Allegiance Bancshares, Inc.
Form 10-Q
August 03, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2017
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO
COMMISSION FILE NUMBER: 001-37585

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

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

As of July 31, 2017, there were 13,161,490 outstanding shares of the registrant's Common Stock, par value $1.00 per share.

ALLEGIANCE BANCSHARES, INC.
INDEX TO FORM 10-Q
JUNE 30, 2017

PART I—FINANCIAL INFORMATION

PART II—OTHER INFORMATION

Table of Contents

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

	June 30, 2017	December 31, 2016
	(Unaudited)	
	(Dollars in thousands, except share data)	
ASSETS		
Cash and due from banks	$141,952	$94,073
Interest-bearing deposits at other financial institutions	45,539	48,025
Total cash and cash equivalents	187,491	142,098
Available for sale securities, at fair value	321,268	316,455
Loans held for investment	2,114,652	1,891,635
Less: allowance for loan losses	(21,010)	(17,911)
Loans, net	2,093,642	1,873,724
Accrued interest receivable	9,284	9,007
Premises and equipment, net	18,240	18,340
Other real estate owned	365	1,503
Federal Home Loan Bank stock	16,675	13,175
Bank owned life insurance	22,131	21,837
Goodwill	39,389	39,389
Core deposit intangibles, net	3,664	4,055
Other assets	12,567	11,365
TOTAL ASSETS	$2,724,716	$2,450,948
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Noninterest-bearing	$662,527	$593,751
Interest-bearing		
Demand	163,443	114,772
Money market and savings	509,533	483,266
Certificates and other time	763,739	678,394
Total interest-bearing deposits	1,436,715	1,276,432
Total deposits	2,099,242	1,870,183
Accrued interest payable	466	285
Borrowed funds	310,569	285,569
Subordinated debentures	9,249	9,196
Other liabilities	6,731	5,898
Total liabilities	2,426,257	2,171,131
COMMITMENTS AND CONTINGENCIES (See Note 12)		
SHAREHOLDERS' EQUITY:		
	—	—

Preferred stock, $1 par value; 1,000,000 shares authorized; there were no shares issued or outstanding		
Common stock, $1 par value; 40,000,000 shares authorized; 13,153,053 shares issued and outstanding at June 30, 2017 and 12,958,341 shares issued and outstanding at December 31, 2016	13,153	12,958
Capital surplus	216,158	212,649
Retained earnings	68,704	57,262
Accumulated other comprehensive income (loss)	444	(3,052)
Total shareholders' equity	298,459	279,817
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$2,724,716	$2,450,948

See condensed notes to interim consolidated financial statements.

3

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in thousands, except per share data)			
INTEREST INCOME:				
Loans, including fees	$26,736	$22,839	$51,996	$45,067
Securities:				
Taxable	503	452	1,001	723
Tax-exempt	1,591	1,086	3,215	1,896
Deposits in other financial institutions	157	150	287	292
Total interest income	28,987	24,527	56,499	47,978
INTEREST EXPENSE:				
Demand, money market and savings deposits	702	569	1,356	1,113
Certificates and other time deposits	2,283	1,665	4,240	3,225
Borrowed funds	761	224	1,414	370
Subordinated debentures	134	120	254	237
Total interest expense	3,880	2,578	7,264	4,945
NET INTEREST INCOME	25,107	21,949	49,235	43,033
Provision for loan losses	3,007	1,645	4,350	2,355
Net interest income after provision for loan losses	22,100	20,304	44,885	40,678
NONINTEREST INCOME:				
Nonsufficient funds fees	184	145	383	308
Service charges on deposit accounts	205	173	400	318
Gain on sale of branch assets	—	—	—	2,050
Bank owned life insurance income	146	153	294	319
Other	942	741	1,741	1,521
Total noninterest income	1,477	1,212	2,818	4,516
NONINTEREST EXPENSE:				
Salaries and employee benefits	10,415	9,177	20,977	18,450
Net occupancy and equipment	1,302	1,214	2,729	2,446
Depreciation	398	415	798	832
Data processing and software amortization	719	622	1,414	1,275
Professional fees	987	401	1,882	935
Regulatory assessments and FDIC insurance	569	355	1,158	700
Core deposit intangibles amortization	196	195	391	394
Communications	233	274	480	554
Advertising	288	197	551	398
Other	1,354	1,073	2,630	2,192
Total noninterest expense	16,461	13,923	33,010	28,176
INCOME BEFORE INCOME TAXES	7,116	7,593	14,693	17,018
Provision for income taxes	1,721	2,339	3,251	5,409
NET INCOME	$5,395	$5,254	$11,442	$11,609

EARNINGS PER SHARE:

Basic	$0.41	$0.41	$0.88	$0.90
Diluted	$0.40	$0.40	$0.85	$0.89

See condensed notes to interim consolidated financial statements.

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in thousands)			
Net income	$5,395	$5,254	$11,442	$11,609
Other comprehensive income, before tax:				
Unrealized gain on securities:				
Change in unrealized holding gain on available for sale securities during the period	4,183	6,232	5,380	7,435
Total other comprehensive income	4,183	6,232	5,380	7,435
Deferred tax benefit related to other comprehensive income	(1,465)	(2,181)	(1,884)	(2,602)
Other comprehensive income, net of tax	2,718	4,051	3,496	4,833
Comprehensive income	$8,113	$9,305	$14,938	$16,442

See condensed notes to interim consolidated financial statements.

Table of Contents

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

	Common Stock		Capital	Retained	Accumulated Other Comprehensive	Treasury	Total Shareholders'
	Shares	Amount	Surplus	Earnings	Income (Loss)	Stock	Equity
	(In thousands, except share data)						
BALANCE AT JANUARY 1, 2016	12,814,696	$12,815	$209,285	$34,411	$ 2,017	$ (38)	$ 258,490
Net income				11,609			11,609
Other comprehensive income					4,833		4,833
Common stock issued in connection with the exercise of stock options and restricted stock awards	54,714	54	520				574
Repurchase of treasury stock						38	38
Stock based compensation expense			707				707
BALANCE AT JUNE 30, 2016	12,869,410	$12,869	$210,512	$46,020	$ 6,850	$ —	$ 276,251
BALANCE AT JANUARY 1, 2017	12,958,341	$12,958	$212,649	$57,262	$ (3,052)	$ —	$ 279,817
Net income				11,442			11,442
Other comprehensive income					3,496		3,496
Common stock issued in connection with the exercise of stock options and restricted stock awards	194,712	195	2,712				2,907
Stock based compensation expense			797				797
BALANCE AT JUNE 30, 2017	13,153,053	$13,153	$216,158	$68,704	$ 444	$ —	$ 298,459

See condensed notes to interim consolidated financial statements.

Table of Contents

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

	Six Months Ended June 30,	
	2017	2016
	(Dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$11,442	$11,609
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and core deposit intangibles amortization	1,189	1,226
Provision for loan losses	4,350	2,355
Excess tax benefit related to the exercise of stock options	(959)	—
Net amortization of premium on investments	1,678	1,329
Bank owned life insurance	(294)	(319)
Net accretion of discount on loans	(408)	(904)
Net amortization of discount on subordinated debentures	53	53
Net amortization of discount on certificates of deposit	(3)	(175)
Net gain on sale of branch assets	—	(2,050)
Federal Home Loan Bank stock dividends	(118)	(32)
Stock based compensation expense	797	707
Increase in accrued interest receivable and other assets	(3,004)	(3,549)
Increase in accrued interest payable and other liabilities	1,973	1,246
Net cash provided by operating activities	16,696	11,496
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities and principal paydowns of available for sale securities	2,004,385	1,962,150
Proceeds from sales of available for sale securities	9,000	—
Purchase of available for sale securities	(2,014,496)	(2,094,410)
Net change in total loans	(222,722)	(91,751)
Purchase of bank premises and equipment	(1,057)	(196)
Net purchases of Federal Home Loan Bank stock	(3,382)	(10,985)
Net cash paid for the sale of branch assets	—	(5,250)
Net cash used in investing activities	(228,272)	(240,442)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in noninterest-bearing deposits	68,776	16,897
Net increase in interest-bearing deposits	160,286	93,869
Proceeds from borrowed funds	25,000	200,000
Paydowns on borrowed funds	—	(20,000)
Proceeds from the issuance of common stock, stock option exercises, restricted stock awards and the ESPP	2,907	574
Issuance of treasury stock	—	38
Net cash provided by financing activities	256,969	291,378
NET CHANGE IN CASH AND CASH EQUIVALENTS	45,393	62,432
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	142,098	148,431
CASH AND CASH EQUIVALENTS, END OF PERIOD	$187,491	$210,863
SUPPLEMENTAL INFORMATION:		
Income taxes paid	$3,100	$6,100
Interest paid	7,080	2,298

See condensed notes to interim consolidated financial statements.

Table of Contents

ALLEGIANCE BANCSHARES, INC.
CONDENSED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017
(Unaudited)

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

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

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

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments considered necessary for a fair presentation of the financial position, results of operations and cash flows of the Company on a consolidated basis, and all such adjustments are of a normal recurring nature. Transactions with Allegiance have been eliminated. The condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016. Operating results for the three and six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

Significant Accounting and Reporting Policies

The Company's significant accounting and reporting policies can be found in Note 1 of the Company's annual financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

New Accounting Standards

Newly Issued But Not Yet Effective Accounting Standards

ASU 2014-09 "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 supersedes the revenue recognition requirements in Revenue Recognition (Topic 605), and most industry-specific guidance throughout the Industry Topics of the Codification. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for the Company beginning on January 1, 2018, with retrospective application to each prior reporting period presented. The Company expects to adopt ASU 2014-09 in the first quarter 2018 using the modified retrospective approach, which includes presenting the cumulative effect of initial application along with supplementary disclosures. The Company is evaluating the full effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures; however, adoption of the ASU is not expected to have a significant impact. The Company's primary sources of revenues are derived from interest and dividends earned on loans, investment securities and other financial instruments that are not within the scope of ASU 2014-09.

ASU 2016-02 “Leases (Topic 842)." ASU 2016-02 will, among other things, require lessees to recognize a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model and ASC Topic 606, “Revenue from

Table of Contents

ALLEGIANCE BANCSHARES, INC.
CONDENSED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017
(Unaudited)

Contracts with Customers." ASU 2016-02 will be effective for the Company on January 1, 2019 and will require transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Early application of this ASU is permitted for all entities. Adoption of ASU 2016-02 is not expected to have a material impact on the Company's financial statements. The Company leases certain properties and equipment under operating leases that will result in the recognition of lease assets and lease liabilities on the Company's balance sheet under the ASU.

ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." Among other things, ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better form their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, ASU 2016-13 amends the accounting for credit losses on available for sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 is effective for the Company on January 1, 2020 and must be applied using the modified retrospective approach with limited exceptions. Early adoption is permitted for fiscal years, and interim periods within those years, beginning after December 15, 2018. The Company is currently assessing the impact that the adoption of this standard will have on the financial condition and results of operations of the Company. The Company has formed a team that is assessing its data and system needs and is evaluating the impact of adoption. The Company expects to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, but has not yet determined the magnitude of any such one-time adjustment or the overall impact on the Company's financial statements.
ASU No. 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," ASU 2017-04 intends to simplify goodwill impairment testing by eliminating the second step of the analysis under which the implied fair value of goodwill is determined as if the reporting unit were being acquired in a business combination. The update instead requires entities to compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for any amount by which the carrying amount exceeds the reporting unit's fair value, to the extent that the loss recognized does not exceed the amount of goodwill allocated to that reporting unit. ASU 2017-04 must be applied prospectively and is effective for the Company on January 1, 2020. Early adoption is permitted. The Company does not expect the new guidance to have a material impact on its financial condition or results of operation.
ASU 2017-08 "Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20) - Premium Amortization on Purchased Callable Debt Securities." ASU 2017-08 shortens the amortization period for certain callable debt securities held at a premium to require such premiums to be amortized to the earliest call date unless applicable guidance related to certain pools of securities is applied to consider estimated prepayments. Under prior guidance, entities were generally required to amortize premiums on individual, non-pooled callable debt securities as a yield adjustment over the contractual life of the security. ASU 2017-08 does not change the accounting for callable debt securities held at a discount. ASU 2017-08 will be effective for the Company on January 1, 2019, with early adoption permitted. The Company is currently evaluating the potential impact of ASU 2017-08 on its financial statements.

2. ACQUISITIONS

Acquisition of F&M Bancshares - On January 1, 2015, the Company completed the acquisition of F&M Bancshares, Inc. ("F&M Bancshares") and its wholly-owned subsidiary Enterprise Bank ("Enterprise") headquartered in Houston, Texas. Enterprise operated nine bank offices, seven in Houston, Texas and two in Central Texas. During the first quarter of 2016, the Bank completed the sale of the two Central Texas branch locations of Enterprise. The Bank sold $18.2 million and $26.6 million of loans and deposits, respectively, and recorded a gain of approximately $2.1 million on the sale of these branches.

Table of Contents

ALLEGIANCE BANCSHARES, INC.
CONDENSED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017
(Unaudited)

3. GOODWILL AND CORE DEPOSIT INTANGIBLE ASSETS

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

	Goodwill	Core Deposit Intangibles
	(Dollars in thousands)	
Balance as of January 1, 2016	$39,389	$ 5,230
Sale of branch assets	—	(390)
Amortization	—	(785)
Balance as of December 31, 2016	39,389	4,055
Amortization	—	(391)
Balance as of June 30, 2017	$39,389	$ 3,664

Goodwill is recorded on the acquisition date of an entity. Management performs an evaluation annually, and more frequently if a triggering event occurs, of whether any impairment of the goodwill and other intangible assets has occurred. If any such impairment is determined, a write-down is recorded. As of June 30, 2017, there were no impairments recorded on goodwill and other intangible assets. During the first quarter 2016, the Bank completed the sale of the two Central Texas branch locations of Enterprise in 2015 and wrote-down the core deposit intangible assets related to those locations.

The estimated aggregate future amortization expense for core deposit intangible assets remaining as of June 30, 2017 is as follows (dollars in thousands):

Remaining 2017	$391
2018	781
2019	781
2020	744
2021	484
Thereafter	483
Total	$3,664

4. SECURITIES

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

	June 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available for Sale				
U.S. Government and agency securities	$8,722	$ 307	$ (24)	$9,005
Municipal securities	239,282	2,694	(2,359)	239,617
Agency mortgage-backed pass-through securities	27,991	218	(302)	27,907
Corporate bonds and other	44,589	184	(34)	44,739
Total	$320,584	$ 3,403	$ (2,719)	$321,268

Table of Contents

ALLEGIANCE BANCSHARES, INC.
CONDENSED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017
(Unaudited)

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available for Sale				
U.S. Government and agency securities	$5,883	$ 266	$—	$6,149
Municipal securities	242,501	956	(5,655)	237,802
Agency mortgage-backed pass-through securities	27,496	265	(437)	27,324
Corporate bonds and other	45,271	77	(168)	45,180
Total	$321,151	$ 1,564	$ (6,260)	$316,455

As of June 30, 2017, the Company's management does not expect to sell any securities classified as available for sale with material unrealized losses, and the Company believes it is more likely than not it will not be required to sell any of these securities before their anticipated recovery, at which time the Company will receive full value for the securities. The fair value is expected to recover as the securities approach their maturity date or repricing date or if market yields for such investments decline. Management does not believe any of the securities are impaired due to reasons of credit quality. Accordingly, as of June 30, 2017, management believes the unrealized losses in the previous table are temporary and no other than temporary impairment loss has been realized in the Company's consolidated statements of income.

The amortized cost and fair value of investment securities at June 30, 2017, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations at any time with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(Dollars in thousands)	
Due in one year or less	$11,110	$11,136
Due after one year through five years	62,750	63,060
Due after five years through ten years	96,802	97,349
Due after ten years	121,931	121,816
Subtotal	292,593	293,361
Agency mortgage-backed pass through securities	27,991	27,907
Total	$320,584	$321,268

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

	June 30, 2017					
	Less than 12 Months		More than 12 Months		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(Dollars in thousands)					
Available for Sale						
U.S. Government and agency securities	$1,271	$ (24)	$—	$ —	$1,271	$ (24)
Municipal securities	119,872	(2,359)	—	—	119,872	(2,359)

Agency mortgage-backed pass-through securities	12,779	(228)	2,613	(74)	15,392	(302)
Corporate bonds and other	12,093	(34)	—	—	12,093	(34)
Total	$146,015	$ (2,645)	$2,613	$ (74)	$148,628	$ (2,719)

Table of Contents

ALLEGIANCE BANCSHARES, INC.
CONDENSED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017
(Unaudited)

	December 31, 2016					
	Less than 12 Months		More than 12 Months		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(Dollars in thousands)					
Available for Sale						
U.S. Government and agency securities	$—	$ —	$—	$ —	$—	$ —
Municipal securities	178,876	(5,655)	—	—	178,876	(5,655)
Agency mortgage-backed pass-through securities	12,520	(347)	2,803	(90)	15,323	(437)
Corporate bonds and other	24,629	(168)	—	—	24,629	(168)
Total	$216,025	$ (6,170)	$2,803	$ (90)	$218,828	$ (6,260)

During the three and six months ended June 30, 2017, the Company sold $9.0 million of corporate bonds with a minimal gain recognized. No securities were sold during the three and six months ended June 30, 2016. At June 30, 2017 and December 31, 2016, the Company did not own securities of any one issuer, other than the U.S government and its agencies, in an amount greater than 10% of consolidated shareholders' equity at such respective dates.

The carrying value of pledged securities was $5.0 million at June 30, 2017 and $4.9 million at December 31, 2016. The securities are pledged to further collateralize letters of credit issued by the Bank but confirmed by another financial institution.

5. LOANS AND ALLOWANCE FOR LOAN LOSSES

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

	June 30, 2017	December 31, 2016
	(Dollars in thousands)	
Commercial and industrial	$444,701	$416,752
Mortgage warehouse	73,499	67,038
Real estate:		
Commercial real estate (including multi-family residential)	1,008,027	891,989
Commercial real estate construction and land development	206,024	159,247
1-4 family residential (including home equity)	267,939	246,987
Residential construction	102,832	98,657
Consumer and other	11,630	10,965
Total loans	2,114,652	1,891,635
Allowance for loan losses	(21,010)	(17,911)
Loans, net	$2,093,642	$1,873,724

Table of Contents

ALLEGIANCE BANCSHARES, INC.
CONDENSED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017
(Unaudited)

Nonaccrual and Past Due Loans

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

	June 30, 2017					
	Loans Past Due and Still Accruing					
	30-89 Days	90 or More Days	Total Past Due Loans	Nonaccrual Loans	Current Loans	Total Loans
	(Dollars in thousands)					
Commercial and industrial	$1,720	$ —	$ 1,720	$ 9,051	$433,930	$444,701
Mortgage warehouse	—	—	—	—	73,499	73,499
Real estate:						
Commercial real estate (including multi-family residential)	3,563	—	3,563	9,556	994,908	1,008,027
Commercial real estate construction and land development	275	—	275	—	205,749	206,024
1-4 family residential (including home equity)	1,403	—	1,403	568	265,968	267,939
Residential construction	1,401	—	1,401	—	101,431	102,832
Consumer and other	12	—	12	155	11,463	11,630
Total loans	$8,374	$ —	$ 8,374	$ 19,330	$2,086,948	$2,114,652

	December 31, 2016					
	Loans Past Due and Still Accruing					
	30-89 Days	90 or More Days	Total Past Due Loans	Nonaccrual Loans	Current Loans	Total Loans
	(Dollars in thousands)					
Commercial and industrial	$1,028	$ 911	$ 1,939	$ 3,896	$410,917	$416,752
Mortgage warehouse	—	—	—	—	67,038	67,038
Real estate:						
Commercial real estate (including multi-family residential)	1,661	—	1,661	11,663	878,665	891,989
Commercial real estate construction and land development	263	—	263	—	158,984	159,247
1-4 family residential (including home equity)	280	—	280	217	246,490	246,987
Residential construction	—	—	—	—	98,657	98,657
Consumer and other	125	—	125	12	10,828	10,965
Total loans	$3,357	$ 911	$ 4,268	$ 15,788	$1,871,579	$1,891,635

Table of Contents

ALLEGIANCE BANCSHARES, INC.
CONDENSED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017
(Unaudited)

Impaired Loans

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

	June 30, 2017		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in thousands)		
With no related allowance recorded:			
Commercial and industrial	$5,268	$6,194	$ —
Mortgage warehouse	—	—	—
Real estate:			
Commercial real estate (including multi-family residential)	8,835	8,835	—
Commercial real estate construction and land development	210	210	—
1-4 family residential (including home equity)	568	568	—
Residential construction	—	—	—
Consumer and other	5	5	—
Total	14,886	15,812	—
With an allowance recorded:			
Commercial and industrial	10,588	11,663	2,657
Mortgage warehouse	—	—	—
Real estate:			
Commercial real estate (including multi-family residential)	7,341	7,562	580
Commercial real estate construction and land development	—	—	—
1-4 family residential (including home equity)	—	—	—
Residential construction	—	—	—
Consumer and other	150	150	150
Total	18,079	19,375	3,387
Total:			
Commercial and industrial	15,856	17,857	2,657
Mortgage warehouse	—	—	—
Real estate:			
Commercial real estate (including multi-family residential)	16,176	16,397	580
Commercial real estate construction and land development	210	210	—
1-4 family residential (including home equity)	568	568	—
Residential construction	—	—	—
Consumer and other	155	155	150
	$32,965	$35,187	$ 3,387

Table of Contents

ALLEGIANCE BANCSHARES, INC.
CONDENSED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017
(Unaudited)

	December 31, 2016		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in thousands)		
With no related allowance recorded:			
Commercial and industrial	$ 5,300	$ 5,414	$ —
Mortgage warehouse	—	—	—
Real estate:			
Commercial real estate (including multi-family residential)	11,748	11,833	—
Commercial real estate construction and land development	—	—	—
1-4 family residential (including home equity)	217	217	—
Residential construction	—	—	—
Consumer and other	5	5	—
Total	17,270	17,469	—
With an allowance recorded:			
Commercial and industrial	3,108	3,328	1,543
Mortgage warehouse	—	—	—
Real estate:			
Commercial real estate (including multi-family residential)	573	573	105
Commercial real estate construction and land development	—	—	—
1-4 family residential (including home equity)	—	—	—
Residential construction	—	—	—
Consumer and other	6	6	6
Total	3,687	3,907	1,654
Total:			
Commercial and industrial	8,408	8,742	1,543
Mortgage warehouse	—	—	—
Real estate:			
Commercial real estate (including multi-family residential)	12,321	12,406	105
Commercial real estate construction and land development	—	—	—
1-4 family residential (including home equity)	217	217	—
Residential construction	—	—	—
Consumer and other	11	11	6
	$ 20,957	$ 21,376	$ 1,654

Table of Contents

ALLEGIANCE BANCSHARES, INC.
CONDENSED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017
(Unaudited)

The following table presents average impaired loans and interest recognized on impaired loans for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30,			
	2017		2016	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
Commercial and industrial	$16,758	$ 95	$5,748	$ 109
Mortgage warehouse	—	—	—	—
Real estate:				
Commercial real estate (including multi-family residential)	16,239	103	11,221	164
Commercial real estate construction and land development	210	4	—	—
1-4 family residential (including home equity)	571	—	229	(2)
Residential construction	—	—	—	—
Consumer and other	159	1	35	(1)
Total	$33,937	$ 203	$17,233	$ 270

	Six Months Ended June 30,			
	2017		2016	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
Commercial and industrial	$17,004	$ 234	$5,959	$ 164
Mortgage warehouse	—	—	—	—
Real estate:				
Commercial real estate (including multi-family residential)	16,338	180	11,599	222
Commercial real estate construction and land development	315	4	—	—
1-4 family residential (including home equity)	572	1	233	8
Residential construction	—	—	—	—
Consumer and other	160	1	38	1
Total	$34,389	$ 420	$17,829	$ 395

Credit Quality Indicators

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

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

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

Table of Contents

ALLEGIANCE BANCSHARES, INC.
CONDENSED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017
(Unaudited)

Watch—Loans classified as watch loans may still be of high quality, but have an element of risk added to the credit such as declining payment history, deteriorating financial position of the borrower or a decrease in collateral value.
Special Mention—Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.
Substandard—Loans classified as substandard have well-defined weaknesses on a continuing basis and are inadequately protected by the current net worth and paying capacity of the borrower, impaired or declining collateral values, or a continuing downturn in their industry which is reducing their profits to below zero and having a significantly negative impact on their cash flow. These classified loans are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.
Doubtful—Loans classified as doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values highly questionable and improbable.
Based on the most recent analysis performed, the risk category of loans by class of loan at June 30, 2017 is as follows:

	Pass	Watch	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)					
Commercial and industrial	$406,655	$11,003	$6,284	$ 20,759	$ —	$444,701
Mortgage warehouse	73,499	—	—	—	—	73,499
Real estate:						
Commercial real estate (including multi-family residential)	943,534	21,716	6,168	36,609	—	1,008,027
Commercial real estate construction and land development	195,180	5,643	144	5,057	—	206,024
1-4 family residential (including home equity)	262,972	848	1,474	2,645	—	267,939
Residential construction	100,756	1,559	517	—	—	102,832
Consumer and other	11,256	168	3	203	—	11,630
Total loans	$1,993,852	$40,937	$14,590	$ 65,273	$ —	$2,114,652

The following table presents the risk category of loans by class of loan at December 31, 2016:

	Pass	Watch	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)					
Commercial and industrial	$384,979	$11,784	$ 3,344	$ 16,645	$ —	$416,752
Mortgage warehouse	67,038	—	—	—	—	67,038
Real estate:						