaking authority over many of the statutes governing products and services offered to bank and thrift consumers. For banking organizations with assets of \$10 billion or more, the CFPB has exclusive rule-making, examination, and primary enforcement authority under federal consumer financial laws. In addition, the Dodd-Frank Act permits states to adopt consumer protection laws and regulations that are stricter than those regulations promulgated by the CFPB.

- Deposit insurance. The Dodd-Frank Act made permanent the general \$250 thousand deposit insurance limit for insured deposits. Amendments to the Federal Deposit Insurance Act (the “FDIA”) also revised the assessment base against which an insured depository institution’s deposit insurance premiums paid to the FDIC’s DIF will be calculated. Under the amendments, the assessment base is no longer the institution’s deposit base, but rather its average consolidated total assets less its average tangible equity. Additionally, the Dodd-Frank Act made changes to the minimum designated reserve ratio of the DIF, increasing the minimum from 1.15% to 1.35% of the estimated amount of total insured deposits, and eliminating the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds. The FDIC’s restoration plan was designed to ensure that the

fund reserve ratio reached 1.35% by September 30, 2020, as required by the Dodd-Frank Act. In November 2018, the FDIC

announced that the DIF reserve ratio reached 1.36%. Since the DIF reserve ratio exceeded 1.35% required by the Dodd-Frank Act, the FDIC formally exited the DIF restoration plan.

- Transactions with affiliates and insiders. The Dodd-Frank Act generally enhanced the restrictions on transactions with affiliates under Section 23A and 23B of the Federal Reserve Act, including an expansion of the definition of “covered transactions” and clarification regarding the amount of time for which collateral requirements regarding covered credit transactions must be satisfied. Insider transaction limitations are expanded through the strengthening of loan restrictions to insiders and the expansion of the types of transactions subject to the various limits, including derivatives transactions, repurchase agreements, reverse repurchase agreements and securities lending or borrowing transactions. Restrictions are also placed on certain asset sales to and from an insider to an institution, including requirements that such sales be on market terms and, in certain circumstances, approved by the institution’s board of directors.



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•Corporate governance. The Dodd-Frank Act addresses many investor protections, corporate governance and executive compensation matters that will affect most U.S. publicly traded companies, including Allegiance. The Dodd-Frank Act (1) grants shareholders of U.S. publicly traded companies an advisory vote on executive compensation, (2) enhances independence requirements for compensation committee members, (3) requires companies listed on national securities exchanges to adopt incentive-based compensation clawback policies for executive officers and (4) provides the SEC with authority to adopt proxy access rules that would allow shareholders of publicly traded companies to nominate candidates for election as a director and have those nominees included in a company's proxy materials. For so long as we are an emerging growth company, we may take advantage of the provisions of the Jumpstart Our Business Startups Act (the "JOBS Act") allowing us to not to seek a non-binding advisory vote on executive compensation.

The requirements of the Dodd-Frank Act still are in the process of being implemented and many of the requirements remain subject to regulations implemented over the course of several years. The manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies and through regulations as well as the full extent of the impact such requirements will have on our operations, is unclear.

### The Volcker Rule

The Volcker Rule under the Dodd-Frank Act prohibits banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain hedge funds and private equity funds. Since neither Allegiance nor the Bank engages in the types of trading or investing covered by the Volcker Rule, the Volcker Rule does not currently have any effect on our operations.

### Notice and Approval Requirements Related to Control

Federal and state banking laws impose notice, application, approval or non-objection and ongoing regulatory requirements on any shareholder or other person that controls or seeks to acquire direct or indirect "control" of an FDIC-insured depository institution. These laws include the BHC Act, the Change in Bank Control Act and the Texas Banking Act. Among other things, these laws require regulatory filings by a shareholder or other person that seeks to acquire direct or indirect "control" of an FDIC-insured depository institution. The determination whether a person "controls" a depository institution or its holding company is based on all of the facts and circumstances surrounding the investment. As a general matter, a person is deemed to control a depository institution or other company if the person owns or controls 25% or more of any class of voting stock. Subject to rebuttal, a person may be presumed to control a depository institution or other company if the person owns or controls 10% or more of any class of voting stock and other regulatory criteria are met. Ownership by affiliated persons, or persons acting in concert, is typically aggregated for these purposes.

In addition, except under limited circumstances, bank holding companies are prohibited from acquiring, without prior approval control of any other bank or bank holding company or all or substantially all the assets thereof; or more than 5% of the voting shares of a bank or bank holding company that is not already a subsidiary.

### Permissible Activities and Investments

Banking laws generally restrict our ability to engage in, or acquire more than 5% of the voting shares of a company engaged in, activities other than those determined by the Federal Reserve to be so closely related to banking as to be a

proper incident thereto. The Gramm-Leach-Bliley Financial Modernization Act of 1999 (the “GLB Act”) expanded the scope of permissible activities for a bank holding company that qualifies as a financial holding company. Under the regulations implementing the GLB Act, a financial holding company may engage in additional activities that are financial in nature or incidental or complementary to a financial activity. Those activities include, among other activities, certain insurance and securities activities. Qualifications for becoming a financial holding company include, among other things, meeting certain specified capital standards and achieving certain management ratings in examinations. Under the Dodd-Frank Act, bank holding companies and their subsidiaries must be well-capitalized and well-managed in order for the bank holding company and its nonbank affiliates to engage in the expanded financial activities permissible only for a financial holding company.

In addition, as a general matter, we must receive prior regulatory approval before establishing or acquiring a depository institution or, in certain cases, a non-bank entity.

The Texas Constitution, as amended in 1986, provides that a Texas-chartered bank has the same rights and privileges that are or may be granted to national banks domiciled in Texas. To the extent that the Texas laws and regulations may have allowed state-chartered banks to engage in a broader range of activities than national banks, the Federal Deposit Insurance Corporation Improvement Act of 1991 (the “FDICIA”), has operated to limit this authority. The FDICIA provides that no state bank or subsidiary thereof may engage as a principal in any activity not permitted for national banks, unless the institution complies with applicable capital requirements and the FDIC determines that the activity poses no significant risk to the DIF of the FDIC. In general, statutory restrictions on the activities of banks are aimed at protecting the safety and soundness of depository institutions.

## Branching

Texas law provides that a Texas-chartered bank can establish a branch anywhere in Texas provided that the branch is approved in advance by the TDB. The branch must also be approved by the FDIC. The regulators consider a number of factors, including financial history, capital adequacy, earnings prospects, character of management, needs of the community and consistency with corporate powers. The Dodd-Frank Act permits insured state banks to engage in de novo interstate branching if the laws of the state where the new branch is to be established would permit the establishment of the branch if it were chartered by such state.

## Regulatory Capital Requirements and Capital Adequacy

The bank regulators view capital levels as important indicators of an institution's financial soundness. As a general matter, FDIC-insured depository institutions and their holding companies are required to maintain minimum capital relative to the amount and types of assets they hold. The final supervisory determination on an institution's capital adequacy is based on the regulator's assessment of numerous factors. As a bank holding company and a state-chartered non-member bank, the Company and the Bank are subject to both risk-based and leverage regulatory capital requirements.

In 1988, the International Basel Committee on Banking Supervision, a committee of central banks and bank supervisors, ("Basel Committee"), adopted a capital accord, known as Basel I, which established the framework for risk-based capital guidelines implemented by the U.S. federal bank regulators. Basel II was issued by the Basel Committee in November 2005, and in 2010, the Basel Committee implemented the revised framework for strengthening international capital and liquidity, referred to as Basel III.

In July 2013, the federal banking agencies published final capital rules ("Basel III Capital Rules") effective January 1, 2015 that revised the risk-based and leverage capital requirements and the method for calculating risk-weighted assets to implement, in part, Basel III agreements reached by the Basel Committee and certain provisions of the Dodd-Frank Act. While some provisions are tailored to larger institutions, the Basel III Capital Rules generally apply to all banking organizations, including the Company and the Bank. In broad terms, the Basel III Capital Rules increased the required quality and quantity of the capital base, reduced the range of instruments that count as capital and increased the risk-weighted asset assessment for certain types of activities.

Among other things, the Basel III Capital Rules impact regulatory capital ratios of banking organizations in the following manner, which were fully phased in on January 1, 2019: create a new requirement to maintain a ratio of "common equity Tier 1 capital" to total risk-weighted assets of not less than 4.5%; increase the minimum leverage capital ratio to 4.0% for all banking organizations; increase the minimum tier 1 risk-based capital ratio from 4.0% to 6.0%; and maintain the minimum total risk-based capital ratio at 8.0%.

In addition, the Basel III Capital Rules subject a banking organization to certain limitations on capital distributions, equity repurchases and discretionary bonus payments to executive officers if the organization does not maintain a "capital conservation buffer" of common equity Tier 1 capital. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and was phased in over a three-year period (increasing by 0.625% on each subsequent January 1, until it reached 2.5% on January 1, 2019). As fully phased-in, the effect of the capital conservation buffer increases the minimum common equity Tier 1 capital ratio to 7.0%, the minimum tier 1 risk-based capital ratio to 8.5% and the minimum total risk-based capital ratio to 10.5%.

The Basel III Capital Rules also changed the capital categories for insured depository institutions for purposes of prompt corrective action. Under the Basel III Capital Rules, to be well capitalized, an insured depository institution is required to maintain a minimum common equity Tier 1 capital ratio of at least 6.5%, a tier 1 risk-based capital ratio of at least 8.0%, a total risk-based capital ratio of at least 10.0%, and a leverage capital ratio of at least 5.0%. In addition, the Basel III Capital Rules established more conservative standards for including an instrument in regulatory capital and impose certain deductions from and adjustments to the measure of common equity Tier 1 capital.

Under the Basel III Capital Rules, banking organizations were provided a one-time option in their initial regulatory financial report filed after January 1, 2015, to remove certain components of accumulated other comprehensive income from the computation of common equity regulatory capital. For banking organizations with less than \$15 billion in total assets, existing trust preferred securities and cumulative perpetual preferred stock continue to be included in regulatory capital while other instruments are disallowed. The Basel III Capital Rules also provide additional constraints on the inclusion of minority interests, mortgage servicing assets, deferred tax assets and certain investments in the capital of unconsolidated financial institutions in Tier 1 capital, as well as providing stricter risk weighting rules to these assets.

The Basel III Capital Rules also provide stricter rules related to the risk weighting of past due and certain commercial real estate loans, as well as on some equity investment exposures, and replace the existing credit rating approach for determining the risk weighting of securitization exposures with an alternative approach.

The federal banking agencies' risk-based and leverage ratios are minimum supervisory ratios generally applicable to banking organizations that meet certain specified criteria. The federal bank regulatory agencies may set capital requirements for a particular banking organization that are higher than the minimum ratios when circumstances warrant. Federal Reserve guidelines also provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets.

In October 2017, the federal bank regulatory agencies issued a notice of proposed rulemaking on simplifications to the final rules (the "simplifications NPR"), a majority of which would apply solely to banking organizations that are not subject to the advanced approaches capital rule. Under the proposed rulemaking, non-advanced approaches banking organizations, such as Allegiance and the Bank, would apply a simpler regulatory capital treatment for mortgage servicing assets, certain deferred tax assets arising from temporary differences, investments in the capital of unconsolidated financial institutions and capital issued by a consolidated subsidiary of a banking organization and held by third parties. In anticipation of issuing the simplifications NPR that would include changes to the regulatory capital treatment discussed above, in August 2017, the federal bank regulatory agencies issued a notice of proposed rulemaking that would extend the current transition provisions for these items for non-advanced approach banking organizations (the "transitions NPR"). The transitions NPR was intended solely to stay the phase-in of certain elements of the capital rules in light of goals stated in the Economic Growth and Regulatory Paperwork Reduction Act report to Congress in March 2017 and in contemplation of the simplifications NPR. In November 2017, the agencies published the final rule adopting the proposals set forth in the transitions NPR thereby extending the regulatory capital treatment that was applicable during 2017 for these items for non-advanced approach banking organizations into 2018 while the simplifications NPR is pending.

In December 2017, the Basel Committee published the last version of the Basel III accord, generally referred to as "Basel IV." The Basel Committee stated that a key objective of the revisions incorporated into the framework is to reduce excessive variability of risk-weighted assets, which will be accomplished by enhancing the robustness and risk sensitivity of the standardized approaches for credit risk and operational risk, which will facilitate the comparability of banks' capital ratios, constraining the use of internally modeled approaches and complementing the risk-weighted capital ratio with a finalized leverage ratio and a revised and robust capital floor. Leadership of the federal bank regulatory agencies who are tasked with implementing Basel IV supported the revisions. Although it is uncertain at this time, we anticipate some, if not all, of the Basel IV accord may be incorporated into the capital requirements framework applicable to the Company.

On May 24, 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act (the "EGRRCPA") amended provisions in the Dodd-Frank Act as well as certain other statutes administered by the federal bank agencies. Section 201 of the EGRRCPA, directs the agencies to develop a community bank leverage ratio of not less than 8% and not more than 10% for qualifying community banks (qualifying community banking organizations). On November 21, 2018, the federal banking agencies released a proposal to simplify the regulatory capital requirements for qualifying community banking organizations. Under the proposal, banks and bank holding companies that have less than \$10 billion in total consolidated assets, that meet risk-based qualifying criteria, and that have a community bank leverage ratio (as defined in the proposal) of greater than 9% would be eligible to opt into a community bank leverage ratio framework. Such banking organizations that elect to use the community bank leverage ratio and that maintain a community bank leverage ratio of greater than 9% would not be subject to other risk-based and leverage capital requirements and would be considered to have met the well-capitalized ratio requirements for purposes of section 38 of the FDIA and regulations implementing that section, as applicable, and the generally applicable capital requirements under the banking agencies' capital rule.

Prompt Corrective Action

Under the FDIA, 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 it has a total risk-based capital ratio of 10.0% or greater, a common equity Tier 1 capital ratio of 6.5% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, 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. A depository institution is deemed to be “adequately capitalized” if it has a total risk-based capital ratio of 8.0% or greater, a common equity Tier 1 capital ratio of 4.5% or greater; a Tier 1 risk-based capital ratio of 6.0% or greater; a leverage ratio of 4.0% or greater; and does not meet the criteria for a “well capitalized” bank. A depository institution is “under-capitalized” if it has a total risk-based capital ratio of less than 8.0%, a common equity Tier 1 capital ratio less than 4.5%, a Tier 1 risk-based capital ratio of less than 6.0% or a leverage ratio of less than 4.0%. 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. A banking institution that is undercapitalized is required to submit a capital restoration plan. The capital restoration plan will not be accepted by the regulators unless each company having control of the undercapitalized institution guarantees the subsidiary’s compliance with the capital restoration plan up to a certain specified amount.

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 upon notice and hearing, restrictions on certain business activities and appointment of the FDIC as conservator or receiver. As of December 31, 2018, the Bank met the requirements to be “well capitalized” under the prompt corrective action regulations.

#### Regulatory Limits on Dividends and Distributions

As a bank holding company, we are subject to certain restrictions on paying dividends under applicable federal and Texas laws and regulations. The Federal Reserve has issued a policy statement that provides that a bank holding company should not pay dividends unless (i) its net income over the last four quarters (net of dividends paid) has been sufficient to fully fund the dividends, (ii) the prospective rate of earnings retention appears to be consistent with the capital needs, asset quality and overall financial condition of the bank holding company and its subsidiaries and (iii) the bank holding company will continue to meet minimum required capital adequacy ratios. Accordingly, a bank holding company should not pay cash dividends that exceed its net income or that can only be funded in ways that weaken the bank holding company’s financial health, such as by borrowing. The Dodd-Frank Act and Basel III capital requirements impose additional restrictions on the ability of banking institutions to pay dividends.

Substantially all of our income, and a principal source of our liquidity, are dividends from the Bank. The ability of the Bank to pay dividends to us is restricted by federal and state laws, regulations and policies.

Capital adequacy requirements serve to limit the amount of dividends that may be paid by the Bank. Under the FDIA, an insured depository institution such as the Bank is prohibited from making capital distributions, including the payment of dividends, if, after making such distribution, the institution would become “undercapitalized.” The FDIC may further restrict the payment of dividends by requiring the Bank to maintain a higher level of capital than would otherwise be required in order to be adequately capitalized for regulatory purposes. Payment of dividends by the Bank also may be restricted at any time at the discretion of the appropriate regulator if it deems the payment to constitute an unsafe and unsound banking practice. As noted above, the capital conservation buffer created under the Basel III capital rules, when fully implemented, may also have the effect of limiting the payment of capital distributions from the Bank.

#### Reserve Requirements

Pursuant to regulations of the Federal Reserve, all banking organizations are required to maintain average daily reserves at mandated ratios against their transaction accounts. In addition, reserves must be maintained on certain non-personal time deposits. These reserves must be maintained in the form of vault cash or in an account at a Federal Reserve Bank.

#### Limits on Transactions with Affiliates and Insiders

Insured depository institutions are subject to restrictions on their ability to conduct transactions with affiliates and other related parties. Section 23A of the Federal Reserve Act imposes quantitative limits, qualitative requirements, and collateral requirements on certain transactions by an insured depository institution with, or for the benefit of, its affiliates. Transactions covered by Section 23A include loans, extensions of credit, investment in securities issued by an affiliate and acquisitions of assets from an affiliate. Section 23B of the Federal Reserve Act requires that most types of transactions by an insured depository institution with, or for the benefit of, an affiliate be on terms,

substantially the same or at least as favorable to the insured depository institution as if the transaction were conducted with an unaffiliated third party.

As noted above, the Dodd-Frank Act generally enhances the restrictions on transactions with affiliates under Section 23A and 23B of the Federal Reserve Act, including an expansion of the definition of “covered transactions” and a clarification regarding the amount of time for which collateral requirements regarding covered credit transactions must be satisfied. The ability of the Federal Reserve to grant exemptions from these restrictions is also narrowed by the Dodd-Frank Act, including by requiring coordination with other bank regulators.

The Federal Reserve’s Regulation O imposes restrictions and procedural requirements in connection with the extension of credit by an insured depository institution to directors, executive officers, principal shareholders and their related interests.

#### Brokered Deposits

The FDIA restricts the use of brokered deposits by certain depository institutions. Under the applicable regulations, a “well capitalized insured depository institution” may solicit and accept, renew or roll over any brokered deposit without restriction. An “adequately capitalized insured depository institution” may not accept, renew or roll over any brokered deposit unless it has applied for and been granted a waiver of this prohibition by the FDIC. An “undercapitalized insured depository institution” may not accept,



renew or roll over any brokered deposit. The FDIC may, on a case-by-case basis and upon application by an adequately capitalized insured depository institution, waive the restriction on brokered deposits upon a finding that the acceptance of brokered deposits does not constitute an unsafe or unsound practice with respect to such institution.

In addition, the FDIA prohibits an insured depository institution from offering interest rates on any deposits significantly higher than the prevailing rate in the bank's normal market area or nationally (depending upon where the deposits are solicited), unless it is well capitalized or is adequately capitalized and receives a waiver from the FDIC. A depository institution that is adequately capitalized and accepts brokered deposits under a waiver from the FDIC may not pay an interest rate on any deposit in excess of 75 basis points over certain prevailing market rates.

#### Concentrated Commercial Real Estate Lending Guidance

The federal banking agencies, including the FDIC, have promulgated guidance governing financial institutions with concentrations in commercial real estate lending. The guidance provides that a bank has a concentration in commercial real estate lending if (i) total reported loans for construction, land development, and other land represent 100% or more of total capital or (ii) total reported loans secured by multifamily and non-farm residential properties and loans for construction, land development, and other land represent 300% or more of total capital and the bank's commercial real estate loan portfolio has increased 50% or more during the prior 36 months. Owner-occupied commercial real estate loans are excluded from this second category. If a concentration is present, management must employ heightened risk management practices that address the following key elements: board and management oversight and strategic planning, portfolio management, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing and maintenance of increased capital levels as needed to support the level of commercial real estate lending.

#### Examination and Examination Fees

The FDIC periodically examines and evaluates state non-member banks. Based on such an evaluation, the Bank, among other things, may be required to revalue its assets and establish specific reserves to compensate for the difference between the Bank's assessment and that of the FDIC. The TDB also conducts examinations of state banks but may accept the results of a federal examination in lieu of conducting an independent examination. In addition, the FDIC and TDB may elect to conduct a joint examination. The TDB charges fees to recover the costs of examining Texas chartered banks, as well as filing fees for certain applications and other filings. The Dodd-Frank Act provides various agencies with the authority to assess additional supervision fees.

#### Deposit Insurance and Deposit Insurance Assessments

The FDIC is an independent federal agency that insures the deposits of federally insured depository institutions up to applicable limits. The FDIC also has certain regulatory, examination and enforcement powers with respect to FDIC-insured institutions. The deposits of the Bank are insured by the FDIC up to applicable limits. As a general matter, the maximum deposit insurance amount is \$250 thousand per depositor. FDIC-insured depository institutions are required to pay deposit insurance assessments to the FDIC. The amount of a particular institution's deposit insurance assessment for institutions with less than \$10 billion in assets is based on that institution's risk classification under an FDIC risk based assessment system. An institution's risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to the regulators. Institutions assigned to higher risk categories (that is, institutions that pose a higher risk of loss to the Deposit Insurance Fund) pay assessments at higher

rates than institutions that pose a lower risk. As noted above, the Dodd-Frank Act changed the way an insured depository institution's deposit insurance premiums are calculated.

#### Depositor Preference

The FDIA provides that, in the event of the "liquidation or other resolution" of an insured depository institution, the claims of depositors of the institution (including the claims of the FDIC as subrogee of insured depositors) and certain claims for administrative expenses of the FDIC as a receiver will have priority over other general unsecured claims against the institution. If the Company invests in or acquires an insured depository institution that fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including the Company, with respect to any extensions of credit they have made to such insured depository institution.

#### Anti-Money Laundering and OFAC

Under federal law, financial institutions must maintain anti-money laundering programs that include established internal policies, procedures and controls, a designated compliance officer, an ongoing employee training program and testing of the program by an independent audit function. Financial institutions are also prohibited from entering into specified financial transactions and

account relationships and must meet enhanced standards for due diligence and customer identification in their dealings with non-U.S. financial institutions and non-U.S. customers. Financial institutions must take reasonable steps to conduct enhanced scrutiny of account relationships to guard against money laundering and to report any suspicious transactions, and law enforcement authorities have been granted increased access to financial information maintained by financial institutions. Bank regulators routinely examine institutions for compliance with these obligations and they must consider an institution's compliance with such obligations in connection with the regulatory review of applications, including applications for mergers and acquisitions. The regulatory authorities have imposed cease and desist orders and civil money penalty sanctions against institutions found to be violating these obligations.

The U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC") is responsible for helping to ensure that U.S. entities do not engage in transactions with certain prohibited parties, as defined by various Executive Orders and Acts of Congress. OFAC publishes lists of persons, organizations and countries suspected of aiding, harboring or engaging in terrorist acts, known as Specially Designated Nationals and Blocked Persons. If the Company or the Bank finds a name on any transaction, account or wire transfer that is on an OFAC list, the Company or the Bank must freeze or block such account or transaction, file a suspicious activity report and notify the appropriate authorities.

### Consumer Laws and Regulations

Banking organizations are subject to numerous laws and regulations intended to protect consumers. These laws include, among others:

- Truth in Lending Act;
- Truth in Savings Act;
- Electronic Funds Transfer Act;
- Expedited Funds Availability Act;
- Equal Credit Opportunity Act;
- Fair and Accurate Credit Transactions Act;
- Fair Housing Act;
- Fair Credit Reporting Act;
- Fair Debt Collection Act;
- Gramm-Leach-Bliley Act;
- Home Mortgage Disclosure Act;
- Right to Financial Privacy Act;
- Real Estate Settlement Procedures Act;

- laws regarding unfair and deceptive acts and practices; and
- usury laws.

Many states and local jurisdictions have consumer protection laws analogous to, and in addition to, those listed above. These federal, state and local laws regulate the manner in which financial institutions deal with customers when taking deposits, making loans or conducting other types of transactions. Failure to comply with these laws and regulations could give rise to regulatory sanctions, customer rescission rights, action by state and local attorneys general and civil or criminal liability. The creation of the CFPB by the Dodd-Frank Act has led to enhanced enforcement of consumer financial protection laws.

#### The Community Reinvestment Act

The Community Reinvestment Act (the “CRA”) and related regulations are intended to encourage banks to help meet the credit needs of their service areas, including low and moderate-income neighborhoods, consistent with safe and sound operations. The bank

regulators examine and assign each bank a public CRA rating. The CRA requires bank regulators to take into account the bank's record in meeting the needs of its service area when considering an application by a bank to establish or relocate a branch or to conduct certain mergers or acquisitions. The Federal Reserve is required to consider the CRA records of a bank holding company's controlled banks when considering an application by the bank holding company to acquire a banking organization or to merge with another bank holding company. When we or the Bank applies for regulatory approval to engage in certain transactions, the regulators will consider the CRA record of target institutions and our depository institution subsidiaries. An unsatisfactory CRA record could substantially delay approval or result in denial of an application. The regulatory agency's assessment of the institution's record is made available to the public. The Bank received an overall CRA rating of "satisfactory" on its most recent CRA examination. In April 2018, the U.S. Department of Treasury issued a memorandum to the federal banking regulators with recommended changes to the CRA's implementing regulations to reduce their complexity and associated burden on banks.

### Incentive Compensation Guidance

In July 2010, the federal banking agencies issued guidance on incentive compensation policies that applies to all banking organizations supervised by the agencies, including Allegiance and the Bank. Pursuant to the guidance, to be consistent with safety and soundness principles, a banking organization's incentive compensation arrangements should: (1) provide employees with incentives that appropriately balance risk and reward; (2) be compatible with effective controls and risk management; and (3) be supported by strong corporate governance including active and effective oversight by the banking organization's board of directors. Monitoring methods and processes used by a banking organization should be commensurate with the size and complexity of the organization and its use of incentive compensation.

Section 956 of the Dodd-Frank Act requires the federal bank regulatory agencies and the SEC to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities that encourage inappropriate risk-taking by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees or benefits or that could lead to material financial loss to the entity. The federal bank regulatory agencies issued such proposed rules in April 2011 and issued a revised proposed rule in June 2016 implementing the requirements and prohibitions set forth in Section 956. The revised proposed rule would apply to all banks, among other institutions, with at least \$1 billion in average total consolidated assets, for which it would go beyond the existing guidance to (i) prohibit certain types and features of incentive-based compensation arrangements for senior executive officers, (ii) require incentive-based compensation arrangements to adhere to certain basic principles to avoid a presumption of encouraging inappropriate risk, (iii) require appropriate board or committee oversight, (iv) establish minimum recordkeeping and (v) mandate disclosures to the appropriate federal banking agency.

### Cybersecurity

Federal bank regulatory agencies have adopted guidelines for establishing information security standards and cybersecurity programs for implementing safeguards. These guidelines, along with related regulatory materials, increasingly focus on risk management and processes related to information technology and the use of third parties in the provision of financial services. State regulators have also been increasingly active in implementing privacy and cybersecurity standards and regulations. Many states have recently implemented or modified their data breach notification and data privacy requirements, which could apply to us depending on the location of our customers.

Changes in Laws, Regulations or Policies

Federal, state and local legislators and regulators regularly introduce measures or take actions that would modify the regulatory requirements applicable to banks, their holding companies and other financial institutions. Changes in laws, regulations or regulatory policies could adversely affect the operating environment for us in substantial and unpredictable ways, increase or decrease our cost of doing business, impose new restrictions on the way in which the Company conducts its operations or modify significant operational constraints that might impact the Company's profitability. Whether new legislation will be enacted and, if enacted, the effect that it, or any implementing regulations, would have on the Company and its subsidiaries' business, financial condition or results of operations cannot be predicted. A change in laws, regulations or regulatory policies may have a material adverse effect on the Company's business and results of operations.

## Effect on Economic Environment

The policies of regulatory authorities, including the monetary policy of the Federal Reserve, have a significant effect on the operating results of bank holding companies and their subsidiaries. Among the means available to the Federal Reserve to affect the money supply are open market operations in U.S. government securities, changes in the discount rate on member bank borrowings, and changes in reserve requirements with respect to deposits. These means are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may affect interest rates charged on loans or paid for deposits. Federal Reserve monetary policies have materially affected the operating results of commercial banks in the past and are expected to continue to do so in the future. The Company cannot predict the nature of future monetary policies and the effect of such policies on its business and earnings.

## ITEM 1A. RISK FACTORS

An investment in our common stock involves risks. The following is a description of the material risks and uncertainties that we believe affect our business and an investment in our common stock. Additional risks and uncertainties that we are unaware of, or that we currently deem immaterial, also may become important factors that affect the Company and our business. If any of the risks described in this Annual Report on Form 10-K were to occur, our financial condition, results of operations and cash flows could be materially and adversely affected. In such an event, the value of our common stock could decline and you could lose all or part of your investment.

### Risks Related to our Business

Our business concentration in Texas, specifically in the Houston region, imposes risks and may magnify the consequences of any regional or local economic downturn affecting Houston, including any downturn in the energy or real estate sectors.

We conduct our operations almost exclusively in the Houston region. As of December 31, 2018, the substantial majority of the loans in our loan portfolio were made to borrowers who live and/or conduct business in Texas, and specifically, in the Houston region, and the substantial majority of our secured loans were secured by collateral located in the Houston region. Accordingly, we are significantly exposed to risks associated with a lack of geographic diversification. The economic conditions in the Houston region are dependent on the energy sector generally and the price of oil and gas specifically. Any downturn or adverse development in the energy sector or continued low oil or gas prices could have a material adverse impact on our business, financial condition, results of operations and future prospects. Adverse economic developments, among other things, could negatively affect the volume of loan originations, increase the level of nonperforming assets and charge-offs, increase the rate of foreclosure losses on loans and reduce the value of our loans and loan servicing portfolio. Any regional or local economic downturn that affects the Houston region or Texas more generally, or our existing borrowers, prospective borrowers or property values in the Company's market area may affect our profitability more significantly and more adversely than those of our competitors with operations that are less geographically concentrated in the same area.

We may not be able to implement aspects of our growth strategy, which may affect our ability to maintain our historical earnings trends.

The Company's growth strategy focuses on organic growth, supplemented by strategic acquisitions. The Company may not be able to execute on aspects of its growth strategy to sustain its historical rate of growth or may not be able to grow at all. More specifically, the Company may not be able to generate sufficient new loans and deposits within acceptable risk and expense tolerances, obtain the personnel or funding necessary for additional growth or find suitable acquisition candidates. Various factors, such as economic conditions, in particular, the volatility of oil and gas prices and competition, may impede or prohibit the growth of the Company's operations, the opening of new branches and the consummation of additional acquisitions. Further, the Company may be unable to attract and retain experienced bankers, which could adversely affect its growth. The success of the Company's growth strategy also depends on its ability to effectively manage growth, which is dependent upon a number of factors, including the Company's ability to adapt its existing credit, operational, technology and governance infrastructure to accommodate expanded operations. If the Company fails to implement one or more aspects of its growth strategy, the Company may be unable to maintain its historical earnings trends, which could adversely affect its business, financial condition and results of operations.



We are dependent on our executive officers and other key individuals to continue the implementation of our long-term business strategy and the loss of one or more of these key individuals could curtail our growth and adversely affect our business, financial condition, results of operations and prospects.

Our continued success depends in large part upon the skills, experience and continued service of our executive management team and Board of Directors. Our goals, strategies and continued growth are closely tied to the strengths and banking philosophy of our executive management team, including our Chairman and Chief Executive Officer, George Martinez, and our President, Steven F. Retzloff. Successful implementation of our business strategy is also dependent in part on the continued service of our bank office presidents. The community involvement and diverse and extensive local business relationships and experience in the Houston market of our officers in the Houston region are important to our success. The loss of services of any of these key personnel in the future could have a negative impact on our business because of their skills, years of industry experience and the difficulty of promptly finding qualified replacement personnel who are experienced in the specialized aspects of our business or who have ties to the communities within our market area. Currently, it is generally our policy not to have employment agreements with our officers. While the Company does not anticipate any changes in our executive management team, the unexpected loss of any of these members of management could have a material adverse effect on the Company and our ability to implement our business strategy.

Our ability to retain bankers and recruit additional successful bankers is critical to the success of our business strategy and any failure to do so could impair our customer relationships and adversely affect our business and results of operations.

Our ability to retain and grow our loans, deposits and fee income depends upon the business generation capabilities, reputation and the relationship management skills of our bankers. If we were to lose the services of any of our bankers, including successful bankers employed by an acquired bank, to a competitor or otherwise, the Company may not be able to retain valuable relationships and some of our customers could choose to use the services of a competitor instead of our services.

Our success and growth strategy also depends on our continued ability to attract and retain experienced loan officers and support staff, as well as other management personnel. The Company may face difficulties in recruiting and retaining bankers and other personnel of our desired caliber, including as a result of competition from other financial institutions. Competition for loan officers and other personnel is strong and the Company may not be successful in attracting or retaining the personnel it requires. In particular, many of our competitors are significantly larger with greater financial resources, and may be able to offer more attractive compensation packages and broader career opportunities. Additionally, the Company may incur significant expenses and expend significant time and resources on training, integration and business development before it is able to determine whether a new loan officer will be profitable or effective. If we are unable to attract and retain successful loan officers and other personnel, or if our loan officers and other personnel fail to meet our expectations in terms of customer relationships and profitability, we may be unable to execute our business strategy and our business, financial condition, results of operations and growth prospects may be negatively affected.

A key piece of our strategic growth plan involves decision-making authority at the bank office level, and our business, financial condition, results of operations and prospects could be negatively affected if our local teams do not follow our internal policies or are negligent in their decision-making.

We attract and retain our management talent by empowering them to make certain business decisions on a local level. Lending authorities are assigned to bank office presidents and their banking teams based on their level of experience. Additionally, all loan relationships in excess of internal specified maximums are reviewed by the Bank's Senior Loan Committee, comprised of senior management of the Bank. Our local bankers may not follow our internal procedures or otherwise act in our best interests with respect to our decision-making. A failure of our employees to follow our internal policies, or actions taken by our employees that are negligent, could have a material adverse effect on our

business, financial condition, results of operations and prospects.

Our strategic growth plan, which includes pursuing acquisitions, could expose the Company to financial, execution and operational risks that could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

The Company has acquired three financial institutions and one branch and intends to continue to pursue a strategy that includes future acquisitions. An acquisition strategy involves significant risks, including the following:

- discovering proper candidates for acquisition;
- incurring time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions, resulting in management's attention being diverted from the operation of our existing business;
- using inaccurate estimates and judgments to evaluate credit, operations, management, compliance and market risks with respect to the target institution or assets;

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- conducting adequate due diligence and managing known and unknown risks and uncertainties;
- obtaining necessary regulatory approvals;
- integrating the operations and personnel of the combined businesses, thereby creating an adverse short-term effect on results of operations;
- attracting and retaining qualified management and key personnel, including bankers;
- maintaining asset quality;
- attracting and retaining customers;
- attracting funding to support additional growth within acceptable risk tolerances; and
- maintaining adequate regulatory capital.

The market for acquisition targets is highly competitive, which may adversely affect our ability to find acquisition candidates that fit our strategy and standards. To the extent that we are unable to find suitable acquisition targets, an important component of our growth strategy may not be realized. Acquisitions of financial institutions involve operational risks and uncertainties, such as unknown or contingent liabilities with no available manner of recourse, exposure to unexpected problems such as asset quality, the retention of key employees and customers and other issues that could negatively affect our business. Acquisitions of financial institutions are also subject to regulatory approvals that can result in delays, which in some cases could be for a lengthy period of time or may not be received. The Company may not be able to complete future acquisitions or, if completed, the Company may not be able to successfully integrate the operations, technology platforms, management, products and services of the entities that it acquires or effectively eliminate redundancies. The integration process may also require significant time and attention from our management that would otherwise be directed toward servicing existing business and developing new business. Further, acquisitions typically involve the payment of a premium over book and market values and, therefore, some dilution of our tangible book value and net income per common share may occur in connection with any future acquisition, and the goodwill that the Company currently maintains or may recognize in connection with future transactions may be subject to impairment in future periods.

Challenging market conditions and economic trends have adversely affected the banking industry and could adversely affect our business, financial condition and results of operations.

We are a business operating in the challenging and uncertain financial services environment. The success of our business and operations is sensitive to general business and economic conditions in the U.S. and locally in our industry and market. If the U.S. economy weakens and a lack of growth in population, income levels, deposits and business investment in our local market occurs, our growth and profitability from our lending, deposit and asset management services could be constrained. Although economic conditions have improved in recent years, financial institutions continue to be affected by volatility in the real estate market in some parts of the country and uncertain regulatory and interest rate conditions. The Company has direct exposure to the residential and commercial real estate market in Texas, particularly in the Houston region, and could be affected by these events.

Uncertain market and economic conditions can make our ability to assess the creditworthiness of customers and estimate the losses in our loan portfolio more complex. Another national economic recession or continued deterioration of conditions in our market could drive losses beyond that which is provided for in our allowance for loan losses and result in the following consequences, any of which could have a material adverse effect on our business:

- loan delinquencies may rise;
- nonperforming assets and foreclosures may increase;
- demand for our products and services may decline; and
  - collateral securing our loans, especially real estate, may decline in value, which could reduce customers' borrowing power and repayment ability.

Low or volatile oil and gas prices could have an adverse impact on economic conditions in the U.S. generally and in the Houston region specifically. Declines in real estate values, declines in the volume of home sales and financial stress on borrowers as a result of low oil and gas prices, including job losses, could have an adverse effect on our

borrowers or their customers, which could adversely affect our business, financial condition and results of operations.

The small to medium-sized businesses that the Company lends to may have fewer resources to weather adverse business developments, which may impair a borrower's ability to repay a loan, and such impairment could adversely affect our results of operations and financial condition.

We focus our business development and marketing strategy primarily on small to medium-sized businesses, which we categorize as commercial borrowing relationships of less than \$5 million of exposure. Small to medium-sized businesses frequently have a smaller market share than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience substantial volatility in operating results, any of which may impair a borrower's ability to repay a loan. In addition, the success of a small or medium-sized business often depends on the management skills, talents and efforts of one or two people or a small group of people, and the death, disability or resignation of one or more of these people could have a material adverse impact on the business and its ability to repay our loan. If general economic conditions negatively impact the Houston region or Texas and small to medium-sized businesses are adversely affected, or our borrowers are otherwise affected by adverse business developments, our business, financial condition and results of operations may be negatively affected.

If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings may be affected.

The allowance for loan losses is a valuation allowance for probable incurred loan losses. We establish our allowance for loan losses and maintain it at a level management considers adequate to absorb probable incurred loan losses in our loan portfolio. The allowance for loan losses represents our estimate of probable losses in the portfolio at each balance sheet date and is based upon relevant information available to us, such as past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited back to the allowance. Our allowance for loan losses consists of a general component based upon probable incurred but unidentified losses in the portfolio and a specific component based on individual loans that are considered impaired. In determining the collectability of certain loans, management also considers the fair value of any underlying collateral. The amount ultimately realized may differ from the carrying value of these assets because of economic, operating or other conditions beyond our control, and any such differences may be material.

As of December 31, 2018, our allowance for loan losses was \$26.3 million, which represents 0.71% of our total loans and 79.90% of our total nonperforming loans. As of December 31, 2017, our allowance for loan losses was \$23.6 million, which represented 1.04% of our total loans and 177.44% of our total nonperforming loans as of the same date. Additional loan losses will likely occur in the future and may occur at a rate greater than the Company has previously experienced. We may be required to take additional provisions for loan losses in the future to further supplement the allowance for loan losses, either due to management's decision to do so or as required by our banking regulators. In addition, federal and state bank regulatory agencies periodically review our allowance for loan losses and the value attributed to nonaccrual loans or to real estate acquired through foreclosure. Such regulatory agencies may require the Company to recognize future charge-offs. Their conclusions about the quality of a particular borrower or our entire loan portfolio may be different than ours. Any increase in our allowance for loan losses or loan charge offs as required by these regulatory agencies could have a negative effect on our results of operations and financial condition. Moreover, additions to the allowance may be necessary based on changes in economic and real estate market conditions, new information regarding existing loans, identification of additional problem loans, accounting rule changes (like those related to the Financial Accounting Standards Board's rules regarding accounting for current expected credit losses that are not yet effective) and other factors, both within and outside of our management's control. These additions may require increased provision expense which would negatively impact our results of operations and financial condition.

The acquisition method of accounting requires that acquired loans are initially recorded at fair value at the time of acquisition, which includes an estimate of loan losses expected to be realized over the remaining lives of the loans,

and therefore no corresponding allowance for loan losses is recorded for these loans at acquisition because credit quality, among other elements, was considered in the determination of fair value. To the extent that our estimates of fair value are too high, it will incur losses associated with the acquired loans.

As a significant percentage of our loan portfolio is comprised of real estate loans, an adverse change in the economic conditions of the real estate market where we operate could affect real estate values and may result in losses to our business.

As of December 31, 2018, \$2.92 billion, or 78.7%, of our total loans was comprised of loans with real estate as a primary or secondary component of collateral. The real estate collateral provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value over the term of the loan, limiting our ability to realize the full value of the collateral anticipated at the time of the originating loan. A weakening of the real estate market in our primary market area could have an adverse effect on the demand for new loans, the ability of borrowers to repay outstanding loans, the value of real estate and other collateral securing the loans and the value of our business. In addition, the volatility of the real estate market may result in a lower valuation at the time collateral is put on the market for sale. Collateral may have to be sold for less than the outstanding balance of the loan, which could result in losses on such loans. Such declines and losses in real estate values may cause the Company to experience increases in provisions for loan losses and charge-offs, which could adversely affect our profitability.

Our commercial real estate and construction, land development and other land loan portfolios expose us to credit risks that may be greater than the risks related to other types of loans.

As of December 31, 2018, \$1.65 billion, or 44.5%, of our total loans were comprised of commercial real estate loans (including owner-occupied commercial real estate loans) and \$430.1 million, or 11.6%, of our total loans were comprised of construction, land development and other land loans. Commercial real estate loans generally involve relatively large balances to single borrowers or related groups of borrowers. Repayment of these loans is typically dependent upon income generated, or expected to be generated, by the property securing the loan in amounts sufficient to cover operating expenses and debt service. The availability of such income for repayment may be adversely affected by changes in the economy or local market conditions. These loans expose a lender to greater credit risk than loans secured by other types of collateral because the collateral securing these loans is typically more difficult to liquidate due to the fluctuation of real estate values. Unexpected deterioration in the credit quality of our commercial real estate loan portfolio could require us to increase our allowance for loan losses, which would reduce our profitability and may have a material adverse effect on our business, financial condition and results of operations.

Real estate construction, land development and other similar land loans involve risks attributable to the fact that loan funds are secured by a project under construction, and the project is of uncertain value prior to our completion. These risks include:

- the viability of the contractor;
- the value of the project being subject to successful completion;
- the contractor's ability to complete the project, to meet deadlines and time schedules and to stay within our estimates; and
- concentration of such loans with a single contractor and our affiliates.

Real estate construction lending often involves the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project rather than the ability of a borrower or guarantor to repay the loan and also presents risks of default in the event of declines in property values or volatility in the real estate market during the construction phase. If we are forced to foreclose on a project prior to completion, we may be unable to recover the entire unpaid portion of the loan. In addition, we may be required to fund additional amounts to complete a project and may have to hold the property for an indeterminate period of time, any of which could adversely affect our business, financial condition and results of operations.

A large portion of our loan portfolio is comprised of commercial and industrial loans secured by receivables, inventory, equipment or other commercial collateral, the deterioration in value of which could increase the potential for future losses.

As of December 31, 2018, \$702.0 million, or 18.9%, of our total loans were comprised of commercial and industrial loans that are typically based on the borrowers' ability to repay the loans from the cash flow of their businesses. These loans may involve greater risk because the availability of funds to repay each loan depends substantially on the success of the borrower's business itself and these loans are typically larger in amount, which creates the potential for larger losses on a single loan basis. Commercial and industrial loans are collateralized by general business assets including, among other things, accounts receivable, inventory and equipment and are generally backed by a personal guaranty of the borrower or principal. This collateral may decline in value more rapidly than the Company anticipates, exposing it to increased credit risk. In addition, a portion of our customer base, including customers in the energy and real estate business, may be in industries which are particularly sensitive to commodity prices or market fluctuations, such as energy and real estate prices. Accordingly, negative changes in commodity prices and real estate values and liquidity could impair the value of the collateral securing these loans. Significant adverse changes in the economy or local market conditions in which our commercial lending customers operate could cause rapid declines in loan collectability and the values associated with general business assets resulting in inadequate collateral coverage that may expose the Company to credit losses and could adversely affect our business, financial condition and results of operations.



Our SBA lending program is dependent upon the federal government and our status as a participant in the SBA's Preferred Lenders Program, and a failure to originate SBA loans in compliance with SBA guidelines could result in losses on the guaranteed portion of our SBA loans.

We have been approved by the Small Business Administration, or SBA, to participate in the SBA's Preferred Lenders Program. As an SBA Preferred Lender, we enable our clients to obtain SBA loans without being subject to the potentially lengthy SBA approval process necessary for lenders who are not SBA Preferred Lenders. The SBA periodically reviews the lending operations of participating lenders to assess, among other things, whether the lender exhibits prudent risk management. When weaknesses are identified, the SBA may request corrective actions or impose enforcement actions, including revocation of the lender's Preferred Lender status. If we lose our status as an SBA Preferred Lender, we may lose some or all of our customers to lenders who are SBA Preferred Lenders, which could adversely affect our business, financial condition and results of operations.

As of December 31, 2018, SBA 7(a) and 504 program loans of \$162.4 million comprised 4.4% of our loan portfolio, and we intend to grow this segment of our portfolio in the future. SBA lending programs typically guarantee 75.0% of the principal on an underlying loan. If the SBA establishes that a loss on an SBA-guaranteed loan is attributable to significant technical deficiencies in the manner in which the loan was originated, funded or serviced by us, the SBA may seek recovery of the principal loss related to the deficiency from us notwithstanding that a portion of the loan was guaranteed by the SBA, which could adversely affect our business, financial condition and results of operations. While we follow the SBA's underwriting guidelines, our ability to do so depends on the knowledge and diligence of our employees and the effectiveness of controls we have established. If our employees do not follow the SBA guidelines in originating loans and if our loan review and audit programs fail to identify and rectify such failures, the SBA may reduce or, in some cases, refuse to honor its guarantee obligations and we may incur losses as a result.

The laws, regulations and standard operating procedures that are applicable to SBA loan products may change in the future. We cannot predict the effects of these changes on our business and profitability. Because government regulation greatly affects the business and financial results of all commercial banks and bank holding companies, including our organization, changes in the laws, regulations and procedures applicable to SBA loans could adversely affect our ability to operate profitably. In addition, the aggregate amount of all SBA 7(a) and 504 loan guarantees by the SBA must be approved each fiscal year by the federal government. We cannot predict the amount of SBA 7(a) loan guarantees in any given fiscal year. If the federal government were to reduce the amount of SBA loan guarantees, such reduction could adversely impact our SBA lending program.

A lack of liquidity could adversely affect our operations and jeopardize our business, financial condition and results of operations.

Liquidity is essential to our business. We rely on our ability to generate deposits and effectively manage the repayment and maturity schedules of our loans and investment securities, respectively, to ensure that we have adequate liquidity to fund our operations. An inability to raise funds through deposits, borrowings, the sale of our investment securities, the sale of loans and other sources could have a substantial negative effect on our liquidity. Our most important source of funds is deposits. Deposit balances can decrease when customers perceive alternative investments as providing a better risk/return tradeoff. If customers move money out of bank deposits and into other investments such as money market funds, we would lose a relatively low-cost source of funds, increasing our funding costs and reducing our net interest income and net income.

Other primary sources of funds consist of cash flows from operations, maturities and sales of investment securities and proceeds from the issuance and sale of our equity and debt securities to investors. Additional liquidity is provided by our ability to borrow from the Federal Reserve Bank of Dallas and the Federal Home Loan Bank (the "FHLB") and our ability to raise brokered deposits. The Company also may borrow funds from third-party lenders, such as other financial institutions. Our access to funding sources in amounts adequate to finance or capitalize our activities, or on terms that are acceptable to us, could be impaired by factors that affect us directly or the financial services industry or

economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry. Our access to funding sources could also be affected by a decrease in the level of our business activity as a result of a downturn in the economy of the Houston region or by one or more adverse regulatory actions against us.

Based on our experience, we believe that our deposit accounts are relatively stable sources of funds. If we increase interest rates paid to retain deposits, our earnings may be adversely affected, which could have an adverse effect on our business, financial condition and results of operations.

Any decline in available funding could adversely impact our ability to originate loans, invest in securities, meet our expenses or fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, financial condition and results of operations.

We may need to raise additional capital in the future, and such capital may not be available when needed or at all.

We may need to raise additional capital, in the form of additional debt or equity, in the future to have sufficient capital resources and liquidity to meet our commitments and fund our business needs and future growth, particularly if the quality of our assets or earnings were to deteriorate significantly. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control, and our financial condition. Economic conditions and a loss of confidence in financial institutions may increase our cost of funding and limit access to certain customary sources of capital or make such capital only available on unfavorable terms, including interbank borrowings, repurchase agreements and borrowings from the discount window of the Federal Reserve. We may not be able to obtain capital on acceptable terms or at all. Any occurrence that may limit our access to the capital markets, such as a decline in the confidence of debt purchasers, depositors of our bank or counterparties participating in the capital markets or other disruption in capital markets, may adversely affect our capital costs and our ability to raise capital and, in turn, our liquidity. Further, if we need to raise capital in the future, we may have to do so when many other financial institutions are also seeking to raise capital and would then have to compete with those institutions for investors. An inability to raise additional capital on acceptable terms when needed could have a material adverse effect on our business, financial condition and results of operations.

Fluctuations in interest rates may adversely impact our earnings and capital levels and overall results of operations.

Like most financial institutions, our earnings and cash flows depend to a great extent upon the level of our net interest income, or the difference between the interest income we earn on loans, investments and other interest-earning assets, and the interest expense we pay on deposits, borrowings and other interest-bearing liabilities. Therefore, any change in general market interest rates, such as a change in the monetary policy of the Federal Reserve or otherwise, can have a significant effect on our net interest income. The majority of our banking assets are monetary in nature and subject to risk from changes in interest rates. Changes in interest rates can increase or decrease our net interest income, because different types of assets and liabilities may react differently, and at different times, to market interest rate changes. When interest-bearing liabilities mature or reprice more quickly, or to a greater degree than interest-earning assets in a period, an increase in interest rates could reduce net interest income. Similarly, when interest-earning assets mature or reprice more quickly, or to a greater degree than interest-bearing liabilities, falling interest rates could reduce net interest income.

Additionally, an increase in interest rates may, among other things, adversely affect the demand for loans and our ability to originate loans and decrease loan repayment rates. Conversely, a decrease in the general level of interest rates may affect the Company through, among other things, increased prepayments on loan and mortgage-backed securities portfolio and increased competition for deposits. Accordingly, changes in the general level of market interest rates may adversely affect our net yield on interest-earning assets, loan origination volume, loan portfolio and our overall results.

Although our asset-liability management strategy is designed to control and mitigate exposure to the risks related to changes in market interest rates, those rates are affected by many factors outside of our control, including various governmental and regulatory monetary policies, inflation, recession, changes in unemployment, the money supply, international disorder and instability in domestic and foreign financial markets. Adverse changes in the Federal Reserve interest rate policies or other changes in monetary policies and economic conditions could materially and adversely affect the Company. We may not be able to accurately predict the likelihood, nature and magnitude of those changes or how and to what extent they may affect our business. The Company also may not be able to adequately prepare for or compensate for the consequences of such changes. Any failure to predict and prepare for changes in interest rates or adjust for the consequences of these changes may adversely affect our earnings, capital levels and overall results.

We could recognize losses on securities held in our securities portfolio, particularly if interest rates increase or economic and market conditions deteriorate.

The Company invests in available for sale securities with the primary objectives of providing a source of liquidity, providing an appropriate return on funds invested, managing interest rate risk, meeting pledging requirements and meeting regulatory capital requirements. As of December 31, 2018, the amortized cost of our securities portfolio was \$340.9 million, which represented 7.3% of total assets. Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. For example, fixed-rate securities are generally subject to decreases in market value when interest rates rise. Additional factors include, but are not limited to, rating agency downgrades of the securities, defaults by the issuer or individual borrowers with respect to the underlying securities and continued instability in the credit markets. Any of the foregoing factors could cause other-than-temporary impairment in future periods and result in realized losses. The process for determining whether impairment is other-than-temporary usually requires difficult, subjective judgments about the future financial performance of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security. Because of changing economic and market conditions affecting interest rates, the financial condition of issuers of the securities and the performance of the underlying collateral, we may recognize realized and/or unrealized losses in future periods, which could have an adverse effect on our business, financial condition and results of operations.

If the goodwill that we have recorded in connection with a business acquisition becomes impaired, it could require charges to earnings, which would have a negative impact on our financial condition and results of operations.

Goodwill represents the amount by which the cost of an acquisition exceeded the fair value of net assets we acquired in connection with the purchase of another financial institution. The Company reviews goodwill for impairment at least annually, or more frequently if a triggering event occurs which indicates that the carrying value of the asset might be impaired.

The Company determines impairment by comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Any such adjustments are reflected in our results of operations in the periods in which they become known. As of December 31, 2018, our goodwill totaled \$223.1 million. While we have not recorded any impairment charges since we initially recorded the goodwill, our future evaluations of goodwill may result in findings of impairment and related write-downs, which may have a material adverse effect on our financial condition and results of operations.

We face strong competition to attract and retain customers from other companies that offer banking services, which could impact our business by preventing us from obtaining customers and adversely affecting our future growth and profitability.

We conduct our operations almost exclusively in the Houston region. Many of our competitors offer the same, or a wider variety of, banking services within this market area. These competitors include banks with nationwide operations, regional banks and other community banks. The Company also faces competition from many other types of financial institutions, including savings banks, credit unions, finance companies, mutual funds, insurance companies, brokerage and investment banking firms, asset-based non-bank lenders and certain other non-financial entities, such as retail stores that may maintain their own credit programs and certain governmental organizations that may offer more favorable financing or deposit terms than the Company can. In addition, a number of out-of-state financial intermediaries have opened production offices, or otherwise solicit deposits, in our market area. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. In addition, as customer preferences and expectations continue to evolve, technology has lowered barriers to entry and made it possible for banks to expand their geographic reach by providing services over the internet and for nonbanks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Increased competition in our market may result in reduced loans and deposits, as well as reduced net interest margin, fee income and profitability. Ultimately, the Company may not be able to compete successfully against current and future competitors. If we are unable to attract and retain banking customers, we may be unable to continue to grow our loan and deposit portfolios, and our business, financial condition and results of operations could be adversely affected.

Our ability to compete successfully depends on a number of factors, including, among other things:

- the ability to develop, maintain and build long-term customer relationships based on top quality service, high ethical standards and safe, sound assets;
- the scope, relevance and pricing of products and services offered to meet customer needs and demands;
- the rate at which we introduce new products and services relative to our competitors;
- customer satisfaction with our level of service;
- the ability to expand our market position; and
- industry and general economic trends.

Failure to perform in any of these areas could significantly weaken our competitive position, which could adversely affect our growth and profitability, which, in turn, could adversely affect our business, financial condition and results of operations.



Our market is susceptible to weather events and other catastrophes that could have an adverse impact on our market's economy, our operations or our customers, any of which could have a negative effect on us.

Our business is generated primarily from the Houston region, which is susceptible to damage by hurricanes, tornadoes, floods, droughts and other natural disasters and adverse weather. These catastrophic events can disrupt our operations, cause widespread property damage, and severely depress the local economy in which we operate. In August 2017, our market area experienced catastrophic flooding and unprecedented storm damage due to Hurricane Harvey. The effect of catastrophic weather events similar to Hurricane Harvey, if they were to occur, could have a materially adverse impact on our financial condition, results of operations and business, as well as potentially increase our exposure to credit losses and liquidity risks. If our market experiences an overall decline as a result of a catastrophic event, demand for loans and our other products and services could be reduced. In addition, the rates of delinquencies, foreclosures, bankruptcies and losses within our loan portfolio may increase substantially, as uninsured property losses or sustained job interruption or loss may materially impair the ability of borrowers to repay their loans. Moreover, the value of real estate or other collateral that secures the loans could be materially and adversely affected by a catastrophic event. A natural disaster or other catastrophic event could, therefore, result in decreased revenue and increased loan losses that could have an adverse effect on our business, financial condition and results of operations.

Negative public opinion regarding the Company or failure to maintain our reputation in the community that we serve could adversely affect our business and prevent us from growing our business.

As a community bank, our reputation within the community we serve is critical to our success. We have a business strategy to set ourselves apart from our competitors by building strong personal and professional relationships with our customers and by our management and employees being active members of the communities we serve. As such, we strive to enhance our reputation by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve and delivering superior service to our customers. If our reputation is negatively affected by the actions of our employees or otherwise, we may be less successful in attracting new customers, and our business, financial condition, results of operations and prospects could be materially and adversely affected. Further, negative public opinion can expose the Company to litigation and regulatory action as the Company seeks to implement its growth strategy. While we actively work to minimize reputation risk in dealing with our customers, this risk will always be present given the nature of our business.

If the Company fails to maintain an effective system of disclosure controls and procedures and internal controls over financial reporting, the Company may not be able to accurately report its financial results or prevent fraud.

Ensuring that the Company has adequate disclosure controls and procedures, including internal controls over financial reporting, in place so that the Company can produce accurate financial statements on a timely basis is costly and time-consuming and needs to be re-evaluated frequently. Our management is responsible for establishing and maintaining adequate internal control over financial reporting and for evaluating and reporting on our system of internal control. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles ("GAAP"). As a public company, we are required to comply with the Sarbanes-Oxley Act and other rules that govern public companies. In particular, we are required to certify our compliance with Section 404 of the Sarbanes-Oxley Act, which requires us to furnish annually a report by management on the effectiveness of our internal control over financial reporting. In addition, unless we remain an emerging growth company and elect additional transitional relief available to emerging growth companies, our independent registered public accounting firm will be required to report on the effectiveness of our internal control over financial reporting.

If we identify material weaknesses in our internal control over financial reporting in the future, if we cannot comply with the requirements of the Sarbanes-Oxley Act in a timely manner or attest that our internal control over financial reporting is effective, or if our independent registered public accounting firm cannot express an opinion as to the

effectiveness of our internal control over financial reporting when required, we may not be able to report our financial results accurately and timely. As a result, investors, counterparties and customers may lose confidence in the accuracy and completeness of our financial reports; our liquidity, access to capital markets and perceptions of our creditworthiness could be adversely affected; and the market price of our common stock could decline. In addition, we could become subject to investigations by the stock exchange on which our securities are listed, the SEC, the Federal Reserve, the FDIC, or other regulatory authorities, which could require additional financial and management resources. These events could have an adverse effect on our business, financial condition and results of operations.



We are subject to certain operational risks, including, but not limited to, customer or employee fraud and data processing system failures and errors.

We are exposed to many types of operational risk, including the risk of fraud by employees and outsiders, clerical recordkeeping errors and transactional errors. Our business is dependent on our employees as well as third-party service providers to process a large number of increasingly complex transactions. We could be materially adversely affected if one of our employees or one of our third-party service providers causes a significant operational breakdown or failure, either as a result of human error or where an individual purposefully sabotages or fraudulently manipulates our operations or systems. Employee or third-party service provider errors and employee or customer misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Misconduct by an employee or third-party service provider could include hiding unauthorized activities from the Company, improper or unauthorized activities on behalf of our customers or improper use of confidential information. It is not always possible to prevent employee or third-party service provider errors and misconduct, and the precautions the Company takes to prevent and detect this activity may not be effective in all cases. Employee or third-party service provider errors could also subject the Company to financial claims for negligence.

The Company maintains a system of internal controls to mitigate against operational risks, including data processing system failures and errors and customer or employee fraud, as well as insurance coverage designed to protect the Company from material losses associated with these risks including losses resulting from any associated business interruption. However, if our internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on our business, financial condition and results of operations.

In addition, when we originate loans, we rely upon information supplied by loan applicants and third parties, including the information contained in the loan application, property appraisal and title information, if applicable, and employment and income documentation provided by third parties. If any of this information is misrepresented and such misrepresentation is not detected prior to loan funding, the Company generally bears the risk of loss associated with the misrepresentation. Any of these occurrences could result in a diminished ability to operate our business, potential liability to customers, reputational damage and regulatory intervention, which could negatively impact our business, financial condition and results of operations.

We have a continuing need for technological change, and we may not have the resources to effectively implement new technology, or we may experience operational challenges when implementing new technology.

The financial services industry is changing rapidly, and to remain competitive, we must continue to enhance and improve the functionality and features of our products, services and technologies. In addition to better serving our customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend, at least in part, upon our ability to respond to future technological changes and the ability to address the needs of our customers. We address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations as we continue to grow and expand our products and service offerings. We may experience operational challenges as we implement these new technology enhancements or products, which could result in our not fully realizing the anticipated benefits from such new technology or require us to incur significant costs to remedy any such challenges in a timely manner. In addition, complications during a conversion of our core technology platform or implementation or upgrade of any software could negatively impact the experiences or satisfaction of our customers, which could cause those customers to terminate their relationship with us or reduce the amount of business that they do with us, either of which could adversely affect our business, financial condition or results of operations.

Many of our larger competitors have substantially greater resources to invest in technological improvements. Third parties upon which we rely for our technology needs may not be able to develop on a cost-effective basis systems that will enable us to keep pace with such developments. As a result, our competitors may be able to offer additional or

superior products compared to those that we will be able to provide, which would put us at a competitive disadvantage. We may lose customers seeking new technology-driven products and services to the extent we are unable to provide such products and services. The ability to keep pace with technological change is important, and the failure to do so could adversely affect our business, financial condition and results of operations.

Our operations could be interrupted if our third-party service providers experience difficulty or terminate their services.

Our operations depend on a number of relationships with third-party service providers who provide services related to, among other things, core systems processing, essential web hosting and other Internet systems, our online banking services, deposit processing and other processing services. While we have selected these third-party vendors carefully, we do not control their actions. Any complications caused by these third parties, including those resulting from disruptions in communication services provided by a vendor, failure of a vendor to handle current or higher volumes, cyber-attacks and security breaches at a vendor, failure of a vendor to provide services for any reason or poor performance of services, could adversely affect our ability to deliver products and services to our customers and otherwise conduct our business. If these third-party service providers experience difficulties, or terminate their services, and we are unable to replace them with other service providers, particularly on a timely basis, our operations could be

interrupted. If an interruption were to continue for a significant period of time, our business, financial condition and results of operations could be adversely affected, perhaps materially. Even if we were able to replace third-party service providers, it may be at a higher cost, which could adversely affect our business, financial condition and results of operations.

System failure or cybersecurity breaches of our network security could subject us to increased operating costs as well as litigation and other potential losses.

Our computer systems and network infrastructure could be vulnerable to hardware and cybersecurity issues. Our operations are dependent upon our ability to protect our computer equipment against damage from fire, power loss, telecommunications failure or a similar catastrophic event. We could also experience a breach by intentional or negligent conduct on the part of employees or other internal sources. Any damage or failure that causes an interruption in our operations could have an adverse effect on our financial condition and results of operations. In addition, our operations are dependent upon our ability to protect our computer systems and network infrastructure, including our digital, mobile and internet banking activities, against damage from physical break-ins, cybersecurity breaches and other disruptive problems caused by the internet or other users. Such computer break-ins and other disruptions would jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability, damage our reputation and inhibit the use of our internet banking services by current and potential customers. We regularly add additional security measures to our computer systems and network infrastructure to mitigate the possibility of cybersecurity breaches, including firewalls and penetration testing. However, it is difficult or impossible to defend against every risk being posed by changing technologies as well as acts of cyber-crime. Increasing sophistication of cyber criminals and terrorists make keeping up with new threats difficult and could result in a system breach. Controls employed by our information technology department and cloud vendors could prove inadequate. A breach of our security that results in unauthorized access to our data could expose us to a disruption or challenges relating to our daily operations, as well as to data loss, litigation, damages, fines and penalties, significant increases in compliance costs and reputational damage, any of which could have an adverse effect on our business, financial condition and results of operations.

We are subject to laws regarding the privacy, information security and protection of personal information and any violation of these laws or another incident involving personal, confidential or proprietary information of individuals could damage our reputation and otherwise adversely affect our operations and financial condition.

Our business requires the collection and retention of large volumes of customer data, including personally identifiable information in various information systems that we maintain and in those maintained by third parties with whom we contract to provide data services. We also maintain important internal company data such as personally identifiable information about our employees and information relating to our operations. We are subject to complex and evolving laws and regulations governing the privacy and protection of personal information of individuals (including customers, employees, suppliers and other third parties). Various state and federal banking regulators and states have also enacted data security breach notification requirements with varying levels of individual, consumer, regulatory or law enforcement notification in certain circumstances in the event of a security breach. Ensuring that our collection, use, transfer and storage of personal information complies with all applicable laws and regulations can increase our costs.

Furthermore, we may not be able to ensure that all of our clients, suppliers, counterparties and other third parties have appropriate controls in place to protect the confidentiality of the information that they exchange with us, particularly where such information is transmitted by electronic means. If personal, confidential or proprietary information of customers or others were to be mishandled or misused (in situations where, for example, such information was erroneously provided to parties who are not permitted to have the information, or where such information was intercepted or otherwise compromised by third parties), we could be exposed to litigation or regulatory sanctions under personal information laws and regulations. Concerns regarding the effectiveness of our measures to safeguard personal information, or even the perception that such measures are inadequate, could cause us to lose customers or

potential customers for our products and services and thereby reduce our revenues. Accordingly, any failure or perceived failure to comply with applicable privacy or data protection laws and regulations may subject us to inquiries, examinations and investigations that could result in requirements to modify or cease certain operations or practices or in significant liabilities, fines or penalties, and could damage our reputation and otherwise adversely affect our operations and financial condition.

Security breaches at third parties may adversely affect our business.

Our customers interact with their own and other third-party systems, which pose operational risks to us. We may be adversely affected by data breaches at retailers and other third parties who maintain data relating to our customers that involve the theft of customer data, including the theft of customers' debit card, wire transfer and other identifying and/or access information used to make purchases or payments at such retailers and to other third parties. Despite third-party security risks that are beyond our control, we provide certain protections against fraud and attendant losses for unauthorized use of debit cards in order to stay competitive in the marketplace. Offering such protection to customers exposes us to significant expenses and potential losses related to reimbursing our customers for fraud losses, reissuing the compromised cards and increased monitoring for suspicious activity. In the event of a data

breach at one or more retailers of considerable magnitude, our business, financial condition and results of operations may be adversely affected.

We may be subject to environmental liabilities in connection with the real properties we own and the foreclosure on real estate assets securing our loan portfolio.

In the course of our business, we may acquire real estate in connection with our growth efforts, or we may foreclose on and take title to real estate or otherwise be deemed to be in control of property that serves as collateral on loans we make. As a result, we could be subject to environmental liabilities with respect to those properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or we may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property.

The cost of removal or abatement may substantially exceed the value of the affected properties or the loans secured by those properties; we may not have adequate remedies against the prior owners or other responsible parties; and we may not be able to resell the affected properties either before or after completion of any such removal or abatement procedures. Furthermore, the value of the property as collateral will generally be substantially reduced, or we may elect not to foreclose on the property and, as a result, we may suffer a loss upon collection of the loan. Any significant environmental liabilities could have a material adverse effect on our business, financial condition and results of operations.

#### Risks Related to our Industry and Regulation

Our business, financial condition, results of operations and future prospects could be adversely affected by the highly regulated environment for bank holding companies and the laws and regulations that govern our operations, corporate governance, executive compensation and accounting principles or changes in any of them.

As a bank holding company, we are subject to extensive examination, supervision and comprehensive regulation by various federal and state agencies that govern almost all aspects of our operations. These laws and regulations are not intended to protect our shareholders. Rather, these laws and regulations are intended to protect customers, depositors, the FDIC's DIF and the overall financial stability of the U.S. These laws and regulations, among other matters, prescribe minimum capital requirements, impose limitations on the business activities in which the Company can engage, limit the dividend or distributions that the Bank can pay to the Company, restrict the ability of institutions to guarantee our debt and impose certain specific accounting requirements on the Company that may be more restrictive and may result in greater or earlier charges to earnings or reductions in our capital than GAAP would require. Compliance with these laws and regulations is difficult and costly, and changes to these laws and regulations often impose additional compliance costs. Our failure to comply with these laws and regulations, even if the failure follows good faith efforts to comply or reflects a difference in interpretation, could subject the Company to restrictions on our business activities, fines and other penalties, any of which could adversely affect our results of operations, capital base and the price of our securities. Further, any new laws, rules or regulations could make compliance more difficult or expensive.

State and federal banking agencies periodically conduct examinations of our business, including compliance with laws and regulations, and our failure to comply with any supervisory actions to which it is or becomes subject as a result of such examinations may adversely affect the Company.

Texas and federal banking agencies, including the TDB and the Federal Reserve, periodically conduct examinations of our business, including compliance with laws and regulations. If, as a result of an examination, a Texas or federal

banking agency were to determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that the Company, the Bank or their respective management were in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin “unsafe or unsound” practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our and/or the Bank’s capital, to restrict our growth, to assess civil monetary penalties against the Company, the Bank or their respective officers or directors, to remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate the Bank’s deposit insurance. If we become subject to such regulatory actions, our business, financial condition, results of operations, cash flows and reputation may be negatively impacted.

We may be unable to identify and consummate our new activities and expansion plans and successfully implement our growth strategy, which will require regulatory approvals, and failure to obtain them may restrict our growth.

We intend to continue to grow our business through strategic acquisitions of financial institutions coupled with organic growth. Generally, we must receive state and federal regulatory approval before we can acquire an FDIC-insured depository institution or related business. In determining whether to approve a proposed acquisition, federal banking regulators will consider, among other factors, the effect of the acquisition on competition, our financial condition, liquidity, our future prospects and the impact of the proposal on U.S. financial stability. The regulators also review current and projected capital ratios and levels, the competence, experience and integrity of management and our record of compliance with laws and regulations, the convenience and needs of the communities to be served (including the acquiring institution's record of compliance under the CRA) and the effectiveness of the acquiring institution in combating money laundering activities. Such regulatory approvals may not be granted on terms that are acceptable to the Company, or at all, or may be granted only after lengthy delay. We may also be required to sell branches as a condition to receiving regulatory approval, which may not be acceptable to us or, if acceptable to us, may reduce the benefit of any acquisition.

In addition to the acquisition of existing financial institutions, as opportunities arise, we plan to continue de novo branching as a part of our organic growth strategy. De novo branching and any acquisitions carry with them numerous risks, including the inability to obtain all required regulatory approvals. The failure to obtain these regulatory approvals for potential future strategic acquisitions and de novo branches may impact our business plans and restrict our growth.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The federal Bank Secrecy Act, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network, established by the U.S. Department of the Treasury ("U.S. Treasury") to administer the Bank Secrecy Act, is authorized to impose significant civil money penalties for violations of those requirements, and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice (the "Department of Justice"), Drug Enforcement Administration and Internal Revenue Service. There is also increased scrutiny of compliance with the sanctions programs and rules administered and enforced by OFAC.

We provide banking services to customers located outside the United States, primarily in Guatemala. These banking services are primarily deposit accounts, including checking, money market and short term certificates of deposit. As of December 31, 2018, our deposits from foreign nationals, primarily residents of Guatemala, accounted for less than 5% of our total deposits.

In order to comply with regulations, guidelines and examination procedures in this area, we have dedicated significant resources to our anti-money laundering program. If our policies, procedures and systems are deemed deficient, we could be subject to liability, including fines and regulatory actions such as restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plans, including acquisitions and de novo branching. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us.

We are subject to numerous federal and state lending laws designed to protect consumers, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to material sanctions and penalties.

The CRA, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The Consumer Financial Protection Bureau, the Department of Justice and other federal and state agencies are responsible for enforcing these laws and regulations. A successful challenge to an institution's performance under the CRA or fair lending laws and regulations could result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on mergers and acquisitions activity and restrictions on expansion activity. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation.

We may be required to pay significantly higher FDIC deposit insurance assessments in the future, which could adversely affect our earnings.

As a result of historical economic conditions and the enactment of the Dodd-Frank Act, the FDIC's current DIF restoration plan is designed to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020. At least semi-annually, the FDIC updates its loss and income projections for the fund and, if needed, increases or decreases assessment rates. If any required increase is insufficient for the DIF to meet its funding requirements, further special assessments or increases in deposit insurance premiums may be required.



We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional financial institution failures that affect the DIF, we may be required to pay FDIC premiums higher than current levels. Our regulatory assessments and FDIC insurance costs were \$2.3 million for both of the years ended December 31, 2018 and 2017, respectively. Any future additional assessments, increases or required prepayments in FDIC insurance premiums may materially adversely affect our business, financial condition and results of operations.

The Federal Reserve may require Allegiance to commit capital resources to support the Bank.

A bank holding company is required to act as a source of financial and managerial strength to its subsidiary banks and to commit resources to support its subsidiary banks. The Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to such a subsidiary bank. Under these requirements, in the future, Allegiance could be required to provide financial assistance to the Bank if it experiences financial distress.

A capital injection may be required at times when our resources are limited and we may be required to borrow the funds to make the required capital injection. In the event of a bank holding company's bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the holding company's general unsecured creditors, including the holders of any note obligations. Thus, any borrowing that must be done by the holding company in order to make the required capital injection becomes more difficult and expensive and will adversely impact the holding company's business, financial condition and results of operations.

We may be materially and adversely affected by the soundness, creditworthiness and liquidity of other financial institutions.

Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks and other institutional customers. Many of these transactions expose us to credit risk in the event of a default by a counterparty or customer. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to us. Any such losses could have a material adverse effect on our business, financial condition and results of operations.

Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations.

In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve. An important function of the Federal Reserve is to regulate the U.S. money supply and credit conditions. Among the instruments used by the Federal Reserve to implement these objectives are open market operations in U.S. government securities, adjustments of both the discount rate and the federal funds rate and changes in reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits. The monetary policies and regulations of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. Although we cannot determine the effects of such policies on us at this time, such policies could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Allegiance's Common Stock

The market price of Allegiance's common stock could be volatile and may fluctuate significantly, which could cause the value of an investment in Allegiance's common stock to decline.

The market price of Allegiance's common stock could fluctuate substantially due to a variety of factors, many of which are beyond our control, including, but not limited to:

• general economic conditions and overall market fluctuations;

- actual or anticipated fluctuations in our quarterly or annual financial results;

• operating and stock price performance of other companies that investors deem comparable to ours;

• the perception that investment in Texas is unattractive or less attractive during periods of low oil prices;

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- announcements by the Company or our competitors of significant acquisitions, dispositions, innovations or new programs and services;
- the public reaction to our press releases, other public announcements and filings with the SEC;
- changes in financial estimates and recommendations by securities analysts following Allegiance's stock, or the failure of securities analysts to cover Allegiance's common stock;
- changes in earnings estimates by securities analysts or our ability to meet those estimates;
- the trading volume of Allegiance's common stock;
- changes in governmental monetary policies, including the policies of the Federal Reserve;
- changes in business, legal or regulatory conditions, or other developments affecting participants in our industry, and publicity regarding our business or any of our significant customers or competitors;
- changes in accounting standards, policies, guidance, interpretations or principles; and
- future sales of Allegiance's common stock by the Company, directors, executives and significant shareholders.

The realization of any of the risks described in this "Risk Factors" section could have a material adverse effect on the market price of Allegiance's common stock and cause the value of an investment in Allegiance's common stock to decline. In addition, the stock market has experienced extreme volatility that has often been unrelated to the operating performance of particular companies. These types of broad market fluctuations may adversely affect investor confidence and could affect the trading price of Allegiance's common stock over the short, medium or long term, regardless of our actual performance. In the past, following periods of volatility in the market price of a company's securities, shareholders have often instituted securities class action litigation. If we were to be involved in a class action lawsuit, we could incur substantial costs and it could divert the attention of senior management and have a material adverse effect on our business, financial condition and results of operations.

The obligations associated with being a public company require significant resources and management attention.

As a public company, Allegiance faces increased legal, accounting, administrative and other costs and expenses that we did not incur as a private company, particularly after we are no longer an emerging growth company. As a public company, Allegiance is required to:

- prepare and distribute periodic reports, proxy statements and other shareholder communications in compliance with the federal securities laws and rules;
- expand the roles and duties of Allegiance's Board of Directors and committees thereof;
- maintain an internal audit function;
- institute more comprehensive financial reporting and disclosure compliance procedures;
- involve and retain to a greater degree outside counsel and accountants in the activities listed above;
- enhance Allegiance's investor relations function;
- establish new internal policies, including those relating to trading in our securities and disclosure controls and procedures;
- retain additional personnel;
- comply with the NASDAQ Stock Market listing standards; and
- comply with the Sarbanes-Oxley Act.

Allegiance expects these rules and regulations and changes in laws, regulations and standards relating to corporate governance and public disclosure, which have created uncertainty for public companies, to increase legal and financial compliance costs and make some activities more time consuming and costly relative to when Allegiance was not a public company. These laws, regulations and

standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. Our investment in compliance with existing and evolving regulatory requirements will result in increased administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities, which could have a material adverse effect on our business, financial condition and results of operations. These increased costs may require that we divert a significant amount of money that we could otherwise use to expand our business and achieve our strategic objectives.

Allegiance may issue shares of preferred stock in the future, which could make it difficult for another company to acquire it or could otherwise adversely affect the rights of the holders of Allegiance's common stock, which could depress the price of our common stock.

Allegiance's amended and restated certificate of formation authorizes it to issue up to 1,000,000 shares of one or more series of preferred stock. Allegiance's Board of Directors, in its sole discretion, has the authority to determine the preferences, limitations and relative rights of shares of preferred stock and to fix the number of shares constituting any series, the designation of such series, and the dividend rate for each series, without any further vote or action by Allegiance's shareholders. Allegiance's preferred stock may be issued with voting, liquidation, dividend and other rights superior to the rights of Allegiance's common stock. The potential issuance of preferred stock may delay or prevent a change in control of the Company, discouraging bids for Allegiance's common stock at a premium over the market price, and materially adversely affect the market price and the voting and other rights of the holders of Allegiance's common stock.

Allegiance currently has no plans to pay dividends on its common stock, so holders of Allegiance's common stock may not receive funds without selling their common stock.

We have not paid dividends on our common stock in the past, and do not anticipate paying dividends on our common stock in the foreseeable future. Our ability to pay dividends on our common stock is dependent on the Bank's ability to pay dividends to it, which is limited by applicable laws and banking regulations. Payments of future dividends, if any, will be at the discretion of Allegiance's Board of Directors after taking into account various factors, including our business, operating results and financial condition, current and anticipated cash needs, plans for expansion and any legal or contractual limitations on our ability to pay dividends. In addition, Allegiance's existing credit agreement restricts our ability to pay dividends.

Allegiance is dependent upon the Bank for cash flow, and the Bank's ability to make cash distributions is restricted, which could impact Allegiance's ability to satisfy its obligations.

Allegiance's primary tangible asset is the Bank. As such, Allegiance depends upon the Bank for cash distributions (through dividends on the Bank's stock) that Allegiance uses to pay its operating expenses and satisfy its obligations, including debt obligations. There are numerous laws and banking regulations that limit the Bank's ability to pay dividends to Allegiance. If the Bank is unable to pay dividends to Allegiance, it will not be able to satisfy its obligations. These statutes and regulations require, among other things, that the Bank maintain certain levels of capital in order to pay a dividend. Further, federal and state banking authorities have the ability to restrict the Bank's payment of dividends through supervisory action.

Allegiance's corporate governance documents and certain corporate and banking provisions of Texas law applicable to it could have an anti-takeover effect and may delay, make more difficult or prevent an attempted acquisition and other actions.

Allegiance's amended and restated certificate of formation and bylaws contain certain provisions that may have an anti-takeover effect and may delay, discourage or prevent an attempted acquisition or change of control. These

provisions include:

- staggered terms for directors, who may be removed from office only for cause;
- a provision establishing certain advance notice procedures for nomination of candidates for election as directors and for shareholder proposals; and
- a provision that any special meeting of Allegiance's shareholders may be called only by a majority of the Board of Directors, the President or a holder or group of holders of at least 50% of Allegiance shares entitled to vote at the meeting.

Allegiance's amended and restated certificate of formation does not provide for cumulative voting for directors and authorizes the Board of Directors to issue shares of preferred stock without shareholder approval and upon such terms as the Board of Directors may determine. The issuance of Allegiance's preferred stock, while providing desirable flexibility in connection with possible acquisitions, financings and other corporate purposes, could have the effect of making it more difficult for a third party to acquire, or of discouraging a third-party from acquiring, a controlling interest. In addition, certain provisions of Texas law, including a provision

that restricts certain business combinations between a Texas corporation and certain affiliated shareholders, may delay, discourage or prevent an attempted acquisition or change in control.

In addition, banking laws impose notice, approval and ongoing regulatory requirements on any shareholder or other party that seeks to acquire direct or indirect “control” of an FDIC-insured depository institution. These laws include the BHC Act and the Change in Bank Control Act. These laws could delay or prevent an acquisition.

Furthermore, Allegiance's amended and restated certificate of formation provides that the state and federal courts located in Harris County, Texas, the county in which the City of Houston lies, will be the exclusive forum for: (a) any derivative action or proceeding brought on Allegiance's behalf; (b) any action asserting a breach of fiduciary duty; (c) any action asserting a claim against Allegiance arising pursuant to the Texas Business Organizations Code, Allegiance's certificate of formation, or Allegiance's bylaws; or (d) any action asserting a claim against Allegiance that is governed by the internal affairs doctrine. Shareholders of Allegiance are deemed to have notice of and have consented to the provisions of Allegiance's amended and restated certificate of formation related to choice of forum. The choice of forum provision in Allegiance's amended and restated certificate of formation may limit our shareholders' ability to obtain a favorable judicial forum for disputes with Allegiance. Alternatively, if a court were to find the choice of forum provision contained in Allegiance's amended and restated certificate of formation to be inapplicable or unenforceable in an action, Allegiance may incur additional costs associated with resolving such action in other jurisdictions, which could harm Allegiance's business, operating results and financial condition.

Shareholders may be deemed to be acting in concert or otherwise in control of Allegiance, which could impose notice, approval and ongoing regulatory requirements and result in adverse regulatory consequences for such holders.

Allegiance is a bank holding company regulated by the Federal Reserve. Banking laws impose notice, approval and ongoing regulatory requirements on any shareholder or other party that seeks to acquire direct or indirect “control” of an FDIC-insured depository institution or a company that controls an FDIC-insured depository institution, such as a bank holding company. These laws include the BHC Act and the Change in Bank Control Act. The determination whether an investor “controls” a depository institution or holding company is based on all of the facts and circumstances surrounding the investment.

As a general matter, a party is deemed to control a depository institution or other company if the party (1) owns or controls 25% or more of any class of voting stock of the bank or other company, (2) controls the election of a majority of the directors of the bank or other company or (3) has the power to exercise a controlling influence over the management or policies of the bank or other company. In addition, subject to rebuttal, a party may be presumed to control a depository institution or other company if the investor owns or controls 10% or more of any class of voting stock. Ownership by affiliated parties, or parties acting in concert, is typically aggregated for these purposes. “Acting in concert” generally means knowing participation in a joint activity or parallel action towards the common goal of acquiring control of a bank or a parent company, whether or not pursuant to an express agreement. The manner in which this definition is applied in individual circumstances can vary and cannot always be predicted with certainty. Any shareholder that is deemed to “control” Allegiance for regulatory purposes would become subject to notice, approval and ongoing regulatory requirements and may be subject to adverse regulatory consequences. Potential investors are advised to consult with their legal counsel regarding the applicable regulations and requirements.

An investment in Allegiance's common stock is not an insured deposit and is not guaranteed by the FDIC, so investors could lose some or all of their investment.

An investment in Allegiance's common stock is not a bank deposit and, therefore, is not insured against loss or guaranteed by the FDIC, any other deposit insurance fund or by any other public or private entity. An investment in Allegiance's common stock is inherently risky for the reasons described herein. As a result, investors could lose some or all of their investment.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal executive office is located at 8847 W. Sam Houston Parkway N., Suite 200, Houston, Texas 77040. As of December 31, 2018, we had 28 full-service banking locations, with 27 bank offices and one loan production office located in the Houston metropolitan area and one bank office location in Beaumont, just outside of the Houston metropolitan area. We lease sixteen of these offices, including our executive and loan production offices, and own the remaining fourteen. We believe that our current facilities are in good condition and adequate to meet our operating needs for the present and immediately foreseeable future.

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ITEM 3. 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 4. MINE SAFETY DISCLOSURES

None.

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PART II.

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Common Stock Market Prices

Allegiance's common stock is listed on the NASDAQ Global Market under the symbol “ABTX.” Quotations of the sales volume and the closing sales prices of the common stock of Allegiance are listed daily in the NASDAQ Global Market’s listings. As of March 6, 2019, there were 21,671,955 shares outstanding and 1,109 shareholders of record of Allegiance's common stock. The closing price per share of common stock on December 31, 2018, the last trading day of the year, was \$32.37.

Dividends

Historically, Allegiance has not declared or paid any dividends on its common stock. Payments of future dividends, if any, will be at the discretion of Allegiance's Board of Directors after taking into account various factors, including its business, operating results and financial condition, current and anticipated cash needs, plans for expansion and any legal or contractual limitations on Allegiance's ability to pay dividends.

As a bank holding company, Allegiance's ability to pay dividends is affected by the regulations promulgated by and the policies and enforcement powers of the Federal Reserve. In addition, because Allegiance is a holding company, it is dependent upon the payment of dividends by the Bank to Allegiance as its principal source of funds to pay dividends in the future, if any, and to make other payments. The Bank is also subject to various legal, regulatory and other restrictions on its ability to pay dividends and make other distributions and payments to Allegiance. See Item 1. “Business—Regulation and Supervision—Regulatory Limits on Dividends and Distributions.”

In connection with the F&M Bancshares acquisition, Allegiance assumed junior subordinated debentures that allow it to defer interest payments thereunder for a period of time. To the extent Allegiance elects to defer any interest payments under the junior subordinated debentures, Allegiance will be prohibited by the terms of the junior subordinated debentures from making dividend payments on its common stock until it retires the arrearages on the junior subordinated debentures. In addition, Allegiance's existing credit agreement restricts its ability to pay dividends.

Recent Sales of Unregistered Securities

None.

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information as of December 31, 2018, regarding the equity compensation plans under which Allegiance’s equity securities are authorized for issuance:

Plan Category	Number of securities	Weighted-average exercise price of	Number of securities
	to be issued	outstanding options,	remaining available

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	upon	warrants and rights	for future
	exercise of	(b)	issuance
	outstanding		under equity
	options,		compensation
	warrants		plans
	and rights		(excluding
	(a)		securities
			reflected in
			column (a))
			(c)
Equity compensation plans approved			
by security holders	503,286	\$ 21.41	539,916
Equity compensation plans not			
approved by security holders <sup>(1)</sup>	299,352	\$ 12.83	—
<b>Total</b>	<b>802,638</b>		<b>539,916</b>

(1) These options were issued under the Post Oak Bancshares, Inc. Stock Option Plan, which was assumed by the Company in connection with the acquisition of Post Oak Bancshares, Inc.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

On September 28, 2018, our board of directors authorized a stock repurchase program, under which we can repurchase up to one million shares of our outstanding common stock at the discretion of management through October 31, 2019. Repurchases under this program may be made from time to time through open market purchases, privately negotiated transactions or such other manner as

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will comply with applicable laws and regulations. Under this program, we repurchased 69,389 shares at a total cost of \$2.1 million during the fourth quarter of 2018.

The following table provides information with respect to purchases made by or on behalf of us or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934) of our common stock during the fourth quarter of 2018.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Part of Publicly Announced Plans <sup>(1)</sup>	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans at the End of the Period
October 1, 2018 to				
October 31, 2018	—	\$ —	—	—
November 1, 2018 to				
November 30, 2018	—	\$ —	—	—
December 1, 2018 to				
December 31, 2018	85,389	(2)\$ 30.61	69,389	930,611

(1) Pursuant to a repurchase program announced on October 1, 2018, pursuant to which the Company may repurchase up to one million shares through October 31, 2019.

(2) Includes 15,000 shares purchased by Steven F. Retzliff and 1,000 shares purchased by Paul P. Egge, each of whom may be considered an “affiliated purchaser” under Rule 10b-18(a)(3).

Performance Graph

The performance graph compares the cumulative total shareholder return on Allegiance's common stock for the period beginning at the close of trading on October 8, 2015 (the end of the first day of trading of Allegiance's common stock on the NASDAQ Global Market) to December 31, 2018, with the cumulative total return of the S&P 500 Total Return Index and the NASDAQ Bank Index for the same period. Dividend reinvestment has been assumed. The Performance Graph assumes \$100 invested on October 8, 2015 in Allegiance's common stock, the S&P 500 Total Return Index and the NASDAQ Bank Index. The historical stock price performance for Allegiance's common stock shown on the graph below is not necessarily indicative of future stock performance.

\*\$100 invested on 10/8/15 in Allegiance's common stock or 9/30/15 in index, including reinvestment of dividends. Fiscal year ending December 31.

	October 8, 2015	December 31, 2015	June 30, 2016	December 31, 2016	June 30, 2017	December 31, 2017	June 30, 2018	December 31, 2018
Allegiance Bancshares, Inc.	100.00	102.29	107.61	156.36	165.66	162.85	187.50	140.01
S&P 500	100.00	107.04	111.15	119.84	131.04	146.01	149.88	139.61
NASDAQ Bank	100.00	103.55	100.25	142.33	139.92	150.12	156.12	125.21

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## ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth our selected historical consolidated financial data for the periods and as of the dates indicated. You should read this information together with Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our audited consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. The selected historical consolidated financial data as of and for the years ended December 31, 2018, 2017 and 2016 are derived from our audited consolidated financial statements, which are included elsewhere in this Annual Report on Form 10-K. The selected historical consolidated financial data as of and for the years ended December 31, 2015 and 2014 (except as otherwise noted below) are derived from our audited consolidated financial statements not included in this Annual Report on Form 10-K. Our historical results for any prior period are not necessarily indicative of future performance.

	As of and for the Years Ended December 31,				
	2018 <sup>(1)</sup>	2017	2016 <sup>(2)</sup>	2015 <sup>(3)</sup>	2014
	(Dollars in thousands, except share and per share data)				
<b>Selected Period End Balance Sheet Data:</b>					
Cash and cash equivalents	\$268,947	\$182,103	\$142,098	\$148,431	\$167,540
Available for sale securities	337,293	309,615	316,455	165,097	84,962
Loans held for sale	—	—	—	27,887	—
Loans held for investment	3,708,306	2,270,876	1,891,635	1,653,165	1,002,054
Allowance for loan losses	26,331	23,649	17,911	13,098	8,246
Goodwill and intangible assets, net	249,712	42,663	43,444	44,619	12,891
Total assets	4,655,249	2,860,231	2,450,948	2,084,579	1,280,008
Noninterest-bearing deposits	1,209,300	683,110	593,751	620,320	373,795
Interest-bearing deposits	2,453,236	1,530,864	1,276,432	1,138,813	759,889
Total deposits	3,662,536	2,213,974	1,870,183	1,759,133	1,133,684
Total shareholders’ equity	702,984	306,865	279,817	258,490	131,778
Total tangible shareholders' equity <sup>(4)</sup>	453,272	264,202	236,373	213,871	118,887
<b>Selected Income Statement Data:</b>					
Net interest income	\$128,579	\$103,668	\$89,864	\$80,166	\$46,834
Provision for loan losses	4,248	13,188	5,469	5,792	2,150
Net interest income after provision for loan losses	124,331	90,480	84,395	74,374	44,684
Noninterest income	7,713	5,861	7,268	3,992	2,607
Noninterest expense	86,787	69,962	59,258	54,805	33,458
Net income before income taxes	45,257	26,379	32,405	23,561	13,833
Net income	37,309	17,632	22,851	15,786	9,005
Net income attributable to common shareholders <sup>(5)</sup>	37,309	17,632	22,851	15,227	9,005
<b>Selected Per Share Data:</b>					
Earnings per common share, basic	\$2.41	\$1.34	\$1.78	\$1.45	\$1.29
Earnings per common share, diluted	2.37	1.31	1.75	1.43	1.26
Book value per common share	32.04	23.20	21.59	20.17	17.62
Tangible book value per common share <sup>(4)</sup>	20.66	19.97	18.24	16.69	15.90
Weighted average common shares outstanding, basic	15,484,757	13,124,900	12,873,326	10,470,465	6,978,025
Weighted average common shares outstanding, diluted	15,773,039	13,457,718	13,073,932	10,654,003	7,142,377
Shares outstanding at end of period	21,937,740	13,226,826	12,958,341	12,812,985	7,477,309



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As of and for the Years Ended December 31,  
2018<sup>(1)</sup> 2017 2016<sup>(2)</sup> 2015<sup>(3)</sup> 2014  
(Dollars in thousands, except share and per share  
data)

Selected Performance Metrics:										
Return on average assets <sup>(6)</sup>	1.11	%	0.65	%	0.98	%	0.81	%	0.75	%
Return on average common equity <sup>(6)</sup>	9.02	%	5.92	%	8.36	%	7.43	%	7.73	%
Return on average tangible common equity <sup>(4)(6)</sup>	11.20	%	6.93	%	9.96	%	9.52	%	8.70	%
Tax equivalent net interest margin <sup>(7)</sup>	4.27	%	4.34	%	4.37	%	4.68	%	4.31	%
Efficiency ratio <sup>(8)</sup>	63.68	%	63.89	%	62.34	%	65.27	%	67.79	%
Loans to deposits ratio	101.25	%	102.57	%	101.15	%	95.56	%	88.39	%
Noninterest expense to average assets	2.58	%	2.59	%	2.53	%	2.83	%	2.80	%
Selected Credit Quality Ratios:										
Nonperforming assets to total assets <sup>(9)</sup>	0.72	%	0.49	%	0.75	%	0.25	%	0.25	%
Nonperforming loans to total loans <sup>(10)</sup>	0.89	%	0.59	%	0.88	%	0.31	%	0.32	%
Allowance for loan losses to nonperforming loans <sup>(10)</sup>	79.90	%	177.44	%	107.26	%	252.66	%	258.98	%
Allowance for loan losses to total loans	0.71	%	1.04	%	0.95	%	0.78	%	0.82	%
Provision for loan losses to average loans	0.16	%	0.63	%	0.31	%	0.38	%	0.23	%
Net charge-offs to average loans	0.06	%	0.36	%	0.04	%	0.06	%	0.06	%
Capital Ratios:										
Common equity Tier 1 capital ratio	11.76	%	10.54	%	11.30	%	11.72	%	N/A	
Tier 1 risk-based capital	12.01	%	10.92	%	11.73	%	12.21	%	11.96	%
Total risk-based capital	13.70	%	13.43	%	12.57	%	12.92	%	12.80	%
Leverage capital ratio	10.61	%	9.84	%	10.35	%	11.02	%	9.55	%
Total equity to total assets	15.10	%	10.73	%	11.42	%	12.40	%	10.30	%
Tangible common equity to tangible assets <sup>(4)</sup>	10.29	%	9.38	%	9.82	%	10.48	%	9.38	%

(1) We completed the acquisition of Post Oak Bancshares, Inc. on October 1, 2018.

(2) We completed the sale of two Central Texas branches acquired from F&M Bancshares during the first quarter of 2016.

(3) We completed the acquisition of F&M Bancshares on January 1, 2015.

(4) This is a non-GAAP financial measure. See our reconciliation of non-GAAP financial measures presented in the foregoing selected financial information to their most directly comparable GAAP financial measures under the caption Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—GAAP Reconciliation and Management's Explanation of Non-GAAP Financial Measures."

(5) On January 1, 2015, we issued shares of Series A and Series B preferred stock, in connection with the acquisition of F&M Bancshares, which had preferred stock outstanding pursuant to the U.S. Treasury's Troubled Asset Relief Program. We paid \$559 thousand in preferred dividends during 2015. On July 15, 2015, we redeemed all of the outstanding shares of Series A and Series B preferred stock with cash on hand for an aggregate redemption price of \$11.7 million (which is the sum of the liquidation amount plus accrued and unpaid dividends up to, but excluding, the redemption date).

(6) Except as otherwise indicated in this footnote, we calculate our average assets and average common equity for a period by dividing the sum of total assets or total common shareholders' equity, as the case may be, as of the close of business on each day in the relevant period, by the number of days in the period. We calculate return on average assets by dividing net income for that period by average assets. We calculate return on average common equity for a period by dividing net income attributable to common shareholders for that period by average common equity and average tangible common equity, as the case may be, for that period.

(7) Net interest margin represents net interest income divided by average interest-earning assets.

- (8) Efficiency ratio represents total noninterest expense divided by the sum of net interest income plus noninterest income, excluding net gains and losses on the sale of loans, securities and assets (including the sale of the two acquired Central Texas branches). Additionally, taxes and provision for loan losses are not part of this calculation.
- (9) Nonperforming assets include nonaccrual loans, loans past due 90 days or more and still accruing interest, repossessed assets and other real estate.
- (10) Nonperforming loans include nonaccrual loans and loans past due 90 days or more and still accruing interest.

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## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with Item 6. "Selected Financial Data" and the Company's consolidated financial statements and the accompanying notes included elsewhere in this Annual Report on Form 10-K. This discussion and analysis contains forward-looking statements that are subject to certain risks and uncertainties and are based on certain assumptions that the Company believes are reasonable but may prove to be inaccurate. Certain risks, uncertainties and other factors, including those set forth under " – Cautionary Notice Regarding Forward-Looking Statements," in this Item 7, under Item 1A. "Risk Factors" and elsewhere in this Annual Report on Form 10-K, may cause actual results to differ materially from those projected results discussed in the forward-looking statements appearing in this discussion and analysis. The Company assumes no obligation to update any of these forward-looking statements.

### Cautionary Notice Regarding Forward-Looking Statements

Statements and financial discussion and analysis contained in this Annual Report on Form 10-K that are not historical facts are forward-looking statements 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 or furnished with the SEC. In addition, our senior management may make forward-looking statements orally to investors, analysts, representatives of the media and others. Statements preceded by, followed by or that otherwise include the words "believes," "expects," "anticipates," "intends," "projects," "estimates," "plans" and similar expressions or future or conditional such as "will," "should," "would," "may" and "could" are generally forward-looking in nature and not historical facts, 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 branch level;
- risks related to any businesses we acquire in the future, including exposure to potential asset and credit quality risks and unknown or contingent liabilities, the time and costs associated with integrating systems, technology platforms, procedures and personnel, the need for additional capital to finance such transactions and possible failures in realizing the anticipated benefits from such acquisitions;
- risks associated with our owner-occupied commercial real estate loan and other commercial real estate loan portfolios, including the risks inherent in the valuation of the collateral securing such loans;
- risks associated with our commercial and industrial loan portfolio, including the risk for deterioration in value of the general business assets that generally secure such loans;
- the accuracy and sufficiency of the assumptions and estimates we make in establishing reserves for potential loan losses and other estimates;
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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;

risks related to loans originated and serviced under the Small Business Administration's guidelines;

changes in market interest rates that affect the pricing of our loans and deposits and our net interest income;

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- 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 these statements are 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 heading Item 1A. “Risk Factors” and elsewhere in this Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” 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 income 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 borrowed funds, referred to as a “rate change.” Fluctuations in market interest rates are driven by many factors, including governmental monetary policies, inflation, deflation, macroeconomic developments, changes in unemployment, the money supply, political and international conditions and conditions in domestic and foreign financial markets.

On October 1, 2018, we completed the acquisition of Post Oak Bancshares, Inc. and its wholly-owned subsidiary bank, Post Oak Bank, N.A. (collectively, “Post Oak”). Because the acquisition closed on October 1, 2018, our results of operations included Post Oak for only a portion of 2018. Our historical financial condition and results of operations as of and for periods ended before December 31, 2018 contained in this Annual Report on Form 10-K do not reflect the financial condition and results of operations of Post Oak. In connection with the acquisition of Post Oak, we issued 8.4 million shares of Company common stock.

In addition to the impact of the acquisition of Post Oak, the comparability of our consolidated results of operations for the year ended December 31, 2014 may be affected by our acquisition of F&M Bancshares on January 1, 2015. The results of the acquired operations of F&M Bancshares were included in our results of operations for 2015, as compared to the full year 2014.

We completed an initial public offering of 2,990,000 shares of Allegiance's common stock at \$21.00 per share on October 7, 2015, generating net proceeds of \$57.1 million. Allegiance's common stock began trading on the NASDAQ Global Market on October 8, 2015 under the ticker symbol “ABTX.”

#### Critical Accounting Policies

Certain of our accounting estimates are important to the portrayal of our financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates are susceptible to material changes as a result of changes in facts and circumstances. Facts and circumstances which could affect these judgments include, but are not limited to, changes in interest rates, changes in the performance of the economy and changes in the financial condition of borrowers. Management believes that determining the allowance for loan losses is its most critical accounting estimate. Our accounting policies are discussed in detail in Note 1 – Nature of Operations and Summary of Significant Accounting and Reporting Policies in the accompanying notes to the consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

#### Allowance for Loan 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. Management considers the policies related to the allowance for loan losses as the most critical to the financial statement presentation. The total allowance for loan losses includes activity related to allowances calculated in accordance with Accounting Standards Codification (“ASC”) 310, Receivables, and ASC 450, Contingencies.

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.

Loans acquired in business combinations are initially recorded at fair value, which includes an estimate of loan losses expected to be realized over the remaining lives of the loans. Therefore, no corresponding allowance for loan losses is recorded for these loans at acquisition. Methods utilized to estimate any subsequently required allowance for loan losses for acquired loans not deemed credit-impaired at acquisition are similar to originated loans. However, the estimate of loss is based on the unpaid principal balance and then

compared to any remaining unaccreted purchase discount. To the extent that the calculated loss is greater than the remaining unaccreted purchase discount, an allowance is recorded for such difference.

### Emerging Growth Company

Pursuant to the JOBS Act, an emerging growth company can elect to opt in to any new or revised accounting standards that may be issued by the FASB or the SEC otherwise applicable to non-emerging growth companies. We have elected to opt in to such standards, which election is irrevocable.

We will likely continue to take advantage of some of the reduced regulatory and reporting requirements that are available to us so long as we qualify as an emerging growth company, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation and exemptions from the requirements of holding non-binding advisory votes on executive compensation and golden parachute payments.

### 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 have a material 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 \$37.3 million, or \$2.37 per diluted common share, for the year ended December 31, 2018 compared with \$17.6 million, or \$1.31 per diluted common share, for the year ended December 31, 2017, an increase of \$19.7 million, or 111.6%. The increase in net income was primarily the result of a \$24.9 million increase in net interest income and an \$8.9 million decrease in the provision for loan losses partially offset by a \$16.8 million increase in noninterest expense. Net income was \$17.6 million, or \$1.31 per diluted common share, for the year ended December 31, 2017 compared with \$22.9 million, or \$1.75 per diluted common share, for the year ended December 31, 2016. Returns on average common equity were 9.02%, 5.92% and 8.36%, returns on average assets were 1.11%, 0.65% and 0.98% and efficiency ratios were 63.68%, 63.89% and 62.34% for the years ended December 31, 2018, 2017 and 2016, respectively. 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 (including the sale of the two acquired Central Texas branches in 2016). Additionally, taxes and provision for loan losses are not part of the efficiency ratio calculation.

### Net Interest Income

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, which are used to fund those assets. Net interest income is our largest source of revenue, representing 94.3% of total revenue during 2018. Tax equivalent net interest margin is the ratio of taxable-equivalent net interest income to average earning assets for the period. The level of interest rates and the volume and mix of earning assets and interest-bearing liabilities impact net interest income and net interest margin.

The Federal Reserve influences the general market rates of interest, including the deposit and loan rates offered by many financial institutions. Our loan portfolio is affected by changes in the prime interest rate. The prime interest rate, which is the rate offered on loans to borrowers with strong credit, remained at 3.50% during most of 2016. In December 2016, the prime rate increased 25 basis points to 3.75%. During 2017, the prime rate increased 75 basis

points (25 basis points in each of March, June and December) to end the year at 4.50%. During 2018, the prime rate increased 100 basis points (25 basis points in each of March, June, September and December) to end the year at to 5.50%. Our loan portfolio is also impacted by changes in the London Interbank Offered Rate (LIBOR). At December 31, 2018, the one-month and three-month U.S. dollar LIBOR rates were 2.50% and 2.81%, respectively, while at December 31, 2017, the one-month and three-month U.S. dollar LIBOR rates were 1.57% and 1.69%, respectively, and at December 31, 2016, the one-month and three-month U.S. dollar LIBOR rates were 0.77% and 1.00%, respectively.

The effective federal funds rate, which is the cost of immediately available overnight funds, remained at 0.50% during most of 2016. In December 2016, the effective federal funds rate increased 25 basis points to end the year at 0.75%. During 2017, the effective federal funds rate increased 75 basis points (25 basis points in each of March, June and December) to end the year at 1.50%. During 2018, the effective federal funds rate increased 100 basis points (25 basis points in each of March, June, September and December) to end the period at 2.50%.

Year ended December 31, 2018 compared with the year ended December 31, 2017. Net interest income before the provision for loan losses for the year ended December 31, 2018 was \$128.6 million compared with \$103.7 million for the year ended December 31,



2017, an increase of \$24.9 million, or 24.0%. The increase in net interest income from the previous year was due to increased average interest-earning asset balances primarily from the acquisition of Post Oak, as well as organic growth for the year. Average interest-earning assets increased \$582.6 million, or 23.7%, for the year ended December 31, 2018 compared with the year ended December 31, 2017.

Interest income was \$158.2 million for the year ended December 31, 2018, an increase of \$38.8 million, or 32.5%, compared with the year ended December 31, 2017 primarily due to an increase of \$37.9 million of interest income and fees on loans. This increase in interest income and fees on loans during the year ended December 31, 2018 was primarily due to the Post Oak acquisition and organic growth. Average loans outstanding increased \$571.0 million, or 27.4%, for the same period. Additionally, interest income during the years ended December 31, 2018 and 2017, included acquisition accounting loan discount accretion of \$2.7 million and \$632 thousand, respectively.

Interest expense was \$29.6 million for the year ended December 31, 2018, an increase of \$13.9 million, or 88.0%, compared with the year ended December 31, 2017. This increase was primarily due to an increase in average interest-bearing deposits, the subordinated debt issued in December 2017 and rising expenses associated with higher funding costs on interest-bearing liabilities. Average interest-bearing liabilities increased \$370.1 million, or 21.5%, for the year ended December 31, 2018 compared with the year ended December 31, 2017 primarily due to the increase in average interest-bearing deposits. Average interest-bearing deposits increased \$361.3 million primarily due to deposits assumed in the Post Oak acquisition and organic growth. Additionally, average subordinated debt increased \$37.6 million during the year ended December 31, 2018 due to the issuance in December 2017. The increase in interest-bearing deposits for the year ended December 31, 2018 compared to the year ended December 31, 2017 was primarily due to the increase in average certificates and other time deposits of \$192.3 million, or 25.7%. The cost of average interest-bearing liabilities increased to 142 basis points for the year ended December 31, 2018 compared to 92 basis points for the same period in 2017.

Tax equivalent net interest margin, defined as net interest income adjusted for tax-free income divided by average interest-earning assets, for the year ended December 31, 2018 was 4.27%, a decrease of 7 basis points compared to 4.34% for the year ended December 31, 2017. The decrease in the net interest margin on a tax equivalent basis was primarily due to an increase in funding costs on certificates of deposit and other borrowed funds partially offset by an increase in the impact of net acquisition accounting adjustments. The average yield on interest-earning assets and the average rate paid on interest-bearing liabilities increased during 2018. The average yield on interest-earning assets and the average rate paid on interest-bearing liabilities are primarily impacted by changes in market interest rates as well as changes in the volume and relative mix of the underlying assets and liabilities. The impact of net acquisition accounting adjustments of \$3.1 million and \$527 thousand on the tax equivalent net interest margin was an increase of 10 basis points and 2 basis points for the years ended December 31, 2018 and 2017, respectively. 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 year ended December 31, 2018 and 35% rate for the same period in 2017, thus making tax-exempt yields comparable to taxable asset yields. Beginning January 1, 2018, tax equivalent yields and the net interest margin were based upon a tax rate of 21% as a result of the Tax Cuts and Jobs Act enacted on December 22, 2017.

Year ended December 31, 2017 compared with the year ended December 31, 2016. Net interest income before the provision for loan losses for the year ended December 31, 2017 was \$103.7 million compared with \$89.9 million for the year ended December 31, 2016, an increase of \$13.8 million, or 15.4%. The increase in net interest income was primarily due to the increase in average interest-earning assets of \$343.6 million, or 16.3%, for the year ended December 31, 2017 compared with the year ended December 31, 2016. The increase in our average interest-earning assets during the year ended December 31, 2017 as compared to the year ended 2016 was primarily due to organic loan growth.

Interest income was \$119.4 million for the year ended December 31, 2017, an increase of \$18.7 million, or 18.5%, compared with the year ended December 31, 2016 primarily due to an increase of \$17.0 million of interest income and

fees on loans during the year ended December 31, 2017 compared to the same period in 2016 as a result of the increase in average loans outstanding of \$326.1 million for the same period. The increase in interest income during the years ended December 31, 2017 and 2016, included acquisition accounting loan discount accretion of \$632 thousand and \$1.4 million, respectively.

Interest expense was \$15.8 million for the year ended December 31, 2017, an increase of \$4.9 million, or 44.5%, compared with the year ended December 31, 2016. This increase was primarily due to an increase in average interest-bearing liabilities and an increase in the funding costs on interest-bearing liabilities. Average interest-bearing liabilities increased \$285.7 million, or 19.9%, for the year ended December 31, 2017 compared with the year ended December 31, 2016. The increase in average interest-bearing liabilities was primarily due to the increase in average interest-bearing deposits of \$223.3 million and the increase in average borrowed funds of \$60.3 million during the year ended December 31, 2017. The significant increase in interest-bearing deposits for the year ended December 31, 2017 compared to the year ended December 31, 2016 was impacted by the increase in average certificates and other time deposits of \$100.0 million, or 15.4%.

Tax equivalent net interest margin for the year ended December 31, 2017 was 4.34%, a decrease of 3 basis points compared to 4.37% for the year ended December 31, 2016. The decrease in the net interest margin on a tax equivalent basis was primarily due to an increase in funding costs on certificates of deposit and other borrowed funds and a decrease in the impact of net acquisition accounting adjustments. The average yield on interest earning assets and the average rate paid on interest-bearing liabilities increased during 2017. The average yield on interest-earning assets and the average rate paid on interest-bearing liabilities are primarily impacted by changes in market interest rates as well as changes in the volume and relative mix of the underlying assets and liabilities. The impact of net acquisition accounting adjustments of \$527 thousand and \$1.5 million on the tax equivalent net interest margin was an increase of 2 basis points and 7 basis points for the years ended December 31, 2017 and 2016, respectively. 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 35% federal tax rate, thus making tax-exempt yields comparable to taxable asset yields. The tax equivalent yields and net interest margin during the comparable periods are presented based upon a tax rate of 35%.

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

	For the Years Ended December 31,								
	2018			2017			2016		
	Average Balance	Interest Earned/ Interest Paid	Average Yield/ Rate	Average Balance	Interest Earned/ Interest Paid	Average Yield/ Rate	Average Balance	Interest Earned/ Interest Paid	Average Yield/ Rate
<b>Assets</b>									
<b>Interest-Earning Assets:</b>									
Loans <sup>(1)</sup>	\$2,652,355	\$148,223	5.59%	\$2,081,370	\$110,331	5.30%	\$1,755,319	\$93,356	5.32%
Securities	317,329	8,527	2.69%	324,926	8,445	2.60%	270,789	6,851	2.53%
Deposits in other financial institutions	70,145	1,473	2.10%	50,917	662	1.30%	87,485	571	0.65%
<b>Total interest-earning assets</b>	<b>3,039,829</b>	<b>\$158,223</b>	<b>5.21%</b>	<b>2,457,213</b>	<b>\$119,438</b>	<b>4.86%</b>	<b>2,113,593</b>	<b>\$100,778</b>	<b>4.77%</b>
Allowance for loan losses	(24,077 )			(20,536 )			(15,200 )		
Noninterest-earning assets	349,408			262,549			240,202		
<b>Total assets</b>	<b>\$3,365,160</b>			<b>\$2,699,226</b>			<b>\$2,338,595</b>		
<b>Liabilities and Shareholders' Equity</b>									
<b>Interest-Bearing Liabilities:</b>									
Interest-bearing demand deposits	\$224,210	\$1,834	0.82%	\$156,527	\$597	0.38%	\$104,212	\$334	0.32%
Money market and savings deposits	637,722	4,644	0.73%	536,415	2,562	0.48%	465,403	2,103	0.45%
Certificates and other time deposits	940,356	15,478	1.65%	748,086	9,060	1.21%	648,075	7,044	1.09%
Borrowed funds	240,952	4,788	1.99%	269,633	2,922	1.08%	209,379	945	0.45%

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Subordinated debt	48,776	2,900	5.95 %	11,208	629	5.61 %	9,138	488	5.34 %
Total interest-bearing liabilities	2,092,016	29,644	1.42 %	1,721,869	\$15,770	0.92 %	1,436,207	\$10,914	0.76 %

Noninterest-Bearing

Liabilities:

Noninterest-bearing demand deposits	848,276			672,101			620,701		
Other liabilities	11,427			7,629			8,476		
Total liabilities	2,951,719			2,401,599			2,065,384		
Shareholders' equity	413,441			297,627			273,211		
Total liabilities and shareholders' equity	\$3,365,160			\$2,699,226			\$2,338,595		
Net interest rate spread			3.79 %			3.94 %			4.01 %
Net interest income and margin <sup>(2)</sup>		\$128,579	4.23 %		\$103,668	4.22 %		\$89,864	4.25 %
Net interest income and margin (tax equivalent) <sup>(3)</sup>		\$129,652	4.27 %		\$106,669	4.34 %		\$92,330	4.37 %

(1) Includes loans held for sale.

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

(3) 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 year ended December 31, 2018 and 35% for the years ended December 31, 2017 and 2016 and other applicable effective tax rates.

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

	For the Years Ended December 31,						
	2018 vs. 2017			2017 vs. 2016			
	Increase			Increase			
	(Decrease)			(Decrease)			
	Due to Change in			Due to Change in			
	Volume	Rate	Total	Volume	Rate	Days	Total
	(Dollars in thousands)						
<b>Interest-Earning assets:</b>							
Loans	\$30,268	\$7,625	\$37,893	\$17,294	\$(64 )	\$(255)	\$16,975
Securities	(198 )	279	81	1,387	226	(19 )	1,594
Deposits in other financial							
institutions	250	562	812	(237 )	330	(2 )	91
<b>Total increase (decrease) in</b>							
interest income	30,320	8,466	38,786	18,444	492	(276)	18,660
<b>Interest-Bearing liabilities:</b>							
Interest-bearing demand							
deposits	258	979	1,237	169	95	(1 )	263
Money market and savings							
deposits	484	1,598	2,082	327	138	(6 )	459
Certificates and other time							
deposits	2,329	4,089	6,418	1,106	929	(19 )	2,016
Borrowed funds	(311 )	2,177	1,866	275	1,705	(3 )	1,977
Subordinated debt	2,108	163	2,271	112	30	(1 )	141
<b>Total increase (decrease) in</b>							
interest expense	4,868	9,006	13,874	1,989	2,897	(30 )	4,856
Increase (decrease) in net							
interest income	\$25,452	\$(540 )	\$24,912	\$16,455	\$(2,405)	\$(246)	\$13,804
Provision for Loan Losses							

Our allowance for loan losses is established through charges to income in the form of the provision in order to bring our allowance for loan losses to a level deemed appropriate by management. The allowance for loan losses at December 31, 2018 and December 31, 2017 was \$26.3 million and \$23.6 million, respectively, representing 0.71% and 1.04% of total loans as of such dates. We recorded a \$4.2 million provision for loan losses for the year ended December 31, 2018 compared with \$13.2 million for the year ended December 31, 2017. The increased provision for the year ended December 31, 2017 was primarily due to an increase in organic loan growth, net charge-offs of \$7.5 million, estimated losses related to Hurricane Harvey and an increase of \$702 thousand of allowance on impaired

loans. The provision for loan losses for the year ended December 31, 2017 was \$13.2 million compared with \$5.5 million for the year ended December 31, 2016.

Acquired loans are initially recorded at fair value based on a discounted cash flow valuation methodology that considers, among other things, projected default rates, losses given existing defaults and recovery rates. Loans acquired from Post Oak were initially recorded at fair value and no corresponding allowance for loan losses was recorded for these loans at acquisition date. We recognized a discount on the acquired loans which will be prospectively accreted, increasing our basis in such loans. At December 31, 2018, the balance of the acquisition accounting discount was \$14.2 million.

#### Noninterest Income

Our primary sources of noninterest income are service charges on deposit accounts, nonsufficient funds fees, rebates from our correspondent bank 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.

Year ended December 31, 2018 compared with the year ended December 31, 2017. Noninterest income totaled \$7.7 million for the year ended December 31, 2018 compared to \$5.9 million for the year ended December 31, 2017, an increase of \$1.9 million, or

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31.6%. Noninterest income increased in 2018 due to increased rebates from correspondent bank and increased noninterest income driven primarily from increased deposit and loan balances, mitigated by losses on other real estate owned during 2018.

Year ended December 31, 2017 compared with the year ended December 31, 2016. Noninterest income totaled \$5.9 million for the year ended December 31, 2017 compared to \$7.3 million for the year ended December 31, 2016, a decrease of \$1.4 million, or 19.4%. This decrease was primarily due to the \$2.1 million gain, \$1.3 million after-tax, on the sale of the two Central Texas branch locations completed during the first quarter 2016.

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

	For the Years Ended			For the Years Ended		
	December 31, 2018	December 31, 2017	Increase (Decrease)	December 31, 2017	December 31, 2016	Increase (Decrease)
	(Dollars in thousands)					
Nonsufficient funds fees	\$755	\$685	\$ 70	\$685	\$661	\$ 24
Service charges on deposit accounts	869	783	86	783	677	106
Gain on sale of branch assets	—	—	—	—	2,050	(2,050 )
Gain on sale of securities	—	18	(18 )	18	30	(12 )
(Loss) gain on sale of other real estate	(428 )	6	(434 )	6	266	(260 )
Bank owned life insurance income	579	585	(6 )	585	626	(41 )
Debit card and ATM card income	1,331	929	402	929	725	204
Rebate from correspondent bank	2,609	1,327	1,282	1,327	650	677
Other <sup>(1)</sup>	1,998	1,528	470	1,528	1,583	(55 )
Total noninterest income	\$7,713	\$5,861	\$ 1,852	\$5,861	\$7,268	\$ (1,407 )

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

#### Noninterest Expense

Year ended December 31, 2018 compared with the year ended December 31, 2017. Noninterest expense was \$86.8 million for the year ended December 31, 2018 compared to \$70.0 million for the year ended December 31, 2017, an increase of \$16.8 million, or 24.0%. This increase was primarily due to core system conversion expenses of \$1.8 million, acquisition and merger-related expenses of \$1.7 million, additional expenses related to increased headcount and bank offices from the Post Oak acquisition and increased expenses to support organic growth initiatives during the year ended December 31, 2018.

Year ended December 31, 2017 compared with the year ended December 31, 2016. Noninterest expense was \$70.0 million for the year ended December 31, 2017 compared to \$59.3 million for the year ended December 31, 2016, an increase of \$10.7 million, or 18.1%. This increase was primarily due to core system conversion expenses of \$1.1 million, professional fees, regulatory assessments and FDIC insurance and salaries and benefits related to supporting growth initiatives.



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

	For the Years Ended			For the Years Ended		
	December 31, 2018	December 31, 2017	Increase (Decrease)	December 31, 2017	December 31, 2016	Increase (Decrease)
	(Dollars in thousands)					
Salaries and employee benefits <sup>(1)</sup>	\$56,704	\$44,745	\$ 11,959	\$44,745	\$38,858	\$ 5,887
Net occupancy and equipment	5,845	5,452	393	5,452	4,944	508
Depreciation	2,132	1,637	495	1,637	1,627	10
Data processing and software						
amortization	5,120	4,047	1,073	4,047	2,633	1,414
Professional fees	2,009	2,926	(917 )	2,926	2,234	692
Regulatory assessments and FDIC						
insurance	2,309	2,273	36	2,273	1,581	692
Core deposit intangibles amortization	1,815	781	1,034	781	785	(4 )
Communications	1,185	983	202	983	1,055	(72 )
Advertising	1,725	1,289	436	1,289	945	344
Acquisition and merger-related expenses	1,661	—	1,661	—	—	—
Other real estate expense	313	331	(18 )	331	189	142
Printing and supplies	388	299	89	299	241	58
Other	5,581	5,199	382	5,199	4,166	1,033
Total noninterest expense	\$86,787	\$69,962	\$ 16,825	\$69,962	\$59,258	\$ 10,704

(1) Total salaries and employee benefits includes \$1.7 million, \$1.8 million and \$1.5 million in stock based compensation expense for the years ended December 31, 2018, 2017 and 2016, respectively.

Salaries and Employee Benefits. Salaries and benefits were \$56.7 million for the year ended December 31, 2018, an increase of \$12.0 million, or 26.7%, compared to the year ended December 31, 2017. We experienced a significant increase in the total size of our workforce between these periods as our full-time equivalent employees were 569 at December 31, 2018 compared to 375 for the year ended December 31, 2017. The primary increase in headcount was from employees added through the Post Oak acquisition and to support organic growth.

Salaries and benefits were \$44.7 million for the year ended December 31, 2017, an increase of \$5.9 million, or 15.2%, compared to the year ended December 31, 2016. This increase was primarily attributable to the addition of high quality bankers and key personnel hired to strengthen our infrastructure to support our future growth plans. The total size of our workforce between these periods increased to 375 full-time equivalent employees at December 31, 2017 from 334 employees at December 31, 2016.

Net Occupancy and Equipment. Net occupancy and equipment expenses increased \$393 thousand, or 7.2%, for the year ended December 31, 2018 to \$5.8 million compared to \$5.5 million for the year ended December 31, 2017. This increase was primarily due to expenses associated with the infrastructure and facilities added through the Post Oak acquisition and continued build-out needed to support our growth.

Net occupancy and equipment expenses increased \$508 thousand, or 10.3%, for the year ended December 31, 2017 to \$5.5 million compared to \$4.9 million for the year ended December 31, 2016. This increase was primarily due to

general business growth and the continued build-out needed to support our growth.

**Data Processing and Software Amortization.** Data processing and software amortization increased \$1.1 million, or 26.5%, for the year ended December 31, 2018 compared to the year ended December 31, 2017. This increase was primarily due to expenses incurred to complete the conversion of our core technology platform to better serve our customers, added scale and expense from the Post Oak acquisition and increase efficiencies.

Data processing and software amortization increased \$1.4 million, or 53.7%, for the year ended December 31, 2017 compared to the year ended December 31, 2016. This increase was primarily due to expenses related to the conversion of our core technology platform to better serve our customers and increase efficiencies.

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**Professional Fees.** Professional fees decreased \$917 thousand, or 31.3%, for the year ended December 31, 2018 to \$2.0 million from \$2.9 million for the year ended December 31, 2017 due to elevated expenses in 2017 as we focused on enhancing the operational infrastructure required to pursue our growth strategy.

Professional fees increased \$692 thousand, or 31.0%, for the year ended December 31, 2017 to \$2.9 million from \$2.2 million for the year ended December 31, 2016 as we continued to focus on enhancing the operational infrastructure required to pursue our growth strategy.

**Core deposit intangibles amortization.** Core deposit intangibles amortization increased \$1.0 million, or 132.4%, for the year ended December 31, 2018 to \$1.8 million from \$781 thousand for the year ended December 31, 2017 primarily due to increased core deposit intangibles amortization resulting from the Post Oak acquisition.

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

### 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 and noninterest income, excluding net gains and losses on the sale of loans, securities and assets (including the sale of the two acquired Central Texas branches). Additionally, taxes and provision for loan losses are not part of this calculation. An increase in the efficiency ratio indicates that more resources are being utilized to generate the same volume of income, while a decrease would indicate a more efficient allocation of resources. Our efficiency ratio was 63.68% for the year ended December 31, 2018 compared with 63.89% for the year ended December 31, 2017. The efficiency ratio for 2018 was impacted by \$1.8 million of core system conversion expenses and \$1.7 million of merger-related expenses related to the Post Oak acquisition. The efficiency ratio for 2017 was impacted by \$1.1 million of core system conversion expenses in 2017.

Our efficiency ratio was 63.89% for the year ended December 31, 2017 compared with 62.34% for the year ended December 31, 2016.

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, as we did from 2017 to 2018, demonstrates the scalability of our operating platform. We expect to continue to benefit from our scalable platform in future periods as we continue to monitor overhead expenses necessary to support our growth.

### Income Taxes

The amount of federal and state income tax expense is influenced by the amount of pre-tax income, the amount of tax-exempt income and the amount of other nondeductible expenses. Income tax expense decreased \$799 thousand, or 9.1%, to \$7.9 million for the year ended December 31, 2018 compared with \$8.7 million for the same period in 2017 primarily due to the reduction in the U.S. federal statutory income tax rate to 21% under the Tax Cuts and Jobs Act enacted on December 22, 2017, partially offset by an increase in pre-tax net income. For the year ended December 31, 2017, income tax expense decreased \$807 thousand, or 8.4%, compared with \$9.6 million for the year ended December 31, 2016. This decrease in income tax expense year over year was primarily due to a decrease in pre-tax net income.

The effective tax rates were 17.6%, 33.2% and 29.5% for the years ended December 31, 2018, 2017 and 2016, respectively. The effective tax rate for 2018 was impacted by the reduction in the U.S. federal statutory income tax rate to 21% under the Tax Cuts and Jobs Act enacted on December 22, 2017. As a result of the reduction in the U.S.

federal statutory income tax rate, we recognized a provisional net income tax expense totaling \$2.6 million for the year ended December 31, 2017. Under ASC 740, Income Taxes, the effect of income tax law changes on deferred taxes should be recognized as a component of income tax expense related to continuing operations in the period in which the law is enacted. This requirement applies not only to items initially recognized in continuing operations, but also to items initially recognized in other comprehensive income.

Tax Cuts and Jobs Act. The Tax Cuts and Jobs Act was enacted on December 22, 2017. Among other things, the new law (i) establishes a new, flat corporate federal statutory income tax rate of 21%, (ii) eliminates the corporate alternative minimum tax and allows the use of any such carryforwards to offset regular tax liability for any taxable year, (iii) limits the deduction for net interest expense incurred by U.S. corporations, (iv) allows businesses to immediately expense, for tax purposes, the cost of new investments in certain qualified depreciable assets, (v) eliminates or reduces certain deductions related to meals and entertainment expenses, (vi) modifies the limitation on excessive employee remuneration to eliminate the exception for performance-based compensation and

clarifies the definition of a covered employee and (vii) limits the deductibility of deposit insurance premiums. The Tax Cuts and Jobs Act also significantly changes U.S. tax law related to foreign operations; however, such changes do not currently impact us.

### Quarterly Financial Information

The following table presents certain unaudited consolidated quarterly financial information regarding the results of operations for the quarters ended December 31, September 30, June 30 and March 31 in the years ended December 31, 2018 and 2017. This information should be read in conjunction with our consolidated financial statements as of and for the fiscal years ended December 31, 2018 and 2017 appearing elsewhere in this Annual Report on Form 10-K.

	Interest Income	Net Interest Income	Net Income Attributable to Common Shareholders	Earnings Per Share <sup>(1)</sup>	
				Basic	Diluted
(Dollars in thousands, except per share data)					
<b>2018</b>					
First quarter	\$32,391	\$26,889	\$ 7,711	\$0.58	\$ 0.57
Second quarter	34,193	27,816	7,556	0.57	0.55
Third quarter	35,336	28,036	8,879	0.66	0.65
Fourth quarter	56,303	45,838	13,163	0.60	0.59
<b>2017</b>					
First quarter	\$27,512	\$24,128	\$ 6,047	\$0.46	\$ 0.45
Second quarter	28,987	25,107	5,395	0.41	0.40
Third quarter	30,901	26,997	2,986	0.23	0.22
Fourth quarter	32,038	27,436	3,204	0.24	0.24

(1) Earnings per share are computed independently for each of the quarters presented and therefore may not total earnings per share for the year.

### Financial Condition

#### Loan Portfolio

At December 31, 2018, total loans were \$3.71 billion, an increase of \$1.44 billion, or 63.3%, compared with December 31, 2017 primarily due to loans acquired in the Post Oak acquisition and organic loan growth.

Total loans as a percentage of deposits were 101.3% and 102.6% as of December 31, 2018 and December 31, 2017, respectively. Total loans as a percentage of assets were 79.7% and 79.4% as of December 31, 2018 and December 31, 2017, respectively.

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

	As of December 31, 2018		2017		2016		2015		2014		
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	
	(Dollars in thousands)										
Loans held for sale <sup>(1)</sup>	\$—	0.0 %	\$—	0.0 %	\$—	0.0 %	\$27,887	1.7 %	\$—	0.0 %	
Commercial and industrial	\$702,037	18.9 %	\$457,129	20.1 %	\$416,752	22.0 %	\$383,044	22.7 %	\$242,034	24.2 %	
Mortgage warehouse	48,274	1.3 %	69,456	3.1 %	67,038	3.5 %	59,071	3.5 %	28,329	2.8 %	
Real estate:											
Commercial real estate											
(including multi-family residential)	1,650,912	44.6 %	1,080,247	47.5 %	891,989	47.2 %	745,595	44.4 %	429,986	42.9 %	
Commercial real estate											
construction and land development	430,128	11.6 %	243,389	10.7 %	159,247	8.4 %	154,646	9.2 %	85,484	8.5 %	
1-4 family residential											
(including home equity)	649,311	17.5 %	301,219	13.3 %	246,987	13.1 %	205,200	12.2 %	135,127	13.5 %	
Residential construction	186,411	5.0 %	109,116	4.8 %	98,657	5.2 %	93,848	5.6 %	72,402	7.2 %	
Consumer and other	41,233	1.1 %	10,320	0.5 %	10,965	0.6 %	11,761	0.7 %	8,692	0.9 %	
Total loans held for investment	3,708,306	100.0 %	2,270,876	100.0 %	1,891,635	100.0 %	1,653,165	98.3 %	1,002,054	100.0 %	
Total loans	3,708,306	100.0 %	2,270,876	100.0 %	1,891,635	100.0 %	1,681,052	100.0 %	1,002,054	100.0 %	
Allowance for Loan Losses	(26,331 )		(23,649 )		(17,911 )		(13,098 )		(8,246 )		
Loans, net	\$3,681,975		\$2,247,227		\$1,873,724		\$1,667,954		\$993,808		

(1) Consists of loans at two former F&M Bancshares locations in Central Texas that the Company acquired on January 1, 2015. As of December 31, 2015, loans held for sale consisted of \$13.2 million of commercial and industrial loans, \$11.6 million of commercial real estate (including multifamily residential) loans, \$2.3 million of 1-4 family residential (including home equity) loans and \$803 thousand of consumer and other loans. Loans held for sale are carried at lower of aggregate cost or fair value.

Our lending activities originate from the efforts of our bankers with an emphasis on lending to individuals, professionals, small to medium-sized businesses and commercial companies generally located in the Houston region. Our strategy for credit risk management generally includes well-defined, centralized credit policies, uniform underwriting criteria and ongoing risk monitoring and review processes for all credit exposures. The strategy generally emphasizes regular credit examinations and management reviews of loans. We have certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. We maintain an independent loan review department that reviews and validates the credit risk program on a periodic basis. In addition, an independent third-party loan review is performed on a semi-annual basis. Results of these reviews are presented to management. The loan review process complements and reinforces the risk identification and assessment decisions made by bankers and credit personnel and contained in our policies and procedures.

The principal categories of our loan portfolio (including loans held for sale) are discussed below:

**Commercial and Industrial.** We make commercial loans in our market area that are underwritten on the basis of the borrower's ability to service the debt from income. Our commercial and industrial loan portfolio increased \$244.9 million, or 53.6%, to \$702.0 million as of December 31, 2018 compared to \$457.1 million as of December 31, 2017.

**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 \$21.2 million, or 30.5%, to \$48.3 million as of December 31, 2018 compared to \$69.5 million as of December 31, 2017.

**Commercial Real Estate (Including Multi-Family Residential).** We make loans collateralized by owner-occupied, nonowner-occupied and multi-family real estate to finance the purchase or ownership of real estate. As of December 31, 2018 and December 31, 2017, 51.4% of our commercial real estate loans were owner-occupied. Our commercial real estate loan portfolio increased \$570.7 million, or 52.8%, to \$1.65 billion as of December 31, 2018 from \$1.08 billion as of December 31, 2017 as a result of commercial real estate loans acquired from the Post Oak acquisition and organic loan growth. Included in our commercial real estate portfolio are multi-family residential loans. Our multi-family loans increased \$11.2 million, or 16.6%, to \$78.4 million as of December 31, 2018 from \$67.2 million as of December 31, 2017. We had 135 multi-family loans with an average loan size of \$581.4 thousand as of December 31, 2018.

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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. As of December 31, 2018 and December 31, 2017, 29.4% and 26.4%, respectively, of our commercial real estate construction and land development loans were owner-occupied. Commercial real estate construction and land development land loans increased \$186.7 million, or 76.7%, to \$430.1 million as of December 31, 2018 compared to \$243.4 million as of December 31, 2017 primarily as a result of loans acquired from Post Oak and organic loan growth.

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 \$348.1 million, or 115.6%, to \$649.3 million as of December 31, 2018 from \$301.2 million as of December 31, 2017. The home equity, home improvement and home equity lines of credit portion of our residential real estate portfolio increased \$51.7 million, or 118.2%, to \$95.4 million as of December 31, 2018 from \$43.8 million as of December 31, 2017. These increases were primarily the result of loans acquired as part of the Post Oak acquisition.

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 \$77.3 million, or 70.8%, to \$186.4 million as of December 31, 2018 from \$109.1 million as of December 31, 2017. This increase was primarily the result of loans acquired as part of the Post Oak acquisition.

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 \$30.9 million, or 299.5%, to \$41.2 million as of December 31, 2018 from \$10.3 million as of December 31, 2017. This increase was primarily the result of loans acquired as part of the Post Oak acquisition.

The contractual maturity ranges of total loans in our loan portfolio and the amount of such loans with predetermined interest rates in each maturity range and the amount of loans with predetermined (fixed) interest rates and floating interest rates in each maturity range, in each case as of the date indicated, are summarized in the following tables:

	As of December 31, 2018			
	Due in	Due After One Year	Due After Five Years	Total
	One Year or Less	Through Five Years		
	(Dollars in thousands)			
Commercial and industrial	\$314,719	\$311,977	\$75,341	\$702,037
Mortgage Warehouse	48,274	—	—	48,274
Real estate:				
Commercial real estate (including multi				
family residential)	228,988	1,008,121	413,803	1,650,912
Commercial real estate construction	99,692	246,814	83,622	430,128



and land development				
1-4 family residential (including home				
equity)	85,143	396,085	168,083	649,311
Residential construction	126,432	41,526	18,453	186,411
Consumer and other	24,539	16,314	380	41,233
Total loans	\$927,787	\$2,020,837	\$759,682	\$3,708,306
Loans with predetermined (fixed)				
interest rates	\$525,973	\$1,741,140	\$367,746	\$2,634,859
Loans with floating interest rates	401,814	279,697	391,936	1,073,447
Total loans	\$927,787	\$2,020,837	\$759,682	\$3,708,306

	As of December 31, 2017			
	Due in	Due After		
	One Year	One Year	Due	
	or Less	Through	After	Total
		Five Years	Five	
			Years	
	(Dollars in thousands)			
Commercial and industrial	\$190,585	\$209,797	\$56,747	\$457,129
Mortgage Warehouse	69,456	—	—	69,456
Real estate:				
Commercial real estate (including multi-				
family residential)	126,169	716,868	237,210	1,080,247
Commercial real estate construction				
and land development	69,291	139,956	34,142	243,389
1-4 family residential (including				
home equity)	48,109	148,673	104,437	301,219
Residential construction	97,189	2,839	9,088	109,116
Consumer and other	4,325	5,993	2	10,320
Total loans	\$605,124	\$1,224,126	\$441,626	\$2,270,876
Loans with predetermined (fixed)				
interest rates	\$363,029	\$1,119,854	\$263,847	\$1,746,730
Loans with floating interest rates	242,095	104,272	177,779	524,146
Total loans	\$605,124	\$1,224,126	\$441,626	\$2,270,876

### Concentrations of Credit

The vast majority of our lending activity occurs in the Houston region. Our loans are primarily secured by real estate, including commercial and residential construction, owner-occupied and nonowner-occupied and multi-family commercial real estate, raw land and other real estate based loans located in the Houston region. As of December 31, 2018, 2017 and 2016, commercial real estate and commercial construction loans represented 56.1%, 58.3% and 53.6%, respectively, of our total loans including loans held for sale.

### Asset Quality

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 \$33.0 million, \$13.3 million and \$16.7 million in nonperforming loans as of December 31, 2018, 2017 and 2016, respectively. If interest on nonaccrual loans had been accrued under the original loan terms, \$1.0 million, \$733 thousand and \$892 thousand would have been recorded as income for the years ended December 31, 2018, 2017 and 2016, respectively.



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

	As of December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
<b>Nonaccrual loans:</b>					
Loans held for sale	\$—	\$—	\$—	\$209	\$—
Commercial and industrial	10,861	6,437	3,896	2,664	1,527
Mortgage warehouse	—	—	—	—	—
<b>Real estate:</b>					
Commercial real estate (including					
multi-family residential)	17,776	6,110	11,663	2,006	1,653
Commercial real estate construction					
and land development	974	—	—	—	—
1-4 family residential					
(including home equity)	3,201	781	217	239	—
Residential construction	—	—	—	—	—
Consumer and other	141	—	12	66	4
<b>Total nonaccrual loans</b>	<b>32,953</b>	<b>13,328</b>	<b>15,788</b>	<b>5,184</b>	<b>3,184</b>
Accruing loans 90 or more days past due	—	—	911	—	—
<b>Total nonperforming loans<sup>(1)</sup></b>	<b>32,953</b>	<b>13,328</b>	<b>16,699</b>	<b>5,184</b>	<b>3,184</b>
Other real estate	630	365	1,503	—	—
Other repossessed assets	—	205	286	131	—
<b>Total nonperforming assets<sup>(2)</sup></b>	<b>\$33,583</b>	<b>\$13,898</b>	<b>\$18,488</b>	<b>\$5,315</b>	<b>\$3,184</b>
Restructured loans <sup>(3)</sup>	\$13,494	\$17,526	\$4,831	\$491	\$—
Nonperforming assets to total assets	0.72 %	0.49 %	0.75 %	0.25 %	0.25 %
Nonperforming loans to total loans	0.89 %	0.59 %	0.88 %	0.31 %	0.32 %

(1) Nonperforming loans include nonaccrual loans and loans past due 90 days or more and still accruing interest.

(2) Nonperforming assets include nonaccrual loans, loans past due 90 days or more and still accruing interest, repossessed assets and other real estate.

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

Potential problem loans consist of 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 December 31, 2018 and 2017, we had \$16.0 million and \$17.9 million, respectively, in loans of this type which are not included in any of the nonaccrual or 90 days past due loan categories. At December 31, 2018, potential problem loans consisted of 23 credit relationships. Of the total outstanding balance at December 31, 2018, 39.6% related to nine customers in the energy-related industry, 19.6% related to two customers in the customer service industry, 15.8% related to three customers in the residential real estate rental industry, 7.5% related to one customer in the manufacturing industry, 5.2% related to one customer in the restaurant industry, 4.3% related to three customers in the commercial services industry, 2.7% related to one customer in the convenience store industry, 3.1% related to one customer in the commercial real estate development business, 1.2% related to one customer in the construction material industry and 1.0% related to two customers in the trucking 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 December 31, 2018 were graded as substandard accruing loans. Potential problem loans impact the allocation of our allowance for loan losses as a result of our risk grade based allocation methodology. See Note 6 – Loans and Allowance for Loan Losses in the accompanying consolidated financial statements for details regarding our allowance allocation methodology.

Nonperforming assets increased \$19.7 million to \$33.6 million at December 31, 2018, from \$13.9 million at December 31, 2017. Nonaccrual loans consisted of 87 separate credits at December 31, 2018 compared to 50 separate credits at December 31, 2017. Nonperforming assets were 0.91% of total loans at December 31, 2018 compared to 0.61% at December 31, 2017. Nonaccrual loans at December 31, 2018, included \$5.3 million of loans acquired from Post Oak. See Note 2 – Acquisitions in the accompanying consolidated financial statements included elsewhere in this Annual Report on Form 10-K for additional information regarding loans purchased from Post Oak.

### Allowance for Loan 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 were recorded at fair value without a carryover of the Post Oak 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 remaining discount on the balance of acquired loans as of December 31, 2018 was \$14.2 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 December 31, 2018, our allowance for loan losses amounted to \$26.3 million, or 0.71% of total loans, compared with \$23.6 million, or 1.04%, as of December 31, 2017. During 2018, our allowance for loan losses as a percentage of loans decreased primarily due to the addition of acquired loans from Post Oak that were recorded at fair value without a carryover of the Post Oak allowance for loan losses.

The increase in the allowance of \$2.7 million for the year ended December 31, 2018 as compared to the year ended December 31, 2017 was primarily due to an increase of \$4.4 million of allowance on impaired loans partially offset by the reversal in 2018 of the \$1.7 million Hurricane Harvey reserve that was established in the year 2017. We believe that the allowance for loan losses at December 31, 2018 was adequate to cover probable incurred losses in the loan portfolio as of such date.

The ratio of net charge-offs to average loans outstanding decreased to 0.06% for the year ended December 31, 2018 from 0.36% at December 31, 2017. Net charge-offs decreased \$5.9 million during the year 2018 compared to 2017 primarily due to two commercial loan relationships that experienced financial difficulty in 2017.

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

	As of and for the Years Ended December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Average loans outstanding	\$2,652,355	\$2,081,370	\$1,755,319	\$1,525,325	\$917,218
Gross loans outstanding at end of period	3,708,306	2,270,876	1,891,635	1,681,052	1,002,054
Allowance for loan losses at beginning of period	23,649	17,911	13,098	8,246	6,655
Provision for loan losses	4,248	13,188	5,469	5,792	2,150
Charge-offs:					
Commercial and industrial loans	(2,424 )	(7,673 )	(722 )	(935 )	(567 )
Mortgage warehouse	—	—	—	—	—
Real estate:					
Commercial real estate (including multi-family residential)	(42 )	(124 )	(129 )	—	—
Commercial real estate construction and land development	—	—	—	—	—
1-4 family residential (including home equity)	(25 )	—	—	(40 )	—
Residential construction	—	—	—	—	—
Consumer and other	(24 )	(196 )	(49 )	(65 )	(40 )
Total charge-offs for all loan types	(2,515 )	(7,993 )	(900 )	(1,040 )	(607 )
Recoveries:					
Commercial and industrial loans	847	516	186	52	32
Mortgage warehouse	—	—	—	—	—
Real estate:					
Commercial real estate (including multi-family residential)	102	3	43	—	—
Commercial real estate construction and land development	—	10	—	18	—
1-4 family residential (including home equity)	—	10	10	—	—
Residential construction	—	—	—	24	—
Consumer and other	—	4	5	6	16
Total recoveries for all loan types	949	543	244	100	48
Net charge-offs	(1,566 )	(7,450 )	(656 )	(940 )	(559 )
Allowance for loan losses at end of period	\$26,331	\$23,649	\$17,911	\$13,098	\$8,246
Allowance for loan losses to total loans	0.71 %	1.04 %	0.95 %	0.78 %	0.82 %
Net charge-offs to average loans	0.06 %	0.36 %	0.04 %	0.06 %	0.06 %
Allowance for loan losses to nonperforming loans	79.90 %	177.44 %	107.26 %	252.66 %	258.98 %

In connection with our review of our loan portfolio, we consider the following risk elements attributable to particular loan types or categories in assessing the quality of individual loans:

- for commercial and industrial loans, the operating results of the commercial, industrial or professional enterprise, the borrower's business, professional and financial ability and expertise, the specific risks and volatility of income and operating results typical for businesses in that category and the value, nature and marketability of collateral;
- for commercial real estate (including multi-family residential) loans, the debt service coverage ratio (income from the property in excess of operating expenses compared to loan payment requirements), operating results of the owner in the case of owner-occupied properties, the loan to value ratio, the age and condition of the collateral and the volatility of income, property value and future operating results typical of properties of that type;
- for commercial real estate construction and land development and residential construction loans, the perceived feasibility of the project including the ability to sell developed lots or improvements constructed for resale or the ability to lease property constructed for lease, the quality and nature of contracts for presale or prelease, if any, experience and ability of the developer and loan to value ratio;
- for 1-4 family residential (including home equity) loans, the borrower's ability to repay the loan, including a consideration of the debt to income ratio and employment and income stability, the loan to value ratio, and the age, condition and marketability of collateral; and

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for consumer and other loans, the individual borrower's income, current debt level, past credit history and the value of any available collateral.

Based on our review of our loan portfolio, we classify our loans by credit risk and track risk ratings. The following is a general description of the risk ratings we use:

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.

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 our credit position at some future date. They are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected.

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. Such loans are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected.

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.

Loans not meeting the criteria above that are analyzed individually are considered to be pass rated loans.

See Note 6 – Loans and Allowance for Loan Losses in our audited consolidated financial statement included elsewhere in this Annual Report on Form 10-K for additional information regarding how we estimate and evaluate the credit risk in our loan portfolio.

The following table shows the allocation of the allowance for loan losses among our loan categories and the percentage of the respective loan category to total loans held for investment as of the dates indicated. The allocation is made for analytical purposes and is not necessarily indicative of the categories in which future losses may occur. The total allowance is available to absorb losses from any loan category.

	As of December 31,		2017		2016		2015		2014	
	2018	Percent of Loans to Total	Amount	Percent of Loans to Total	Amount	Percent of Loans to Total	Amount	Percent of Loans to Total	Amount	Percent of Loans to Total
Balance of allowance for loan losses										
applicable to:										
Commercial and industrial loans	\$8,351	18.9 %	\$7,694	20.1 %	\$5,059	22.0 %	\$3,644	23.6 %	\$2,334	24.2 %

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Mortgage Warehouse	—	1.3 %	—	3.1 %	—	3.5 %	—	3.5 %	—	2.8 %
Real estate:										
Commercial real estate (including										
multi-family residential)	11,901	44.6 %	10,253	47.5 %	8,950	47.2 %	5,914	45.0 %	3,799	42.9 %
Commercial real estate										
construction and land										
development	2,724	11.6 %	2,525	10.7 %	1,217	8.4 %	1,221	9.2 %	578	8.5 %
1-4 family residential (including										
home equity)	2,242	17.5 %	2,140	13.3 %	1,876	13.1 %	1,432	12.3 %	1,008	13.5 %
Residential construction	1,040	5.0 %	942	4.8 %	748	5.2 %	820	5.6 %	475	7.2 %
Consumer and other	73	1.1 %	95	0.5 %	61	0.6 %	67	0.8 %	52	0.9 %
Total allowance for loan losses	\$26,331	100.0 %	\$23,649	100.0 %	\$17,911	100.0 %	\$13,098	100.0 %	\$8,246	100.0 %

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, to meet pledging requirements and to meet regulatory capital requirements. As of December 31, 2018, the carrying amount of investment securities totaled \$337.3 million, an increase of \$27.7 million, or 8.9%, compared with \$309.6 million as of December 31, 2017 primarily due to securities acquired from Post Oak. Securities represented 7.2% and 10.8% of total assets as of December 31, 2018 and 2017, respectively.

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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:

	December 31, 2018			
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
	(Dollars in thousands)			
<b>Available for Sale</b>				
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
<b>Total</b>	<b>\$340,928</b>	<b>\$ 1,671</b>	<b>\$ (5,306 )</b>	<b>\$337,293</b>

  

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

Certain investment securities are valued at less than their historical cost. Management evaluates securities for OTTI at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. See “Securities” in Note 5 to our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K for additional information regarding how and when management evaluates securities for OTTI.

As of December 31, 2018, we did not expect to sell any securities classified as available for sale with material unrealized losses, and management believes that we more likely than not will not be required to sell any securities before their anticipated recovery at which time we will receive full value for the securities. The unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. Management does not believe any of the securities are impaired due to reasons of credit quality. The fair value is expected to recover as the securities approach their maturity date or repricing date or if market yields for such investments decline. Accordingly, as of December 31, 2018, management believes any impairment in our securities is temporary, and no impairment loss has been realized in our consolidated statements of income.

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

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 %

December 31, 2017										
	Within One Year		After One Year but Within Five Years		After Five Years but Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total	Yield
(Dollars in thousands)										
Available for Sale										
U.S. government and										
agency securities	\$2,018	1.46 %	\$2,516	3.33 %	\$1,396	3.44 %	\$2,577	2.75 %	\$8,507	2.73 %
Municipal securities	1,263	2.56 %	26,841	2.37 %	82,981	3.21 %	111,245	4.48 %	222,330	3.74 %
Agency mortgage-backed pass-through securities	—	0.00 %	—	0.00 %	5,074	2.29 %	26,940	2.90 %	32,014	2.81 %

securities										
Corporate bonds and										
other	7,552	2.19 %	29,538	2.45 %	9,157	2.99 %	—	0.00 %	46,247	2.51 %
Total	\$10,833	2.10 %	\$58,895	2.45 %	\$98,608	3.14 %	\$140,762	4.15 %	\$309,098	3.43 %

The contractual maturity of mortgage-backed securities and collateralized mortgage obligations is not a reliable indicator of their expected life because borrowers generally 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 December 31, 2018 and 2017, we did not own securities of any one issuer (other than the U.S. government and its agencies or sponsored entities) for which the aggregate adjusted cost exceeded 10% of our consolidated shareholders' equity.

The average yield of our securities portfolio was 2.69% during the year ended December 31, 2018 compared with 2.60% for the year ended December 31, 2017. The increase in average yield during 2018 compared to 2017 was primarily due to our increased investment in longer-term securities. This investment in higher-yielding securities replaced lower-yielding securities that matured or were called or prepaid.

## Goodwill and Core Deposit Intangibles

Our goodwill as of December 31, 2018 was \$223.1 million compared to \$39.4 million as of December 31, 2017 due to goodwill resulting from the Post Oak acquisition. Goodwill resulting from business combinations represents the excess of the consideration paid over the fair value of the net assets acquired. 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 intangibles, net, as of December 31, 2018 was \$26.6 million compared to \$3.3 million as of December 31, 2017 due to core deposit intangible resulting from the Post Oak acquisition. Core deposit intangibles are amortized over the estimated useful life of seven to ten years.

## Deposits

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

Total deposits at December 31, 2018 were \$3.66 billion, an increase of \$1.45 billion, or 65.4%, compared with \$2.21 billion at December 31, 2017. The deposit growth we experienced was largely the result of deposits assumed from the Post Oak acquisition and growth in our customer base, many of whom also established a deposit relationship with us. Noninterest-bearing deposits at December 31, 2018 were \$1.21 billion, an increase of \$526.2 million, or 77.0%, compared with \$683.1 million at December 31, 2017. Interest-bearing deposits at December 31, 2018 were \$2.45 billion, an increase of \$922.4 million, or 60.3%, compared with \$1.53 billion at December 31, 2017.

Total deposits at December 31, 2017 were \$2.21 billion, an increase of \$343.8 million, or 18.4%, compared with \$1.87 billion at December 31, 2016. Noninterest-bearing deposits at December 31, 2017 were \$683.1 million, an increase of \$89.4 million, or 15.0%, compared with \$593.8 million at December 31, 2016. Interest-bearing deposits at December 31, 2017 were \$1.53 billion, an increase of \$254.4 million, or 19.9%, compared with \$1.28 billion at December 31, 2016.

The following table presents the daily average balances and weighted average rates paid on deposits for the periods indicated:

	Years Ended December 31,		2017		2016	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in thousands)					
Interest-bearing demand	\$224,210	0.82 %	\$156,527	0.38 %	\$104,212	0.32 %
Money market and savings	637,722	0.73 %	536,415	0.48 %	465,403	0.45 %
Certificates and other time	940,356	1.65 %	748,086	1.21 %	648,075	1.09 %
Total interest-bearing deposits	1,802,288	1.22 %	1,441,028	0.85 %	1,217,690	0.78 %
Noninterest-bearing deposits	848,276	—	672,101	—	620,701	—
Total deposits	\$2,650,564	0.83 %	\$2,113,129	0.58 %	\$1,838,391	0.52 %

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Our ratio of average noninterest-bearing deposits to average total deposits was 32.0%, 31.8% and 33.8% for the years ended December 31, 2018, 2017 and 2016, respectively.

The following table sets forth the amount of our certificates of deposit that are \$100 thousand or greater by time remaining until maturity:

	As of December 31,	
	2018	2017
	(Dollars in thousands)	
Three months or less	\$243,169	\$144,741
Over three months through six months	164,687	108,535
Over six months through 12 months	298,921	175,588
Over 12 months through three years	219,818	131,244
Over three years	154,389	87,895
Total	\$1,080,984	\$648,003

## Borrowings

We have an available line of credit with the 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 December 31, 2018, we had a total borrowing capacity of \$1.06 billion, of which \$765.4 million was available under this agreement and \$296.5 million was outstanding. FHLB advances of \$225.0 million were outstanding at December 31, 2018, at a weighted average rate of 2.57%. Letters of credit were \$71.5 million at December 31, 2018, of which \$8.8 million expired in January 2019, \$10.2 million expired in February 2019, \$7.1 million will expire in April 2019, \$7.1 million will expire in May 2019, \$5.5 million will expire in August 2019, \$25.0 million will expire in October 2019, \$6.3 million will expire in December 2019 and \$1.5 million will expire in January 2020.

## Credit Agreement

In January 2015, we borrowed an additional \$18.0 million under our credit agreement with another financial institution, which was in addition to the \$10.1 million of indebtedness incurred under the same agreement in 2014. We used the funds borrowed in 2015 to repay debt that F&M Bancshares owed. In October 2015, we paid down \$27.5 million on the credit agreement using a portion of the proceeds from the initial public offering of Allegiance common stock. As of December 31, 2018, 2017 and 2016, we had \$569 thousand of indebtedness owed under the credit agreement. The interest rate on the outstanding debt under the revolving credit agreement is the Prime Rate minus 25 basis points, or 5.00% at December 31, 2018, and is paid quarterly. On December 28, 2018, we amended the 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 non-performing loans equal to or greater than 75%, measured quarterly, and a ratio of non-performing assets to aggregate equity plus loan loss reserves minus intangible assets of less than 35%, measured quarterly. As of December 31, 2018, we believe we were in compliance with all such debt covenants and had not been made aware of any noncompliance by the lender.

## Subordinated Debt

### Junior Subordinated Debentures

In connection with the F&M Bancshares acquisition, we assumed junior subordinated debentures with an aggregate original principal amount of \$11.3 million and a current fair value of \$9.4 million at December 31, 2018. At acquisition, we recorded a discount of \$2.5 million on the debentures. The difference between the carrying value and contractual balance will be recognized as a yield adjustment over the remaining term for the debentures. See Note 11 to our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

## 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 used the net proceeds from the offering to support its growth and for general corporate purposes. The Notes are intended to qualify as Tier 2 capital for bank regulatory purposes.

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

Contractual Obligations

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

As of December 31, 2018

	One Year or Less	More than One Year but Less Than Three Years	Three years or More but Less Than Five Years	Five or More	Total
	(Dollars in thousands)				
Credit agreement	\$—	\$ —	\$—	\$569	\$569
Operating leases	2,559	1,987	3,242	5,126	12,914
<b>Total</b>	<b>\$2,559</b>	<b>\$ 1,987</b>	<b>\$3,242</b>	<b>\$5,695</b>	<b>\$13,483</b>

As of December 31, 2017

	One Year or Less	More than One Year but Less Than Three Years	Three years or More but Less Than Five Years	Five or More	Total
	(Dollars in thousands)				
Credit agreement	\$—	\$ —	\$—	\$569	\$569
Operating leases	1,806	1,030	1,950	4,673	9,459
<b>Total</b>	<b>\$1,806</b>	<b>\$ 1,030</b>	<b>\$1,950</b>	<b>\$5,242</b>	<b>\$10,028</b>

Off-Balance Sheet Items

In the normal course of business, we enter into various transactions, which, in accordance with GAAP, are not included in our consolidated balance sheets. We enter into these transactions to meet the financing needs of our customers. These transactions include both commitments to extend credit and standby and performance 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.

Our commitments associated with outstanding standby letters of credit and commitments to extend credit expiring by period are summarized below as of December 31, 2018. Since commitments associated with letters of credit and

commitments to extend credit may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements:

	As of December 31, 2018					Total
	One Year or Less Than One Year	More than One Year but Less Than Two Years	Three years or More but Less Than Five Years	Five Years or More		
Commitments to extend credit	\$ 534,388	\$ 139,321	\$ 38,812	\$ 289,465	\$ 1,001,986	
Standby letters of credit	21,702	1,529	53	—	23,284	
Total	\$ 556,090	\$ 140,850	\$ 38,865	\$ 289,465	\$ 1,025,270	

**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 written 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 are backed by promissory notes that contain security and debt covenants similar to those contained in loan agreements.

## 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 and 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 years ended December 31, 2018, 2017 and 2016, our liquidity needs have been 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.

Average assets totaled \$3.37 billion, \$2.70 billion and \$2.34 billion for the years ended December 31, 2018, 2017 and 2016, respectively. The following table illustrates, during the periods presented, the mix of our funding sources and the average assets in which those funds are invested as a percentage of our average total assets for the period indicated.

	For the Years Ended December 31,		
	2018	2017	2016
<b>Sources of Funds:</b>			
<b>Deposits:</b>			
Noninterest-bearing	25.2 %	24.9 %	26.5 %
Interest-bearing	53.6 %	53.4 %	52.0 %
Borrowed funds	7.2 %	10.0 %	9.0 %
Subordinated debt	1.4 %	0.4 %	0.4 %
Other liabilities	0.3 %	0.3 %	0.4 %
Shareholders' equity	12.3 %	11.0 %	11.7 %
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Uses of Funds:</b>			
Loans	78.8 %	77.1 %	75.1 %
Securities	9.4 %	12.0 %	11.6 %
Deposits in other financial institutions	2.1 %	1.9 %	3.7 %
Noninterest-earning assets	9.7 %	9.0 %	9.6 %
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Average noninterest-bearing deposits to average deposits	32.0 %	31.8 %	33.8 %
Average loans to average deposits	100.1 %	98.5 %	95.5 %

Our largest source of funds is deposits and our largest use of funds is loans. Our average loans increased \$571.0 million, or 27.4%, for the year ended December 31, 2018 compared to the year ended December 31, 2017. We predominantly invest excess deposits in Federal Reserve Bank of Dallas balances, securities, interest-bearing deposits at other banks or other short-term liquid investments until the funds are needed to fund loan growth. Our securities portfolio had a weighted average life of 6.1 years and modified duration of 5.1 years at December 31, 2018, and a weighted average life of 6.5 years and modified duration of 5.5 years at December 31, 2017.

As of December 31, 2018 and December 31, 2017, we had outstanding \$1.00 billion and \$620.0 million, respectively, in commitments to extend credit and \$23.3 million and \$17.2 million, respectively, in commitments associated with outstanding standby and performance 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.

As of December 31, 2018, 2017 and 2016, we had no exposure to future cash requirements associated with known uncertainties or capital expenditures of a material nature.

As of December 31, 2018, we had cash and cash equivalents of \$268.9 million compared with \$182.1 million at December 31, 2017, an increase of \$86.8 million. This increase in cash and cash equivalents was primarily due to \$230.4 million of cash acquired in the Post Oak acquisition.

## 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 companies 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 intangibles 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.

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 December 31, 2018, 2017 and 2016, the Bank was well-capitalized.

Basel III Capital Rules impact regulatory capital ratios of banking organizations in the following manner, when fully phased in: create a new requirement to maintain a ratio of "common equity Tier 1 capital" to total risk-weighted assets of not less than 4.5%; increase the minimum leverage capital ratio to 4.0% for all banking organizations; increase the minimum tier 1 risk-based capital ratio from 4.0% to 6.0%; and maintain the minimum total risk-based capital ratio at 8.0%.

In addition, the Basel III Capital Rules subject a banking organization to certain limitations on capital distributions and discretionary bonus payments to executive officers if the organization does not maintain a "capital conservation buffer" of common equity Tier 1 capital. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and was phased in over a three-year period (increasing by 0.625% on each subsequent January 1, until it reached 2.5% on January 1, 2019). The effect of the capital conservation buffer is to increase the minimum common equity Tier 1 capital ratio to 7.0%, the minimum tier 1 risk-based capital ratio to 8.5% and the

minimum total risk-based capital ratio to 10.5%.

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The following table provides a comparison of the Company's and the Bank's leverage and risk-weighted capital ratios as of December 31, 2018 to the minimum and well-capitalized regulatory standards:

	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	
<b>ALLEGIANCE BANCSHARES, INC.</b>								
<b>(Consolidated)</b>								
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	
<b>ALLEGIANCE BANK:</b>								
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	%

Total shareholder's equity was \$703.0 million at December 31, 2018, compared with \$306.9 million at December 31, 2017, an increase of \$396.1 million, or 129.1%. This increase was primarily due to common equity issued related to the Post Oak acquisition.

#### 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. We 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

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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 Rates (Basis Points)	Percent Change in Net Interest Income		Percent Change in Economic Value of Equity	
	As of December 31, 2018	As of December 31, 2017	As of December 31, 2018	As of December 31, 2017
+300	0.9%	(6.2)%	0.2%	(9.0)%
+200	0.9%	(4.1)%	0.9%	(5.4)%
+100	0.6%	(2.2)%	1.0%	(2.3)%
Base	0.0%	0.0%	0.0%	0.0%
-100	(1.1)%	(1.9)%	(2.7)%	(1.9)%

These results are primarily due to the duration of our loan and securities portfolio, the duration of our borrowings and the expected behavior of demand, money market and savings deposits during such rate fluctuations. During 2018, the overall duration of our combined loan and securities portfolios decreased and FHLB borrowings represented a smaller proportion of our funding mix at year end due primarily to the assets and liabilities acquired in the Post Oak acquisition.

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

We identify certain financial measures discussed in this Annual Report on Form 10-K 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 Annual Report on Form 10-K 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 Annual Report on Form 10-K 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 Annual Report on Form 10-K 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 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

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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:

	As of and for the Years Ended December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands, except share and per share data)				
Total shareholders' equity	\$702,984	\$306,865	\$279,817	\$258,490	\$131,778
Less:					
Goodwill and core deposit intangibles, net	249,712	42,663	43,444	44,619	12,891
Tangible shareholders' equity	\$453,272	\$264,202	\$236,373	\$213,871	\$118,887
Shares outstanding at end of period <sup>(1)</sup>	21,937,740	13,226,826	12,958,341	12,812,985	7,477,309
Tangible book value per share	\$20.66	\$19.97	\$18.24	\$16.69	\$15.90
Net income attributable to shareholders	\$37,309	\$17,632	\$22,851	\$15,227	\$9,005
Average shareholders' equity	\$413,441	\$297,627	\$273,211	\$204,935	\$116,460
Less:					
Average goodwill and other intangible assets, net	80,384	43,050	43,880	45,055	13,007
Average tangible common shareholders' equity	\$333,057	\$254,577	\$229,331	\$159,880	\$103,453
Return on average tangible common equity	11.20	% 6.93	% 9.96	% 9.52	% 8.70
Total assets	\$4,655,249	\$2,860,231	\$2,450,948	\$2,084,579	\$1,280,008
Less:					
Goodwill and core deposit intangibles, net	249,712	42,663	43,444	44,619	12,891
Tangible assets	\$4,405,537	\$2,817,568	\$2,407,504	\$2,039,960	\$1,267,117
Tangible common equity to tangible assets	10.29	% 9.38	% 9.82	% 10.48	% 9.38

(1) Does not include 1,711 shares of treasury stock as of December 31, 2015. There were no shares of treasury stock outstanding as of December 31, 2018, 2017, 2016 or 2014.

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## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For information regarding the market risk of the Company's financial instruments, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operation—Financial Condition—Asset/Liability Management and Interest Rate Risk." Our principal market risk exposure is to changes in interest rates.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements, the reports thereon, the notes thereto and supplementary data commence at page 72 of this Annual Report on Form 10-K.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. As of the end of the period covered by this Annual Report on Form 10-K, 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 any 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 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 year ended December 31, 2018, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Reporting on Management's Assessment of Internal Controls over Financial Reporting. Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Our internal control system is a process designed to provide reasonable assurance regarding the preparation and fair presentation of published financial statements in accordance with GAAP. All internal control systems, no matter how well designed, have inherent limitations and can only provide reasonable assurance with respect to financial reporting.

As of December 31, 2018, management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control-Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on this assessment, management determined that the Company maintained effective internal control over financial reporting as of December 31, 2018.

Crowe LLP, the independent registered public accounting firm, audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K. Their report is included in Part IV, Item 15. under the heading "Report of Independent Registered Public Accounting Firm." Pursuant to SEC rules applicable to emerging

growth companies, this Annual Report on Form 10-K does not include an attestation report on management's assessment of internal control over financial reporting from the Company's independent registered public accounting firm.

ITEM 9B. OTHER INFORMATION

None.

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PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated herein by reference to the Company's definitive Proxy Statement for its 2019 Annual Meeting of Shareholders (the "2019 Proxy Statement") to be filed with the SEC pursuant to Regulation 14A under the Exchange Act within 120 days of the Company's fiscal year end.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to the 2019 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

Certain information required by this Item is included under "Securities Authorized for Issuance under Equity Compensation Plans" in Part II, Item 5 of this Annual Report on Form 10-K. The other information required by this Item is incorporated herein by reference to the 2019 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated herein by reference to the 2019 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is incorporated herein by reference to the 2019 Proxy Statement.



PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Annual Report on Form 10-K:

1. Consolidated Financial Statements. Reference is made to the Consolidated Financial Statements, the report thereon and the notes thereto commencing at page 72 of this Annual Report on Form 10-K. Set forth below is a list of such Consolidated Financial Statements:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2018 and 2017

Consolidated Statements of Income for the Years Ended December 31, 2018, 2017, and 2016

Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2018, 2017 and 2016

Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2018, 2017 and 2016

Consolidated Statements of Cash Flows for the Years Ended December 31, 2018, 2017 and 2016

Notes to Consolidated Financial Statements

2. Financial Statement Schedules. All supplemental schedules are omitted as inapplicable or because the required information is included in the Consolidated Financial Statements or notes thereto.

3. The exhibits to this Annual Report on Form 10-K listed below have been included only with the copy of this report filed with the SEC. The Company will furnish a copy of any exhibit to shareholders upon written request to the Company and payment of a reasonable fee not to exceed the Company's reasonable expense.

Each exhibit marked with an asterisk is filed or furnished with this Annual Report on Form 10-K as noted below.

Exhibit

Number Description

- |     |  |
|-----|--|
| 2.1 | <u>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)</u> |
| 3.1 | <u>Amended and Restated Certificate of Formation of Allegiance Bancshares, Inc. (incorporated herein by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q filed on November 1, 2018)</u>                             |
| 3.2 | <u>Bylaws of Allegiance Bancshares, Inc. (incorporated herein by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 (Registration No. 333-206536) (the "Registration Statement")</u>                             |
| 4.1 | <u>Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registration Statement)</u>  |

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- 4.2 Form of Fixed-to-Floating Rate Subordinated Note due December 15, 2027 Certificate (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on December 14, 2017)
- 10.1 Tax Allocation Agreement dated April 1, 2013, by and between Allegiance Bancshares, Inc. and Allegiance Bank (f/k/a Allegiance Bank Texas) (incorporated by reference to Exhibit 10.1 to the Registration Statement)
- 10.2 Allegiance Bancshares, Inc. 2015 Amended and Restated Stock Awards and Incentive Plan (including form of awards) (incorporated by reference to Exhibit 10.2 to the Registration Statement)
- 10.3 Credit Agreement dated as of December 22, 2014 by and among Allegiance Bancshares, Inc. and Prosperity Bank (incorporated by reference to Exhibit 10.3 to the Registration Statement)
- 10.4 Form of Director and Officer Indemnification Agreement (incorporated by reference to Exhibit 10.4 to Amendment No. 1 to the Registration Statement)
- 10.5 Amendment to the Allegiance Bancshares, Inc. 2015 Amended and Restated Stock Awards and Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 24, 2017)

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- 10.6 Allegiance Bancshares, Inc. Form of Non-Employee Director Restricted Stock Agreement (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 5, 2017)
- 10.7 Amended and Restated Employee Stock Purchase Plan (incorporated by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-8 ( Registration No. 333-208600))
- 10.8 Amendment to Amended and Restated Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K filed on March 9, 2018)
- 10.9 Amendment No. 1 to Credit Agreement, dated as of December 28, 2018, by and among Allegiance Bancshares, Inc. and Prosperity Bank (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 31, 2018)
- 10.10 Allegiance Bancshares, Inc. Annual Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 29, 2019)
- 21.1\* Subsidiaries of Allegiance Bancshares, Inc.
- 23.1\* Consent of Crowe LLP
- 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

EXHIBITS

\* Filed with this Annual Report on Form 10-K.

\*\*Furnished with this Annual Report on Form 10-K.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant, has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 11, 2019

ALLEGIANCE BANCSHARES, INC.

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

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Positions	Date
/s/ George Martinez George Martinez	Chairman and Chief Executive Officer (Principal Executive Officer); Director	March 11, 2019
/s/ Steven F. Retzloff Steven F. Retzloff	Director	March 11, 2019
/s/ Paul P. Egge Paul P. Egge	Chief Financial Officer (Principal Financial and Principal Accounting Officer)	March 11, 2019
/s/ Ramon A. Vitulli, III Ramon A. Vitulli, III	Director	March 11, 2019
/s/ John Beckworth John Beckworth	Director	March 11, 2019
/s/ Matthew H. Hartzell Matthew H. Hartzell	Director	March 11, 2019
/s/ Robert Ivany Robert Ivany	Director	March 11, 2018
/s/ Umesh Jain Umesh Jain	Director	March 11, 2019
/s/ Frances H. Jeter Frances H. Jeter	Director	March 11, 2019
/s/ James J. Kearney James J. Kearney	Director	March 11, 2019

James J. Kearney

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Signature	Positions	Date
/s/ P. Michael Mann, M.D. P. Michael Mann, M.D.	Director	March 11, 2019
/s/ Robert E. McKee III Robert E McKee III	Director	March 11, 2019
/s/ David B. Moulton David B. Moulton	Director	March 11, 2019
/s/ William S. Nichols, III William S. Nichols, III	Director	March 11, 2019
/s/ Thomas A. Reiser Thomas A. Reiser	Director	March 11, 2019
/s/ Raimundo Riojas E. Raimundo Riojas E.	Director	March 11, 2019
/s/ Fred S. Robertson Fred S. Robertson	Director	March 11, 2019
/s/ Louis A. Waters Jr. Louis A. Waters Jr.	Director	March 11, 2019
/s/ Roland L. Williams Roland L. Williams	Director	March 11, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and the Board of Directors of

Allegiance Bancshares, Inc.

Houston, Texas

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Allegiance Bancshares, Inc. (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Crowe LLP

We have served as the Company's auditor since 2014.

Dallas, Texas

March 11, 2019

## ALLEGIANCE BANCSHARES, INC.

## CONSOLIDATED BALANCE SHEETS

	December 31,	
	2018	2017
	(Dollars in thousands, except share data)	
<b>ASSETS</b>		
Cash and due from banks	\$ 118,771	\$ 133,124
Interest-bearing deposits at other financial institutions	150,176	48,979
Total cash and cash equivalents	268,947	182,103
Available for sale securities, at fair value	337,293	309,615
Loans held for investment	3,708,306	2,270,876
Less: allowance for loan losses	(26,331 )	(23,649 )
Loans, net	3,681,975	2,247,227
Accrued interest receivable	17,010	12,194
Premises and equipment, net	41,717	18,477
Other real estate owned	630	365
Federal Home Loan Bank stock	10,941	12,862
Bank owned life insurance	26,480	22,422
Goodwill	223,125	39,389
Core deposit intangibles, net	26,587	3,274
Other assets	20,544	12,303
<b>TOTAL ASSETS</b>	<b>\$4,655,249</b>	<b>\$2,860,231</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Deposits:		
Noninterest-bearing	\$ 1,209,300	\$ 683,110
Interest-bearing		
Demand	366,905	215,499
Money market and savings	879,840	554,051
Certificates and other time	1,206,491	761,314
Total interest-bearing deposits	2,453,236	1,530,864
Total deposits	3,662,536	2,213,974
Accrued interest payable	2,812	610
Borrowed funds	225,493	282,569
Subordinated debt	48,899	48,659
Other liabilities	12,525	7,554
Total liabilities	3,952,265	2,553,366
<b>COMMITMENTS AND CONTINGENCIES (See Note 15)</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock, \$1 par value; 1,000,000 shares authorized; there were		
no shares issued or outstanding	—	—
Common stock, \$1 par value; 80,000,000 shares authorized;	21,938	13,227

21,937,740 shares outstanding at December 31, 2018 and 13,226,826 shares issued



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and outstanding at December 31, 2017

Capital surplus	571,803	218,408
Retained earnings	112,131	74,894
Accumulated other comprehensive (loss) income	(2,888 )	336
Total shareholders' equity	702,984	306,865
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$4,655,249</b>	<b>\$2,860,231</b>

See notes to consolidated financial statements.

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## ALLEGIANCE BANCSHARES, INC.

## CONSOLIDATED STATEMENTS OF INCOME

	For the Years Ended December 31,		
	2018	2017	2016
	(Dollars in thousands, except per share data)		
<b>INTEREST INCOME:</b>			
Loans, including fees	\$148,223	\$110,331	\$93,356
<b>Securities:</b>			
Taxable	2,725	2,111	1,807
Tax-exempt	5,802	6,334	5,044
Deposits in other financial institutions	1,473	662	571
Total interest income	158,223	119,438	100,778
<b>INTEREST EXPENSE:</b>			
Demand, money market and savings deposits	6,478	3,159	2,437
Certificates and other time deposits	15,478	9,060	7,044
Borrowed funds	4,788	2,922	945
Subordinated debt	2,900	629	488
Total interest expense	29,644	15,770	10,914
NET INTEREST INCOME	128,579	103,668	89,864
Provision for loan losses	4,248	13,188	5,469
Net interest income after provision for loan losses	124,331	90,480	84,395
<b>NONINTEREST INCOME:</b>			
Nonsufficient funds fees	755	685	661
Service charges on deposit accounts	869	783	677
Gain on sale of branch assets	—	—	2,050
Gain on sale of securities	—	18	30
(Loss) gain on sales of other real estate and other repossessed assets	(428)	6	266
Bank owned life insurance income	579	585	626
Rebate from correspondent bank	2,609	1,327	650
Other	3,329	2,457	2,308
Total noninterest income	7,713	5,861	7,268
<b>NONINTEREST EXPENSE:</b>			
Salaries and employee benefits	56,704	44,745	38,858
Net occupancy and equipment	5,845	5,452	4,944
Depreciation	2,132	1,637	1,627
Data processing and software amortization	5,120	4,047	2,633
Professional fees	2,009	2,926	2,234
Regulatory assessments and FDIC insurance	2,309	2,273	1,581
Core deposit intangibles amortization	1,815	781	785
Communications	1,185	983	1,055
Advertising	1,725	1,289	945
Acquisition and merger-related expenses	1,661	—	—
Other	6,282	5,829	4,596
Total noninterest expense	86,787	69,962	59,258
INCOME BEFORE INCOME TAXES	45,257	26,379	32,405

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Provision for income taxes	7,948	8,747	9,554
NET INCOME	\$37,309	\$17,632	\$22,851
EARNINGS PER SHARE:			
Basic	\$2.41	\$1.34	\$1.78
Diluted	\$2.37	\$1.31	\$1.75

See notes to consolidated financial statements.

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## ALLEGIANCE BANCSHARES, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Years Ended December 31,		
	2018	2017	2016
	(Dollars in thousands)		
Net income	\$37,309	\$17,632	\$22,851
Other comprehensive (loss) income, before tax:			
Unrealized (loss) gain on securities:			
Change in unrealized holding (loss) gain on available			
for sale securities during the period	(4,152 )	5,213	(7,799 )
Reclassification of amount realized through the sale of			
securities	—	(18 )	(30 )
Total other comprehensive (loss) income	(4,152 )	5,195	(7,829 )
Deferred tax benefit (expense) related to other comprehensive			
income	928	(1,807 )	2,760
Other comprehensive (loss) income, net of tax	(3,224 )	3,388	(5,069 )
Comprehensive income	\$34,085	\$21,020	\$17,782

See notes to consolidated financial statements.

## ALLEGIANCE BANCSHARES, INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Common Stock		Capital	Retained	Accumulated Other Comprehensive Income	Treasury	Total Shareholders'
	Shares	Amount	Surplus	Earnings	(Loss)	Stock	Equity
	(In thousands, except share data)						
BALANCE AT JANUARY 1, 2016	12,814,696	\$12,815	\$209,285	\$34,411	\$ 2,017	\$ (38 )	\$ 258,490
Net income				22,851			22,851
Other comprehensive loss					(5,069 )		(5,069 )
Common stock issued in connection  with the exercise of stock options,  restricted stock awards and the ESPP	143,645	143	1,863				2,006
Issuance of treasury stock						38	