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, 2020

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)

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

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

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

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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 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 has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes ☒ No ☐

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, 2020 was approximately $480.2 million.

As of March 8, 2021, there were 20,166,968 shares of the registrant's common stock, $1.00 par value, outstanding.

Documents Incorporated by Reference:

Portions of the Proxy Statement relating to the 2021 Annual Meeting of Shareholders of Allegiance Bancshares, Inc., which will be filed within 120 days after December 31, 2020, are incorporated by reference into Part III, Items 10-14 of this Annual Report on Form 10-K.

ALLEGIANCE BANCSHARES, INC.
2020 ANNUAL REPORT ON FORM 10-K

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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 verbs such as “will,” “should,” “would,” “may” and “could” are generally forward-looking in nature and not historical facts, although not all forward-looking statements include the foregoing. Forward-looking statements are based on assumptions and involve a number of risks and uncertainties, many of which are beyond our control, particularly with regard to developments related to the coronavirus (COVID-19) pandemic. 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 or impied by the forward-looking statements.

Important factors that could cause our actual results to differ materially from those indicated in these forward-looking statements, include, but are not limited to, those factors set forth below under the heading “Risk Factors Summary” and under the heading Item 1A. “Risk Factors” in this Annual Report on Form 10-K. These factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this report. Because of these risks and other uncertainties, our actual future results, performance or achievements, or industry results, may be materially different from the results indicated by the forward-looking statements in this report. In addition, our past results of operations are not necessarily indicative of our future results. Accordingly, no forward-looking statements should be relied upon, which represent our beliefs, assumptions and estimates only as of the dates on which such forward-looking statements were made. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by law.

RISK FACTORS SUMMARY

- The COVID-19 pandemic has adversely impacted our business and financial results, and the ultimate impact will depend on future developments, which remain uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities in response to the pandemic.
- 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 may not be able to implement aspects of our growth strategy, which may affect our ability to maintain our historical earnings trends.
- 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.
- 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.
- 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.
- 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.
- Challenging market conditions and economic trends have adversely affected the banking industry and 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.
- The strength of our borrowers’ businesses has been affected by the COVID-19 pandemic which increases the risks associated with timely loan repayment and the value of collateral supporting the loans.
- Implementation of CECL changed the way we calculate our allowance for credit losses.
- If our allowance for credit losses is not sufficient to cover actual loan losses, our earnings may be affected.
- 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.
- Our commercial and industrial, commercial real estate, 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.
- 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.
- 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.

- A lack of liquidity could adversely affect our operations and jeopardize our 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.
- Fluctuations in interest rates may adversely impact our earnings and capital levels and overall results of operations.
- Interest rates on our outstanding financial instruments might be subject to change based on developments related to LIBOR, which could adversely affect our revenue, expenses and the value of those financial instruments.
- We could recognize losses on securities held in our securities portfolio, particularly if interest rates increase or economic and market conditions deteriorate.
- 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.
- 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.
- Catastrophic events may adversely affect the general economy, financial and capital markets, specific industries and us.
- We are subject to certain operational risks, including fraudulent activities and data processing system failures and errors.
- We have a continuing need for technological change, and we may find it challenging to uncover resources to effectively implement new technology, or we may experience operational challenges when implementing new technology.
- Our operations could be interrupted if our third-party service providers experience difficulty or terminate their services.
- We could be adversely impacted by fraudulent activity, breaches of our information security and cybersecurity attacks.
- 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.
- 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.
- 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.
- 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.
- 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 face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.
- Failure to comply with economic and trade sanctions or with applicable anti-corruption laws could have a material adverse impact our business, financial condition and results of operations.
- 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.
- We may be required to pay significantly higher FDIC deposit insurance assessments in the future, which could adversely affect our earnings.
- The Federal Reserve may require Allegiance to commit capital resources to support Allegiance Bank, our wholly-owned subsidiary.
- We may be materially and adversely affected by the soundness, creditworthiness and liquidity of other financial institutions.
- Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations. 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.
- 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 ability to declare and pay dividends is limited.
- 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 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.
- 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.

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 the forepart 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 for serving small to medium-sized business customers and further enables us to attract talented bankers.

As of December 31, 2020, we operated 28 full-service banking locations in the Houston region, with 27 bank offices in the Houston metropolitan area and one bank office in Beaumont, just outside of the Houston metropolitan area. We have experienced significant growth since we began banking operations in 2007, resulting from organic growth, including de novo branching, three whole-bank acquisitions and one branch acquisition. As of December 31, 2020, we had total assets of $6.05 billion, total gross loans of $4.49 billion, total deposits of $4.99 billion and total shareholders' equity of $758.7 million.

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 are strategically focused 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 customized 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 superior external and internal service levels.

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, 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 pre-acquisition historical balances, our acquisitions to date, all of which were Houston-based:

Acquisition	Date Completed	Acquired Assets	Acquired Loans	Acquired Deposits	Number of Branches
			(Dollars in millions)		
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
LoweryBank branch	February 1, 2019	$ 48.7	$ 45.0	$ 16.0	1

* 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.

For additional information pertaining to the most recent acquisitions, 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 have an increased presence across our market areas.
- **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 position allows 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.

- **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. Since formation, we have 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 nominal number of cases. Our tiered underwriting structure includes progressive levels of individual loan authority, concurrence authority and senior level 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.
- **Quality loan portfolio.** The Company's focus on loans to small to medium-sized businesses results in a more diffused portfolio of relatively smaller loan relationships, thus reducing the risks that result from a dependence on larger lending relationships. We define core loans as total loans excluding the mortgage warehouse portfolio and Paycheck Protection Program ("PPP") loans. As of December 31, 2020, our average funded core loan size, excluding PPP loans, was approximately $343 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, 2020, 1.7% of our total loan portfolio was to customers in the oilfield services or oil-related industries, excluding PPP loans. 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 2.3% at December 31, 2020, 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 (the "SBA"), 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, money market accounts, savings accounts and other time deposits of various types and terms. 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.

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 when 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.

Human Capital Overview

We focus on attracting, developing and engaging high caliber talent focused on serving and fulfilling the needs of each of our identified constituencies. Over the past decade, we have developed and created a unique culture where we "practice what we pledge" each day. As a community bank serving the Houston region, we believe in the power of local and pursuing a common vision of success.

As a testament to our culture and our commitment to excellence, for the eleventh consecutive year, Allegiance Bank has been named a Top Workplace in Houston by the Houston Chronicle and this year ranked number six in the large company category with 500 plus employees. Additionally, the Bank was also named a top 100 employer in Texas in 2020, placing eighteenth on the list of all medium and large sized companies.

As of December 31, 2020, we employed approximately 598 full-time equivalent employees. None of our employees were represented by a collective bargaining unit or are party to a collective bargaining agreement. As a result of our commitment to employee development and engagement, we have experienced relatively low turnover as compared to our peer group with an average voluntary turnover rate of approximately 6.4% in the past five years; the voluntary turnover rate in 2020 was 4.6%.

Diversity, Equity and Inclusion ("DE&I")

We are committed to implementing diverse, equitable and inclusive policies and practices across the organization. Our corporate values speak directly to the spirit of inclusion as well as the importance of embracing diversity and equitable practices to ensure we are representative of the communities we serve. We are committed to building togetherness and a culture where integrity, personal responsibility, extraordinary communication and selfless leadership are the center of all that we do.

We continuously focus our efforts on recruiting, employing and advancing diverse talent that includes consideration for race, gender and age diversity. We monitor our workforce demographics on a routine basis and take pride in the diverse talent we employ and retain.

As of December 31, 2020, the race and gender diversity of our workforce was as follows:

Number of Full-Time Equivalent Employees	People of Color(1)	Women
598	47.0%	64.0%

(1) Of the 598 employees, 16 did not disclose their ethnicity, therefore, the percentage of People of Color in the table is based on 582 employees.

Learning and Development

We have a very robust learning and development program that provides numerous offerings to help employees achieve their career goals. The program offers management excellence courses, leadership development programs and communication and technology courses (to name a few) as part of our commitment to help engage and retain talent. Our investment in the growth and development of our employees serves as part of our short and long-term succession strategy to ensure we are developing the appropriate leadership and management pipelines for continuity purposes. Our strategy also includes developing individuals for key and critical roles to ensure the Bank is prepared to meet its growth goals.

Additionally, our employees receive continuing education courses that are relevant to the banking industry and their job function. All of these resources provide employees with the skills and knowledge necessary for them to fulfill their career aspirations as well as agile talent that is ready to move up and/or across the organization when ready and needed.

As part of our commitment to employee development, as well as to advance our DE&I strategy, we entered into a partnership with Texas Southern University to debut an endowed bankers program to boost commercial lending in Houston and train the next diverse generation of bankers in an industry that has largely lacked People of Color. The goal is to educate and prepare bankers to provide banking and financial education services to underrepresented communities that have traditionally lacked access to such services. Participants will enroll in courses, set to begin Fall 2021, that range from financial technology and commercial bank management to lending activities and accreditation analysis and will be taught by banking executives with extensive experience in the industry.

Compensation and Benefits

We provide a competitive compensation and benefits program to help attract, retain and meet the needs of our employees. In addition to providing competitive salaries, we offer performance-based incentive compensation in the form of an annual bonus and stock awards program to officers, a 401(k) Plan with an employer matching contribution and an employee profit sharing program. Additionally, we offer healthcare and insurance benefits, health savings and flexible spending accounts, paid time-off, family leave and an employee assistance program.

We also have an established health and wellness program with an active committee that focuses on implementing holistic health and wellness offerings to enhance our employees’ wellbeing.

Available Information

The Company's website address is 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 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 imposed 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.

Source of Strength

Under Federal Reserve policy and federal regulations, bank holding companies are required to act as a source of financial and managerial strength to their subsidiary banks. Under this requirement, Allegiance is expected to commit resources to support the Bank, including at times when Allegiance may not be in a financial position to provide such resources. Any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to depositors and to certain other indebtedness of such subsidiary banks. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

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 January 2020, the Federal Reserve approved a final rule that clarifies the framework for when a company controls a bank holding company or bank under the BHCA. In particular, the final rule sets forth tiered presumptions of control in the Federal Reserve's regulations. Under the BHCA, a company controls a bank holding company if it controls 25 percent or more of any class of voting securities of the bank holding company. A company that controls less than 5 percent of any class of voting securities of a bank holding company is presumed not to control the bank holding company. In instances in which a company owns at least 5 percent but less than 25 percent, the Federal Reserve considers the full fact and circumstances of the relationship between the company and the bank holding company to determine whether the company controls the bank holding company. As part of its determination as to control, the Federal Reserve considers, among other things, level of ownership of voting and non-voting securities, board representation, business relationships, senior management interlocks, contractual limits on major operational or policy decisions, proxies on issues, threats to dispose of securities and management agreements. The rule also provides several additional examples of presumptions of control and noncontrol, along with various ancillary provisions such as definitions of terms used in the presumptions. The changes in the final rule became effective September 30, 2020.

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. The Company has not elected to pursue financial holding company status.

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.

The Company and the Bank are required to comply with applicable capital adequacy standards adopted by the Federal Reserve and the FDIC (the "Basel III Capital Rules"). Since being fully phased in on January 1, 2019, the Basel III Capital Rules, among other things, require the Company to maintain an additional capital conservation buffer, composed entirely of Common Equity Tier 1 ("CET1"), of 2.5%, effectively resulting in minimum ratios of (1) CET1 to risk-weighted assets of 7.0%, (2) Tier 1 capital to risk-weighted assets of 8.5%, (3) total capital (that is, Tier 1 plus Tier 2) to risk-weighted assets of 10.5% and (4) Tier 1 capital to average quarterly assets as reported on consolidated financial statements (known as the "leverage ratio") of 4.0%. As of December 31, 2020, the Company's ratio of CET1 to risk-weighted assets was 11.80%, Tier 1 capital to risk-weighted assets was 12.04%, total capital to risk-weighted assets was 15.70% and Tier 1 capital to average tangible quarterly assets was 8.51%.

Banking institutions that fail to meet the effective minimum ratios once the capital conservation buffer is taken into account, as detailed above, will be subject to constraints on capital distributions, including dividends and share repurchases, and certain discretionary executive compensation. The severity of the constraints depends on the amount of the shortfall and the institution's "eligible retained income" (that is, four quarter trailing net income, net of distributions and tax effects not reflected in net income).

The Basel III Capital Rules also changed the capital categories for insured depository institutions for purposes of prompt corrective action as discussed below under "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.

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 directed 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 September 17, 2019, the FDIC approved a final rule allowing community banks with a leverage capital ratio of at least 9% to be considered in compliance with Basel III capital requirements and exempt from the complex Basel III calculation. Under the final rule, banks with less than $10 billion in assets may elect the community bank leverage ratio framework if they meet the 9% ratio and if they hold 25% or less of assets in off-balance sheet exposures, and 5% or less of assets in trading assets and liabilities. For institutions that fall below the 9% capital requirement but remain above 8%, the final rule establishes a two-quarter grace period to either meet the qualifying criteria again or comply with the generally applicable capital rule. We have not elected to use the community bank leverage ratio framework, but may make such an election in the future.

In February 2019, the federal bank regulatory agencies issued a final rule (the "2019 CECL Rule") that revised certain capital regulations to account for changes to credit loss accounting under U.S. GAAP. The 2019 CECL Rule included a transition option that allows banking organizations to phase in, over a three-year period, the day-one adverse effects of adopting a new accounting standard related to the measurement of current expected credit losses ("CECL") on their regulatory capital ratios (three-year transition option). On January 1, 2020, the Company adopted CECL. Upon adoption of CECL, all loans accounted for under ASC 310-20 were included in the allowance for credit losses methodology, with no offset provided for any remaining fair value marks. In addition, all loans previously accounted for under ASC 310-30 had their credit marks reclassified to be included in the allowance for credit losses.

Prompt Corrective Action

Under the Federal Deposit Insurance Act ("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, 2020, the Bank met the requirements to be "well capitalized" under the prompt corrective action regulations.

Regulatory Limits on Dividends, Distributions and Repurchases

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 could also have the effect of limiting the payment of capital distributions from the Bank.

In July 2019, the federal bank regulators adopted final rules that, among other things, eliminated the standalone prior approval requirement in the capital rules for any repurchase of common stock. In certain circumstances, Allegiance's repurchases of its common stock may be subject to a prior approval or notice requirement under other regulations, policies or supervisory expectations of the Federal Reserve. Any redemption or repurchase of preferred stock or subordinated debt remains subject to the prior approval of the Federal Reserve.

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.

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.

On December 15, 2020, the FDIC issued a final rule on brokered deposits. The rule aims to clarify and modernize the FDIC's existing regulatory framework for brokered deposits. Notable aspects of the rule include (1) the establishment of bright-line standards for determining whether an entity meets the statutory definition of "deposit broker"; (2) the identification of a number of business relationships ("designated exceptions") to which the "primary purpose" exception is automatically applicable; (3) the establishment of a "transparent" application process for entities that seek a "primary purpose" exception, but do not qualify as a "designated exception"; and (4) the clarification that third parties that have an exclusive deposit-placement arrangement with only one IDI are not considered a "deposit broker."

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. The FDIC has the ability to make discretionary adjustments to the total score based upon significant risk factors that are not adequately captured in the calculations.

Under the FDIA, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. In addition, the FDIC is authorized to conduct examinations of and require reporting by FDIC-insured institutions.

On June 22, 2020, the FDIC issued a final rule that mitigates the deposit insurance assessment effects of participating in the PPP, the Paycheck Protection Program Liquidity Facility ("PPPLF") and the Money Market Mutual Fund Liquidity Facility ("MMLF"). Pursuant to the final rule, the FDIC will generally remove the effect of PPP lending in calculating an institutions deposit insurance assessment. The final rule also provides an offset to an institution's total assessment amount for the increase in its assessment base attributable to participation in the PPP and MMLF.

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.

On January 1, 2021, Congress passed the National Defense Authorization Act for Fiscal Year 2021 (the "NDAA"), which enacted the most significant overhaul of the BSA and related anti-money laundering laws since the Patriot Act. The Anti-Money Laundering Act of 2020 ("AMLA"), which amends the BSA, was included in the NDAA. Among other things, it codifies a risk-based approach to anti-money laundering compliance for financial institutions; requires the development of standards for evaluating technology and internal processes for BSA compliance; and expands enforcement- and investigation-related authority. Notable amendments include (1) significant changes to the collection of beneficial ownership information and the establishment of a beneficial ownership registry, which requires corporate entities (generally, any corporation, LLC, or other similar entity with 20 or fewer employees and annual gross income of $5 million or less) to report beneficial ownership information to FinCEN (which will be maintained by FinCEN and made available upon request to financial institutions); (2) enhanced whistleblower provisions, which provide that one or more whistleblowers who voluntarily provide original information leading to the successful enforcement of violations of the AML laws in any judicial or administrative action brought by the Secretary of the Treasury or the Attorney General resulting in monetary sanctions exceeding $1 million (including disgorgement and interest but excluding forfeiture, restitution, or compensation to victims) will receive not more than 30 percent of the monetary sanctions collected and will receive increased protections; (3) increased penalties for violations of the BSA; (4) improvements to existing information sharing provisions that permit financial institutions to share information relating to SARs with foreign branches, subsidiaries, and affiliates (except those located in China, Russia, or certain other jurisdictions) for the purpose of combating illicit finance risks; and (5) expanded duties and powers of FinCEN. Many of the amendments, including those with respect to beneficial ownership, require the Department of Treasury and FinCEN to promulgate rules.

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.

Consumer Financial Protection Bureau. The Dodd-Frank Act created the Consumer Financial Protection Bureau (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. The creation of the CFPB by the Dodd-Frank Act has led to enhanced enforcement of consumer financial protection laws.

Mortgage loan origination. The Dodd-Frank Act authorized 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.

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 December 2019, the FDIC and the Office of the Comptroller of the Currency ("OCC") jointly proposed rules that would significantly change existing CRA regulations. The proposed rules are intended to increase bank activity in low- and moderate-income communities where there is significant need for credit, more responsible lending, greater access to banking services and improvements to critical infrastructure. The proposals change four key areas: (i) clarifying what activities qualify for CRA credit; (ii) updating where activities count for CRA credit; (iii) providing a more transparent and objective method for measuring CRA performance; and (iv) revising CRA-related data collection, record keeping and reporting. However, the Federal Reserve Board did not join the proposed rulemaking. In May 2020, the OCC issued its final CRA rule, effective October 1, 2020. The FDIC has not finalized the revisions to its CRA rule. In September 2020, the Federal Reserve Board issued an Advance Notice of Proposed Rulemaking ("ANPR") that invites public comment on an approach to modernize the regulations that implement the CRA by strengthening, clarifying, and

tailoring them to reflect the current banking landscape and better meet the core purpose of the CRA. The ANPR seeks feedback on ways to evaluate how banks meet the needs of low- and moderate-income communities and address inequities in credit access. As such, the Company will continue to evaluate the impact of any changes to the regulations implementing the CRA and their impact to our financial condition, results of operations, and/or liquidity, which cannot be predicted at this time.

Incentive Compensation Guidance

The Federal Reserve Board reviews, as part of its regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Company, that are not "large, complex banking organizations." These reviews are tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

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.

In February 2018, the SEC published interpretive guidance to assist public companies in preparing disclosures about cybersecurity risks and incidents. These SEC guidelines, and any other regulatory guidance, are in addition to notification and disclosure requirements under state and federal banking law and regulations.

On December 18, 2020, the federal financial regulatory agencies announced a proposal that would require supervised banking organizations to promptly notify their primary federal regulator in the event of a computer security incident. If adopted without substantial change, the proposed rule would require banking organizations to notify their primary federal regulator promptly, and not later than 36 hours after, the discovery of such incidents, termed "computer-security incidents" that are "notification incidents."

Legislative and Regulatory Responses to the COVID-19 Pandemic

The COVID-19 pandemic is creating extensive disruptions to the global economy, to businesses, and to the lives of individuals throughout the world. There have been a number of regulatory actions intended to help mitigate the adverse economic impact of the COVID-19 pandemic on borrowers, including several mandates from the bank regulatory agencies, requiring financial institutions to work constructively with borrowers affected by the COVID-19 pandemic. There continues to be mounting pressure on governors and localities to take further relief action. On March 27, 2020, the CARES Act was signed into law. The CARES Act is a $2.2 trillion economic stimulus bill that was intended to provide relief in the wake of the COVID-19 pandemic. Several provisions

within the CARES Act led to action from the bank regulatory agencies and there were also separate provisions within the legislation that directly impacted financial institutions. Section 4022 of the CARES Act allows, until the earlier of December 31, 2020 or the date the national emergency declared by the President terminates, borrowers with federally-backed one-to-four family mortgage loans experiencing a financial hardship due to the COVID-19 pandemic to request forbearance, regardless of delinquency status, for up to 360 days. Section 4022 also prohibited servicers of federally-backed mortgage loans from initiating foreclosures during the 60-day period beginning March 18, 2020. Further, on August 27, 2020, the FHFA announced that FNMA and FHLMC would extend their single-family moratorium on foreclosures and evictions through December 31, 2020. In addition, President Biden requested that the federal agencies discussed above continue to extend the moratorium on foreclosures on federally-guaranteed mortgages until at least March 31, 2021. In addition, under Section 4023 of the CARES Act, until the earlier of December 31, 2020 and the date the national emergency declared by the President terminates, borrowers with federally-backed multifamily mortgage loans whose payments were current as of February 1, 2020, but who have since experienced financial hardship due to COVID-19, may request a forbearance for up to 90 days. Borrowers receiving such forbearance may not evict or charge late fees to tenants for its duration. On December 23, 2020, the FHFA announced an extension of forbearance programs for qualifying multifamily properties through March 31, 2021. These regulatory and legislative actions may be expanded, extended and amended as the pandemic and its economic impact continue.

The bank regulatory agencies ensure that adequate flexibility will be given to financial institutions who work with borrowers affected by the COVID-19 pandemic, and indicate that they will not criticize institutions who do so in a safe and sound manner. Further, the bank regulatory agencies have encouraged financial institutions to report accurate information to credit bureaus regarding relief provided to borrowers and have urged the importance of financial institutions to continue assisting those borrowers impacted by the COVID-19 pandemic. Also, on April 3, 2020, the bank regulatory agencies issued a joint policy statement to facilitate mortgage servicers' ability to place consumers in short-term payment forbearance programs. This policy statement was followed by a final rule, on June 23, 2020, that makes it easier for consumers to transition out of financial hardship caused by the COVID-19 pandemic. The rule makes it clear that servicers do not violate Regulation X (which places restrictions and requirements upon lenders, mortgage brokers, or servicers of home loans related to consumers when they apply and receive mortgage loans) by offering certain COVID-19- related loss mitigation options based on an evaluation of limited application information collected from the borrower.

Also, in an attempt to allow individuals and businesses to more quickly access real estate equity, on September 29, 2020, the bank regulatory agencies issued a rule that deferred appraisal and evaluation requirements after the closing of certain residential and CRE transactions through December 31, 2020. On January 20, 2021, upon the inauguration of President Biden, the new Administration issued an Executive Order extending the federal eviction moratorium issued through the Centers for Disease Control and Prevention--which was recently extended by Congress through January 31, 2021--through March 31, 2021. Further, on December 27, 2020, the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 was signed into law, which also contains provisions that could directly impact financial institutions. The act directs financial regulators to support community development financial institutions and minority depository institutions and directs Congress to re-appropriate $429 billion in unobligated CARES Act funds.

The PPP, originally established under the CARES Act and extended under the Coronavirus Response and Relief Supplemental Appropriations Act of 2021, authorizes financial institutions to make federally-guaranteed loans to qualifying small businesses and non-profit organizations. These loans carry an interest rate of 1% per annum and a maturity of 2 years for loans originated prior to June 5, 2020 and 5 years for loans originated on or after June 5, 2020. The PPP provides that such loans may be forgiven if the borrowers meet certain requirements with respect to maintaining employee headcount and payroll and the use of the loan proceeds after the loan is originated. The initial phase of the PPP, after being extended multiple times by Congress, expired on August 8, 2020. However, on January 11, 2021, the SBA reopened the PPP for First Draw PPP loans to small business and non-profit organizations that did not receive a loan through the initial PPP phase. Further, on January 13, 2021, the SBA reopened the PPP for Second Draw PPP loans to small businesses and non-profit organizations that did receive a loan through the initial PPP phase. At least $25 billion has been set aside for Second Draw PPP loans to eligible borrowers with a maximum of 10 employees or for loans of $250,000 or less to eligible borrowers in low or moderate income neighborhoods. Generally speaking, businesses with more than 300 employees and/or less than a 25 percent reduction in gross receipts between comparable quarters in 2019 and 2020 are not eligible for Second Draw PPP loans. Further, maximum loan amounts have been increased for accommodation and food service businesses.

Also, the Federal Reserve, in cooperation with the Department of the Treasury, has established many financing and liquidity programs. The MSLP is intended to keep credit flowing to small and mid-sized businesses that were in sound financial condition before the coronavirus pandemic but now need financing to maintain operations. The PPPLF supplies liquidity to PPP participating financial institutions through term financing backed by PPP loans and the MMLF is intended to assist money market funds in meeting demands for redemptions by households and other investors, enhancing overall market functioning and credit provision to the broader economy.

Further, the federal bank regulatory agencies issued several interim final rules throughout the course of 2020 to neutralize the regulatory capital and liquidity effects for banks that participate in the Federal Reserve liquidity facilities. The interim final rule issued on April 9, 2020, clarifies that a zero percent risk weight applies to loans covered by the PPP for capital purposes and the interim final rule issued on May 15, 2020, permits depository institutions to choose to exclude U.S. Treasury securities and deposits at Federal

Reserve Banks from the calculation of the supplementary leverage ratio. These interim final rules were finalized on September 29, 2020.

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

The COVID-19 pandemic has adversely impacted our business and financial results, and the ultimate impact will depend on future developments, which remain uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities in response to the pandemic.

The COVID-19 pandemic continues to create extensive disruptions to the global economy and to the lives of individuals throughout the world. Governments, businesses and the public are taking unprecedented actions to contain the spread of COVID-19 and to mitigate its effects, including quarantines, travel bans, shelter-in-place orders, closures of businesses and schools, fiscal stimulus and legislation designed to deliver monetary aid and other relief. While the scope, duration and full effects of the pandemic are rapidly evolving and not fully known, the pandemic and related efforts to contain it have disrupted global economic activity, adversely affected the functioning of financial markets, impacted interest rates, increased economic and market uncertainty and disrupted trade and supply chains. If these effects continue for a prolonged period or result in sustained economic stress or recession, many of the risk factors identified in this Form 10-K could be exacerbated and such effects could have a material adverse impact on us in a number of ways related to credit, collateral, capital, customer demand, funding, liquidity, operations, interest rate risk, human capital and self-insurance, as described throughout this section in more detail.

Because there have been no comparable recent global pandemics that resulted in similar global impact, we do not yet know the full extent of COVID-19's effects on our business, operations or the global economy as a whole. Any future development will be highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the effectiveness, distribution and acceptance of COVID-19 vaccines, third-party providers' ability to support our operations and any actions taken by governmental authorities and other third parties in response to the pandemic. The uncertain future development of this crisis could materially and adversely affect our business, operations, operating results, financial condition, liquidity and capital levels.

Key employees could become sick from COVID-19, and current and future restrictions on how we operate our bank offices and operational departments could limit our ability to meet customer service expectations and have a material adverse effect on our

operations. We rely on business processes and bank office activity that largely depend on people and technology, including access to information technology systems as well as information, applications, payment systems and other services provided by third parties. In response to COVID-19, we have modified our business practices with a portion of our employees working remotely from their homes to have our operations uninterrupted as much as possible. The continuation of these work-from-home measures also introduces additional operational risk, including that technology in employees' homes may not be as robust as in our offices and could cause the networks, information systems, applications and other tools available to employees to be more limited or less reliable than in our offices. Increased cybersecurity risk includes increased phishing, malware and other cybersecurity attacks, vulnerability to disruptions of our information technology infrastructure and telecommunications systems for remote operations, increased risk of unauthorized dissemination of confidential information, limited ability to restore the systems in the event of a systems failure or interruption, greater risk of a security breach resulting in destruction or misuse of valuable information and potential impairment of our ability to perform critical functions, including wiring funds, all of which could expose us to risks of data or financial loss, litigation and liability and could seriously disrupt our operations and the operations of any impacted customers.

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, 2020, 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 volatility of 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. In the first quarter of 2020, crude oil prices decreased sharply and remained volatile throughout the end of 2020. 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. Furthermore, the future effects of COVID-19 on economic activity could negatively affect the future banking products we provide, including a decline in the origination of loans.

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.

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 Chief Executive Officer, Steven F. Retzloff, and our President, Ramon A. Vitulli, III. 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 it may be difficult to find 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.

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 a senior level 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;
- 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, whether due to the effects of the COVID-19 pandemic or otherwise, 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. 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. The Company believes the largest risks within its loan portfolio are in the hotel, restaurant and bar, and oil and gas portfolios. 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 credit 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 and volatile oil and gas prices have recently had 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, had an adverse effect on our borrowers and their customers, which adversely affected our business, financial condition and results of operations. The future effects of COVID-19 on economic activity could negatively affect the collateral values associated with our existing loans, our ability to liquidate the real estate collateral securing our residential and commercial real estate loans, our ability to maintain loan origination volume and to obtain additional financing, the future demand for or profitability of our lending and services and the financial condition and credit risk of our customers. Further, in the event of delinquencies, regulatory changes and policies designed to protect borrowers may slow or prevent us from making our business decisions or may result in a delay in our taking certain remediation actions, such as foreclosure. In addition, we have unfunded commitments to extend credit to customers. During a challenging economic environment like now, our customers are more dependent on our credit commitments and increased borrowings under these commitments could adversely impact our liquidity.

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 generally less than $8 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.

Implementation of CECL will change the way we calculate our allowance for credit losses.

Due to the uncertainty of the impact of COVID-19 and as permitted by the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), the Company chose to delay its implementation of a new accounting standard, referred to as current expected credit loss, or CECL, until the fourth quarter of 2020, at which point the standard was adopted retrospectively to January 1, 2020. CECL requires financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and recognize the expected credit losses through the provision for credit losses. CECL changed the prior method of provisioning for loan losses that are probable, which has required us to increase our allowance for credit losses, and is increasing the types and amounts of data we need to collect and review to determine the appropriate level of our allowance for credit losses. In addition, the adoption of CECL may result in more volatility in the level of our allowance for credit losses. An increase, to the extent material, in our allowance for credit losses or expenses incurred to determine the appropriate level of the allowance for credit losses could have a material adverse effect on our capital levels, financial condition and results of operations. A reduction in our capital levels could subject us to a variety of enforcement remedies available to the federal regulatory authorities and would negatively impact our ability to pursue acquisitions or other expansion opportunities if we are unable to satisfactorily raise additional capital.

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

The allowance for credit losses is a valuation allowance for current expected credit losses. We establish our allowance for credit losses and maintain it at a level management considers adequate to absorb expected loan losses in our loan portfolio. The allowance for credit 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 credit losses consists of a general component based upon expected losses in the portfolio and a specific component based on individual loans that are individually evaluated. 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, 2020, our allowance for credit losses on loans was $53.2 million, which represented 1.18% of our total loans and 184.03% of our total nonperforming loans. As of December 31, 2019, our allowance for loan losses was $29.4 million, which represented 0.75% of our total loans and 103.76% 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 credit 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 credit 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 credit 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 CECL which became effective on January 1, 2020) 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 credit 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, 2020, $3.23 billion, or 71.9%, 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, 2020, $2.00 billion, or 44.5%, of our total loans were comprised of commercial real estate loans (including owner-occupied commercial real estate loans) and $367.2 million, or 8.2%, 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 credit 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, 2020, $667.1 million, or 14.9%, 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, which includes the Paycheck Protection Program ("PPP"), 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.

In an effort to support our communities during the COVID-19 pandemic, we participated in the SBA's new 7(a) loan program called the PPP by making loans to small businesses that are subject to the terms and conditions of the PPP. We face increased risks related to non-compliance by us with this new legislation and by borrowers with the terms of the PPP. Additionally, we face risk on PPP loans if there is a deficiency in the manner in which the loan was originated, funded or serviced by us, such as an issue with the eligibility of a borrower to receive a PPP loan or the amount of such loan, which may or may not be related to the ambiguity in the laws, rules and guidance regarding the operation of the PPP. If the SBA determines there is a deficiency, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of any loss related to the deficiency from us. If borrowers under PPP loans fail to qualify for loan forgiveness, we are at the heightened risk of holding such loans at unfavorable interest rates with no collateral and no guarantors. As of December 31, 2020, we funded over 6,300 PPP loans totaling in excess of $710.0 million.

As of December 31, 2020, SBA 7(a) and 504 program loans of $198.8 million comprised 4.4% of our loan portfolio, and we intend to grow this segment of our portfolio in the future. PPP loans notwithstanding, 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, funding unfunded commitments 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.

In March 2020, the Federal Reserve lowered the target range for the federal funds rate to a range from 0 to 0.25 percent, citing concerns about the impact of COVID-19 on markets and stress in the energy sector. In January 2021, the Federal Reserve reaffirmed this target range. A prolonged period of extremely volatile and unstable market conditions would likely increase our funding costs and negatively affect market risk mitigation strategies. Higher income volatility from changes in interest rates and spreads to benchmark indices could cause a loss of future net interest income and a decrease in current fair market values of our assets. Fluctuations in interest rates will 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, which in turn could have a material adverse effect on our net income, operating results and financial condition.

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.

Interest rates on our outstanding financial instruments might be subject to change based on developments related to LIBOR, which could adversely affect our revenue, expenses and the value of those financial instruments.

In 2017, the United Kingdom's Financial Conduct Authority (the "FCA"), which regulates LIBOR, publicly announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. The Alternative Reference Rates Committee, a steering committee comprised of U.S. financial market participants, selected and the Federal Reserve Bank of New York started in May 2018 to publish the Secured Overnight Finance Rate ("SOFR") as an alternative to LIBOR. In November 2020, the

FCA announced that most tenors of US Dollar LIBOR would continue to be published through June 30, 2023. It is expected that a transition away from the widespread use of LIBOR to alternative rates will continue to occur over the course of the next two years. Uncertainty as to the adoption, market acceptance or availability of SOFR or other alternative reference rates may adversely affect the value of LIBOR-based loans and securities in the Company's portfolio and may impact the availability and cost of hedging instruments and borrowings. The language in the Company's LIBOR-based contracts and financial instruments has developed over time and may have various events that trigger when a successor index to LIBOR would be selected. If a trigger is satisfied, contracts and financial instruments may give the Company or the calculation agent, as applicable, discretion over the selection of the substitute index for the calculation of interest rates. The implementation of a substitute index for the calculation of interest rates under the Company's agreements may result in the Company incurring significant expenses in effecting the transition and may result in disputes or litigation with customers over the appropriateness or comparability to LIBOR of the substitute index, any of which could have an adverse effect on the Company's results of operations.

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, 2020, the amortized cost of our securities portfolio was $728.0 million, which represented 12.0% 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 volatile 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. Factors that could cause an impairment charge include adverse changes to macroeconomic conditions, declines in the profitability of the reporting unit or declines in the tangible book value of the reporting unit. Subsequent to December 31, 2020, our stock price was trading below book value due to stock price volatility in the market. 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. As of December 31, 2020, our goodwill totaled $223.6 million.

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.

Catastrophic events other than the COVID-19 pandemic may adversely affect the general economy, financial and capital markets, specific industries and us.

Acts of terrorism, cyber-terrorism, political unrest, war, civil disturbance, armed regional and international hostilities and international responses to these hostilities, natural disasters (including tornadoes, hurricanes, tropical storms, fires, droughts and floods), global health risks or pandemics or the threat of or perceived potential for these events could have a negative impact on us.

Our business continuity and disaster recovery plans may not be successful upon the occurrence of one of these scenarios, and a significant catastrophic event could materially adversely affect our operating results.

Our business is generated primarily from the Houston region, which is susceptible to damage by hurricanes, tropical storms, 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. These catastrophic events may have an impact on our customers and in turn, on us.

In addition, these events have had and may continue to have an adverse impact on the U.S. and world economy in general and consumer confidence and spending in particular, which could harm our operations. Any of these events could increase volatility in the U.S. and world financial markets, which could harm our stock price and may limit the capital resources available to us and our customers. This could have a material adverse impact on our operating results, revenues and costs and may result in increased volatility in the market price of our common stock.

We are subject to certain operational risks, including fraudulent activities and data processing system failures and errors.

We are exposed to many types of operational risk, including the risk of fraudulent activities 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.

As a result of the measures implemented to respond to the pandemic, many third parties on which we rely in our business operations, including the appraiser(s) of the real property collateral, vendors that supply essential services such as loan servicers, providers of financial information, systems and analytical tools and providers of electronic payment and settlement systems, and local and federal government agencies, offices and courthouses, may limit the availability and access of their services. For example, loan origination could be delayed due to the limited availability of real estate appraisers for the collateral. Loan closings could be delayed due to reductions in available staff in recording offices or the closing of courthouses in certain counties, which slows the process for title work, mortgage and UCC filings in those counties. If the third-party service providers continue to have limited capacities for a prolonged period or if additional limitations or potential disruptions in these services materialize, it may negatively affect our operations.

We could be adversely impacted by fraudulent activity, breaches of our information security and cybersecurity attacks.

As a financial institution, we are susceptible to fraudulent activity, information security breaches and cybersecurity-related incidents that may be committed against us, our clients or third-parties with whom we interact and that may result in financial losses or increased costs to us or our clients, disclosure or misuse of confidential information belonging to us or personal or confidential information belonging to our clients, misappropriation of assets and litigation. The occurrence of any of these could also damage our reputation. Our industry has seen increases in electronic fraudulent activity, hacking, security breaches, sophisticated social engineering and cyber-attacks, including within the commercial banking sector, as cyber-criminals have been targeting commercial bank accounts on an increasing basis.

Our business is highly dependent on the security and efficacy of our infrastructure, computer and data management systems, as well as those of third-parties with whom we interact or on whom we rely. Our business relies on the secure processing, transmission, storage and retrieval of confidential, proprietary and other information in our computer and data management systems and networks and in the computer and data management systems and networks of third-parties. In addition, to access our network, products and services, our customers and other third-parties may use personal mobile devices or computing devices that are outside of our network environment and are subject to their own cybersecurity risks. All of these factors increase our risks related to cyber-threats and electronic disruptions.

In addition to well-known risks related to fraudulent activity, which take many forms, such as check "kiting" or fraud, wire fraud and other dishonest acts, information security breaches and cybersecurity-related incidents have become a material risk in the financial services industry. These threats may include fraudulent or unauthorized access to data processing or data storage systems used by us or by our clients, electronic identity theft, "phishing", account takeover, denial or degradation of service attacks and malware or other cyber-attacks.

In recent periods, several governmental agencies and large corporations, including financial service organizations and retail companies, have suffered major data breaches, in some cases exposing not only their confidential and proprietary corporate information, but also sensitive financial and other personal information of their employees, clients or other third-parties, and subjecting those agencies and corporations to potential fraudulent activity and their employees, clients and other third-parties to identity theft and fraudulent activity in their debit card and banking accounts. Therefore, security breaches and cyber-attacks can cause significant increases in operating costs, including the costs of compensating clients and customers for any resulting losses they may incur, and the costs and capital expenditures required to correct the deficiencies in and strengthen the security of data processing and storage systems.

While we invest in systems and processes that are designed to detect and prevent security breaches and cyber-attacks and we conduct periodic tests of our security systems and processes, we may not succeed in anticipating or adequately protecting against or preventing all security breaches and cyber-attacks from occurring. Even the most advanced internal control environment may be vulnerable to compromise. Targeted social engineering attacks are becoming more sophisticated and are extremely difficult to prevent. Additionally, the existence of cyber-attacks or security breaches at third-parties with access to our data, such as vendors, may not be disclosed to us in a timely manner. As cyber-threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities or incidents.

As is the case with non-electronic fraudulent activity, cyber-attacks or other information or security breaches, whether directed at us or third-parties, may result in a material loss or have material consequences. Furthermore, the public perception that a cyber-attack on our systems has been successful, whether or not this perception is correct, may damage our reputation with customers and third-parties with whom we do business. A successful penetration or circumvention of system security could cause negative consequences, including loss of customers and business opportunities, disruption to our operations and business, misappropriation or destruction of our confidential information and/or that of our customers, or damage to our customers' and/or third-parties' computers or systems, and could expose us to additional regulatory scrutiny and result in a violation of applicable privacy laws and other laws, litigation exposure, regulatory fines, penalties or intervention, loss of confidence in our security measures, reputational damage, reimbursement or other compensatory costs, additional compliance costs and could adversely impact our results of operations, liquidity and financial condition.

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.

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 Allegiance, 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 Allegiance, 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 engages 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.

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, 2020, our deposits from foreign nationals, primarily residents of Guatemala, accounted for less than 2% 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.

Failure to comply with economic and trade sanctions or with applicable anti-corruption laws could have a material adverse impact our business, financial condition and results of operations.

OFAC administers and enforces economic and trade sanctions against targeted foreign countries and regimes, under authority of various laws, including designated foreign countries, nationals and others. We are responsible for, among other things, blocking accounts of and transactions with such persons and countries, prohibiting unlicensed trade and financial transactions with them and reporting blocked transactions after their occurrence. In addition, we are subject to the Foreign Corrupt Practices Act, or the FCPA, which prohibits offering, promising, giving, or authorizing others to give anything of value, either directly or indirectly, to a non-U.S. government official in order to influence official action or otherwise gain an unfair business advantage. We are also subject to applicable anti-corruption laws in the jurisdictions in which we may operate. Failure to comply with economic and trade sanctions or with applicable anti-corruption laws, including the FCPA, could have serious legal and 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.

On September 15, 2020, in response to the decline in the reserve ratio due to extraordinary deposit growth resulting mainly from the COVID-19 pandemic, the FDIC adopted a restoration plan to restore the DIF reserve ratio to at least 1.35% within eight years, as required by the Federal Deposit Insurance Act. 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 $2.9 million and $1.7 million for both of the years ended December 31, 2020 and 2019, respectively. 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;
- 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 dividends and capital returns;
- 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.

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’s ability to declare and pay dividends is limited.

Our Board of Directors has approved the payment of quarterly cash dividends on our common stock. However, there can be no assurance of whether or when we may pay dividends on our common stock in the future. Our ability to pay dividends 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 declared and paid at the discretion of our Board of Directors after taking into account our business, operating results and financial condition, current and anticipated cash needs, plan 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. 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 January 2020, the Federal Reserve approved a final rule that clarifies the framework for when a company controls a bank holding company or bank under the BHC Act. In particular, the final rule sets forth tiered presumptions of control in the Federal Reserve’s regulations. Under the BHC Act, a company controls a bank holding company if it controls 25 percent or more of any class of voting securities of the bank holding company. A company that controls less than 5 percent of any class of voting securities of a bank holding company is presumed not to control the bank holding company. In instances in which a company owns at least 5 percent but less than 25 percent, the Federal Reserve considers the full fact and circumstances of the relationship between the company and the bank holding company to determine whether the company controls the bank holding company. As part of its determination as to control, the Federal Reserve considers, among other things, level of ownership of voting and non-voting securities, board representation, business relationships, senior management interlocks, contractual limits on major operational or policy decisions, proxies on issues, threats to dispose of securities, and management agreements. The rule also provides several additional examples of

presumptions of control and noncontrol, along with various ancillary provisions such as definitions of terms used in the presumptions. The changes in the final rule became effective September 30, 2020.

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, 2020, we had 28 full-service banking locations, with 27 bank offices located in the Houston metropolitan area and one bank office location in Beaumont, just outside of the Houston metropolitan area. We lease twelve of these bank offices, as well as our executive office, and own the remaining sixteen bank offices. We believe that our current facilities are in good condition and adequate to meet our operating needs for the present and immediately foreseeable future.

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

Not applicable.

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 8, 2021, there were 20,166,968 shares outstanding and 1,034 shareholders of record of Allegiance's common stock. The closing price per share of common stock on December 31, 2020, the last trading day of the year, was $34.13.

Dividends

Our Board of Directors paid quarterly cash dividends of $0.10 on our common stock during 2020 and declared a quarterly dividend of $0.12 to be paid in the first quarter of 2021. 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, Distributions and Repurchases.”

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, 2020, regarding the equity compensation plans under which Allegiance's equity securities are authorized for issuance:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	394,947	$ 22.42	1,714,089
Equity compensation plans not approved by security holders(1)	73,880	$ 13.91	—
Total	468,827		1,714,089

(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 February 20, 2020, we completed our second one million share repurchase authorization previously approved on July 25, 2019. On February 26, 2020, our Board of Directors authorized a stock repurchase program, under which we may repurchase up to one million shares of our common stock at the discretion of management through March 31, 2021. Repurchases under this program may be made from time to time through open market purchases, privately negotiated transactions or such other manners as will comply with applicable laws and regulations. During 2020, we repurchased 518,897 shares at a total cost of $18.6 million.

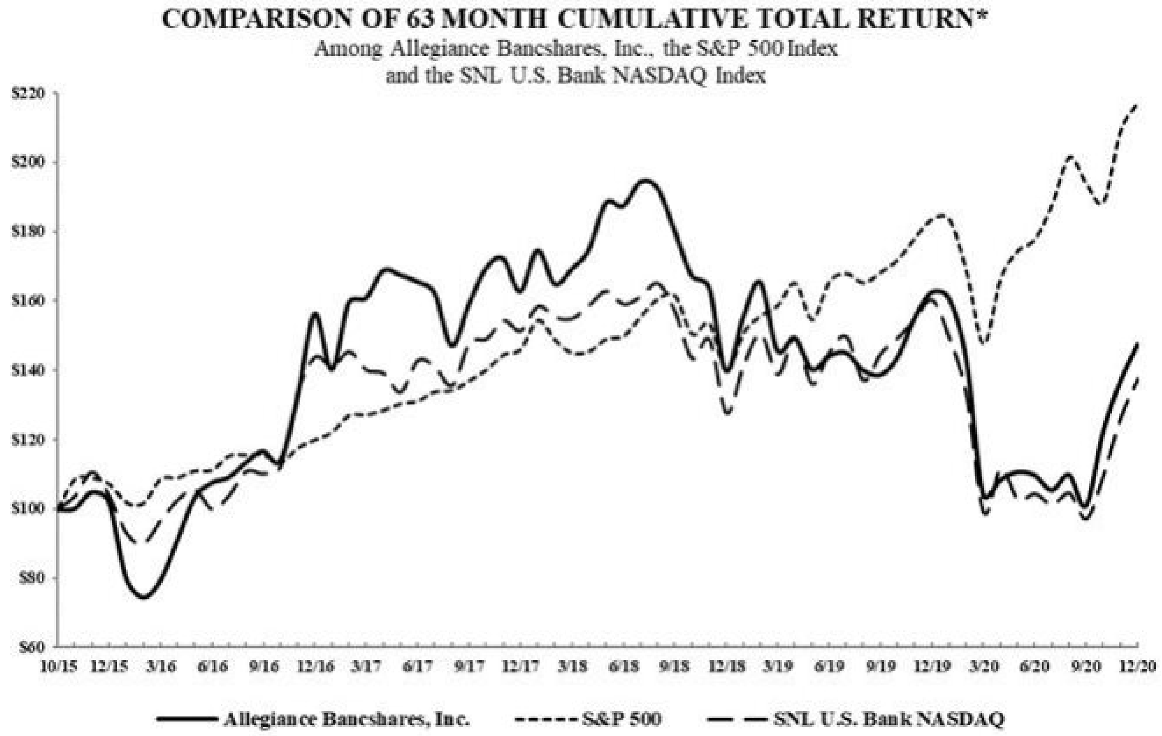
The following table provides information with respect to purchases made by or on behalf of us or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934) of our common stock during the fourth quarter of 2020.

Period	Total Number of Shares Purchased as Part of Publicly Announced Plan	Remaining Share Repurchase Authorization(1)	Total Number of Shares Purchased	Average Price Paid Per Share
October 1, 2020 to October 31, 2020	—	1,000,000	—	$ —
November 1, 2020 to November 30, 2020	11,700	988,300	11,700	$ 32.91
December 1, 2020 to December 31, 2020	262,863	725,437	262,863	$ 33.84

(1) Pursuant to a repurchase program announced on February 27, 2020, pursuant to which the Company may repurchase up to one million shares through March 31, 2021.

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, 2020, with the cumulative total return of the S&P 500 Total Return Index and the SNL U.S. Bank NASDAQ 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 and on September 30, 2015 in the S&P 500 Total Return Index and the SNL U.S. Bank NASDAQ 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 October 8, 2015 in Allegiance's common stock or September 30, 2015 in index, including reinvestment of dividends. Fiscal year ending December 31.

	October 8, 2015	December 31, 2015	December 31, 2016	December 31, 2017	December 31, 2018	December 31, 2019	December 31, 2020
Allegiance Bancshares, Inc.	100.00	102.29	156.36	162.85	140.01	162.63	147.62
S&P 500	100.00	107.04	119.84	146.01	139.61	183.56	217.34
SNL U.S. Bank NASDAQ	100.00	103.68	143.75	151.34	127.56	160.15	137.44

(Source: S&P Global, Inc.)

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. Certain selected historical consolidated financial data as of and for the years ended December 31, 2020, 2019 and 2018 is 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, 2017 and 2016 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,				
	2020	2019(1)	2018(2)	2017	2016(3)
	(Dollars in thousands, except share and per share data)				
Selected Period End Balance Sheet Data:					
Cash and cash equivalents	$ 422,766	$ 346,248	$ 268,947	$ 182,103	$ 142,098
Available for sale securities	772,890	372,545	337,293	309,615	316,455
Loans held for investment	4,491,764	3,915,310	3,708,306	2,270,876	1,891,635
Allowance for credit losses on loans	53,173	29,438	26,331	23,649	17,911
Goodwill and intangible assets, net	241,596	245,518	249,712	42,663	43,444
Total assets	6,050,128	4,992,654	4,655,249	2,860,231	2,450,948
Noninterest-bearing deposits	1,704,567	1,252,232	1,209,300	683,110	593,751
Interest-bearing deposits	3,283,915	2,815,869	2,453,236	1,530,864	1,276,432
Total deposits	4,988,482	4,068,101	3,662,536	2,213,974	1,870,183
Total shareholders' equity	758,669	709,865	702,984	306,865	279,817
Total tangible shareholders' equity(4)	517,073	464,347	453,272	264,202	236,373
Selected Income Statement Data:					
Net interest income	$ 202,683	$ 179,537	$ 128,579	$ 103,668	$ 89,864
Provision for credit losses	27,374	5,939	4,248	13,188	5,469
Net interest income after provision for credit losses	175,309	173,598	124,331	90,480	84,395
Noninterest income	8,156	13,423	7,713	5,861	7,268
Noninterest expense	127,494	120,635	86,787	69,962	59,258
Net income before income taxes	55,971	66,386	45,257	26,379	32,405
Net income	45,534	52,959	37,309	17,632	22,851
Selected Per Share Data:					
Earnings per common share, basic	$ 2.23	$ 2.50	$ 2.41	$ 1.34	$ 1.78
Earnings per common share, diluted	2.22	2.47	2.37	1.31	1.75
Dividends paid per common share	0.40	—	—	—	—
Book value per common share	37.54	34.59	32.04	23.20	21.59
Tangible book value per common share(4)	25.59	22.62	20.66	19.97	18.24
Weighted average common shares outstanding, basic	20,414,922	21,152,255	15,484,757	13,124,900	12,873,326
Weighted average common shares outstanding, diluted	20,546,126	21,424,366	15,773,039	13,457,718	13,073,932
Shares outstanding at end of period	20,208,323	20,523,816	21,937,740	13,226,826	12,958,341

	As of and for the Years Ended December 31,				
	2020	2019(1)	2018(2)	2017	2016(3)
	(Dollars in thousands, except share and per share data)				
Selected Performance Metrics:					
Return on average assets(5)	0.81%	1.10%	1.11%	0.65%	0.98%
Return on average common equity(5)	6.22%	7.48%	9.02%	5.92%	8.36%
Return on average tangible common equity(4)(5)	9.33%	11.50%	11.20%	6.93%	9.96%
Tax equivalent net interest margin(6)	4.08%	4.22%	4.27%	4.34%	4.37%
Efficiency ratio(7)	60.55%	62.99%	63.68%	63.89%	62.34%
Loans to deposits ratio	90.04%	96.24%	101.25%	102.57%	101.15%
Noninterest expense to average assets	2.26%	2.50%	2.58%	2.59%	2.53%
Dividend payout ratio	17.94%	0.00%	0.00%	0.00%	0.00%
Selected Credit Quality Ratios:					
Nonperforming assets to total assets(8)	0.63%	0.74%	0.72%	0.49%	0.75%
Nonperforming loans to total loans(9)	0.64%	0.72%	0.89%	0.59%	0.88%
Allowance for credit losses on loans to nonperforming loans(9)	184.03%	103.76%	79.90%	177.44%	107.26%
Allowance for credit losses on loans to total loans	1.18%	0.75%	0.71%	1.04%	0.95%
Provision for loan losses to average loans	0.61%	0.15%	0.16%	0.63%	0.31%
Net charge-offs to average loans	0.18%	0.07%	0.06%	0.36%	0.04%
Capital Ratios:					
Common equity Tier 1 capital ratio	11.80%	11.42%	11.76%	10.54%	11.30%
Tier 1 risk-based capital	12.04%	11.66%	12.01%	10.92%	11.73%
Total risk-based capital	15.71%	14.83%	13.70%	13.43%	12.57%
Leverage capital ratio	8.51%	10.02%	10.61%	9.84%	10.35%
Total equity to total assets	12.54%	14.22%	15.10%	10.73%	11.42%
Tangible equity to tangible assets(4)	8.90%	9.78%	10.29%	9.38%	9.82%

(1) We completed the acquisition of the LoweryBank branch on February 1, 2019.

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

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

(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) 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.

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

(7) 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 credit losses are not part of this calculation.

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

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

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 the forepart of this report, 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.

Overview

The following discussion and analysis presents the more significant factors that affected our financial condition as of December 31, 2020 and 2019 and results of operations for each of the years then ended. Refer to Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K filed with the SEC on March 9, 2020 (the "2019 Form 10-K") for a discussion and analysis of the more significant factors that affected periods prior to 2019.

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.

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."

Recent Developments Related to COVID-19

The COVID-19 pandemic continues to place significant health, economic and other major pressure throughout the Houston region we serve, the state of Texas, the United States and the entire world. We executed on our pre-existing pandemic response plan with procedures in response to the pandemic to support the safety and well-being of our employees, customers and community that continue through the date of this report:

- While all of our bank offices generally remain open to customers, we have taken steps to address safety issues by offering in-person visits by appointment, added social distancing markers and plexiglass and are encouraging most of our traffic to leverage our drive-thrus, following the guidelines of the Centers for Disease Control and Prevention ("CDC").

- We continue to encourage the use of available eBanking tools and financial education resources.

- We have provided extensions and deferrals to our loan customers in accordance with the CARES Act.

- We are actively participating in assisting with applications for resources through the CARES Act's PPP, administered by the SBA, which provides government guaranteed and forgivable loans. As of December 31, 2020, we funded over 6,300 loans totaling in excess of $710.0 million. We believe these loans and our participation in the program will provide support for our customers and small businesses in the communities we serve.

- Our team is at full-strength with some employees utilizing the work-from-home program implemented pursuant to the pre-existing pandemic plan.

- We are working to ensure the health and safety of our in-office teams with split team rotations, providing CDC-recommended supplies and implementing additional routine cleaning measures to all offices and departments.

Additionally, we recorded an increased provision for the year ended December 31, 2020 driven by the increase in charge-offs, the stress on our loan portfolio from the increase in unemployment and economic effects of the COVID-19 pandemic and the economic effects related to the volatility of crude oil prices, and further increases may be necessary. We continue to closely monitor this pandemic and its effects and expect to continue to adjust our operations in response to the pandemic as the situation evolves.

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 that 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 credit 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 Credit Losses

The allowance for credit losses is a valuation account which represents management's best estimate of lifetime expected losses based on reasonable and supportable forecasts, historical loss experience, and other qualitative considerations. The allowance for credit losses includes the allowance for credit losses on loans, which is deducted from the loans' amortized cost basis to present the net amount expected to be collected on loans, and the allowance for credit losses on unfunded commitments reported in other liabilities. The amount of the allowance for credit 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 credit losses charged to income that increase the allowance. Management considers the policies related to the allowance for credit losses as the most critical to the financial statement presentation. The total allowance for credit losses includes activity related to allowances calculated in accordance with Accounting Standards Codification ("ASC") 326 – *Measurement of Credit Losses on Financial Instruments*.

Recently Issued Accounting Pronouncements

We have evaluated new accounting pronouncements that have recently been issued and have determined that there are no new accounting pronouncements that should be described in this section that will impact the Company's operations, financial condition or liquidity in future periods. Refer to "Part II - Item 8. Financial Statements and Supplementary Data - Note 1. Nature of Operations and Summary of Significant Accounting and Reporting Policies" of this Report regarding recent accounting pronouncements that have been or will be adopted by the Company or that will require enhanced disclosures in the Company's financial statements in future periods.

In June 2016, the FASB issued ASU 2016-13, "*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASC 326")* along with subsequent amendments thereto, which introduce the current expected credit losses ("CECL") methodology. ASC 326 makes significant changes to the accounting for credit losses on financial instruments presented on an amortized cost basis and related disclosures. The measurement of expected credit losses under the CECL methodology utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, held-to-maturity debt securities measured at amortized cost. ASC 326 also applies to off-balance sheet credit exposures. This methodology replaces the

multiple existing impairment methods in current guidance, which generally require that a loss be incurred before it is recognized. Within the life cycle of a loan or other financial asset, this new guidance will generally result in the earlier recognition of the provision for credit losses and the related allowance for credit losses than current practice. The standard provides significant flexibility and requires a high degree of judgment with regards to pooling financial assets with similar risk characteristics and adjusting the relevant historical loss information in order to develop an estimate of expected lifetime losses. In addition, ASU 2016-13 amends the accounting for credit losses on purchased financial assets with credit deterioration. CECL became effective for the Company on January 1, 2020 using the modified retrospective approach; however, the Company took the option under the CARES Act to temporarily defer the adoption of ASC 326. The decision to delay adoption of ASC 326 was due to the uncertainty of the impact of COVID-19 and the volatility of crude oil prices, which can be impactful to the Houston region. During the deferral, the Company calculated and recorded its provision for credit losses under the incurred loss model that existed prior to ASC 326. The Company adopted the new standard as of January 1, 2020 during the fourth quarter of 2020. ASC 326 is discussed more fully under "Part II - Item 8. Financial Statements and Supplementary Data - Note 1. Nature of Operations and Summary of Significant Accounting and Reporting Policies" of this Report.

Transition out of Emerging Growth Company Status

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. In October 2015, we consummated the underwritten initial public offering of our common stock and elected to opt in to such standards, which election was irrevocable. Allegiance's common stock is traded on the NASDAQ Global Market under the ticker symbol "ABTX."

We have been able to take advantage of some of the reduced regulatory and reporting requirements that were available to us 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.

As of December 31. 2020, we were no longer eligible for emerging growth company status and the full regulatory and reporting requirements are now applicable to us.

Results of Operations

Net income was $45.5 million, or $2.22 per diluted common share, for the year ended December 31, 2020 compared with $53.0 million, or $2.47 per diluted common share, for the year ended December 31, 2019, a decrease of $7.4 million, or 14.0%. The decrease in net income was primarily the result of a $21.4 million increase in the provision for credit losses in response to COVID-19-related uncertainties in the current economic environment and $4.1 million in other real estate owned write-downs partially offset by a $23.1 million increase in net interest income. Returns on average equity were 6.22% and 7.48%, returns on average assets were 0.81% and 1.10% and efficiency ratios were 60.55% and 62.99% for the years ended December 31, 2020 and 2019, 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. Additionally, taxes and provision for credit 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 96.1% of total revenue during 2020. 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 effective federal funds rate, which is the cost of immediately available overnight funds, and the prime interest rate. The effective federal funds rate increased 100 basis points (25 basis points in each of March, June, September and December) to end 2018 at 2.50%. During 2019, the effective federal funds rate decreased 75 basis points (25 basis points in each of July, September and October) to end the period at 1.75%. During 2020, the effective federal funds rate decreased 150 basis points in March to end the period at 0.25%. Similarly, the prime rate increased 100 basis points (25 basis points in each of March, June, September and December) during 2018 to end the year at 5.50%. During 2019, the prime rate decreased 75 basis points (25 basis points in each of August, September and October) to end the year at 4.75%. During 2020, the prime rate decreased 150 basis points in March to end the year at 3.25%.

Net interest income before the provision for credit losses for the year ended December 31, 2020 was $202.7 million compared with $179.5 million for the year ended December 31, 2019, an increase of $23.1 million, or 12.9%. The increase in net interest income from the previous year was primarily due to increased average interest-earning asset balances and lower funding costs on interest-bearing liabilities. Average interest-earning assets increased $746.9 million, or 17.5%, for the year ended December 31, 2020 compared with the year ended December 31, 2019.

Interest income was $241.8 million for the year ended December 31, 2020, an increase of $8.9 million, or 3.8%, compared with $232.9 million for the year ended December 31, 2019 primarily due to the increase and mix of average interest-earning asset balances. Average securities outstanding increased $233.1 million, or 65.6% for the same period. Average loans outstanding increased $551.5 million, or 14.4%, for the year ended December 31, 2020 compared to the year ended 2019 primarily due to the origination of $710.2 million of PPP loans during 2020. These increases were partially offset by the decrease in the average yield on loans to 5.15% for the year ended December 31, 2020 from 5.78% for the same period in 2019 primarily due to the impact of the lower-yielding PPP loans, a lower interest rate environment (for core loan yields), and lower acquisition accounting loan discount accretion included in interest income on loans. Acquisition accounting loan discount accretion decreased to $2.5 million during the year ended December 31, 2020 from $8.9 million for the same period in 2019.

Interest expense was $39.1 million for the year ended December 31, 2020, a decrease of $14.3 million, or 26.8%, compared with $53.4 million for the year ended December 31, 2019. This decrease was primarily due to lower funding costs on interest-bearing deposits and FHLB borrowings partially offset by an increase in average interest-bearing liabilities. The cost of average interest-bearing liabilities decreased to 119 basis points for the year ended December 31, 2020 compared to 187 basis points for the same period in 2019. Average interest-bearing liabilities increased $424.2 million for the year ended December 31, 2020 compared to the year ended December 31, 2019 primarily the result of increased deposits due in part to funds from government stimulus programs such as the PPP and consumer economic impact payments received, organic deposit growth and a full year effect of the subordinated debt offering in December 2019.

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, 2020 was 4.08%, a decrease of 14 basis points compared to 4.22% for the year ended December 31, 2019. The decrease in the net interest margin on a tax equivalent basis was primarily due to the decrease in average yield on interest-earning assets partially offset by the decrease in funding costs. The average yield on interest-earning assets and the average rate paid on interest-bearing liabilities are primarily impacted by changes in the volume and relative mix of the underlying assets and liabilities as well as changes in market interest rates. The average yield on interest-earning assets of 4.83% and the average rate paid on interest-bearing liabilities of 1.19% for the year ended December 31, 2020 decreased by 64 basis points and 68 basis points, respectively, over the same period in 2019. The impact of net acquisition accounting adjustments of $2.9 million and $9.6 million on the tax equivalent net interest margin was an increase of 6 basis points and 22 basis points for the year ended December 31, 2020 and 2019, respectively. Tax equivalent adjustments to net interest margin are the result of increased or decreased 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 years ended December 31, 2020 and 2019, thus making tax-exempt yields relatively more comparable to taxable asset yields.

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

	For the Years Ended December 31,								
	2020			2019			2018		
	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
	(Dollars in thousands)								
Assets									
Interest-Earning Assets:									
Loans	$ 4,383,375	$ 225,959	5.15%	$ 3,831,894	$ 221,363	5.78%	$ 2,652,355	$ 148,223	5.59%
Securities	588,318	15,538	2.64%	355,233	9,909	2.79%	317,329	8,527	2.69%
Deposits in other financial institutions	36,945	265	0.72%	74,655	1,635	2.19%	70,145	1,473	2.10%
Total interest-earning assets	5,008,638	$ 241,762	4.83%	4,261,782	$ 232,907	5.47%	3,039,829	$ 158,223	5.21%
Allowance for credit losses on loans	(46,680)			(28,129)			(24,077)		
Noninterest-earning assets	675,701			594,981			349,408		
Total assets	$ 5,637,659			$ 4,828,634			$ 3,365,160		
Liabilities and Shareholders' Equity									
Interest-Bearing Liabilities:									
Interest-bearing demand deposits	$ 385,482	$ 2,045	0.53%	$ 345,693	$ 4,010	1.16%	$ 224,210	$ 1,834	0.82%
Money market and savings deposits	1,316,188	7,326	0.56%	1,037,126	14,297	1.38%	637,722	4,644	0.73%
Certificates and other time deposits	1,268,080	21,675	1.71%	1,276,684	26,656	2.09%	940,356	15,478	1.65%
Borrowed funds	197,525	2,183	1.11%	127,138	4,675	3.68%	240,952	4,788	1.99%
Subordinated debt	108,064	5,850	5.41%	64,451	3,732	5.79%	48,776	2,900	5.95%
Total interest-bearing liabilities	3,275,339	$ 39,079	1.19%	2,851,092	$ 53,370	1.87%	2,092,016	$ 29,644	1.42%
Noninterest-Bearing Liabilities:									
Noninterest-bearing demand deposits	1,593,354			1,194,496			848,276		
Other liabilities	37,278			74,777			11,427		
Total liabilities	4,905,971			4,120,365			2,951,719		
Shareholders' equity	731,688			708,269			413,441		
Total liabilities and shareholders' equity	$ 5,637,659			$ 4,828,634			$ 3,365,160		
Net interest rate spread			3.64%			3.60%			3.79%
Net interest income and margin(1)		$ 202,683	4.05%		$ 179,537	4.21%		$ 128,579	4.23%
Net interest income and margin (tax equivalent)(2)		$ 204,416	4.08%		$ 180,036	4.22%		$ 129,652	4.27%

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

(2) In order to make pretax income and resultant yields on tax-exempt investments and loans comparable to those on taxable investments and loans, a tax-equivalent adjustment has been computed using a federal income tax rate of 21% for the years ended December 31, 2020, 2019 and 2018 and other applicable effective tax rates.

The following table presents information regarding the dollar amount of changes in interest income and interest expense for the periods indicated for each major component of interest-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,					
	2020 vs. 2019			2019 vs. 2018		
	Increase (Decrease) Due to Change in			Increase (Decrease) Due to Change in		
	Volume	Rate	Total	Volume	Rate	Total
	(Dollars in thousands)					
Interest-Earning assets:						
Loans	$ 32,552	$ (27,956)	$ 4,596	$ 65,917	$ 7,223	$ 73,140
Securities	6,502	(873)	5,629	1,018	364	1,382
Deposits in other financial institutions	(826)	(544)	(1,370)	95	67	162
Total increase in interest income	38,228	(29,373)	8,855	67,030	7,654	74,684
Interest-Bearing liabilities:						
Interest-bearing demand deposits	462	(2,427)	(1,965)	994	1,182	2,176
Money market and savings deposits	3,847	(10,818)	(6,971)	2,909	6,744	9,653
Certificates and other time deposits	(180)	(4,801)	(4,981)	5,536	5,642	11,178
Borrowed funds	2,588	(5,080)	(2,492)	(2,262)	2,149	(113)
Subordinated debt	2,525	(407)	2,118	932	(100)	832
Total increase in interest expense	9,242	(23,533)	(14,291)	8,109	15,617	23,726
Increase (decrease) in net interest income	$ 28,986	$ (5,840)	$ 23,146	$ 58,921	$ (7,963)	$ 50,958

Provision for Credit Losses

Our allowance for credit losses is established through charges to income in the form of the provision in order to bring our allowance for credit losses for various types of financial instruments including loans, securities and unfunded commitments to a level deemed appropriate by management. We recorded a $27.4 million provision for credit losses for the year ended December 31, 2020 compared with $5.9 million for the year ended December 31, 2019. The increase in the provision for the year ended December 31, 2020 was driven by the expected stress on our loan portfolio from the increase in unemployment and economic effects of the COVID-19 pandemic and volatility of crude oil prices during the year.

Noninterest Income

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

Noninterest income totaled $8.2 million for the year ended December 31, 2020 compared to $13.4 million for the year ended December 31, 2019, a decrease of $5.3 million, or 39.2%. Noninterest income decreased in 2020 primarily due to the decrease in rebates from correspondent bank as a result of the decline in the earnings credit rate, losses on sales of other real estate owned and a decrease in gain on sale of securities compared to the year ended December 31, 2019.

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

	For the Years Ended December 31,		Increase	For the Years Ended December 31,		Increase
	2020	2019	(Decrease)	2019	2018	(Decrease)
	(Dollars in thousands)					
Nonsufficient funds fees	$ 404	$ 658	$ (254)	$ 658	$ 755	$ (97)
Service charges on deposit accounts	1,530	1,472	58	1,472	869	603
Gain on sale of securities	287	1,459	(1,172)	1,459	—	1,459
(Loss) gain on sale of other real estate and other repossessed assets	(258)	26	(284)	26	(428)	454
Bank owned life insurance income	582	624	(42)	624	579	45
Debit card and ATM card income	2,205	1,984	221	1,984	1,331	653
Rebate from correspondent bank	876	3,580	(2,704)	3,580	2,609	971
Other[1]	2,530	3,620	(1,090)	3,620	1,998	1,622
Total noninterest income	$ 8,156	$ 13,423	$ (5,267)	$ 13,423	$ 7,713	$ 5,710

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

Noninterest Expense

Noninterest expense was $127.5 million for the year ended December 31, 2020 compared to $120.6 million for the year ended December 31, 2019, an increase of $6.9 million, or 5.7%. This increase was primarily due to increased salaries and employee benefits and write-downs of other real estate recorded during the year ended December 31, 2020 partially offset by the decrease in acquisition and merger-related expenses associated with the Post Oak and LoweryBank branch acquisitions recorded during the year ended 2019.

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

	For the Years Ended December 31,		Increase	For the Years Ended December 31,		Increase
	2020	2019	(Decrease)	2019	2018	(Decrease)
	(Dollars in thousands)					
Salaries and employee benefits[1]	$ 80,152	$ 77,593	$ 2,559	$ 77,593	$ 56,704	$ 20,889
Net occupancy and equipment	7,969	8,179	(210)	8,179	5,845	2,334
Depreciation	3,716	3,192	524	3,192	2,132	1,060
Data processing and software amortization	7,992	7,464	528	7,464	5,120	2,344
Professional fees	3,128	2,333	795	2,333	2,009	324
Regulatory assessments and FDIC insurance	2,926	1,705	1,221	1,705	2,309	(604)
Core deposit intangibles amortization	3,922	4,711	(789)	4,711	1,815	2,896
Communications	1,387	1,839	(452)	1,839	1,185	654
Advertising	1,565	2,367	(802)	2,367	1,725	642
Acquisition and merger-related expenses	—	1,326	(1,326)	1,326	1,661	(335)
Other real estate expense	5,162	614	4,548	614	313	301
Printing and supplies	377	511	(134)	511	388	123
Other	9,198	8,801	397	8,801	5,581	3,220
Total noninterest expense	$ 127,494	$ 120,635	$ 6,859	$ 120,635	$ 86,787	$ 33,848

(1) Total salaries and employee benefits includes $3.4 million, $3.1 million and $1.7 million in stock based compensation expense for the years ended December 31, 2020, 2019 and 2018, respectively.

Salaries and Employee Benefits. Salaries and benefits were $80.2 million for the year ended December 31, 2020, an increase of $2.6 million, or 3.3%, compared to the year ended December 31, 2019 due to compensation increases as well as an increase in the total size of our workforce as our full-time equivalent employees increased to 598 at December 31, 2020 from 588 at December 31, 2019 to support organic growth.

Regulatory assessments and FDIC Insurance. Regulatory assessments and FDIC insurance increased $1.2 million, or 71.6%, for the year ended December 31, 2020 compared to the year ended December 31, 2019 primarily due to the $1.0 million FDIC Small Bank Assessment Credit received in 2019.

Acquisition and merger-related expenses. Acquisition and merger-related expenses during 2019 were legal, advisory and accounting fees associated with the Post Oak and LoweryBank branch acquisitions. These expenses also included data processing conversion costs and contract termination costs that resulted from the Post Oak acquisition.

Other real estate expenses. Other real estate expenses increased $4.5 million for the year ended December 31, 2020 to $5.2 million from $614 thousand for the year ended December 31, 2019 primarily due to write-downs on several foreclosed properties and related expenses associated with these properties during the year 2020.

Efficiency Ratio

The efficiency ratio is a supplemental financial measure utilized in management's internal evaluation of our performance. 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. Additionally, taxes and provision for credit 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 decreased to 60.55% for the year ended December 31, 2020 compared to 62.99% for the year ended December 31, 2019 and 63.68% for the year ended December 31, 2018.

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 2018 to 2019 and again in 2020, 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 fixed and variable 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 $3.0 million, or 22.3%, to $10.4 million for the year ended December 31, 2020 compared with $13.4 million for the same period in 2019 primarily due to a decrease in pre-tax net income. The effective tax rates were 18.6%, 20.2% and 17.6% for the years ended December 31, 2020, 2019 and 2018, respectively.

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, 2020 and 2019. This information should be read in conjunction with our consolidated financial statements as of and for the fiscal years ended December 31, 2020 and 2019 appearing elsewhere in this Annual Report on Form 10-K.

	Interest Income	Net Interest Income	Net Income Attributable to Common Shareholders	Earnings Per Share(1) Basic	Earnings Per Share(1) Diluted
	(Dollars in thousands, except per share data)				
2020					
First quarter(2)	$ 57,452	$ 45,025	$ 3,516	$ 0.17	$ 0.17
Second quarter(2)	60,452	50,847	9,907	0.49	0.48
Third quarter(2)	60,811	51,909	16,170	0.79	0.79
Fourth quarter	63,047	54,902	15,941	0.78	0.77
2019					
First quarter	$ 57,149	$ 44,603	$ 12,678	$ 0.58	$ 0.58
Second quarter	58,946	45,571	14,248	0.67	0.66
Third quarter	58,665	44,837	12,047	0.57	0.57
Fourth quarter	58,147	44,526	13,986	0.68	0.67

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

(2) Does not reflect the adoption of ASC 326.

Financial Condition

Loan Portfolio

At December 31, 2020, total loans were $4.49 billion, an increase of $576.5 million, or 14.7%, compared with December 31, 2019 primarily due to the origination of PPP loans during the year ended 2020.

Total loans as a percentage of deposits were 90.0% and 96.2% as of December 31, 2020 and December 31, 2019, respectively. Total loans as a percentage of assets were 74.2% and 78.4% as of December 31, 2020 and December 31, 2019, respectively.

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

	As of December 31,									
	2020		2019		2018		2017		2016	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Commercial and industrial	$ 667,079	14.9%	$ 689,360	17.6%	$ 702,037	18.9%	$ 457,129	20.1%	$ 416,752	22.0%
Mortgage warehouse	—	0.0%	8,304	0.2%	48,274	1.3%	69,456	3.1%	67,038	3.5%
Paycheck Protection Program (PPP)	569,901	12.7%	—	0.0%	—	0.0%	—	0.0%	—	0.0%
Real estate:										
Commercial real estate (including multi-family residential)	1,999,877	44.5%	1,873,782	47.9%	1,650,912	44.6%	1,080,247	47.5%	891,989	47.2%
Commercial real estate construction and land development	367,213	8.2%	410,471	10.5%	430,128	11.6%	243,389	10.7%	159,247	8.4%
1-4 family residential (including home equity)	737,605	16.4%	698,957	17.8%	649,311	17.5%	301,219	13.3%	246,987	13.1%
Residential construction	127,522	2.8%	192,515	4.9%	186,411	5.0%	109,116	4.8%	98,657	5.2%
Consumer and other	22,567	0.5%	41,921	1.1%	41,233	1.1%	10,320	0.5%	10,965	0.6%
Total loans	4,491,764	100.0%	3,915,310	100.0%	3,708,306	100.0%	2,270,876	100.0%	1,891,635	100.0%
Allowance for credit losses on loans	(53,173)		(29,438)		(26,331)		(23,649)		(17,911)	
Loans, net	$ 4,438,591		$ 3,885,872		$ 3,681,975		$ 2,247,227		$ 1,873,724	

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 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. In general, commercial loans involve more credit risk than residential mortgage loans and commercial mortgage loans and therefore typically yield a higher return. The increased risk in commercial loans derives from the expectation that commercial and industrial loans generally are serviced principally from the operations of the business, which may not be successful and from the type of collateral securing these loans. As a result, commercial and industrial loans require more extensive underwriting and servicing than other types of loans. Our commercial and industrial loan portfolio decreased $22.3 million, or 3.2%, to $667.1 million as of December 31, 2020 compared to $689.4 million as of December 31, 2019.

Mortgage Warehouse. We made 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 carried terms and conditions as would be expected in the competitive permanent mortgage market and served as collateral under a traditional mortgage warehouse arrangement whereby such promissory notes were 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 was normally 10 to 20 days. For mortgage promissory notes secured by commercial property, the warehouse time was 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. We

made the strategic decision in 2019 to exit this line of business. There were no mortgage warehouse loans of this type as of December 31, 2020.

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, 2020 and December 31, 2019, 54.6% and 53.8%, respectively, of our commercial real estate loans were owner-occupied. Our commercial real estate loan portfolio increased $126.1 million, or 6.7%, to $2.00 billion as of December 31, 2020 from $1.87 billion as of December 31, 2019 primarily as a result of organic loan growth. Included in our commercial real estate portfolio are multi-family residential loans. Our multi-family loans decreased $6.3 million, or 7.7%, to $75.9 million as of December 31, 2020 from $82.2 million as of December 31, 2019. We had 142 multi-family loans with an average loan size of $535 thousand as of December 31, 2020.

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. Construction loans involve additional risks as they often involve the disbursement of funds with the repayment dependent on the ultimate success of the project's completion. Sources of repayment for these loans may be pre-committed permanent financing or sale of the developed property. The loans in this portfolio are monitored closely by management. Due to uncertainties inherent in estimating construction costs, the market value of the completed project and the effects of governmental regulation on real property, it can be difficult to accurately evaluate the total funds required to complete a project and the related loan to value ratio. As a result of these uncertainties, construction lending often includes 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. As of December 31, 2020 and December 31, 2019, 26.8% and 31.9%, respectively, of our commercial real estate construction and land development loans were owner-occupied. Commercial real estate construction and land development land loans decreased $43.3 million, or 10.5%, to $367.2 million as of December 31, 2020 compared to $410.5 million as of December 31, 2019.

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 $38.6 million, or 5.5%, to $737.6 million as of December 31, 2020 from $699.0 million as of December 31, 2019. The home equity, home improvement and home equity lines of credit portion of our residential real estate portfolio increased $5.0 million, or 45%, to $117.5 million as of December 31, 2020 from $112.5 million as of December 31, 2019.

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 decreased $65.0 million, or 33.8%, to $127.5 million as of December 31, 2020 from $192.5 million as of December 31, 2019.

Consumer and Other. Our consumer and other loan portfolio is made up of loans made to individuals for personal purposes. Generally, consumer loans entail greater risk than residential real estate loans because they may be unsecured or if secured the value of the collateral, such as an automobile or boat, may be more difficult to assess and more likely to decrease in value than real estate. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan balance. The remaining deficiency often does not warrant further substantial collection efforts against the borrower beyond obtaining a deficiency judgment. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws may limit the amount which can be recovered on such loans. Our consumer and other loan portfolio decreased $19.4 million, or 46.2%, to $22.6 million as of December 31, 2020 from $41.9 million as of December 31, 2019.

"At-Risk" Industry Loan Exposure due to Economic Stress Resulting from COVID-19 Impacts. While all industries have and are expected to continue to experience adverse impacts as a result of the COVID-19 pandemic, we have exposure in the following loan categories considered to be more "at-risk" of significant impact.

Hotel. Our hotel loans, excluding PPP loans, at December 31, 2020 totaled $128.4 million, or 2.8% of total loans, of which $117.7 million was commercial real estate and $1.4 million were on nonaccrual status. At December 31, 2020, our allowance for credit losses on loans allocated to our total hotel loan portfolio totaled 3.2% of total hotel loans.

Restaurant and Bar. Our restaurant and bar loans, excluding PPP loans, at December 31, 2020 totaled $116.7 million, or 2.6% of total loans, of which $83.4 million was commercial real estate and $494 thousand were on nonaccrual status. At December 31, 2020, our allowance for credit losses on loans allocated to our total restaurant and bar loan portfolio was 1.3% of total restaurant and bar loans.

Oil and Gas. Our oil and gas loans, excluding PPP loans, at December 31, 2020 totaled $74.8 million, or 1.7% of total loans, of which $28.4 million was commercial real estate and $580 thousand were on nonaccrual status. At December 31, 2020, our allowance for credit losses on loans allocated to our total oil and gas loan portfolio was 2.3% of total oil and gas loans. At December 31, 2020, we did not have exposure to exploration and production or reserve-based lending and only had minimal exposure to the industry. Crude oil prices decreased sharply in the first quarter of 2020 and remained volatile throughout the remainder of 2020, which has adversely impacted these loans, increasing our classified oil and gas loans. Expanded monitoring and analysis of these loans has been implemented to address the decline in oil and gas prices as needed.

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, 2020			
	Due in One Year or Less	**Due After One Year Through Five Years**	**Due After Five Years**	**Total**
	(Dollars in thousands)			
Commercial and industrial	$ 313,600	$ 274,675	$ 78,804	$ 667,079
Mortgage Warehouse	—	—	—	—
Paycheck Protection Program (PPP)	—	569,901	—	569,901
Real estate:				
Commercial real estate (including multi family residential)	312,807	1,272,018	415,052	1,999,877
Commercial real estate construction and land development	85,194	237,947	44,072	367,213
1-4 family residential (including home equity)	104,699	365,001	267,905	737,605
Residential construction	92,402	15,383	19,737	127,522
Consumer and other	26,143	(4,715) (1)	1,139	22,567
Total loans	$ 934,845	$ 2,730,210	$ 826,709	$ 4,491,764
Loans with predetermined (fixed) interest rates	$ 580,970	$ 2,488,221	$ 329,437	$ 3,398,628
Loans with floating interest rates	353,875	241,989	497,272	1,093,136
Total loans	$ 934,845	$ 2,730,210	$ 826,709	$ 4,491,764

(1) Includes net deferred fees of $13.9 million on PPP loans.

	As of December 31, 2019			
	Due in One Year or Less	Due After One Year Through Five Years	Due After Five Years	Total
	(Dollars in thousands)			
Commercial and industrial	$ 353,313	$ 260,538	$ 75,509	$ 689,360
Mortgage Warehouse	8,304	—	—	8,304
Real estate:				
Commercial real estate (including multi-family residential)	246,320	1,227,767	399,695	1,873,782
Commercial real estate construction and land development	98,953	231,972	79,546	410,471
1-4 family residential (including home equity)	86,612	397,126	215,219	698,957
Residential construction	128,839	39,334	24,342	192,515
Consumer and other	31,593	9,556	772	41,921
Total loans	$ 953,934	$ 2,166,293	$ 795,083	$ 3,915,310
Loans with predetermined (fixed) interest rates	$ 500,662	$ 1,949,762	$ 346,813	$ 2,797,237
Loans with floating interest rates	453,272	216,531	448,270	1,118,073
Total loans	$ 953,934	$ 2,166,293	$ 795,083	$ 3,915,310

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, 2020, 2019 and 2018, commercial real estate and commercial construction loans represented 52.7%, 58.3% and 56.1%, respectively, of our total loans.

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 $28.9 million, $28.4 million and $33.0 million in nonperforming loans as of December 31, 2020, 2019 and 2018, respectively. If interest on nonaccrual loans had been accrued under the original loan terms, $902 thousand, $1.2 million and $1.0 million would have been recorded as income for the years ended December 31, 2020, 2019 and 2018, respectively.

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

	As of December 31,				
	2020	2019	2018	2017	2016
	(Dollars in thousands)				
Nonaccrual loans:					
Commercial and industrial	$ 10,747	$ 8,388	$ 10,861	$ 6,437	$ 3,896
Mortgage warehouse	—	—	—	—	—
Paycheck Protection Program (PPP)	—	—	—	—	—
Real estate:					
Commercial real estate (including multi-family residential)	10,081	6,741	17,776	6,110	11,663
Commercial real estate construction and land development	3,011	9,050	974	—	—
1-4 family residential (including home equity)	4,525	3,294	3,201	781	217
Residential construction	—	746	—	—	—
Consumer and other	529	152	141	—	12
Total nonaccrual loans	28,893	28,371	32,953	13,328	15,788
Accruing loans 90 or more days past due	—	—	—	—	911
Total nonperforming loans(1)	28,893	28,371	32,953	13,328	16,699
Other real estate	9,196	8,337	630	365	1,503
Other repossessed assets	—	—	—	205	286
Total nonperforming assets(2)	$ 38,089	$ 36,708	$ 33,583	$ 13,898	$ 18,488
Restructured loans(3)	$ 12,448	$ 19,239	$ 13,494	$ 17,526	$ 4,831
Nonperforming assets to total assets	0.63%	0.74%	0.72%	0.49%	0.75%
Nonperforming loans to total loans	0.64%	0.72%	0.89%	0.59%	0.88%

(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, 2020 and 2019, we had $32.6 million and $20.2 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, 2020, potential problem loans consisted of 27 credit relationships. Of the total outstanding balance at December 31, 2020, 54.6% related to four customers in the hotel industry, 15.0% related to eight customers in the energy-related industry, 10.8% related to two customers in the customer service industry, 7.1% related to one customer in the residential real estate rental industry, 5.0% related to three customers in the construction services industry, 3.4% related to one customer in the commercial real estate investment industry, 1.2% related to two customers in the commercial services industry, 1.1% related to one customer in the convenience store industry, 0.8% related to two customers in the homestead industry, 0.6% related to one customer in the wholesaler industry, 0.3% related to one customer in the medical industry and 0.1% related to one customer in the trucking industry. Weakness in these organizations’ operating performance, financial condition and borrowing base deficits, among other factors, have caused us to heighten the attention given to these credits. Potential problem loans impact the allocation of our allowance for credit losses on loans as a result of our risk grade based allocation methodology. See Note 6 – Loans and Allowance for Credit Losses in the accompanying consolidated financial statements for details regarding our allowance allocation methodology.

Nonperforming assets increased $1.4 million to $38.1 million at December 31, 2020, from $36.7 million at December 31, 2019. Nonaccrual loans consisted of 79 separate credits at December 31, 2020 compared to 69 separate credits at December 31, 2019. Nonperforming assets were 0.85% of total loans at December 31, 2020 compared to 0.94% at December 31, 2019.

The provisions in the CARES Act included an election to not apply the guidance on accounting for troubled debt restructurings (“TDR”) to loan modifications, such as extensions or deferrals, related to COVID-19. We elected to adopt these provisions of the CARES Act and are following the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised) issued by regulatory agencies.

During the year ended December 31, 2020, the Company granted principal and interest deferrals on outstanding loan balances to customers affected by the COVID-19 pandemic. Additionally, upon request and after meeting certain conditions, borrowers could be granted additional payment deferrals subsequent to the first deferral. These deferrals were generally no more than 90 days in duration and were not considered troubled debt restructurings. As of December 31, 2020, 164 loans with outstanding loan balances of $161.3 million remained on deferral. If the impact of COVID-19 persists, borrower operations do not improve or if other negative events occur, such modified loans could transition to potential problem loans or into problem loans.

The following table presents information regarding principal and interest deferrals as of December 31, 2020 associated with loan modifications related to COVID-19:

		Initial Deferrals		Additional Deferrals		Remaining Deferrals	
	Outstanding Loan Balance	Deferred Loan Balance	Percentage of Total Deferrals	Deferred Loan Balance	Percentage of Total Deferrals	Deferred Loan Balance	Percentage of Total Deferrals
	(Dollars in thousands)						
Commercial and industrial	$ 667,079	$ 127,689	11.3%	$ 21,747	9.5%	$ 23,822	14.8%
Mortgage warehouse	—	—	0.0%	—	0.0%	—	0.0%
Paycheck Protection Program (PPP)	569,901	—	0.0%	—	0.0%	—	0.0%
Real estate:							
Commercial real estate (including multi-family residential)	1,999,877	790,468	69.9%	171,945	75.5%	129,067	80.0%
Commercial real estate construction and land development	367,213	88,446	7.8%	20,032	8.8%	5,860	3.6%
1-4 family residential (including home equity)	737,605	118,595	10.5%	12,922	5.7%	2,489	1.6%
Residential construction	127,522	4,452	0.4%	926	0.4%	—	0.0%
Consumer and other	22,567	1,015	0.1%	172	0.1%	59	0.0%
Total loans	$4,491,764	$1,130,665	100.0%	$ 227,744	100.0%	$ 161,297	100.0%

Allowance for Credit Losses

The allowance for credit losses is a valuation allowance that is established through charges to earnings in the form of a provision for credit losses calculated in accordance with ASC 326, that is deducted from the amortized cost basis of certain assets to present the net amount expected to be collected. The amount of each allowance account represents management's best estimate of CECL on these financial instruments considering available information, from internal and external sources, relevant to assessing exposure to credit loss over the contractual term of the instrument. Relevant available information includes historical credit loss experience, current conditions and reasonable and supportable forecasts. While historical credit loss experience provides the basis for the estimation of expected credit losses, adjustments to historical loss information may be made for differences in current portfolio-specific risk characteristics, environmental conditions or other relevant factors. While management utilizes its best judgment and information available, the ultimate adequacy of our allowance accounts is dependent upon a variety of factors beyond our control, including the performance of our portfolios, the economy, changes in interest rates and the view of the regulatory authorities toward classification of assets. For additional information regarding critical accounting policies, refer to Note 1 – Nature of Operations and Summary of Significant Accounting and Reporting Policies and Note 6 – Loans and Allowance for Credit Losses in the accompanying notes to consolidated financial statements.

Allowance for Credit Losses on Loans

The allowance for credit losses on loans represents management’s estimates of current expected credit losses in the Company’s loan portfolio. Pools of loans with similar risk characteristics are collectively evaluated, while loans that no longer share risk characteristics with loan pools are evaluated individually.

The Company retroactively adopted ASC Topic 326 effective January 1, 2020 during the fourth quarter of 2020. Upon adoption of CECL, the Company recognized an increase in allowance for credit losses on loans of $3.1 million with a corresponding decrease in retained earnings (pre-tax). Additionally, the Company recognized an increase in the allowance for credit losses on loans of $2.1 million related to loans acquired from Post Oak, due to the reclass of PCD discounts as result of adopting CECL. At December 31, 2020, our allowance for credit losses on loans amounted to $53.2 million, or 1.18% of total loans (1.36% excluding PPP loans), compared with $29.4 million, or 0.75%, as of December 31, 2019. This increase in the allowance for credit losses on loans during 2020 primarily reflects the increase in expected losses resulting from a deterioration in forecasted economic conditions and the

current and uncertain future impacts associated with the COVID-19 pandemic and recent volatility in oil prices. The increased allowance for credit losses on loans also reflects the level of net charge-offs, the deterioration of credit quality and other changes within the loan portfolio during 2020.

Collective loss estimates are determined by applying reserve factors, designed to estimate current expected credit losses, to amortized cost balances over the remaining contractual life of the collectively evaluated portfolio. Loans with similar risk characteristics are aggregated into homogeneous pools. The allowance for credit losses on loans also includes qualitative adjustments to bring the allowance to the level management believes is appropriate based on factors that have not otherwise been fully accounted for, including adjustments for foresight risk, input imprecisions and model imprecision. Credit losses for loans that no longer share risk characteristics with the loan pools are estimated on an individual basis. Individual credit loss estimates are typically performed for nonaccrual loans and modified loans classified as TDRs and are based on one of several methods, including the estimated fair value of the underlying collateral, observable market value of similar debt or the present value of expected cash flows.

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

	As of and for the Years Ended December 31,				
	2020	2019	2018	2017	2016
	(Dollars in thousands)				
Average loans outstanding	$ 4,383,375	$ 3,831,894	$ 2,652,355	$ 2,081,370	$ 1,755,319
Gross loans outstanding at end of period	4,491,764	3,915,310	3,708,306	2,270,876	1,891,635
Allowance for credit losses on loans at beginning of period	29,438	26,331	23,649	17,911	13,098
Impact of ASC 326 adoption	5,225	—	—	—	—
Provision for loan losses	26,543	5,939	4,248	13,188	5,469
Charge-offs:					
Commercial and industrial loans	(2,938)	(2,688)	(2,424)	(7,673)	(722)
Mortgage warehouse	—	—	—	—	—
Real estate:					
Commercial real estate (including multi-family residential)	(2,562)	(80)	(42)	(124)	(129)
Commercial real estate construction and land development	(2,573)	(44)	—	—	—
1-4 family residential (including home equity)	(351)	(295)	(25)	—	—
Residential construction	—	—	—	—	—
Consumer and other	(159)	(34)	(24)	(196)	(49)
Total charge-offs for all loan types	(8,583)	(3,141)	(2,515)	(7,993)	(900)
Recoveries:					
Commercial and industrial loans	473	274	847	516	186
Mortgage warehouse	—	—	—	—	—
Real estate:					
Commercial real estate (including multi-family residential)	72	3	102	3	43
Commercial real estate construction and land development	—	—	—	10	—
1-4 family residential (including home equity)	—	—	—	10	10
Residential construction	—	—	—	—	—
Consumer and other	5	32	—	4	5
Total recoveries for all loan types	550	309	949	543	244
Net charge-offs	(8,033)	(2,832)	(1,566)	(7,450)	(656)
Allowance for credit losses on loans at end of period	$ 53,173	$ 29,438	$ 26,331	$ 23,649	$ 17,911
Allowance for credit losses on loans to total loans	1.18%	0.75%	0.71%	1.04%	0.95%
Net charge-offs to average loans	0.18%	0.07%	0.06%	0.36%	0.04%
Allowance for credit losses on loans to nonperforming loans	184.03%	103.76%	79.90%	177.44%	107.26%

The following table shows the allocation of the allowance for credit losses on loans 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,									
	2020		2019		2018		2017		2016	
	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans
	(Dollars in thousands)									
Balance of allowance for credit losses on loans applicable to:										
Commercial and industrial loans	$ 17,738	14.9%	$ 8,818	17.6%	$ 8,351	18.9%	$ 7,694	20.1%	$ 5,059	22.0%
Mortgage Warehouse	—	0.0%	—	0.2%	—	1.3%	—	3.1%	—	3.5%
Paycheck Protection Program (PPP)	—	12.7%	—	0.0%	—	0.0%	—	0.0%	—	0.0%
Real estate:										
Commercial real estate (including multi-family residential)	23,934	44.5%	11,170	47.9%	11,901	44.6%	10,253	47.5%	8,950	47.2%
Commercial real estate construction and land development	6,939	8.2%	4,421	10.5%	2,724	11.6%	2,525	10.7%	1,217	8.4%
1-4 family residential (including home equity)	3,279	16.4%	3,852	17.8%	2,242	17.5%	2,140	13.3%	1,876	13.1%
Residential construction	870	2.8%	1,057	4.9%	1,040	5.0%	942	4.8%	748	5.2%
Consumer and other	413	0.5%	120	1.1%	73	1.1%	95	0.5%	61	0.6%
Total allowance for credit losses on loans	$ 53,173	100.0%	$ 29,438	100.0%	$ 26,331	100.0%	$ 23,649	100.0%	$ 17,911	100.0%

The Company believes that the allowance for credit losses on loans at December 31, 2020 is adequate based upon management's best estimate of current expected credit losses within the existing portfolio of loans. Nevertheless, the Company could sustain losses in future periods which could be substantial in relation to the size of the allowance at December 31, 2020 should any of the factors considered by management in making this estimate change.

Allowance for Credit Losses on Unfunded Commitments

Upon adoption of ASC Topic 326 during the fourth quarter of 2020 retroactive to January 1, 2020, the Company established an allowance for credit losses on unfunded commitments of $3.9 million with a corresponding decrease in retained earnings (pre-tax). The allowance for credit losses on unfunded commitments estimates current expected credit losses over the contractual period in which there is exposure to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by us. The allowance for credit losses on unfunded commitments is a liability account reported as a component of other liabilities in our consolidated balance sheets and is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on the commitments expected to fund. The estimate of commitments expected to fund is affected by historical analysis looking at utilization rates. The expected credit loss rates applied to the commitments expected to fund are affected by the general valuation allowance utilized for outstanding balances with the same underlying assumptions and drivers. At December 31, 2020, our allowance for credit losses on unfunded commitments amounted to $4.7 million.

See Note 6 – Loans and Allowance for Credit 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.

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, 2020, the carrying amount of investment securities totaled $772.9 million, an increase of $400.3 million, or 107.5%, compared with $372.5 million as of December 31, 2019. The overall growth in the securities portfolio is attributable to our excess liquidity during 2020. Securities represented 12.8% and 7.5% of total assets as of December 31, 2020 and 2019, respectively.

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

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

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available for Sale				
U.S. government and agency securities	$ 25,545	$ 654	$ —	$ 26,199
Municipal securities	392,586	35,079	(60)	427,605
Agency mortgage-backed pass-through securities	167,606	3,829	(146)	171,289
Agency collateralized mortgage obligations	80,182	4,263	(75)	84,370
Corporate bonds and other	62,124	1,352	(49)	63,427
Total	$ 728,043	$ 45,177	$ (330)	$ 772,890

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available for Sale				
U.S. government and agency securities	$ 29,420	$ 298	$ (243)	$ 29,475
Municipal securities	84,200	3,453	(116)	87,537
Agency mortgage-backed pass-through securities	104,669	1,713	(214)	106,168
Agency collateralized mortgage obligations	106,351	1,199	(208)	107,342
Corporate bonds and other	41,691	346	(14)	42,023
Total	$ 366,331	$ 7,009	$ (795)	$ 372,545

Investment securities classified as available for sale or held to maturity are evaluated for expected credit losses under ASC Topic 326, "*Financial Instruments – Credit Losses*." See Note 5 – Securities to our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K for additional information.

As of December 31, 2020, we did not expect to sell any securities classified as available for sale with 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.

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, 2020									
	Within One Year		After One Year but Within Five Years		After Five Years but Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total	Yield
	(Dollars in thousands)									
Available for Sale										
U.S. government and agency securities	$ —	0.00%	$ 5,526	3.30%	$ 18,536	1.62%	$ 1,483	2.74%	$ 25,545	2.05%
Municipal securities	110	4.40%	4,323	3.34%	51,703	3.12%	336,450	3.27%	392,586	3.26%
Agency mortgage-backed pass-through securities	—	0.00%	5,378	2.99%	6,681	3.31%	155,547	1.65%	167,606	1.76%
Agency collateralized mortgage obligations	—	0.00%	—	0.00%	25,354	2.79%	54,828	1.66%	80,182	2.01%
Corporate bonds and other	—	0.00%	3,000	5.75%	35,000	5.72%	24,124	3.10%	62,124	4.70%
Total	$ 110	4.40%	$ 18,227	3.62%	$ 137,274	3.53%	$ 572,432	2.67%	$ 728,043	2.86%

	December 31, 2019									
	Within One Year		After One Year but Within Five Years		After Five Years but Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total	Yield
	(Dollars in thousands)									
Available for Sale										
U.S. government and agency securities	$ —	0.00%	$ 5,462	3.30%	$ 22,129	2.93%	$ 1,829	2.74%	$ 29,420	2.99%
Municipal securities	6,402	2.65%	2,087	3.73%	25,792	3.70%	49,919	3.38%	84,200	3.43%
Agency mortgage-backed pass-through securities	—	0.00%	1,160	2.77%	11,682	3.16%	91,827	2.98%	104,669	3.00%
Agency collateralized mortgage obligations	—	0.00%	—	0.00%	25,471	2.78%	80,880	2.47%	106,351	2.55%
Corporate bonds and other	13,820	2.73%	1,518	2.25%	4,000	5.56%	22,353	3.27%	41,691	3.27%
Total	$ 20,222	2.71%	$ 10,227	3.17%	$ 89,074	3.26%	$ 246,808	2.92%	$ 366,331	3.00%

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, 2020 and 2019, 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 2.64% during the year ended December 31, 2020 compared with 2.79% for the year ended December 31, 2019. The decrease in average yield during 2020 compared to 2019 was primarily due to the nature of the growth in our securities portfolio during 2020 and the lower interest rate environment during 2020.

Goodwill and Core Deposit Intangibles

Our goodwill was $223.6 million as of December 31, 2020 and 2019. 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 on October 1st and on an interim basis if an events occurs or circumstances change that would indicate that the carrying amount of the asset may not be recoverable.

During the first quarter of 2020, economic conditions deteriorated significantly with the spread of the COVID-19 pandemic. As such, we performed an interim quantitative analysis, concluding it was more likely than not that the fair value exceeded the carrying amount and resulted in no impairment charge for the period ended March 31, 2020. As of June 30, 2020, we performed a qualitative analysis taking into the account the effect that the COVID-19 pandemic continued to have on the economy and determined that goodwill was not impaired. Qualitative factors included economic conditions, industry and market considerations, cost factors, overall financial performance, regulatory developments and performance of the Company's stock, among other events and circumstances. As a result of the continued economic decline and its effect on our share price and other factors, we performed our annual quantitative goodwill impairment analysis as of September 30, 2020 and concluded that it was more likely than not that its fair value exceeded its carrying value. Our quantitative impairment analysis involves incorporating assumptions to determine the estimated fair value of the reporting unit. To arrive at a conclusion of fair value, we utilized both the income approach and the market approach valuation methodologies and then applied weighting factors to each approach. Weighting factors represent our best business judgment of the weightings a market participant would utilize in arriving at fair value of the reporting unit. In performing the analysis, we made numerous assumptions with respect to industry performance, business performance, changes in working capital estimates, externally sourced bank peer group market multiples, economic and market conditions and various other matters, all of which require significant management judgment and are highly subjective. Internal management projections related to performance over the next five years assumed an economic downturn over a 12-month time horizon subsequently returning to conservative positive growth rates in loan and deposits after that time period. The analysis performed and the assumptions that are incorporated into the analysis reflect the best currently available estimates and judgments as to the expected future financial performance of the reporting unit. Changes in these key assumptions could materially affect our estimate of the reporting unit fair value and could affect our conclusion regarding the existence of potential impairment.

During the fourth quarter of 2020, we reassessed goodwill and determined that no triggering events occurred that would require an updated analysis. As such, we concluded it was more likely than not that the fair value exceeded the carrying amount and there was no goodwill impairment at December 31, 2020. Even though we determined that there was no goodwill impairment at December 31, 2020, the lingering economic effects of COVID-19 in the market in which we operate, higher than projected credit losses, declines in revenue beyond our current forecasts or significant adverse changes in the operating environment for the financial industry may adversely impact our estimate of the fair value of the reporting unit. Any of these factors could result in future impairments and those impairments could be significant.

Our core deposit intangibles, net, as of December 31, 2020 was $18.0 million compared to $21.9 million as of December 31, 2019. 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, 2020 were $4.99 billion, an increase of $920.4 million, or 22.6%, compared with $4.07 billion at December 31, 2019. The deposit growth we experienced was largely the result of growth in our loan customer base, many of whom also established a deposit relationship with us. Noninterest-bearing deposits at December 31, 2020 were $1.70 billion, an increase of $452.3 million, or 36.1%, compared with $1.25 billion at December 31, 2019. Interest-bearing deposits at December 31, 2020 were $3.28 billion, an increase of $468.0 million, or 16.6%, compared with $2.82 billion at December 31, 2019.

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

	For the Years Ended December 31,					
	2020		2019		2018	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in thousands)					
Interest-bearing demand	$ 385,482	0.53%	$ 345,693	1.16%	$ 224,210	0.82%
Money market and savings	1,316,188	0.56%	1,037,126	1.38%	637,722	0.73%
Certificates and other time	1,268,080	1.71%	1,276,684	2.09%	940,356	1.65%
Total interest-bearing deposits	2,969,750	1.05%	2,659,503	1.69%	1,802,288	1.22%
Noninterest-bearing deposits	1,593,354	—	1,194,496	—	848,276	—
Total deposits	$ 4,563,104	0.68%	$ 3,853,999	1.17%	$ 2,650,564	0.83%

Our ratio of average noninterest-bearing deposits to average total deposits was 34.9%, 31.0% and 32.0% for the years ended December 31, 2020, 2019 and 2018, 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,	
	2020	2019
	(Dollars in thousands)	
Three months or less	$ 230,168	$ 211,349
Over three months through six months	219,492	126,106
Over six months through 12 months	297,618	249,699
Over 12 months through three years	314,548	198,807
Over three years	26,856	33,987
Total	$ 1,088,682	$ 819,948

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, 2020, the Company had total borrowing capacity of $1.99 billion, of which $1.44 billion was available under this agreement and $550.2 million was outstanding. FHLB advances of $140.0 million were outstanding at December 31, 2020, at a weighted average rate of 1.19%. Letters of credit were $410.2 million at December 31, 2020, of which $248.4 million will expire in 2021, $151.7 million will expire in 2022 and $10.1 million will expire in 2023.

Credit Agreement

As of December 31, 2020 and 2019, we had $15.6 million and $569 thousand, respectively, of indebtedness owed under our credit agreement with another financial institution. The interest rate on the outstanding debt under the credit agreement is the Prime Rate minus 25 basis points, or 3.00% at December 31, 2020, 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, 2020, 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 $9.6 million at December 31, 2020. 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 13 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.

In September 2019, we completed the issuance of $60.0 million aggregate principal amount of Fixed-to-Floating Rate Subordinated Notes (the "Company Notes") due October 1, 2029. The Company Notes were issued at a price equal to 100% of the principal amount, resulting in net proceeds to the Company of $58.6 million. The Company intends to use the net proceeds from the offering to support its growth and for general corporate purposes.

The Company Notes bear a fixed interest rate of 4.70% per annum until (but excluding) October 1, 2024, payable semi-annually in arrears on April 1 and October 1, commencing on April 1, 2020. Thereafter, from October 1, 2024 through the maturity date, October 1, 2029, or earlier redemption date, the Company Notes will bear interest at a floating rate equal to the then-current three-month LIBOR, plus 313 basis points (3.13%) for each quarterly interest period (subject to certain provisions set forth under "Description of the Notes—Interest Rates and Interest Payment Dates" included in the Prospectus Supplement for the Company Notes), payable quarterly in arrears on January 1, April 1, July 1 and October 1 of each year. Any redemption will be at a redemption price equal to 100% of the principal amount of Company Notes being redeemed, plus accrued and unpaid interest, and will be subject to, and require, prior regulatory approval. The Company 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, 2020 and 2019 (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, 2020				
	One Year or Less	More than One Year but Less Than Three Years	Three years or More but Less Than Five Years	Five Years or More	Total
	(Dollars in thousands)				
Credit agreement	$ —	$ —	$ 569	$ 15,000	$ 15,569
Operating leases	3,068	4,720	2,648	2,355	12,791
Total	$ 3,068	$ 4,720	$ 3,217	$ 17,355	$ 28,360

	As of December 31, 2019				
	One Year or Less	More than One Year but Less Than Three Years	Three years or More but Less Than Five Years	Five Years or More	Total
	(Dollars in thousands)				
Credit agreement	$ —	$ —	$ —	$ 569	$ 569
Operating leases	2,867	4,812	2,727	2,162	12,568
Total	$ 2,867	$ 4,812	$ 2,727	$ 2,731	$ 13,137

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, 2020. 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, 2020				
	One Year or Less	More than One Year but Less Than Three Years	Three years or More but Less Than Five Years	Five Years or More	Total
	(Dollars in thousands)				
Commitments to extend credit	$ 680,981	$ 251,756	$ 60,244	$ 249,024	$ 1,242,005
Standby letters of credit	16,851	399	5	—	17,255
Total	$ 697,832	$ 252,155	$ 60,249	$ 249,024	$ 1,259,260

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 credit 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, 2020, 2019 and 2018, 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 $5.64 billion, $4.83 billion and $3.37 billion for the years ended December 31, 2020, 2019 and 2018, 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,		
	2020	2019	2018
Sources of Funds:			
Deposits:			
Noninterest-bearing	28.3%	24.7%	25.2%
Interest-bearing	52.7%	55.2%	53.6%
Borrowed funds	3.5%	2.6%	7.2%
Subordinated debt	1.9%	1.3%	1.4%
Other liabilities	0.6%	1.5%	0.3%
Shareholders' equity	13.0%	14.7%	12.3%
Total	100.0%	100.0%	100.0%
Uses of Funds:			
Loans	77.7%	79.4%	78.8%
Securities	10.4%	7.4%	9.4%
Deposits in other financial institutions	0.7%	1.5%	2.1%
Noninterest-earning assets	11.2%	11.7%	9.7%
Total	100.0%	100.0%	100.0%
Average noninterest-bearing deposits to average deposits	34.9%	31.0%	32.0%
Average loans to average deposits	96.1%	99.4%	100.1%

Our largest source of funds is deposits and our largest use of funds is loans. Our average deposits increased $709.1 million, or 18.4%, for the year ended December 31, 2020 compared to the year ended December 31, 2019. Our average loans increased $551.5 million, or 14.4%, for the year ended December 31, 2020 compared to the year ended December 31, 2019. 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 7.9 years and modified duration of 6.2 years at December 31, 2020, and a weighted average life of 7.4 years and modified duration of 6.0 years at December 31, 2019.

As of December 31, 2020 and December 31, 2019, we had outstanding commitments to extend credit of $1.24 billion and $1.04 billion, respectively, and commitments associated with outstanding letters of credit of $17.3 million and $15.2 million, respectively. Since commitments associated with commitments to extend credit and outstanding letters of credit may expire unused, the total outstanding may not necessarily reflect the actual future cash funding requirements.

As of December 31, 2020, 2019 and 2018, we had no exposure to future cash requirements associated with known uncertainties or capital expenditures of a material nature.

As of December 31, 2020, we had cash and cash equivalents of $422.8 million compared with $346.2 million at December 31, 2019, an increase of $76.5 million. This increase in cash and cash equivalents was primarily due to the increase of $920.4 million in deposits partially offset by the increase in total loans of $576.5 million and total securities of $400.3 million.

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, 2020 and 2019, the Bank was well-capitalized.

Basel III Capital Rules impacted regulatory capital ratios of banking organizations in the following manner: created a new requirement to maintain a ratio of "common equity Tier 1 capital" to total risk-weighted assets of not less than 4.5%; increased the minimum leverage capital ratio to 4.0% for all banking organizations; increased the minimum tier 1 risk-based capital ratio from 4.0% to 6.0%; and maintained 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%.

The following table provides a comparison of the Company's and the Bank's leverage and risk-weighted capital ratios as of December 31, 2020 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
ALLEGIANCE BANCSHARES, INC.				
(Consolidated)				
Total capital (to risk weighted assets)	15.71%	8.00%	10.50%	N/A
Common equity Tier 1 capital (to risk weighted assets)	11.80%	4.50%	7.00%	N/A
Tier 1 capital (to risk weighted assets)	12.04%	6.00%	8.50%	N/A
Tier 1 capital (to average tangible assets)	8.51%	4.00%	4.00%	N/A
ALLEGIANCE BANK:				
Total capital (to risk weighted assets)	15.55%	8.00%	10.50%	10.00%
Common equity Tier 1 capital (to risk weighted assets)	13.32%	4.50%	7.00%	6.50%
Tier 1 capital (to risk weighted assets)	13.32%	6.00%	8.50%	8.00%
Tier 1 capital (to average tangible assets)	9.41%	4.00%	4.00%	5.00%

Total shareholder's equity was $758.7 million at December 31, 2020, compared with $709.9 million at December 31, 2019, an increase of $48.8 million, or 6.9%, primarily due to net income during 2020 partially offset by share repurchases and dividends paid on common stock during the year. We paid quarterly dividends of $0.10 per common share during each of the first, second, third and fourth quarters of 2020.

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 entered into an interest rate swap during 2020 for the purpose of reducing interest rate risk. See Note 11 – Derivative Instruments. 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. The ALCO formulates strategies based on appropriate levels of interest rate risk. In determining the appropriate level of interest rate risk, the ALCO considers the impact on earnings and capital of the current outlook on interest rates, potential changes in interest rates, regional economies, liquidity, business strategies and other factors. The ALCO meets regularly to review, among other things, the sensitivity of assets and liabilities to interest rate changes, the book and market values of assets and liabilities, unrealized gains and losses, purchase and sale activities, commitments to originate loans and the maturities of investments and borrowings. Additionally, the ALCO reviews liquidity, cash flow flexibility, maturities of deposits and consumer and commercial deposit activity.

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

model's simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and the application and timing of various management strategies.

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

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

Change in Interest Rates (Basis Points)	Percent Change in Net Interest Income		Percent Change in Economic Value of Equity	
	As of December 31, 2020	As of December 31, 2019	As of December 31, 2020	As of December 31, 2019
+300	(3.9)%	(5.3)%	10.8%	5.0%
+200	(3.1)%	(3.3)%	8.8%	5.3%
+100	(1.9)%	(1.6)%	5.2%	3.7%
Base	0.0%	0.0%	0.0%	0.0%
-100	(3.7)%	2.3%	(12.9)%	(6.9)%

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 2020, the overall duration of our assets decreased, non-maturity deposit balances increased and FHLB borrowings represented a smaller proportion of our funding mix at year end as deposit growth exceeded loan growth in 2020.

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.

- ***"Return on Average Tangible Shareholders' Equity"*** is a non-GAAP measure generally used by financial analysts and investment bankers to evaluate financial institutions. Return on average tangible shareholders' equity is computed by dividing net earnings by average total shareholders' equity reduced by average goodwill and core deposit intangibles, net of accumulated amortization. For return on average tangible shareholders' equity, the most directly comparable financial measure calculated in accordance with GAAP is return on average shareholders' equity. This measure is important to investors because it measures the performance of the business consistently, exclusive of changes in intangible assets.
- ***"Tangible Equity to Tangible Assets"*** is a non-GAAP measure generally used by financial analysts and investment bankers to evaluate financial institutions. Tangible equity to tangible assets is defined as total shareholders' equity reduced by goodwill and core deposit intangibles, net of accumulated amortization, divided by tangible assets, which are total assets reduced by goodwill and core deposit intangibles, net of accumulated amortization. This measure is important to investors interested in changes from period to period in equity and total assets, each exclusive of changes in intangible assets. For tangible equity to tangible assets, the most directly comparable financial measure calculated in accordance with GAAP is total shareholders' equity to total assets. Goodwill and other intangible assets have the effect of increasing both total shareholders' equity and assets while not increasing our tangible common equity or tangible assets.

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

	As of and for the Years Ended December 31,				
	2020	2019	2018	2017	2016
	(Dollars in thousands, except share and per share data)				
Total shareholders' equity	$ 758,669	$ 709,865	$ 702,984	$ 306,865	$ 279,817
Less:					
Goodwill and core deposit intangibles, net	241,596	245,518	249,712	42,663	43,444
Tangible shareholders' equity	$ 517,073	$ 464,347	$ 453,272	$ 264,202	$ 236,373
Shares outstanding at end of period	20,208,323	20,523,816	21,937,740	13,226,826	12,958,341
Tangible book value per share	$ 25.59	$ 22.62	$ 20.66	$ 19.97	$ 18.24
Net income attributable to shareholders	$ 45,534	$ 52,959	$ 37,309	$ 17,632	$ 22,851
Average shareholders' equity	$ 731,688	$ 708,269	$ 413,441	$ 297,627	$ 273,211
Less:					
Average goodwill and other intangible assets, net	243,513	247,854	80,384	43,050	43,880
Average tangible shareholders' equity	$ 488,175	$ 460,415	$ 333,057	$ 254,577	$ 229,331
Return on average tangible equity	9.33%	11.50%	11.20%	6.93%	9.96%
Total assets	$ 6,050,128	$ 4,992,654	$ 4,655,249	$ 2,860,231	$ 2,450,948
Less:					
Goodwill and core deposit intangibles, net	241,596	245,518	249,712	42,663	43,444
Tangible assets	$ 5,808,532	$ 4,747,136	$ 4,405,537	$ 2,817,568	$ 2,407,504
Tangible equity to tangible assets	8.90%	9.78%	10.29%	9.38%	9.82%

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 73 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, 2020, 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). The Company's 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, 2020, 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, 2020.

Crowe LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K, has issued an attestation report on the Company's internal control over financial reporting as of December 31, 2020. Their report is included in Part IV, Item 15. Exhibits, Financial Statement Schedules under the heading "Report of Independent Registered Public Accounting Firm."

ITEM 9B. OTHER INFORMATION

None.

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 2021 Annual Meeting of Shareholders (the "2021 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 2021 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 2021 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 2021 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is incorporated herein by reference to the 2021 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 73 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, 2020 and 2019

Consolidated Statements of Income for the Years Ended December 31, 2020, 2019, and 2018

Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2020, 2019 and 2018

Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2020, 2019 and 2018

Consolidated Statements of Cash Flows for the Years Ended December 31, 2020, 2019 and 2018

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	Agreement and Plan of Reorganization by and between Allegiance Bancshares, Inc. and Post Oak Bancshares, Inc. dated April 30, 2018 (incorporated herein by reference to Exhibit 2.1 to the Company's Form 8-K filed on May 1, 2018)
3.1	Amended and Restated Certificate of Formation of Allegiance Bancshares, Inc. (incorporated herein by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q filed on August 1, 2019)
3.2	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")
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registration Statement
4.2*	Description of Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934
4.3	Form of Allegiance Bank 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)
4.4	Subordinated Debt Indenture, dated as of September 20, 2019, between Allegiance Bancshares, Inc. and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on October 1, 2019)
4.5	First Supplemental Indenture, dated as of September 27, 2019, between Allegiance Bancshares, Inc. and U.S. Bank National Association, as trustee (incorporated herein by reference to Exhibit 4.2 to the Company's Form 8-K filed on October 1, 2019)
4.6	Form of Allegiance Bancshares, Inc. 4.70% Fixed-to-Floating Rate Subordinated Note due 2029 (incorporated by reference to Exhibit A of Exhibit 4.2 to the Company's Current Report on Form 8-K filed October 1, 2019)

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)
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)
10.11	Allegiance Bancshares, Inc. 2019 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 April 30, 2019)
10.12	Allegiance Bancshares, Inc. 2019 Amended and Restated Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.2 to the Company’s Current Report on Form 8-K filed on April 30, 2019)
10.13	Form of Restricted Stock Award Agreement (incorporated by reference to Exhibit 99.2 to the Company's Form S-8 (Registration No. 333-231142))
10.14	Form of Performance Share Unit Agreement (incorporated by reference to Exhibit 99.3 to the Company's Form S-8 (Registration No. 333-231142))
10.15	Form of Restricted Stock Award Agreement for Non-Employee Director (incorporated by reference to Exhibit 99.4 to the Company's Form S-8 (Registration No. 333-231142))
10.16	Change in Control Severance Plan (incorporated herein by reference to Exhibit 10.1 to the Company’s Form 8-K filed on February 4, 2020)
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*	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document Exhibit
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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 10, 2021

ALLEGIANCE BANCSHARES, INC.

By: /s/ Steven F. Retzloff

Steven F. Retzloff
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/ Steven F. Retzloff Steven F. Retzloff	Chief Executive Officer (Principal Executive Officer); Director	March 10, 2021
/s/ Paul P. Egge Paul P. Egge	Chief Financial Officer (Principal Financial and Principal Accounting Officer)	March 10, 2021
/s/ George Martinez George Martinez	Chairman of the Board Director	March 10, 2021
/s/ Ramon A. Vitulli, III Ramon A. Vitulli, III	Director	March 10, 2021
/s/ John Beckworth John Beckworth	Director	March 10, 2021
/s/ Denise Castillo-Rhodes Denise Castillo-Rhodes	Director	March 10, 2021
/s/ Jon-Al Duplantier Jon-Al Duplantier	Director	March 10, 2021
/s/ Matthew H. Hartzell Matthew H. Hartzell	Director	March 10, 2021
/s/ Robert Ivany Robert Ivany	Director	March 10, 2021
/s/ Frances H. Jeter Frances H. Jeter	Director	March 10, 2021
/s/ William S. Nichols, III William S. Nichols, III	Director	March 10, 2021

Signature	Positions	Date
/s/ Raimundo Riojas E. Raimundo Riojas E.	Director	March 10, 2021
/s/ Fred S. Robertson Fred S. Robertson	Director	March 10, 2021
/s/ Louis A. Waters Jr. Louis A. Waters Jr.	Director	March 10, 2021
/s/ Roland L. Williams Roland L. Williams	Director	March 10, 2021
/s/ Janet S. Wong Janet S. Wong	Director	March 10, 2021

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and the Board of Directors of Allegiance Bancshares, Inc.
Houston, Texas

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Allegiance Bancshares, Inc. (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2020 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control – Integrated Framework: (2013) issued by COSO.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for credit losses effective January 1, 2020 due to the adoption of ASU 2016-13 Financial Instruments – Credit Losses ("ASC Topic 326"). The Company adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles. The adoption of the new credit loss standard and its subsequent application is also communicated as a critical audit matter below.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Reporting on Management's Assessment of Internal Controls over Financial Reporting. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the Company's internal control over financial reporting 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's 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 generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding

prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Credit Losses ("ACL") on Loans – Qualitative Loss Factors

As described in Notes 1 and 6 to the financial statements, the Company adopted ASC Topic 326 as of January 1, 2020 using the modified retrospective approach, recording a net reduction of retained earnings of $5.5 million, after tax. The new current expected credit loss ("CECL") impairment model requires an estimate of expected credit losses to be realized over the contractual life of an instrument, considering past events, current conditions, and reasonable and supportable forecasts of future economic conditions (see change in accounting principle explanatory paragraph above).

As of December 31, 2020, the ACL on loans of $53,173,000 primarily consisted of 1) loss allocations on loans individually evaluated for impairment and 2) loss allocations on loans collectively evaluated for impairment. Specific to the collectively evaluated allocation, the Company uses a cumulative loss rate methodology to estimate expected credit losses within the loan portfolio, applying an expected loss ratio based on historical loss experience adjusted qualitatively as appropriate for economic and portfolio-specific factors. These factors include current economic metrics, reasonable and supportable forecasted economic metrics, delinquency trends, credit concentrations, nature and volume of the portfolio and other adjustments for items not covered by specific reserves and historical lifetime loss experience.

The determination of these inherently subjective qualitative loss factors for each loan portfolio category can have a significant impact on the estimate of expected credit losses recorded within the allocation of the allowance for loans collectively evaluated for impairment.

Given the significance of qualitative loss factors to the overall ACL, as well as the level of judgment and subjectivity involved in management's determination of the qualitative loss factors, we have identified auditing the qualitative loss factors used to establish the allocation of the ACL on loans collectively evaluated for impairment to be a critical audit matter as it required especially subjective auditor judgment.

The primary audit procedures we performed to address this critical audit matter included:

- Tested the operating effectiveness of internal controls over the determination of qualitative loss factor adjustments.
- Tested the operating effectiveness of internal controls over the completeness and accuracy of the data used in qualitative loss factor adjustments, as well as internal controls over the mathematical accuracy of management's ACL calculation.
- Substantively tested management's analysis supporting their determination of qualitative loss factor adjustments, including evaluating external economic and industry trends, evaluating the overall composition of the loan portfolio, and period-over-period (adoption date to year end) changes in both current conditions and reasonable and supportable forecasts.
- Substantively tested the completeness and accuracy of the data used in qualitative loss factor adjustments and verified the mathematical accuracy of management's qualitative allocation calculation.
- Evaluated the period-over-period (adoption date to year end) consistency with which qualitative loss factors were determined and applied.

Goodwill Impairment Evaluation

As described in Note 3 to the financial statements, the Company's goodwill balance was approximately $224,000,000 at December 31, 2020, which is allocated to the Company's single reporting unit. Goodwill is tested for impairment at the reporting unit level as of October 1 or more frequently whenever events or circumstances occur that indicate that it is more likely than not that the fair value of the reporting unit is less than its carrying value. Due to the effects of the COVID-19 pandemic on the economy and the movement of

the Company’s stock price, management performed a quantitative assessment of goodwill as of September 30, 2020, concluding goodwill was not impaired as of this date.

The goodwill impairment analysis involves significant estimates and subjective assumptions which require a high degree of management judgment. This judgment includes, but is not limited to, the selection of appropriate discount rates, the identification of relevant market comparables and the development of cash flow projections. The selection and weighting of the various fair value techniques may result in a higher or lower fair value. Judgment is applied in determining the weightings that are most representative of fair value.

We identified auditing the Company’s goodwill impairment assessment as a critical audit matter. The principal consideration for this determination was the extent of audit effort and degree of auditor judgment in performing procedures over the significant assumptions, which include the discount rate, prospective financial information, and weighting allocation to valuation methodologies.

The primary procedures we performed to address this critical audit matter included:

- Tested the effectiveness of controls over management’s goodwill impairment test including controls addressing:
  - Management’s review of the reasonableness and accuracy of the Company’s prospective financial information used in the discounted cash flow methodology.
  - Managements evaluation of significant assumptions used by a third-party valuation specialist, including discount rate, terminal growth rate, and control premium and allocated weightings incorporated into the methodologies used to determine fair value.
- Substantively tested management’s estimate, including evaluating their judgments and assumptions, for estimating fair value the Company which included:
  - Evaluated key financial data for accuracy, including comparing prospective financial information to the Company’s operating budget.
  - Evaluated management’s ability to reasonably forecast income and cash flows by comparing actual results to management’s historical forecasts.
  - Utilized the work of valuation specialists to evaluate the appropriateness of valuation methodologies, discount rate, control premium, and overall reasonableness of the fair value.
  - Evaluated management’s weighting allocation to each valuation methodology.

/s/ Crowe LLP

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

Dallas, Texas
March 10, 2021

ALLEGIANCE BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2020	December 31, 2019
	(Dollars in thousands, except share data)	
ASSETS		
Cash and due from banks	$ 122,897	$ 213,347
Interest-bearing deposits at other financial institutions	299,869	132,901
Total cash and cash equivalents	422,766	346,248
Available for sale securities, at fair value	772,890	372,545
Loans held for investment	4,491,764	3,915,310
Less: allowance for credit losses on loans	(53,173)	(29,438)
Loans, net	4,438,591	3,885,872
Accrued interest receivable	40,053	15,468
Premises and equipment, net	70,685	66,790
Other real estate owned	9,196	8,337
Federal Home Loan Bank stock	7,756	6,242
Bank owned life insurance	27,686	27,104
Goodwill	223,642	223,642
Core deposit intangibles, net	17,954	21,876
Other assets	18,909	18,530
TOTAL ASSETS	$ 6,050,128	$ 4,992,654
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Noninterest-bearing	$ 1,704,567	$ 1,252,232
Interest-bearing		
Demand	437,328	367,278
Money market and savings	1,499,938	1,258,008
Certificates and other time	1,346,649	1,190,583
Total interest-bearing deposits	3,283,915	2,815,869
Total deposits	4,988,482	4,068,101
Accrued interest payable	2,701	4,326
Borrowed funds	155,515	75,503
Subordinated debt	108,322	107,799
Other liabilities	36,439	27,060
Total liabilities	5,291,459	4,282,789
COMMITMENTS AND CONTINGENCIES (See Note 17)		
SHAREHOLDERS' EQUITY:		
Preferred stock, $1 par value; 1,000,000 shares authorized; no shares issued or outstanding	—	—
Common stock, $1 par value; 80,000,000 shares authorized; 20,208,323 shares issued and outstanding at December 31, 2020 and 20,523,816 shares issued and outstanding at December 31, 2019	20,208	20,524
Capital surplus	508,794	521,066
Retained earnings	195,236	163,375
Accumulated other comprehensive income	34,431	4,900
Total shareholders' equity	758,669	709,865
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 6,050,128	$ 4,992,654

See notes to consolidated financial statements.

ALLEGIANCE BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME

	For the Years Ended December 31,		
	2020	2019	2018
	(Dollars in thousands, except per share data)		
INTEREST INCOME:			
Loans, including fees	$ 225,959	$ 221,363	$ 148,223
Securities:			
Taxable	8,227	6,975	2,725
Tax-exempt	7,311	2,934	5,802
Deposits in other financial institutions	265	1,635	1,473
Total interest income	241,762	232,907	158,223
INTEREST EXPENSE:			
Demand, money market and savings deposits	9,371	18,307	6,478
Certificates and other time deposits	21,675	26,656	15,478
Borrowed funds	2,183	4,675	4,788
Subordinated debt	5,850	3,732	2,900
Total interest expense	39,079	53,370	29,644
NET INTEREST INCOME	202,683	179,537	128,579
Provision for credit losses	27,374	5,939	4,248
Net interest income after provision for credit losses	175,309	173,598	124,331
NONINTEREST INCOME:			
Nonsufficient funds fees	404	658	755
Service charges on deposit accounts	1,530	1,472	869
Gain on sale of securities	287	1,459	—
(Loss) gain on sale of other real estate and other repossessed assets	(258)	26	(428)
Bank owned life insurance income	582	624	579
Rebate from correspondent bank	876	3,580	2,609
Other	4,735	5,604	3,329
Total noninterest income	8,156	13,423	7,713
NONINTEREST EXPENSE:			
Salaries and employee benefits	80,152	77,593	56,704
Net occupancy and equipment	7,969	8,179	5,845
Depreciation	3,716	3,192	2,132
Data processing and software amortization	7,992	7,464	5,120
Professional fees	3,128	2,333	2,009
Regulatory assessments and FDIC insurance	2,926	1,705	2,309
Core deposit intangibles amortization	3,922	4,711	1,815
Communications	1,387	1,839	1,185
Advertising	1,565	2,367	1,725
Other real estate expense	5,162	614	313
Acquisition and merger-related expenses	—	1,326	1,661
Other	9,575	9,312	5,969
Total noninterest expense	127,494	120,635	86,787
INCOME BEFORE INCOME TAXES	55,971	66,386	45,257
Provision for income taxes	10,437	13,427	7,948
NET INCOME	$ 45,534	$ 52,959	$ 37,309
EARNINGS PER SHARE:			
Basic	$ 2.23	$ 2.50	$ 2.41
Diluted	$ 2.22	$ 2.47	$ 2.37
DIVIDENDS PER SHARE	$ 0.40	$ —	$ —

See notes to consolidated financial statements.

ALLEGIANCE BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Years Ended December 31,		
	2020	2019	2018
	(Dollars in thousands)		
Net income	$ 45,534	$ 52,959	$ 37,309
Other comprehensive income (loss), net of tax:			
Unrealized gain (loss) on securities:			
Change in unrealized holding gain (loss) on available for sale securities during the period, net of tax	30,747	8,941	(3,224)
Reclassification of gain realized through the sale of securities, net of tax	(227)	(1,153)	—
Change in fair value of cash flow hedge, net of tax	(989)	—	—
Total other comprehensive income (loss), net of tax	29,531	7,788	(3,224)
Comprehensive income	$ 75,065	$ 60,747	$ 34,085

See notes to consolidated financial statements.

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

	Common Stock		Capital	Retained	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Surplus	Earnings	Income (Loss)	Equity
	(Dollars in thousands, except share data)					
BALANCE AT DECEMBER 31, 2017	13,226,826	$ 13,227	$ 218,408	$ 74,894	$ 336	$ 306,865
Net income				37,309		37,309
Other comprehensive income					(3,224)	(3,224)
Reclassification of amounts within AOCI to retained earnings due to tax reform				(72)		(72)
Common stock issued in connection with the exercise of stock options, restricted stock awards and the ESPP	378,293	378	3,372			3,750
Common stock issued in connection with the acquisition of Post Oak Bancshares, Inc., net of registration expenses	8,402,010	8,402	350,381			358,783
Repurchase of common stock	(69,389)	(69)	(2,043)			(2,112)
Stock based compensation expense			1,685			1,685
BALANCE AT DECEMBER 31, 2018	21,937,740	$ 21,938	$ 571,803	$ 112,131	$ (2,888)	$ 702,984
Cumulative effect of change in accounting principle related to ASU 2017-08				(1,715)		(1,715)
Total shareholders' equity at beginning of period, as adjusted (See Note 1)	21,937,740	21,938	571,803	110,416	(2,888)	701,269
Net income				52,959		52,959
Other comprehensive income					7,788	7,788
Common stock issued in connection with the exercise of stock options, restricted stock awards and the ESPP	272,353	272	3,140			3,412
Repurchase of common stock	(1,686,277)	(1,686)	(56,977)			(58,663)
Stock based compensation expense			3,100			3,100
BALANCE AT DECEMBER 31, 2019	20,523,816	$ 20,524	$ 521,066	$ 163,375	$ 4,900	$ 709,865
Cumulative effect of change in accounting principle related to ASU 2016-13				(5,508)		(5,508)
Total shareholders' equity at beginning of period, as adjusted (See Note 1)	20,523,816	20,524	521,066	157,867	4,900	704,357
Net income				45,534		45,534
Other comprehensive income					29,531	29,531
Cash dividends declared, $0.40 per share				(8,165)		(8,165)
Common stock issued in connection with the exercise of stock options, restricted stock awards and the ESPP	203,404	203	2,366			2,569
Repurchase of common stock	(518,897)	(519)	(18,063)			(18,582)
Stock based compensation expense			3,425			3,425
BALANCE AT DECEMBER 31, 2020	20,208,323	$ 20,208	$ 508,794	$ 195,236	$ 34,431	$ 758,669

See notes to consolidated financial statements.

ALLEGIANCE BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2020	2019	2018
	(Dollars in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 45,534	$ 52,959	$ 37,309
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and core deposit intangibles amortization	7,638	7,903	3,947
Provision for credit losses	27,374	5,939	4,248
Deferred income tax benefit	(7,059)	(87)	(256)
Net amortization of premium on investments	3,731	4,051	3,533
Excess tax benefit from stock based compensation	(149)	(11)	(587)
Bank owned life insurance income	(582)	(624)	(579)
Net accretion of discount on loans	(2,508)	(8,853)	(2,702)
Net amortization of discount on subordinated debt	113	111	110
Net accretion of discount on certificates of deposit	(356)	(772)	(367)
Loss (gain) on sale or write-downs of other real estate and other repossessed assets	4,323	(26)	428
Net gain on sale of securities	(287)	(1,459)	—
Federal Home Loan Bank stock dividends	(192)	(403)	(396)
Stock based compensation expense	3,425	3,100	1,685
Net change in operating leases	2,627	2,097	—
Increase in accrued interest receivable and other assets	(24,964)	(111)	(2,136)
Increase in accrued interest payable and other liabilities	2,395	3,053	1,822
Net cash provided by operating activities	61,063	66,867	46,059
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from maturities and principal paydowns of available for sale securities	3,959,259	3,462,495	2,328,864
Proceeds from sales and calls of available for sale securities	38,106	173,024	12,701
Purchase of available for sale securities	(4,362,521)	(3,663,770)	(2,334,149)
Net change in total loans	(591,471)	(165,984)	(270,314)
Purchase of bank premises and equipment	(7,182)	(13,385)	(3,419)
Proceeds from sale of bank premises, equipment and other real estate	4,027	1,871	—
Net (redemptions) purchases of Federal Home Loan Bank stock	(1,322)	5,102	4,746
Net cash paid for the LoweryBank branch acquisition	—	(32,867)	—
Net cash and cash equivalents acquired in the purchase of Post Oak Bancshares, Inc.	—	—	230,416
Net cash used in investing activities	(961,104)	(233,514)	(31,155)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in noninterest-bearing deposits	452,335	29,052	93,053
Net increase in interest-bearing deposits	468,402	361,536	64,566
Net change in other borrowed funds	65,000	(149,990)	(87,076)
Net increase in borrowings under credit agreement	15,000	—	—
Proceeds from subordinated notes issuance	—	58,601	—
Dividends paid to common shareholders	(8,165)	—	—
Proceeds from the issuance of common stock, stock option exercises and the ESPP	2,569	3,412	3,750
Cash paid for fractional shares related to the Post Oak acquisition	—	—	(21)
Registration expenses related to common stock issued in the Post Oak acquisition	—	—	(220)
Repurchase of common stock	(18,582)	(58,663)	(2,112)
Net cash provided by financing activities	976,559	243,948	71,940
NET CHANGE IN CASH AND CASH EQUIVALENTS	76,518	77,301	86,844
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	346,248	268,947	182,103
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 422,766	$ 346,248	$ 268,947
SUPPLEMENTAL CASH FLOW INFORMATION:			
Income taxes paid	$ 15,100	$ 15,400	$ 6,650
Interest paid	40,704	51,856	27,442
Cash paid for operating lease liabilities	3,282	3,543	—
SUPPLEMENTAL NONCASH DISCLOSURE:			
Lease right-of-use asset obtained in exchange for lessee operating lease liabilities	$ 3,056	$ 13,277	$ —
Loans transferred to other real estate	9,209	7,707	265
Other real estate transferred to loans	2,379	—	—

See notes to consolidated financial statements.

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

Nature of Operations and Principles of Consolidation-The consolidated financial statements include 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. Intercompany transactions and balances are eliminated in consolidation under U.S. generally accepted accounting principles ("GAAP"). The Company derives substantially all of its revenues and income from the operation of the Bank. Allegiance Bank is a Texas banking association which began operations in October 2007. 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 28 offices, with 27 bank offices in the Houston metropolitan area and one office in Beaumont, just outside of the Houston metropolitan area, as of the year ended December 31, 2020. 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.

Use of Estimates—The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions based on available information. These estimates and assumptions affect the reporting of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Acquisitions – On October 1, 2018, Allegiance completed the acquisition of Post Oak Bancshares, Inc. On February 1, 2019, Allegiance completed the acquisition of the LoweryBank branch, the Sugar Land location of Huntington State Bank. See Note 2 – Acquisitions for additional information pertaining to the Post Oak and LoweryBank acquisitions and the impact of the Post Oak transaction on the Company's consolidated financial statements.

Cash and cash equivalents—Cash and cash equivalents include cash, deposits with other financial institutions with maturities not greater than one year. Net cash flows are reported for customer loan and deposit transactions.

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

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

Loans—Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost net of the allowance for credit losses on loans. Amortized cost is the principal balance outstanding, net of purchase accounting adjustments and deferred fees and costs. Accrued interest receivable on loans totaled $34.5 million at December 31, 2020 and was reported in accrued interest receivable on the consolidated balance sheets. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of origination costs, are deferred and recognized in interest income using the interest method without anticipating prepayments. Interest income on loans is discontinued and placed on nonaccrual status at the time the loan is 90 days delinquent. All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Loans are returned to accrual status when all the principal and interest amount contractually due are brought current and future payments are reasonably assured.

Purchased Credit Deteriorated (PCD) Loans—Upon adoption of ASC 326, the allowance for credit losses was determined for each loan and added to the loan's carrying amount to establish a new amortized cost basis. The difference between the unpaid principal balance of the loan and the new amortized cost basis was the noncredit premium or discount which was amortized into interest income over the remaining life of the loan. Changes to the allowance for credit losses after adoption are recorded through provision expense.

Nonrefundable Fees and Costs Associated with Lending Activities—Loan commitment and loan origination fees, and certain direct origination costs, are deferred and recognized in interest income as an adjustment to yield without anticipating prepayments using the interest method over the related loan life or; if the commitment expires unexercised, balances are recognized in income upon expiration of the commitment.

Nonperforming and Past Due Loans—The Company has several procedures in place to assist it in maintaining the overall quality of its loan portfolio. The Company has established underwriting guidelines to be followed by its officers, and monitors its delinquency levels for any negative or adverse trends. There can be no assurance, however, that the Company's loan portfolio will not become subject to increasing pressures from deteriorating borrower credit due to general economic conditions or other factors.

Past due status is based on the contractual terms of the loan. Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. The Company generally classifies a loan as nonperforming, automatically places the loan on nonaccrual status, ceases accruing interest and reverses all unpaid accrued interest against interest income, when, in management's opinion, the borrower may be unable to meet payment obligations, when the payment of principal or interest on a loan is delinquent for 90 days, as well as when required by regulatory provisions, unless the loan is in the process of collection and the underlying collateral fully supports the carrying value of the loan. Any payments received on nonaccrual loans are applied first to outstanding loan amounts. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Any excess is treated as recovery of lost interest. Loans are returned to accrual status when all of the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. If the decision is made to continue accruing interest on the loan, periodic reviews are made to confirm the accruing status of the loan. Nonaccrual loans and loans past due 90 days include both smaller balance homogeneous loans that are collectively and individually evaluated. When available information confirms that specific loans, or portions thereof, are uncollectible, these amounts are charged-off against the allowance. All loan types are considered delinquent after 30 days past due and are typically charged-off or charged-down no later than 120 days past due, with consideration of, but not limited to, the following criteria in determining the need and timing of the charge-off or charge-down: (1) the Bank is in the process of repossession or foreclosure and there appears to be a likely deficiency; (2) the collateral securing the loan has been sold and there is an actual deficiency; (3) the Bank is proceeding with lengthy legal action to collect its balance; (4) the borrower is unable to be located; or (5) the borrower has filed bankruptcy. Charge-offs occur when the Company confirms a loss on a loan.

Acquired Loans—Acquired loans are recorded at fair value at the date of acquisition with no initial valuation allowance based on a discounted cash flow methodology that considers various factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan and whether or not the loan was amortizing, and a discount rate reflecting the Company's assessment of risk inherent in the cash flow estimates. Certain larger purchased loans are individually evaluated while certain purchased loans are grouped together according to similar risk characteristics and are treated in the aggregate when applying various valuation techniques. These cash flow evaluations are inherently subjective as they require material estimates, all of which may be susceptible to significant change.

Prior to the adoption of ASC Topic 326 on January 1, 2020, loans acquired in a business combination that had evidence of deterioration of credit quality since origination and for which it was probable, at acquisition, that the Company would be unable to collect all contractually required payments receivable were considered purchased credit impaired ("PCI"). PCI loans were individually evaluated and recorded at fair value at the date of acquisition with no initial valuation allowance based on a discounted cash flow methodology that considers various factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan and whether or not the loan was amortizing, and a discount rate reflecting the Company's assessment of risk inherent in the cash flow estimates. Increases in expected cash flows, including prepayments, subsequent to the initial investment were recognized prospectively through adjustment of the yield on the loan over its remaining life. Decreases in expected cash flows were recognized as impairment. Valuation allowances on PCI loans reflected only losses incurred after the acquisition (meaning the present value of all cash flows expected at acquisition that ultimately are not to be received).

Subsequent to January 1, 2020, loans acquired in a business combination that have experienced more-than-insignificant deterioration in credit quality since origination are considered purchased credit deteriorated ("PCD") loans. At the acquisition date, an estimate of expected credit losses is made for groups of PCD loans with similar risk characteristics and individual PCD loans without similar risk characteristics. This initial allowance for credit losses is allocated to individual PCD loans and added to the purchase price or acquisition date fair values to establish the initial amortized cost basis of the PCD loans. As the initial allowance for credit losses is added to the purchase price, there is no credit loss expense recognized upon acquisition of a PCD loan. Any difference between the unpaid principal balance of PCD loans and the amortized cost basis is considered to relate to noncredit factors and results in a discount or premium. Discounts and premiums are recognized through interest income on a level-yield method over the life of the loans. All loans considered to be PCI prior to January 1, 2020 were converted to PCD on that date.

For acquired loans not deemed purchased credit deteriorated at acquisition, the differences between the initial fair value and the unpaid principal balance are recognized as interest income on a level-yield basis over the lives of the related loans. At the acquisition date, an initial allowance for expected credit losses is estimated and recorded as a provision for credit losses expense.

The subsequent measurement of expected credit losses for all acquired loans is the same as the subsequent measurement of expected credit losses for originated loans.

Allowance for Credit Losses – The allowance for credit losses is a valuation account that is established through a provision for credit losses charged to expense, which represents management’s best estimate of lifetime expected losses based on reasonable and supportable forecasts, historical loss experience, and other qualitative considerations. The allowance for credit losses includes the allowance for credit losses on loans, which is deducted from the loans’ amortized cost basis to present the net amount expected to be collected on loans, and the allowance for credit losses on unfunded commitments reported in other liabilities.

Allowance for Credit Losses on Loans - Effective January 1, 2020, the Company adopted ASU 2016-13 *Financial Instruments – Credit Losses (ASC Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaced the incurred loss methodology with an expected loss methodology that is referred to as the CECL methodology. The level of the allowance is based upon management's evaluation of historical default and loss experience, current and projected economic conditions, asset quality trends, known and inherent risks in the portfolio, adverse situations that may affect the borrowers' ability to repay a loan (including the timing of future payments), the estimated value of any underlying collateral, composition of the loan portfolio, industry and peer bank loan quality indications and other pertinent factors, including regulatory recommendations. The allowance for credit losses on loans maintained by management is believed adequate to absorb all expected future losses in the loan portfolio at the balance sheet date. The Company disaggregates the loan portfolio into pools for purposes of determining the allowance for credit losses. These pools are based on the level at which the Company develops, documents and applies a systematic methodology to determine the allowance for credit losses.

Loans with similar risk characteristics are collectively evaluated resulting in loss estimates as determined by applying reserve factors, such as historical lifetime loan loss experience, concentration risk of specific loan types, the volume, growth and composition of the Company’s loan portfolio, current economic conditions and reasonable and supportable forecasted economic conditions that may affect the borrower’s ability to pay and the value of collateral, the evaluation of the Company’s loan portfolio through its internal loan review process, general economic conditions and other qualitative risk factors both internal and external to the Company and other relevant factors, designed to estimate current expected credit losses, to amortized cost balances over the remaining contractual life of the collectively evaluated portfolio. Loans with similar risk characteristics are aggregated into homogeneous pools for assessment. Historical lifetime loan loss experience is determined by utilizing an open-pool (“cumulative loss rate”) methodology. Adjustments to the historical lifetime loan loss experience are made for differences in current loan pool risk characteristics such as portfolio concentrations, delinquency, nonaccrual, and watch list levels, as well as changes in current and forecasted economic conditions such as unemployment rates, property and collateral values, and other indices relating to economic activity. Losses are predicted over a period of time determined to be reasonable and supportable, and at the end of the reasonable and supportable period losses are reverted to long term historical averages. The reasonable and supportable period and reversion period are re-evaluated each year by the Company and are dependent on the current economic environment among other factors. A reasonable and supportable period of twelve months was utilized for all loan pools, followed by an immediate reversion to long term averages. Based on a review of these factors for each loan type, the Company applies an estimated percentage to the outstanding balance of each loan type.

Loans that no longer share risk characteristics with the collectively evaluated loan pools are evaluated on an individual basis and are excluded from the collectively evaluated pools. In order to assess which loans are to be individually evaluated, the Company follows a loan review program to evaluate the credit risk in the total loan portfolio and assigns risk grades to each loan. Individual credit loss estimates are typically performed for nonaccrual loans, modified loans classified as troubled debt restructurings and all other loans identified by management. All loans deemed as being individually evaluated are reviewed on a quarterly basis in order to determine whether a specific reserve is required. The Company considers certain loans to be collateral dependent if the borrower is experiencing financial difficulty and management expects repayment for the loan to be substantially through the operation or sale of the collateral. For collateral dependent loans, loss estimates are based on the fair value of collateral, less estimated cost to sell (if applicable). Collateral values supporting individually evaluated loans are assessed quarterly and appraisals are typically obtained at least annually. The Company allocates a specific loan loss reserve on an individual loan basis primarily based on the value of the collateral securing the individually evaluated loan. Through this loan review process, the Company assesses the overall quality of the loan portfolio and the adequacy of the allowance for credit losses on loans while considering risk elements attributable to particular loan types in assessing the quality of individual loans. In addition, for each category of loans, the Company considers secondary sources of income and the financial strength and credit history of the borrower and any guarantors.

A change in the allowance for credit losses on loans can be attributable to several factors, most notably specific reserves for individually evaluated loans, historical lifetime loan loss information, and changes in economic factors and growth in the loan portfolio. Specific reserves that are calculated on an individual basis and the qualitative assessment of all other loans reflect current

changes in the credit quality of the loan portfolio. Historical lifetime credit losses, on the other hand, are based on an open-pool ("cumulative loss rate") methodology, which is then applied to estimate lifetime credit losses in the loan portfolio. The allowance for credit losses on loans is further determined by the size of the loan portfolio subject to the allowance methodology and factors that include Company-specific risk indicators and general economic conditions, both of which are constantly changing. The Company evaluates the economic and portfolio-specific factors on a quarterly basis to determine a qualitative component of the general valuation allowance. These factors include current economic metrics, reasonable and supportable forecasted economic metrics, delinquency trends, credit concentrations, nature and volume of the portfolio and other adjustments for items not covered by specific reserves and historical lifetime loss experience. Based on the Company's actual historical lifetime loan loss experience relative to economic and loan portfolio-specific factors at the time the losses occurred, management is able to identify the probable level of lifetime losses as of the date of measurement. The Company's analysis of qualitative, or economic, factors on pools of loans with common risk characteristics, in combination with the quantitative historical lifetime loss information and specific reserves, provides the Company with an estimate of lifetime losses.

The calculation of current expected credit losses is inherently subjective, as it requires management to exercise judgment in determining appropriate factors used to determine the allowance. The estimated loan losses for all loan pools are adjusted for changes in qualitative factors not inherently considered in the quantitative analyses to bring the allowance to the level management believes is appropriate based on factors that have not otherwise been fully accounted for, including adjustments for foresight risk, input imprecision and model imprecision. The qualitative categories and the measurements used to quantify the risks within each of these categories are subjectively selected by management, but measured by objective measurements period over period. The data for each measurement may be obtained from internal or external sources. The current period measurements are evaluated and assigned a factor commensurate with the current level of risk relative to past measurements over time. The resulting qualitative adjustments are applied to the relevant collectively evaluated loan portfolios. These adjustments are based upon quarterly trend assessments in portfolio concentrations, changes in lending policies and procedures, policy exceptions, independent loan review results, internal risk ratings and peer group credit quality trends. The qualitative allowance allocation, as determined by the processes noted above, is increased or decreased for each loan pool based on the assessment of these various qualitative factors. The determination of the appropriate qualitative adjustment is based on management's analysis of current and expected economic conditions and their impact to the portfolio, as well as internal credit risk movements and a qualitative assessment of the lending environment, including underwriting standards. Management recognizes the sensitivity of various assumptions made in the quantitative modeling of expected losses and may adjust reserves depending upon the level of uncertainty that currently exists in one or more assumptions.

While policies and procedures used to estimate the allowance for credit losses on loans, as well as the resultant provision for credit losses charged to income, are considered adequate by management and are reviewed periodically by regulators and internal audit, they are approximate and could materially change based on changes within the loan portfolio and effects from economic factors. There are factors beyond the Company's control, such as changes in projected economic conditions, including political instability or global events affecting the U.S. economy, real estate markets or particular industry conditions which could cause changes to expectations for current conditions and economic forecasts that could result in an unanticipated increase in the allowance and may materially impact asset quality and the adequacy of the allowance for credit losses and thus the resulting provision for credit losses.

In assessing the adequacy of the allowance for credit losses on loans, the Company considers the results of its ongoing independent loan review process. The Company undertakes this process both to ascertain those loans in the portfolio with elevated credit risk and to assist in its overall evaluation of the risk characteristics of the entire loan portfolio. Its loan review process includes the judgment of management, independent internal loan reviewers and reviews that may have been conducted by third-party reviewers including regulatory examiners. The Company incorporates relevant loan review results in the allowance.

In accordance with CECL, losses are estimated over the remaining contractual terms of loans, adjusted for prepayments. The contractual term excludes expected extensions, renewals and modifications unless management has a reasonable expectation at the reporting date that a troubled debt restructuring will be executed or such renewals, extensions or modifications are included in the original loan agreement and are not unconditionally cancellable by the Company.

Credit losses are estimated on the amortized cost basis of loans, which includes the principal balance outstanding, purchase discounts and premiums and deferred loan fees and costs. Loan losses are not estimated for accrued interest receivable as interest that is deemed uncollectible is written off through interest income in a timely manner. Accrued interest is presented separately on the balance sheets and as allowed under ASC Topic 326 is excluded from the tabular loan disclosures in Note 6 – Loans and Allowance for Credit Losses.

Allowance for Credit Losses on Unfunded Commitments - The Company estimates expected credit losses over the contractual term in which the Company is exposed to credit risk through a contractual obligation to extend credit, unless the obligation is unconditionally cancellable by the Company. The allowance for credit losses on unfunded commitments is adjusted as a provision for credit loss expense. The estimates are determined based on the likelihood of funding during the contractual term and an estimate of

credit losses subsequent to funding. Estimated credit losses on subsequently funded balances are based on the same assumptions as used to estimate credit losses on existing funded loans.

Allowance for Credit Losses - Securities Available for Sale – For securities classified as available for sale that are in an unrealized loss position at the balance sheet date, the Company first assesses whether or not it intends to sell the security, or more likely than not will be required to sell the security, before recovery of its amortized cost basis. If either criteria is met, the security's amortized cost basis is written down to fair value through net income. If neither criteria is met, the Company evaluates whether any portion of the decline in fair value is the result of credit deterioration. Such evaluations consider the extent to which the amortized cost of the security exceeds its fair value, changes in credit ratings and any other known adverse conditions related to the specific security. If the evaluation indicates that a credit loss exists, an allowance for credit losses is recorded through provisions for credit losses for the amount by which the amortized cost basis of the security exceeds the present value of cash flows expected to be collected, limited by the amount by which the amortized cost exceeds fair value. Losses are charged against the allowance when management believes the uncollectibility of an available for sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met. Any impairment not recognized in the allowance for credit losses is recognized in other comprehensive income. For certain types of debt securities, such as U.S. Treasuries and other securities with government guarantees, entities may expect zero credit losses. The zero-loss expectation applies to all of the Company's securities and no allowance for credit losses was recorded on its available for sale securities portfolio at transition.

Prior to the adoption of ASU 2016-13, declines in the fair value of available-for-sale securities below their cost that were deemed to be other than temporary were reflected in earnings as realized losses. In estimating other-than-temporary impairment losses prior to January 1, 2020, management considered, among other things, (i) the length of time and the extent to which the fair value had been less than cost, (ii) the financial condition and near-term prospects of the issuer and (iii) the intent and our ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Accrued interest receivable on available for sale securities totaled $5.5 million at December 31, 2020 and is excluded from the estimate of credit losses.

Troubled debt restructurings (TDRs)— Loans for which terms have been modified in a TDR are evaluated using these same individual evaluation methods. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for credit losses. The Company assesses the exposure for each modification, by collateral discounting and determines if a specific allocation to the allowance for credit losses is needed. Once an obligation has been restructured because of such credit problems, it continues to be considered a troubled debt restructuring until paid in full. The Company returns troubled debt restructurings to accrual status only if (1) all contractual amounts due can reasonably be expected to be repaid within a prudent period and (2) repayment has been in accordance with the contract for a sustained period, typically at least twelve months.

Premises and Equipment—Premises and equipment are carried at cost less accumulated depreciation. Depreciation expense is calculated principally using the straight-line method over the estimated useful lives of the assets which range from 3 to 40 years. Leasehold improvements are amortized using the straight-line method over the periods of the leases or the estimated useful lives, whichever is shorter. Land is carried at cost.

Leases— On January 1, 2019, the Company adopted Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842) through the required modified retrospective approach by applying the allowed transition method whereby comparative periods were not restated. The Company elected to apply several of the available practical expedients provided by ASU 2016-12, including carryover of historical lease determination, carryover of historical initial direct cost balances for existing leases and accounting for lease and non-lease components in contracts in which the Company is a lease as a single lease component. Upon adoption of the new leasing standard on January 1, 2019, the Company recognized $15.3 million of right-of-use assets, and $15.7 million of related lease liabilities on the Consolidated Balance Sheet.

The Company leases certain office facilities under operating leases. We also own certain office facilities which we lease to outside parties under operating lessor leases; however, such leases are not significant. Under the new standards, for operating leases other than those considered to be short-term, we recognize lease right-of-use assets and related lease liabilities. Such amounts are reported as components of premises and equipment and other liabilities, respectively, on our consolidated balance sheet.

Other Real Estate Owned—Assets acquired through or instead of loan foreclosure are held for sale and are initially recorded at fair value less estimated selling costs when acquired, establishing a new cost basis. Costs after acquisition are generally expensed. If the fair value of the asset declines, a write-down is recorded through expense. The valuation of foreclosed assets is subjective in nature and may be adjusted in the future because of changes in economic conditions. At December 31, 2020, the $9.2 million balance of other real estate owned primarily consisted of foreclosed commercial real estate properties recorded as a result of obtaining physical possession of the property.

Federal Home Loan Bank ("FHLB") Stock—The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Bank Owned Life Insurance—The Company purchased bank owned life insurance policies on certain key executives and acquired life insurance policies in conjunction with the acquisitions of F&M Bancshares and Post Oak. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value, and the most reasonable estimate of fair value, adjusted for other charges or other amounts due that are probable at settlement.

Goodwill—Goodwill resulting from business combinations is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill is assessed annually on October 1 for impairment or more frequently if events and circumstances exist that indicate that the carrying amount of the asset may not be recoverable and a goodwill impairment test should be performed. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include, among others: a significant decline in our expected future cash flows; a sustained, significant decline in our stock price and market capitalization; a significant adverse change in legal factors or in the business climate; adverse action or assessment by a regulator; and unanticipated competition. Any adverse change in these factors could have a significant impact on the recoverability of these assets and could have a material impact on the Company's consolidated financial statements.

Goodwill is the only intangible asset with an indefinite life on the Company's balance sheet.

Core Deposit Intangibles—Core deposit and acquired customer relationship intangibles arising from acquisitions are amortized using a straight-line amortization method over their estimated useful lives, which is seven to ten years.

Borrowed Funds—The Company has a credit agreement with another financial institution. The Company pledged its shares in the Bank's stock as collateral for the borrowing.

Loan Commitments and Related Financial Instruments—Financial instruments include off-balance sheet credit instruments, such as commitments to extend credit, issued to meet customer financing needs. The face amount for these items represents a promise to lend before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Stock Based Compensation—Compensation cost is recognized for stock options, restricted stock awards and performance share units ("PSUs") issued to employees and directors, based on the fair value of these awards at the date of grant. The expense associated with stock based compensation is recognized over the required service period, generally defined as the vesting period of each individual arrangement.

The fair value of stock options granted are estimated at the date of grant using the Black-Scholes model.

The fair value of restricted stock awards is generally the market price of our stock on the date of grant. The grant date fair value of the PSUs is based on the probable outcome of the applicable performance conditions and is calculated at target based on a combination of the closing market price of our common stock on the grant date and a Monte Carlo simulated fair value in accordance with ASC 718. The impact of forfeitures of share-based payment awards on compensation expense is recognized as forfeitures occur. PSUs are contingent upon performance and service conditions, which affect the number of shares ultimately issued. The Company periodically evaluates the probable outcome of the performance conditions and makes cumulative adjustments to compensation expense as appropriate.

Employee Stock Purchase Plan—The cost of shares issued in the ESPP, but not allocated to participants, is shown as a reduction of shareholder's equity. Compensation expense is based on the market price of the shares as they are committed to be released to participant accounts.The fair value of shares purchased in the plan are estimated at the date of grant using the Black-Scholes model.

Income Taxes—Income tax expense is the total of the current year income tax due and the change in deferred tax assets or liabilities. Deferred tax assets and liabilities are recognized for the estimated tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and are recorded in other assets on the Company's consolidated balance sheets.

The Company records uncertain tax positions on the basis of a two-step process whereby (1) the Company determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more likely than not recognition threshold, the Company recognizes the largest amount of tax benefit

that is greater than 50 percent likely of being realized upon ultimate settlement with the related tax authority. For tax positions not meeting the more likely than not test, no tax benefit is recorded. Any interest and/or penalties related to income taxes are reported as a component of income tax expense.

The Company files a consolidated federal income tax return.

Comprehensive income—Comprehensive income consists of net income and other comprehensive income which includes unrealized gains and losses on securities available for sale which are also recognized as separate components of equity.

Fair Value of Financial Instruments—Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Operating Segments—While management monitors the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Company-wide basis. All of the financial service operations are considered by management to be aggregated in one reportable operating segment.

Reclassifications—Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

Earnings per Common Share—Basic earnings per common share is calculated as net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options, performance share unit awards and the Employee Stock Purchase Plan.

Loss Contingencies—Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are such matters that will have a material effect on the financial statements.

Dividend Restrictions—Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to Allegiance or by Allegiance to its shareholders. In addition, Allegiance's credit agreement with another financial institution also limits its ability to pay dividends.

Revenue from Contracts with Customers—The Company records revenue from contracts with customers in accordance with Accounting Standards Codification Topic 606, "Revenue from Contracts with Customers" ("Topic 606"). Under Topic 606, the Company must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the Company satisfies a performance obligation. Significant revenue has not been recognized in the current reporting period that results from performance obligations satisfied in previous periods.

The Company's primary sources of revenue are derived from interest and dividends earned on loans, investment securities, and other financial instruments that are not within the scope of Topic 606. The Company has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the Consolidated Statements of Income was not necessary. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, the Company has made no significant judgments in applying the revenue guidance prescribed in ASC 606 that affect the determination of the amount and timing of revenue from contracts with customers.

New Accounting Standards

Adoption of New Accounting Standards

ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASC Topic 326"), was issued by the FASB in June 2016 along with subsequent amendments thereto, which introduce the current expected credit losses ("CECL") methodology. The measurement of expected credit losses under the CECL methodology utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, held-to-maturity debt securities measured at amortized cost. ASC Topic 326 also applies to off-balance sheet credit exposures. This methodology replaces the multiple existing impairment methods in current guidance, which generally require that a loss be incurred before it is recognized. Within the

life cycle of a loan or other financial asset, this new guidance will generally result in the earlier recognition of the provision for credit losses and the related allowance for credit losses than previous practice. For available for sale debt securities that the Company intends to hold and where fair value is less than cost, credit-related impairment, if any, will be recognized through an allowance for credit losses and adjusted each period for changes in credit risk. CECL became effective for the Company on January 1, 2020 using the modified retrospective approach; however, on March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was signed in to law by the President of the United States and allowed the option to temporarily defer or suspend the adoption of ASC Topic 326. The Company elected to temporarily defer the adoption of CECL due to the uncertainty of the impact of COVID-19 and the volatility of crude oil prices, which can be impactful to the Houston market. During the deferral, the Company calculated and recorded its provision for loan losses under the incurred loss model that existed prior to ASC Topic 326. The Company adopted the new standard as of January 1, 2020 during the fourth quarter of 2020.

Upon adoption of ASC Topic 326, the Company recognized an increase in allowance for credit losses on loans of $3.1 million and the establishment of an allowance for credit losses for off-balance sheet exposure of $3.9 million and a corresponding decrease in retained earnings of $5.5 million, after-tax. The Company adopted ASC Topic 326 using the prospective transition approach for purchased credit deteriorated (“PCD”) loans, which did not require re-evaluation of whether loans previously classified as purchased credit impaired (“PCI”) loans met the criteria of PCD assets at the date of adoption. The Company recognized an increase in the allowance for credit losses for loans of $2.1 million, due to the reclass of PCD discounts previously classified as PCI with a corresponding adjustment to the gross carrying amount of the loans. The remaining noncredit discount was accreted into interest income at the effective interest rate as of January 1, 2020. See Note 6 “Loans and Allowance for Credit Losses” for additional information.

The following table illustrates the impact of adopting ASC Topic 326:

	As of January 1, 2020		
	As Reported Under ASC Topic 326	Pre-ASC Topic 326 Adoption	Impact of ASC Topic 326 Adoption
		(Dollars in thousands)	
Assets:			
Allowance for credit losses on loans:			
Commercial and industrial	$ 15,840	$ 8,818	$ 7,022
Mortgage warehouse	—	—	—
Paycheck Protection Program (PPP)	—	—	—
Real estate:			
Commercial real estate (including multi-family residential)	6,007	11,170	(5,163)
Commercial real estate construction and land development	6,051	4,421	1,630
1-4 family residential (including home equity)	5,452	3,852	1,600
Residential construction	1,056	1,057	(1)
Consumer and other	257	120	137
Allowance for credit losses on loans	$ 34,663	$ 29,438	$ 5,225
Liabilities:			
Allowance for credit losses on off-balance sheet exposures	$ 3,866	$ —	$ 3,866

ASC Topic 326 also requires expected credit losses on available for sale (AFS) debt securities to be recorded as an allowance for credit losses. For certain types of debt securities, such as U.S. Treasuries and other securities with government guarantees, entities may expect zero credit losses. The zero-loss expectation generally applies to the Company’s securities and no allowance for credit losses were recorded on its AFS securities portfolio at transition. See Note 5 “Securities” for additional information.

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

ASU 2016-02, "Leases (Topic 842)." ASU 2016-02 requires lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model and ASC Topic 606, "Revenue from Contracts with Customers." ASU 2016-02 became effective for the Company on January 1, 2019. The Company adopted the standard through the required modified retrospective approach by applying the allowed transition method whereby comparative periods were not restated and a cumulative effect adjustment to the opening balance of retained earnings was recognized as of January 1, 2019. Topic 842 requires the recognition of a lease liability measured as the present value of unpaid lease payments for operating leases where the Company is the lessee, and a corresponding right-of-use (ROU) asset for the right to use the leased properties. The Company elected not to reassess whether contracts are or contain leases, lease classification or initial direct costs for existing leases, a set of practical expedients for transition provided by ASU 2016-12. Further, the Company elected the practical expedient to use hindsight in determining the lease term and assessing impairment. The election of the hindsight practical expedient resulted in longer lease terms for a limited number of strategic locations based on relevant factors as of the adoption date. The Company implemented a lease management system to assist in centralizing, maintaining and accounting for all leases to ensure the Company meets the ASU's reporting and disclosure requirements. Prior comparable periods are presented in accordance with previous guidance under Accounting Standards Codification (ASC) 840, "Leases." As of January 1, 2019, right-of-use assets and related lease liabilities totaled $15.3 million and $15.7 million, respectively. See Note 9 – Leases for further information regarding the Company's leases on certain properties and equipment under operating leases.

ASU 2017-08, "Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20) - Premium Amortization on Purchased Callable Debt Securities." ASU 2017-08 shortens the amortization period for certain callable debt securities held at a premium to require such premiums to be amortized to the earliest call date unless applicable guidance related to certain pools of securities is applied to consider estimated prepayments. Under prior guidance, entities were generally required to amortize premiums on individual, non-pooled callable debt securities as a yield adjustment over the contractual life of the security. ASU 2017-08 does not change the accounting for callable debt securities held at a discount. ASU 2017-08 became effective for the Company on January 1, 2019. Upon adoption, the Company recognized a cumulative effect reduction in retained earnings totaling $1.7 million.

Newly Issued But Not Yet Effective Accounting Standards

ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes ("ASU 2019-12"), that removes certain exceptions for investments, intraperiod allocations and interim calculations, and adds guidance to reduce complexity in accounting for income taxes. ASU 2019-12 introduces the following new guidance: i) guidance to evaluate whether a step-up in tax basis of goodwill relates to a business combination in which book goodwill was recognized or a separate transaction and ii) a policy election to not allocate consolidated income taxes when a member of a consolidated tax return is not subject to income tax. Additionally, ASU 2019-12 changes the following current guidance: i) making an intraperiod allocation, if there is a loss in continuing operations and gains outside of continuing operations, ii) determining when a deferred tax liability is recognized after an investor in a foreign entity transitions to or from the equity method of accounting, iii) accounting for tax law changes and year-to-date losses in interim periods, and iv) determining how to apply the income tax guidance to franchise taxes that are partially based on income. ASU 2019-12 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. ASU 2019-12 is not expected to have a material impact on the Company's results of operations, financial position or disclosures.

ASU 2020-04, "Reference Rate Reform: Facilitation of the Effects of Reference Rate Reform on Financial Reporting - Accounting Standards Codification ("ASC") Topic 848." ASU 2020-04 provides optional expedients and exceptions for applying GAAP to loan and lease agreements, derivative contracts, and other transactions affected by the anticipated transition away from LIBOR toward new interest rate benchmarks. The guidance allows for companies to: (i) account for certain contract modifications as a continuation of the existing contract without additional analysis; (ii) continue hedge accounting when certain critical terms of a hedging relationship change and assess effectiveness in ways that disregard certain potential sources of ineffectiveness; and (iii) make a one-time sale and/or transfer of certain debt securities from held-to-maturity to available for sale or trading. This ASU is available for adoption effective March 12, 2020 through December 31, 2022. An entity may elect to apply ASU 2020-04 for contract modifications as of January 1, 2020, or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020, up to the date that the financial statements are available to be issued. Once elected for a Topic or an Industry Subtopic within ASU 2020-04, the amendments must be applied prospectively for all eligible contract modifications for that Topic or Industry Subtopic. The one-time election to sell and/or transfer debt securities classified as held-to-maturity may be made at any time after March 12, 2020. The Company anticipates this ASU will simplify any modifications it executes between the selected start date (yet to be determined) and December 31, 2022 that are directly related to the LIBOR transition by allowing prospective recognition of the continuation of the contract, rather than extinguishment of the old contract resulting in writing off unamortized fees and costs. ASU 2020-04 is not expected to have a significant impact on the Company's financial statements.

2. ACQUISITIONS

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

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

2019 Acquisition

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

2018 Acquisition

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

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

As of September 30, 2019, the Company finalized its valuation of all assets and liabilities acquired. A summary of the final purchase price allocation is as follows (dollars in thousands):

Fair value of consideration paid:		
Common shares issued (8,402,010 shares)	$	350,364
Stock options issued (299,352)		8,639
Cash in lieu of fractional shares		21
Total consideration paid	$	359,024
Fair value of assets acquired:		
Cash and cash equivalents	$	230,416
Investment securities		42,779
Loans		1,164,281
Premises and equipment		21,988
Core deposit intangibles		25,128
Other assets		18,076
Total assets acquired	$	1,502,668
Fair value of liabilities assumed:		
Deposits	$	1,291,310
Other borrowed funds		30,000
Other liabilities		6,070
Total liabilities assumed		1,327,380
Fair value of net assets acquired	$	175,288
Goodwill resulting from acquisition	$	183,736

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

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

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

PCI Loans.

The following presents information at the acquisition date for PCI loans acquired in the transaction (dollars in thousands):

Contractually required principal and interest payments	$	28,340
Contractual cash flows not expected to be collected (nonaccretable difference)		(3,163)
Expected cash flows at acquisition		25,177
Interest component of expected cash flows (accretable yield)		(495)
Fair value of loans acquired with deterioration of credit quality	$	25,672

Non-PCI Loans.

The following table presents information at the acquisition date for non-PCI loans acquired in the transaction (dollars in thousands):

Contractually required principal and interest payments	$	1,152,892
Accretable discount		(13,293)
Fair value at acquisition	$	1,166,185

The following table presents unaudited pro forma financial information as if the acquisition had occurred at the beginning of 2017. Post Oak's results of operations were included in the Company's results beginning October 1, 2018. The pro forma financial information is not necessarily indicative of the results of operations that would have occurred had the transaction been effected on the assumed dates.

	For the Years Ended December 31,			
	2018		2017	
	(Dollars in thousands, except per share data)			
Net interest income	$	170,801	$	165,612
Noninterest income		10,060		9,543
Net income		41,807		35,107
Basic earnings per common share		2.70		1.63
Diluted earnings per common share		2.65		1.61

To determine pro forma information, the Company adjusted its year ended December 31, 2018 and 2017 historical results to include the historical results for Post Oak for the year ended December 31, 2017 and the year ended December 31, 2018.

The pro forma information includes acquisition accounting adjustments to interest on loans, certificates of deposit and subordinated debt, difference in the rate of borrowed funds, amortization of intangibles arising from the transaction and the related income tax effects.

Earnings of Post Oak since the acquisition date have not been disclosed as the acquired company was merged into the Company and separate financial information is not readily available.

The Company incurred approximately $1.3 million and $1.7 million of pre-tax acquisition and merger-related expenses during the years ended December 31, 2019 and 2018, respectively, related to the Post Oak acquisition. The acquisition and merger-related expenses are reflected on the Company's income statement for 2019 and 2018 but are excluded from the calculation of pro forma income above.

3. GOODWILL AND CORE DEPOSIT INTANGIBLE ASSETS

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

	Goodwill	Core Deposit Intangibles
	(Dollars in thousands)	
Balance as of December 31, 2017	$ 39,389	$ 3,274
Acquisition of Post Oak Bancshares, Inc.	183,736	25,128
Amortization	—	(1,815)
Balance as of December 31, 2018	223,125	26,587
Acquisition of LoweryBank branch	578	—
Measurement period adjustment	(61)	—
Amortization	—	(4,711)
Balance as of December 31, 2019	223,642	21,876
Amortization	—	(3,922)
Balance as of December 31, 2020	$ 223,642	$ 17,954

Goodwill is recorded on the acquisition date of an entity. During the measurement period, the Company may record subsequent adjustments to goodwill for provisional amounts recorded at the acquisition date.

The Company performs its annual evaluation of goodwill impairment of Allegiance Bancshares, Inc., the sole reporting unit, on October 1 each year and on an interim basis if events or changes in circumstances between annual tests suggest additional testing may be warranted to determine if goodwill might be impaired. The Company has one reporting unit. Due to the effects that the COVID-19 pandemic continued to have on the economy and the movement of the Company's stock price, the Company performed its annual quantitative goodwill impairment analysis as of September 30, 2020 and determined that goodwill was not impaired. If adverse economic conditions or declines in the Company's stock price are sustained, further quantitative and qualitative analysis could result in an impairment charge being recorded for that period. In the event that the Company concludes that all or a portion of its goodwill is impaired, a non-cash charge for the amount of such impairment would be recorded to earnings. However, such a charge would not have an impact on the Company's liquidity, operations or regulatory capital. No triggering event occurred during the fourth quarter of 2020 that required an updated goodwill impairment analysis at December 31, 2020.

The estimated aggregate future amortization expense for core deposit intangibles remaining as of December 31, 2020 is as follows (dollars in thousands):

2021	$ 3,296
2022	3,003
2023	2,323
2024	2,188
2025	2,061
Thereafter	5,083
Total	$ 17,954

4. CASH AND DUE FROM BANKS

The Bank can be required by the Federal Reserve Bank of Dallas to maintain average reserve balances. The Bank was not required to maintain reserve balances at December 31, 2020 and 2019.

5. SECURITIES

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

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available for Sale				
U.S. government and agency securities	$ 25,545	$ 654	$ —	$ 26,199
Municipal securities	392,586	35,079	(60)	427,605
Agency mortgage-backed pass-through securities	167,606	3,829	(146)	171,289
Agency collateralized mortgage obligations	80,182	4,263	(75)	84,370
Corporate bonds and other	62,124	1,352	(49)	63,427
Total	$ 728,043	$ 45,177	$ (330)	$ 772,890

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available for Sale				
U.S. government and agency securities	$ 29,420	$ 298	$ (243)	$ 29,475
Municipal securities	84,200	3,453	(116)	87,537
Agency mortgage-backed pass-through securities	104,669	1,713	(214)	106,168
Agency collateralized mortgage obligations	106,351	1,199	(208)	107,342
Corporate bonds and other	41,691	346	(14)	42,023
Total	$ 366,331	$ 7,009	$ (795)	$ 372,545

As of December 31, 2020, no allowance for credit losses has been recognized on available for sale securities in an unrealized loss position as management does not believe any of the securities are impaired due to reasons of credit quality. This is based upon our analysis of the underlying risk characteristics, including credit ratings, and other qualitative factors related to our available for sale securities and in consideration of our historical credit loss experience and internal forecasts. The issuers of these securities continue to make timely principal and interest payments under the contractual terms of the securities. Furthermore, management does not have the intent to sell any of the securities classified as available for sale in the table above and believes that it is more likely than not that we will not have to sell any such securities before a recovery of cost. The unrealized losses are due to increases in market interest rates over the yields available at the time the underlying securities were purchased. 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.

The amortized cost and fair value of investment securities at December 31, 2020, 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	$ 110	$ 110
Due after one year through five years	12,849	13,412
Due after five years through ten years	105,239	109,238
Due after ten years	362,057	394,471
Subtotal	480,255	517,231
Agency mortgage-backed pass through and collateralized mortgage obligation securities	247,788	255,659
Total	$ 728,043	$ 772,890

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

	December 31, 2020					
	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						
Agency mortgage-backed pass-through securities	$ 28,659	$ (146)	$ —	$ —	$ 28,659	$ (146)
Agency collateralized mortgage obligations	11,629	(39)	4,203	(36)	15,832	(75)
Municipal securities	8,844	(60)	—	—	8,844	(60)
Corporate bonds and other	15,951	(49)	—	—	15,951	(49)
Total	$ 65,083	$ (294)	$ 4,203	$ (36)	$ 69,286	$ (330)

	December 31, 2019					
	Less than 12 Months		More than 12 Months		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(Dollars in thousands)					
Available for Sale						
U.S. government and agency securities	$ 22,295	$ (239)	$ 436	$ (4)	$ 22,731	$ (243)
Agency mortgage-backed pass-through securities	20,792	(155)	4,369	(59)	25,161	(214)
Agency collateralized mortgage obligations	22,340	(208)	—	—	22,340	(208)
Municipal securities	9,514	(116)	—	—	9,514	(116)
Corporate bonds and other	5,492	(14)	—	—	5,492	(14)
Total	$ 80,433	$ (732)	$ 4,805	$ (63)	$ 85,238	$ (795)

During 2020, the Company sold $30.8 million and had calls of $7.3 million of securities recording gross gains of $391 thousand and gross losses of $104 thousand for a net gain of $287 thousand for the year ended December 31, 2020. The Company sold $173.0 million of securities recording gross gains of $2.1 million and gross losses of $596 thousand for a net gain of $1.5 million for the year ended December 31, 2019.

At December 31, 2020 and 2019, 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 the consolidated shareholders’ equity at such respective dates.

The carrying value of pledged securities was $18.5 million and $24.3 million at December 31, 2020 and 2019, respectively. The majority of the securities were pledged to collateralize public fund deposits.

6. LOANS AND ALLOWANCE FOR CREDIT LOSSES

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

	December 31, 2020	December 31, 2019
	(Dollars in thousands)	
Commercial and industrial	$ 667,079	$ 689,360
Mortgage warehouse	—	8,304
Paycheck Protection Program (PPP)	569,901	—
Real estate:		
Commercial real estate (including multi-family residential)	1,999,877	1,873,782
Commercial real estate construction and land development	367,213	410,471
1-4 family residential (including home equity)	737,605	698,957
Residential construction	127,522	192,515
Consumer and other	22,567	41,921
Total loans	4,491,764	3,915,310
Allowance for credit losses on loans	(53,173)	(29,438)
Loans, net	$ 4,438,591	$ 3,885,872

Loan Origination/Risk Management

The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. The Company maintains 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. In connection with the reviews of the loan portfolio, the Company considers risk elements attributable to particular loan types or categories in assessing the quality of individual loans. Some of the risk elements include:

(i) **Commercial and Industrial Loans.** The Company makes commercial and industrial loans in its market area that are underwritten on the basis of the borrower’s ability to service the debt from income. The portfolio includes loans to commercial customers for use in financing working capital needs, equipment purchases and expansions. The loans in this category are repaid primarily from the cash flow of a borrower’s principal business operation. Credit risk in these loans is driven by creditworthiness of a borrower and the economic conditions that impact the cash flow stability from business operations. The Company generally takes as collateral a lien on any available real estate, equipment or other assets owned by the borrower and typically obtains a personal guaranty of the borrower or principal.

(ii) **Commercial Real Estate.** The Company makes loans collateralized by owner-occupied, nonowner-occupied and multi-family real estate to finance the purchase or ownership of real estate.

The Company’s nonowner-occupied and multi-family commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on sufficient income from the properties securing the loans to cover operating expenses and debt service. The Company generally requires the borrower to have had an existing relationship with the Company and have a proven record of success. In addition, these loans are generally guaranteed by individual owners of the borrower and have typically lower loan to value ratios.

Loans secured by owner-occupied properties represented 54.6% of the outstanding principal balance of the Company’s commercial real estate loans at December 31, 2020. The Company is dependent on the cash flows of the business occupying the property and its owners and requires these loans generally to be secured by property with adequate margins and guaranteed by the individual owners. The Company’s owner-occupied commercial real estate loans collateralized by first liens on real estate typically have fixed interest rates and amortize over a 10 to 20 year period.

Commercial real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Company’s region.

(iii) **Construction and Land Development Loans.** The Company makes loans to finance the construction of residential and to a lesser extent nonresidential properties. Construction loans generally are collateralized by first liens on real estate and generally

have floating interest rates. Construction and land development real estate loans are usually based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and a financial analysis of the developers and property owners. The Company generally conducts periodic inspections, either directly or through an agent, prior to approval of periodic draws on these loans. Underwriting guidelines similar to those described above are also used in the Company's construction lending activities. The Company may be required to fund additional amounts to complete a project and may have to hold the property for an indeterminate period of time. Sources of repayment of these loans may include permanent loans, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are considered to be higher risk than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and the availability of long-term financing. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Company's region.

(iv) **Residential Real Estate Loans.** The Company's lending activities also include the origination of 1-4 family residential mortgage loans (including home equity loans) collateralized by owner-occupied residential properties located in the Company's market areas. The Company offers a variety of mortgage loan portfolio products which have a term of 5 to 7 years and generally amortize over 10 to 30 years. Loans collateralized by 1-4 family residential real estate generally have been originated in amounts of no more than 90% of appraised value. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers. Credit risk in these loans can be impacted by economic conditions within the Company's region that might impact either property values or a borrower's personal income. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a larger number of borrowers.

(v) **Consumer and Other Loans.** The Company makes a variety of loans to individuals for personal and household purposes including secured and unsecured installment and term loans. Consumer loans are underwritten based on the individual borrower's income, current debt level, past credit history and the value of any available collateral. Repayment for these loans will come from a borrower's income source that are typically independent of the loan purpose. The terms of these loans typically range from 12 to 60 months and vary based upon the nature of collateral and size of loan. Credit risk is driven by consumer economic factors, such as, unemployment and general economic conditions in the Company region and the creditworthiness of a borrower.

In addition, for each category, the Company considers secondary sources of income and the financial strength and credit history of the borrower and any guarantors.

Acquired Loans

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

	As of December 31, 2019
Outstanding balance	$ 16,589
Less: Discount	(2,414)
Less: Allowance	(259)
Recorded investment	$ 13,916

Changes in the accretable yield for PCI loans for the year ended December 31, 2019 were deemed immaterial.

Non-PCI Loans

The recorded investment of Non-PCI loans included in the consolidated balance sheet and the related outstanding balance owed are presented in the table below (dollars in thousands).

	As of December 31, 2019
Outstanding balance	$ 672,927
Less: Discount	(3,069)
Recorded investment	$ 669,858

Changes in the discount accretion for Non-PCI loans were as follows (dollars in thousands):

	As of December 31, 2019
Balance at beginning of period	$ 10,650
Additions	573
Accretion	(8,154)
Balance at end of period	$ 3,069

Concentrations of Credit

The vast majority of the Company's lending activity occurs in and around the Houston, Texas area. The Company's loans are primarily loans 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.

Related Party Loans

As of December 31, 2020 and 2019, loans outstanding to directors, officers and their affiliates totaled $1.2 million and $6.8 million, respectively.

An analysis of activity with respect to these related-party loans is as follows:

	2020
	(Dollars in thousands)
Beginning balance on January 1	$ 6,782
New loans and reclassified related loans	90
Repayments and reclassified related loans	(5,689)
Ending balance on December 31	$ 1,183

Nonaccrual and Past Due Loans

An aging analysis of the recorded investment in past due loans, segregated by class of loans, is included below. For purposes of this and future disclosures recorded investment has been defined as the outstanding loan balances including net deferred loan fees, and excluding accrued interest receivable of $34.5 million and $15.5 million as of December 31, 2020 and 2019, respectively, due to immateriality.

	December 31, 2020					
	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	$ 2,486	$ —	$ 2,486	$ 10,747	$ 653,846	$ 667,079
Mortgage warehouse	—	—	—	—	—	—
Paycheck Protection Program (PPP)	—	—	—	—	569,901	569,901
Real estate:						
Commercial real estate (including multi-family residential)	3,063	—	3,063	10,081	1,986,733	1,999,877
Commercial real estate construction and land development	2,930	—	2,930	3,011	361,272	367,213
1-4 family residential (including home equity)	3,000	—	3,000	4,525	730,080	737,605
Residential construction	—	—	—	—	127,522	127,522
Consumer and other	46	—	46	529	21,992	22,567
Total loans	$ 11,525	$ —	$ 11,525	$ 28,893	$ 4,451,346	$ 4,491,764

	December 31, 2019					
	Loans Past Due and Still Accruing					
	30-89 Days	90 or More Days	Total Past Due Loans	Nonaccrual Loans	Current Loans	Total Loans
	(Dollars in thousands)					
Commercial and industrial	$ 3,098	$ —	$ 3,098	$ 8,388	$ 677,874	$ 689,360
Mortgage warehouse	—	—	—	—	8,304	8,304
Real estate:						
Commercial real estate (including multi-family residential)	4,421	—	4,421	6,741	1,862,620	1,873,782
Commercial real estate construction and land development	66	—	66	9,050	401,355	410,471
1-4 family residential (including home equity)	1,598	—	1,598	3,294	694,065	698,957
Residential construction	564	—	564	746	191,205	192,515
Consumer and other	254	—	254	152	41,515	41,921
Total loans	$ 10,001	$ —	$ 10,001	$ 28,371	$ 3,876,938	$ 3,915,310

If interest on nonaccrual loans had been accrued under the original loan terms, approximately $902.5 thousand and $1.2 million would have been recorded as income for the years ended December 31, 2020 and 2019, respectively.

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt. The Company utilizes a risk rating matrix to assign a risk rating to each of its loans. Loans are rated on a scale of 1 to 9. Risk ratings are updated on an ongoing basis and are subject to change by continuous loan monitoring processes including lending management monitoring, executive management and board committee oversight, and independent credit review. 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 certain risk ratings to be used as credit quality indicators including trends related to (i) the weighted-average risk grade of loans, (ii) the level of classified loans, (iii) the delinquency status of loans (iv) nonperforming loans and (vi) the general economic conditions in the Houston region. Individual bankers, under the oversight of credit administration, review updated financial information for all pass grade commercial loans to reassess the risk grade on at least an annual basis. When a loan has a risk grade of Pass/Watch (4), it is still considered a pass grade loan; however, it is considered to be on management’s “watch list,” where a significant risk-modifying action is anticipated in the near term. When a loan reaches a set of internally designated criteria, including Substandard-nonperforming (7) or higher, a special assets officer will be involved in the monitoring of the loan on an on-going basis.

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

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, 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 loans so classified 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.

Loss—Loans classified as loss are to be charged-off or charged-down when payment is acknowledged to be uncertain or when the timing or value of payments cannot be determined. "Loss" is not intended to imply that the loan or some portion of it will never be paid, nor does it in any way imply that there has been a forgiveness of debt.

The following table presents risk ratings by category of loan as of December 31, 2020 and 2019:

	As of December 31, 2020									As of December 31, 2019
	Term Loans Amortized Cost Basis by Origination Year									
	2020	2019	2018	2017	2016	Prior	Revolving Loans	Revolving Loans Converted to Term Loans	Total	Total
	(Dollars in thousands)									
Commercial and industrial										
Pass	$ 149,522	$ 81,526	$ 46,909	$ 17,610	$ 20,955	$ 6,951	$ 239,045	$ —	$ 562,518	$ 637,388
Watch	12,755	6,956	6,600	2,436	1,446	1,067	9,766	—	41,026	14,797
Special Mention	758	2,746	3,740	1,860	2,756	—	13,150	—	25,010	10,871
Substandard	12,650	4,272	3,798	7,043	2,577	99	7,946	—	38,385	26,226
Doubtful	69	71	—	—	—	—	—	—	140	78
Total commercial and industrial loans	$ 175,754	$ 95,571	$ 61,047	$ 28,949	$ 27,734	$ 8,117	$ 269,907	$ —	$ 667,079	$ 689,360
Mortgage warehouse										
Pass	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 8,304
Watch	—	—	—	—	—	—	—	—	—	—
Special Mention	—	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—	—
Total mortgage warehouse loans	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 8,304
Paycheck Protection Program (PPP)										
Pass	$ 569,901	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 569,901	$ —
Watch	—	—	—	—	—	—	—	—	—	—
Special Mention	—	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—	—
Total PPP loans	$ 569,901	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 569,901	$ —
Commercial real estate (including multi-family residential)										
Pass	$ 587,089	$ 321,020	$ 220,554	$ 221,147	$ 156,671	$ 75,353	$ 47,189	$ —	$ 1,629,023	$ 1,760,476
Watch	27,851	45,009	23,492	32,567	24,051	23,531	1,150	—	177,651	56,367
Special Mention	10,931	16,452	9,940	12,128	3,243	14,482	1,100	—	68,276	11,974
Substandard	17,391	27,265	18,926	20,688	27,595	10,896	2,166	—	124,927	44,965
Doubtful	—	—	—	—	—	—	—	—	—	—
Total commercial real estate (including multi-family residential) loans	$ 643,262	$ 409,746	$ 272,912	$ 286,530	$ 211,560	$ 124,262	$ 51,605	$ —	$ 1,999,877	$ 1,873,782
Commercial real estate construction and land development										
Pass	$ 172,389	$ 77,535	$ 31,392	$ 16,712	$ 5,098	$ 2,036	$ 14,971	$ —	$ 320,133	$ 385,832
Watch	12,801	2,943	4,315	13,157	5,290	515	—	—	39,021	9,583
Special Mention	615	1,620	378	—	—	267	—	—	2,880	639
Substandard	2,958	986	693	—	—	—	542	—	5,179	14,417
Doubtful	—	—	—	—	—	—	—	—	—	—
Total commercial real estate construction and land development	$ 188,763	$ 83,084	$ 36,778	$ 29,869	$ 10,388	$ 2,818	$ 15,513	$ —	$ 367,213	$ 410,471

The following table presents risk ratings by category of loan as of December 31, 2020 and 2019:

	As of December 31, 2020									As of December 31, 2019
	Term Loans Amortized Cost Basis by Origination Year									
	2020	2019	2018	2017	2016	Prior	Revolving Loans	Revolving Loans Converted to Term Loans	Total	Total
	(Dollars in thousands)									
1-4 family residential (including home equity)										
Pass	$ 212,543	$ 128,835	$ 101,091	$ 67,257	$ 44,666	$ 27,846	$ 87,836	$ —	$ 670,074	$ 669,288
Watch	14,153	3,565	4,406	5,994	2,099	3,138	4,312	—	37,667	15,798
Special Mention	6,237	728	4,312	674	2,379	2,006	2,454	—	18,790	5,844
Substandard	1,392	2,308	2,576	1,238	1,869	1,422	269	—	11,074	8,027
Doubtful	—	—	—	—	—	—	—	—	—	—
Total 1-4 family residential (including home equity)	$ 234,325	$ 135,436	$ 112,385	$ 75,163	$ 51,013	$ 34,412	$ 94,871	$ —	$ 737,605	$ 698,957
Residential construction										
Pass	$ 106,804	$ 10,330	$ 5,288	$ 742	$ 1,573	$ —	$ —	$ —	$ 124,737	$ 188,636
Watch	2,036	749	—	—	—	—	—	—	2,785	2,560
Special Mention	—	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—	1,319
Doubtful	—	—	—	—	—	—	—	—	—	—
Total residential construction	$ 108,840	$ 11,079	$ 5,288	$ 742	$ 1,573	$ —	$ —	$ —	$ 127,522	$ 192,515
Consumer and other										
Pass[(1)]	$ (6,193)	$ 20,578	$ 1,537	$ 586	$ 25	$ 122	$ 4,704	$ —	$ 21,359	$ 41,355
Watch	57	242	27	—	—	—	63	—	389	6
Special Mention	231	—	39	—	—	—	—	—	270	358
Substandard	491	33	25	—	—	—	—	—	549	202
Doubtful	—	—	—	—	—	—	—	—	—	—
Total consumer and other	$ (5,414)	$ 20,853	$ 1,628	$ 586	$ 25	$ 122	$ 4,767	$ —	$ 22,567	$ 41,921
Total loans										
Pass	$ 1,792,055	$ 639,824	$ 406,771	$ 324,054	$ 228,988	$ 112,308	$ 393,745	$ —	$ 3,897,745	$ 3,691,279
Watch	69,653	59,464	38,840	54,154	32,886	28,251	15,291	—	298,539	99,111
Special Mention	18,772	21,546	18,409	14,662	8,378	16,755	16,704	—	115,226	29,686
Substandard	34,882	34,864	26,018	28,969	32,041	12,417	10,923	—	180,114	95,156
Doubtful	69	71	—	—	—	—	—	—	140	78
Total loans	$ 1,915,431	$ 755,769	$ 490,038	$ 421,839	$ 302,293	$ 169,731	$ 436,663	$ —	$ 4,491,764	$ 3,915,310

(1) Includes net deferred fees of $13.9 million on PPP loans.

The following table presents the activity in the allowance for credit losses on loans by portfolio type for the years ended December 31, 2020, 2019 and 2018:

	Commercial and industrial	Mortgage warehouse	Paycheck Protection Program (PPP)	Commercial real estate (including multi-family residential)	Commercial real estate construction and land development	1-4 family residential (including home equity)	Residential construction	Consumer and other	Total
	(Dollars in thousands)								
Allowance for credit losses on loans:									
Balance December 31, 2019	$ 8,818	$ —	$ —	$ 11,170	$ 4,421	$ 3,852	$ 1,057	$ 120	$ 29,438
Impact of ASC 326 adoption	7,022	—	—	(5,163)	1,630	1,600	(1)	137	5,225
Provision for loan losses	4,363	—	—	20,417	3,461	(1,822)	(186)	310	26,543
Charge-offs	(2,938)	—	—	(2,562)	(2,573)	(351)	—	(159)	(8,583)
Recoveries	473	—	—	72	—	—	—	5	550
Net charge-offs	(2,465)	—	—	(2,490)	(2,573)	(351)	—	(154)	(8,033)
Balance December 31, 2020	$ 17,738	$ —	$ —	$ 23,934	$ 6,939	$ 3,279	$ 870	$ 413	$ 53,173
Allowance for loan losses:									
Balance December 31, 2018	$ 8,351	$ —	$ —	$ 11,901	$ 2,724	$ 2,242	$ 1,040	$ 73	$ 26,331
Provision for loan losses	2,881	—	—	(654)	1,741	1,905	17	49	5,939
Charge-offs	(2,688)	—	—	(80)	(44)	(295)	—	(34)	(3,141)
Recoveries	274	—	—	3	—	—	—	32	309
Net charge-offs	(2,414)	—	—	(77)	(44)	(295)	—	(2)	(2,832)
Balance December 31, 2019	$ 8,818	$ —	$ —	$ 11,170	$ 4,421	$ 3,852	$ 1,057	$ 120	$ 29,438
Allowance for loan losses:									
Balance December 31, 2017	$ 7,694	$ —	$ —	$ 10,253	$ 2,525	$ 2,140	$ 942	$ 95	$ 23,649
Provision for loan losses	2,234	—	—	1,588	199	127	98	2	4,248
Charge-offs	(2,424)	—	—	(42)	—	(25)	—	(24)	(2,515)
Recoveries	847	—	—	102	—	—	—	—	949
Net charge-offs	(1,577)	—	—	60	—	(25)	—	(24)	(1,566)
Balance December 31, 2018	$ 8,351	$ —	$ —	$ 11,901	$ 2,724	$ 2,242	$ 1,040	$ 73	$ 26,331

Allowance for Credit Losses on Unfunded Commitments. In addition to the allowance for credit losses on loans, the Company has established an allowance for credit losses on unfunded commitments, classified in other liabilities and adjusted as a provision for credit loss expense. The allowance represents estimates of expected credit losses over the contractual period in which there is exposure to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on the commitments expected to fund. The estimate of commitments expected to fund is informed by historical analysis looking at utilization rates. The expected credit loss rates applied to the commitments expected to fund is informed by the general valuation allowance utilized for outstanding balances with the same underlying assumptions and drivers. The allowance for credit losses on unfunded commitments as of December 31, 2020 was $4.7 million. There was no allowance recorded on unfunded commitments at December 31, 2019. The establishment of an allowance in 2020 was due to the adoption of CECL. This reserve is maintained at a level management believes to be sufficient to absorb losses arising from unfunded loan commitments.

The following table details activity in the allowance for credit losses on unfunded commitments:

	As of December 31, 2020
	(Dollars in thousands)
Balance at beginning of period on January 1	$ 3,866
Provision for credit losses on off-balance sheet exposures	831
Balance at end of period on December 31	$ 4,697

Collateral dependent loans were secured by commercial real estate assets, accounts receivable, inventory and equipment. For a collateral dependent loan, the Company's evaluation process includes a valuation by appraisal or other collateral analysis adjusted for selling costs, when appropriate. This valuation is compared to the remaining outstanding principal balance of the loan. If a loss is determined to be probable, the loss is included in the allowance for credit losses on loans as a specific allocation. At December 31, 2020, collateral dependent loans consisted primarily of commercial loans. The following table presents the amortized cost basis of collateral dependent loans, which are individually evaluated to determine expected credit losses:

	As of December 31, 2020			
	Real Estate	Business Assets	Other	Total
	(Dollars in thousands)			
Commercial and industrial	$ —	$ 5,157	$ —	$ 5,157
Mortgage warehouse	—	—	—	—
Paycheck Protection Program (PPP)	—	—	—	—
Real estate:				
Commercial real estate (including multi-family residential)	425	—	—	425
Commercial real estate construction and land development	—	—	—	—
1-4 family residential (including home equity)	3,101	—	—	3,101
Residential construction	—	—	—	—
Consumer and other	—	—	—	—
Total	$ 3,526	$ 5,157	$ —	$ 8,683

The following table presents additional information regarding nonaccrual loans. No interest income was recognized on nonaccrual loans for the years ended December 31, 2020 and 2019, respectively.

	As of December 31, 2020		
	Nonaccrual Loans with No Related Allowance	Nonaccrual Loans with Related Allowance	Total Nonaccrual Loans
	(Dollars in thousands)		
Commercial and industrial	$ 2,097	$ 8,650	$ 10,747
Mortgage warehouse	—	—	—
Paycheck Protection Program (PPP)	—	—	—
Real estate:			
Commercial real estate (including multi-family residential)	7,487	2,594	10,081
Commercial real estate construction and land development	2,958	53	3,011
1-4 family residential (including home equity)	2,652	1,873	4,525
Residential construction	—	—	—
Consumer and other	—	529	529
Total loans	$ 15,194	$ 13,699	$ 28,893

Impaired Loans. Prior to the adoption of ASC Topic 326 on January 1, 2020, loans were reported as impaired when, based on then current information and events, it was probable the Company would be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. If a loan was impaired, a specific valuation allowance was allocated, if necessary, so that the loan was reported net, at the fair value of collateral if repayment was expected solely from the collateral.

The following table presents impaired loans at December 31, 2019 as determined under ASC 310 prior to the adoption of ASC Topic 326 by class of loans.

	As of December 31, 2019		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in thousands)		
With no related allowance recorded:			
Commercial and industrial	$ 5,721	$ 6,136	$ —
Mortgage warehouse	—	—	—
Real estate:			
Commercial real estate (including multi-family residential)	19,478	19,558	—
Commercial real estate construction and land development	—	—	—
1-4 family residential (including home equity)	2,000	2,000	—
Residential construction	208	208	—
Consumer and other	38	38	—
Total	27,445	27,940	—
With an allowance recorded:			
Commercial and industrial	7,812	7,286	3,480
Mortgage warehouse	—	—	—
Real estate:			
Commercial real estate (including multi-family residential)	5,335	5,335	459
Commercial real estate construction and land development	12,142	12,142	2,085
1-4 family residential (including home equity)	—	—	—
Residential construction	537	537	66
Consumer and other	26	26	26
PCI	2,039	2,959	659
Total	27,891	28,285	6,775
Total:			
Commercial and industrial	13,533	13,422	3,480
Mortgage warehouse	—	—	—
Real estate:			
Commercial real estate (including multi-family residential)	24,813	24,893	459
Commercial real estate construction and land development	12,142	12,142	2,085
1-4 family residential (including home equity)	2,000	2,000	—
Residential construction	745	745	66
Consumer and other	64	64	26
PCI	2,039	2,959	659
	$ 55,336	$ 56,225	$ 6,775

The following table presents average impaired loans and interest recognized on impaired loans for the year ended December 31, 2019:

	For the Year Ended December 31, 2019	
	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)	
Commercial and industrial	$ 13,376	$ 399
Mortgage warehouse	—	—
Paycheck Protection Program (PPP)	—	—
Real estate:		
Commercial real estate (including multi-family residential)	25,856	489
Commercial real estate construction and land development	10,251	185
1-4 family residential (including home equity)	2,058	6
Residential construction	594	—
Consumer and other	75	1
PCI	3,133	8
Total	$ 55,343	$ 1,088

Troubled Debt Restructurings

As of December 31, 2020 and 2019, the Company had a recorded investment in troubled debt restructurings of $25.8 million and $28.9 million, respectively. The Company allocated $3.3 million and $3.2 million of specific reserves for these loans at December 31, 2020 and 2019, respectively, and did not commit to lend additional amounts on these loans.

The following table presents information regarding loans modified in a troubled debt restructuring during the years ended December 31, 2020, 2019 and 2018:

	As of December 31,								
	2020			2019			2018		
	Number of Contracts	Pre-Modification of Outstanding Recorded Investment	Post Modification of Outstanding Recorded Investment	Number of Contracts	Pre-Modification of Outstanding Recorded Investment	Post Modification of Outstanding Recorded Investment	Number of Contracts	Pre-Modification of Outstanding Recorded Investment	Post Modification Outstanding Recor Investment
	(Dollars in thousands)								
Troubled Debt Restructurings									
Commercial and industrial	20	$ 4,333	$ 4,333	13	$ 4,358	$ 4,358	11	$ 2,770	$ 2
Mortgage warehouse	—	—	—	—	—	—	—	—	
Real estate:									
Commercial real estate (including multi-family residential)	5	4,560	4,560	1	303	303	3	4,288	4
Commercial real estate construction and land development	1	830	830	—	—	—	1	3,114	3
1-4 family residential (including home equity)	5	2,051	2,051	1	396	396	—	—	
Residential construction	—	—	—	—	—	—	—	—	
Consumer and other	1	30	30	2	43	43	—	—	
Total	32	$ 11,804	$ 11,804	17	$ 5,100	$ 5,100	15	$ 10,172	$ 10

Troubled debt restructurings resulted in charge-offs of $3.2 million, $251 thousand and $272 thousand during the years ended December 31, 2020, 2019 and 2018, respectively.

As of December 31, 2020, there were four loans for a total of $2.6 million were modified under a troubled debt restructuring during the previous twelve-month period that subsequently defaulted during the year 2020. As of December 31, 2019, there were five loans for a total of $472 thousand were modified under a troubled debt restructuring during the previous twelve-month period that subsequently defaulted during the year 2019. Default is determined at 90 or more days past due. The modifications primarily related to extending the amortization periods of the loans. The Company did not grant principal reductions on any restructured loans. There were no commitments to lend additional amounts for the years 2020 and 2019. During the year ended December 31, 2020, the Company added $11.8 million in new troubled debt restructurings, of which $8.1 million was still outstanding on December 31, 2020. During

the year ended December 31, 2019, the Company added $5.1 million in new troubled debt restructurings, of which $4.6 million was still outstanding on December 31, 2019.

During the year ended December 31, 2020, the Company granted principal and interest deferrals on outstanding loan balances to customers affected by the COVID-19 pandemic. Additionally, upon request and after meeting certain conditions, borrowers could be granted additional payment deferrals subsequent to the first deferral. In addition to the short-term modification program implemented by the Company, Section 4013 of the CARES Act and bank regulatory interagency guidance gave entities temporary relief from the accounting and disclosure requirements for TDRs indicating that a lender could conclude that the modifications are not a TDR if the borrower was less than 30 days past due as of December 31, 2019. As of December 31, 2020, 164 loans with outstanding loan balances of $161.3 million remained on deferral. If the impact of COVID-19 persists, borrower operations do not improve or if other negative events occur, such modified loans could transition to potential problem loans or into problem loans.

The following table presents information regarding principal and interest deferrals as of December 31, 2020 associated with loan modifications related to COVID-19:

		Initial Deferrals		Additional Deferrals		Remaining Deferrals	
	Outstanding Loan Balance	Deferred Loan Balance	Percentage of Total Deferrals	Deferred Loan Balance	Percentage of Total Deferrals	Deferred Loan Balance	Percentage of Total Deferrals
	(Dollars in thousands)						
Commercial and industrial	$ 667,079	$ 127,689	11.3%	$ 21,747	9.5%	$ 23,822	14.8%
Mortgage warehouse	—	—	0.0%	—	0.0%	—	0.0%
Paycheck Protection Program (PPP)	569,901	—	0.0%	—	0.0%	—	0.0%
Real estate:							
Commercial real estate (including multi-family residential)	1,999,877	790,468	69.9%	171,945	75.5%	129,067	80.0%
Commercial real estate construction and land development	367,213	88,446	7.8%	20,032	8.8%	5,860	3.6%
1-4 family residential (including home equity)	737,605	118,595	10.5%	12,922	5.7%	2,489	1.6%
Residential construction	127,522	4,452	0.4%	926	0.4%	—	0.0%
Consumer and other	22,567	1,015	0.1%	172	0.1%	59	0.0%
Total loans	$4,491,764	$1,130,665	100.0%	$ 227,744	100.0%	$ 161,297	100.0%

7. FAIR VALUE

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

Fair Value Hierarchy

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

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

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

	As of December 31, 2020				
	Carrying Amount	Estimated Fair Value			
		Level 1	Level 2	Level 3	Total
	(Dollars in thousands)				
Financial assets					
Cash and cash equivalents	$ 422,766	$ 422,766	$ —	$ —	$ 422,766
Available for sale securities	772,890	—	772,890	—	772,890
Loans held for investment, net of allowance	4,438,591	—	—	4,431,816	4,431,816
Accrued interest receivable	40,053	2	5,531	34,520	40,053
Financial liabilities					
Deposits	$ 4,988,482	$ —	$ 5,003,594	$ —	$ 5,003,594
Interest rate swap	1,252	—	1,252	—	1,252
Accrued interest payable	2,701	—	2,701	—	2,701
Borrowed funds	155,515	—	144,629	—	144,629
Subordinated debt	108,322	—	109,832	—	109,832

	As of December 31, 2019				
	Carrying Amount	Estimated Fair Value			
		Level 1	Level 2	Level 3	Total
	(Dollars in thousands)				
Financial assets					
Cash and cash equivalents	$ 346,248	$ 346,248	$ —	$ —	$ 346,248
Available for sale securities	372,545	—	372,545	—	372,545
Loans held for investment, net of allowance	3,885,872	—	—	3,918,210	3,918,210
Accrued interest receivable	15,468	13	1,783	13,672	15,468
Financial liabilities					
Deposits	$ 4,068,101	$ —	$ 4,073,031	$ —	$ 4,073,031
Accrued interest payable	4,326	—	4,326	—	4,326
Borrowed funds	75,503	—	83,302	—	83,302
Subordinated debt	107,799	—	109,607	—	109,607

The fair value estimates presented herein are based on pertinent information available to management as of the dates indicated. The following is a description of valuation methodologies used for assets and liabilities recorded at fair value, non-financial assets and non-financial liabilities and for estimating fair value for financial instruments not recorded at fair value:

Cash and Cash Equivalents—For these short-term instruments, the carrying amount is a reasonable estimate of fair value. The Company classifies the estimated fair value of these instruments as Level 1.

Available for Sale Securities—Fair values for investment securities are based upon quoted market prices, if available, and are considered Level 1 inputs. For all other available for sale securities, if quoted prices are not available, fair values are measured based on market prices for similar securities and are considered Level 2 inputs. For these securities, the Company generally obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

Available for sale securities are recorded at fair value on a recurring basis.

Loans—The estimated fair value approximates carrying value for variable-rate loans that reprice frequently and that have no significant change in credit risk resulting in a Level 3 classification. Fair values for fixed-rate loans and variable rate loans which reprice infrequently are estimated by discounting future cash flows. In accordance with ASU 2016-01, which was adopted effective January 1, 2018, the discount rates used to determine the fair value of loans used interest rate spreads that reflect factors such as liquidity, credit and nonperformance risk of the loans.

Deposits—The fair value of demand deposits (e.g., interest and noninterest checking, savings and certain types of money market deposits) is the amount payable on demand at the reporting date (i.e., their carrying amount) resulting in a Level 2 classification. The fair value of fixed rate certificates of deposit is estimated using a discounted cash flows calculation that applies

interest rates currently offered on certificates of deposit to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

Accrued Interest—The carrying amounts of accrued interest approximate their fair values resulting in a Level 1, 2 or 3 classification.

Borrowed Funds—The fair value of the Company's borrowed funds are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements and are measured utilizing Level 2 inputs.

Subordinated Debt—The fair values of subordinated debentures and notes are estimated using discounted cash flow analyses based on the Company's current borrowing rates for similar types of borrowing arrangements and are measured utilizing Level 2 inputs.

Off-balance sheet instruments—The fair values of off-balance sheet commitments to extend credit and standby letters of credit financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The Company has reviewed the unfunded portion of commitments to extend credit as well as standby and other letters of credit and has determined that the fair value of such financial instruments is not material.

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

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
Financial assets				
Available for sale securities:				
U.S. government and agency securities	$ —	$ 26,199	$ —	$ 26,199
Municipal securities	—	427,605	—	427,605
Agency mortgage-backed pass-through securities	—	171,289	—	171,289
Agency collateralized mortgage obligations	—	84,370	—	84,370
Corporate bonds and other	—	63,427	—	63,427
Total available for sale securities	$ —	$ 772,890	$ —	$ 772,890
Financial liabilities				
Interest rate swap	$ —	$ 1,252	$ —	$ 1,252

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
Financial assets				
Available for sale securities:				
U.S. government and agency securities	$ —	$ 29,475	$ —	$ 29,475
Municipal securities	—	87,537	—	87,537
Agency mortgage-backed pass-through securities	—	106,168	—	106,168
Agency collateralized mortgage obligations	—	107,342	—	107,342
Corporate bonds and other	—	42,023	—	42,023
Total available for sale securities	$ —	$ 372,545	$ —	$ 372,545

There were no liabilities measured at fair value on a recurring basis as of December 31, 2019. There were no transfers between levels during 2020 or 2019.

Assets measured at fair value on a nonrecurring basis are summarized in the table below. There were no liabilities measured at fair value on a nonrecurring basis at December 31, 2020 and 2019.

	As of December 31, 2020		
	Level 1	Level 2	Level 3
	(Dollars in thousands)		
Collateral Dependent Loans:			
Commercial and industrial	$ —	$ —	$ 8,650
Commercial real estate (including multi-family residential)	—	—	2,594
Commercial real estate construction and land development	—	—	53
1-4 family residential (including home equity)	—	—	1,873
Residential construction	—	—	—
Consumer and other	—	—	529
Other real estate owned	—	—	9,196
	$ —	$ —	$ 22,895

	As of December 31, 2019		
	Level 1	Level 2	Level 3
	(Dollars in thousands)		
Impaired loans:			
Commercial and industrial	$ —	$ —	$ 4,332
Commercial real estate (including multi-family residential)	—	—	4,876
Commercial real estate construction and land development	—	—	10,057
Residential construction	—	—	471
PCI	—	—	1,380
Other real estate owned	—	—	8,337
	$ —	$ —	$ 29,453

Historically, the Company measures fair value for certain loans and other real estate owned on a nonrecurring basis as described below.

Collateral Dependent Loans Specific Allocation of Allowance for Credit Losses on Loans

A loan is considered to be a collateral dependent loan when, based on current information and events, the Company expects repayment of the financial assets to be provided substantially through the operation or sale of the collateral and the Company has determined that the borrower is experiencing financial difficulty as of the measurement date. The allowance for credit losses on loans is measured by estimating the fair value of the loan based on the present value of expected cash flows, the market price of the loan, or the underlying fair value of the loan's collateral. For real estate loans, fair value of the loan's collateral is generally determined by third-party appraisals or internal evaluations, which are then adjusted for the estimated selling and closing costs related to liquidation of the collateral. For this asset class, the actual valuation methods (income, sales comparable, or cost) vary based on the status of the project or property. For example, land is generally based on the sales comparable method while construction is based on the income and/or sales comparable methods. The unobservable inputs may vary depending on the individual assets with no one of the three methods being the predominant approach. The Company reviews the third-party appraisal for appropriateness and adjusts the value downward to consider selling and closing costs, which typically range from 5% to 10% of the appraised value. For non-real estate loans, fair value of the loan's collateral may be determined using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business.

Other Real Estate Owned

Other real estate owned is comprised of real estate acquired in partial or full satisfaction of loans. Other real estate owned is recorded at its estimated fair value less estimated selling and closing costs at the date of transfer. Any excess of the related loan balance over the fair value less expected selling costs is charged to the allowance. Subsequent declines in fair value are reported as adjustments to the carrying amount and are recorded against earnings. The fair value of other real estate owned is determined using appraisals or other indications of value based on recent comparable sales of similar properties or assumptions generally observable in

the marketplace. For this asset class, the actual valuation methods (income, sales comparable or cost) vary based on the status of the project or property. For example, land is generally based on the sales comparable method while construction is based on the income and/or sales comparable methods. The unobservable inputs may vary depending on the individual assets with no one of the three methods being the predominant approach. The Company reviews the third party appraisal for appropriateness and adjusts the value downward to consider selling and closing costs, which typically range from 5% to 10% of the appraised value.

At December 31, 2020, the balance of other real estate owned was $9.2 million consisting primarily of foreclosed commercial real estate properties recorded as a result of obtaining physical possession of the property. The Company had $8.3 million of other real estate owned at December 31, 2019. As of December 31, 2020 and 2019, no valuation allowance was recorded.

8. PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

	As of December 31,	
	2020	2019
	(Dollars in thousands)	
Land	$ 13,913	$ 13,913
Buildings	39,998	36,826
Lease right-of-use assets	11,610	11,180
Leasehold improvements	5,689	4,522
Furniture, fixtures and equipment	16,106	13,612
Construction in progress	2	250
Total	87,318	80,303
Less: accumulated depreciation	16,633	13,513
Premises and equipment, net	$ 70,685	$ 66,790

Depreciation expense was $3.7 million for the year ended December 31, 2020 and $3.2 million for the year ended December 31, 2019.

9. LEASES

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

There were no sale and leaseback transactions, leveraged leases or lease transactions with related parties during the years ended December 31, 2020 and 2019.

At December 31, 2020, the Company had 14 leases consisting of branch locations and office space along with equipment. On the December 31, 2020 balance sheet, the right-of-use asset is classified within premises and equipment and the lease liability is included in other liabilities. The Company also owns certain office facilities which it leases to outside parties under operating lessor leases; however, such leases are not significant. All leases were classified as operating leases. Leases with an initial term of 12 months or less are not recorded on the balance sheet and the related lease expense is recognized on a straight-line basis over the lease term. During the year 2019, Allegiance Bank purchased two previously leased properties for a total of $10.7 million.

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

Supplemental lease information at the dates indicated is as follows:

	December 31, 2020	December 31, 2019
	(Dollars in thousands)	
Balance Sheet:		
Operating lease right of use asset classified as premises and equipment	$ 11,610	$ 11,180
Operating lease liability classified as other liabilities	$ 11,850	$ 11,477
Weighted average lease term, in years	5.56	5.53
Weighted average discount rate	2.86%	3.19%

Lease costs for the dates indicated is as follows:

	For the Years Ended December 31,	
	2020	2019
	(Dollars in thousands)	
Income Statement:		
Operating lease cost	$ 3,270	$ 3,073
Short-term lease cost	78	553
Sublease income	(66)	(72)
Total operating lease costs	$ 3,282	$ 3,554

A maturity analysis of the Company's lease liabilities is as follows:

	December 31, 2020	December 31, 2019
	(Dollars in thousands)	
Lease payments due:		
Within one year	$ 3,068	$ 2,867
After one but within two years	2,664	2,608
After two but within three years	2,056	2,204
After three but within four years	1,591	1,596
After four but within five years	1,057	1,131
After five years	2,355	2,162
Total lease payments	12,791	12,568
Discount on cash flows	941	1,091
Total lease liability	$ 11,850	$ 11,477

10. DEPOSITS

Time deposits that meet or exceed the Federal Deposit Insurance Corporation (the "FDIC") insurance limit of $250 thousand at December 31, 2020 and December 31, 2019 were $726.8 million and $485.8 million, respectively.

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

Within one year	$ 872,599
After one but within two years	313,154
After two but within three years	92,863
After three but within four years	39,782
After four but within five years	28,251
Total	$ 1,346,649

The Company had $453.8 million and $263.5 million of brokered deposits as of December 31, 2020 and 2019, respectively. There were no concentrations of deposits with any one depositor at December 31, 2020 or 2019.

Related party deposits from principal officers, directors and their affiliates at December 31, 2020 and 2019 were $9.2 million.

11. DERIVATIVE INSTRUMENTS

During 2020, the Company entered into a financial derivative. Financial derivatives are reported at fair value in other assets or other liabilities. The accounting for changes in the fair value of a derivative depends on whether it has been designated and qualifies as part of a hedging relationship.

Derivatives designated as cash flow hedges

For derivative instruments that are designated and qualify as a cash flow hedge, the aggregate fair value of the derivative instrument is recorded in other assets or other liabilities with any gain or loss related to changes in fair value recorded in accumulated other comprehensive income, net of tax. The gain or loss is reclassified into earnings in the same period during which the hedged asset or liability affects earnings and is presented in the same income statement line item as the earnings effect of the hedged asset or liability. The Company uses forward cash flow hedges in an effort to manage future interest rate exposure on liabilities. The hedging strategy converts the variable interest rate on liabilities to a fixed interest rate and is used in an effort to protect the Company from floating interest rate variability. A summary of the Company's cash flow hedge relationship as of December 31, 2020 is as follows:

	Balance Sheet Location	Weighted Average Maturity (In Years)	Weighted Average Pay Rate	Receive Rate	Notional Amount	Estimated Fair Value
			(Dollars in thousands)			
Liability derivatives						
Interest rate swaps	Other liabilities	4.02	0.64%	3 month LIBOR	$ 100,000	$ (1,252)

The effects of the Company's cash flow hedge relationship on the statement of comprehensive income during the years ended December 31, 2020 and 2019 were as follows, net of tax:

	Amount of Loss Recognized in Other Comprehensive Loss For the Years Ended December 31,	
	2020	2019
	(Dollars in thousands)	
Liability derivatives		
Interest rate swaps	$ (989)	$ —

The cash flow hedge was determined to be effective during the periods presented and as a result qualified for hedge accounting treatment. The hedge would no longer be considered effective if a portion of the hedge becomes ineffective, the item hedged is no longer in existence or the Company discontinues hedge accounting. The Company expects the hedge at December 31, 2020 to continue to be effective and qualify for hedge accounting during the remaining terms of the original hedging transactions. At December 31, 2020, the Company expected $96 thousand of the unrealized loss to be reclassified as interest expense during the next twelve months. Losses totaling $76 thousand, net of tax, were reclassified from accumulated other comprehensive income into net income during the year ended December 31, 2020.

12. BORROWINGS AND BORROWING CAPACITY

The Company has an available line of credit with the FHLB of Dallas, which allows the Company to borrow on a collateralized basis. FHLB advances are used to manage liquidity as needed. The advances are secured by a blanket lien on certain loans. Maturing advances are replaced by drawing on available cash, making additional borrowings or through increased customer deposits. At December 31, 2020, the Company had total borrowing capacity of $1.99 billion, of which $1.44 billion was available under this agreement and $550.2 million was outstanding. FHLB advances of $140.0 million were outstanding at December 31, 2020, at a weighted average rate of 1.19%. Letters of credit were $410.2 million at December 31, 2020, of which $248.4 million will expire in 2021, $151.7 million will expire in 2022 and $10.1 million will expire in 2023.

On December 28, 2018, the Company amended its revolving credit agreement to increase the maximum commitment to advance funds to $45.0 million which will reduce annually by $7.5 million beginning in December 2020 and on each December 22nd for the following years thereafter. The Company is required to repay any outstanding balance in excess of the then-current maximum commitment amount. The revised agreement will mature in December 2025 and is secured by 100% of the capital stock of the Bank. The credit agreement contains certain restrictive covenants. At December 31, 2020, the Company believes it was in compliance with all such debt covenants and had not been made aware of any noncompliance by the lender. The interest rate on the debt is the Prime Rate minus 25 basis points, or 3.00%, at December 31, 2020, and is paid quarterly. Scheduled principal maturities are as follows (dollars in thousands):

2021	$ —
2022	—
2023	—
2024	569
2025 and thereafter	15,000
Total	$ 15,569

13. SUBORDINATED DEBT

Junior Subordinated Debentures

On January 1, 2015, the Company acquired F&M Bancshares and assumed Farmers & Merchants Capital Trust II and Farmers & Merchants Capital Trust III with an aggregate original principal amount of $11.3 million and a current carrying value of $9.6 million at December 31, 2020. At acquisition, the Company recorded a discount of $2.5 million on the debentures. The difference between the carrying value and contractual balance will be recognized as a yield adjustment over the remaining term for the debentures. Each of the trusts is a capital or statutory business trust organized for the sole purpose of issuing trust securities and investing the proceeds in the Company's junior subordinated debentures. The preferred trust securities of each trust represent preferred beneficial interests in the assets of the respective trusts and are subject to mandatory redemption upon payment of the junior subordinated debentures held by the trust. The common securities of each trust are wholly owned by the Company. Each trust's ability to pay amounts due on the trust preferred securities is solely dependent upon the Company making payment on the related junior subordinated debentures. The debentures, which are the only assets of each trust, are subordinate and junior in right of payment to all of the Company's present and future senior indebtedness. The Company has fully and unconditionally guaranteed each trust's obligations under the trust securities issued by such trust to the extent not paid or made by each trust, provided such trust has funds available for such obligations. The junior subordinated debentures are included in Tier 1 capital under current regulatory guidelines and interpretations.

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

A summary of pertinent information related to the Company's issuances of junior subordinated debentures outstanding at December 31, 2020 is set forth in the table below:

Description	Issuance Date	Trust Preferred Securities Outstanding	Interest Rate(1)	Junior Subordinated Debt Owed to Trusts	Maturity Date(2)
		(Dollars in thousands)			
Farmers & Merchants Capital Trust II	November 13, 2003	$ 7,500	3 month LIBOR + 3.00%	$ 7,732	November 8, 2033
Farmers & Merchants Capital Trust III	June 30, 2005	3,500	3 month LIBOR + 1.80%	3,609	July 7, 2035
				$ 11,341	

(1) The 3-month LIBOR in effect as of December 31, 2020 was 0.23364%.
(2) All debentures are currently callable.

Subordinated Notes

In December 2017, the Bank completed the issuance, through a private placement, of $40.0 million aggregate principal amount of Fixed-to-Floating Rate Subordinated Notes (the "Notes") due December 15, 2027. The Notes were issued at a price equal to 100% of the principal amount, resulting in net proceeds to the Bank of $39.4 million. The Bank 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.

In September 2019, the Company completed the issuance of $60.0 million aggregate principal amount of Fixed-to-Floating Rate Subordinated Notes (the "Company Notes") due October 1, 2029. The Company Notes were issued at a price equal to 100% of the principal amount, resulting in net proceeds to the Company of $58.6 million.

The Company Notes bear a fixed interest rate of 4.70% per annum until (but excluding) October 1, 2024, payable semi-annually in arrears on April 1 and October 1, commencing on April 1, 2020. Thereafter, from October 1, 2024 through the maturity date, October 1, 2029, or earlier redemption date, the Company Notes will bear interest at a floating rate equal to the then-current three-month LIBOR, plus 313 basis points (3.13%) for each quarterly interest period (subject to certain provisions set forth under "Description of the Notes—Interest Rates and Interest Payment Dates" included in the Prospectus Supplement), payable quarterly in arrears on January 1, April 1, July 1 and October 1 of each year. Any redemption will be at a redemption price equal to 100% of the principal amount of Company Notes being redeemed, plus accrued and unpaid interest, and will be subject to, and require, prior regulatory approval. The Company Notes are not subject to redemption at the option of the holders.

14. INCOME TAXES

The components of the provision for federal income taxes are as follows:

	For the Years Ended December 31,		
	2020	2019	2018
	(Dollars in thousands)		
Current	$ 17,527	$ 13,514	$ 8,204
Deferred	(7,090)	(87)	(256)
Total	$ 10,437	$ 13,427	$ 7,948

Reported income tax expense differs from the amounts computed by applying the U.S. federal statutory income tax rate to income before income taxes for the years ended December 31, 2020, 2019 and 2018 due to the following:

	For the Years Ended December 31,		
	2020	2019	2018
	(Dollars in thousands)		
Taxes calculated at statutory rate	$ 11,754	$ 13,940	$ 9,504
Increase (decrease) resulting from:			
Stock based compensation	136	(11)	(400)
Effect of tax-exempt income	(1,475)	(698)	(1,284)
Other, net	22	196	128
Total	$ 10,437	$ 13,427	$ 7,948

The Company recognized net tax shortfall related to stock based compensation totaling $136 thousand in 2020, compared to net tax benefits of $11 thousand in 2019 and $400 thousand in 2018.

Year-end deferred taxes are presented in the table below. Deferred taxes as of December 31, 2020 and 2019 are based on the 21% maximum federal statutory tax rate.

Deferred tax assets and liabilities are as follows:

	As of December 31, 2020	As of December 31, 2019
	(Dollars in thousands)	
Deferred tax assets:		
Allowance for credit losses	$ 12,590	$ 6,432
Deferred loan fees	3,164	—
Deferred compensation	655	855
Cash flow hedge	263	—
Other deferred assets	342	—
Total deferred tax assets	17,014	7,287
Deferred tax liabilities:		
Core deposit intangible and other purchase accounting adjustments	(3,964)	(3,591)
Net unrealized gain on available for sale securities	(9,417)	(1,307)
Premises and equipment basis difference	(2,573)	(2,099)
Total deferred tax liabilities	(15,954)	(6,997)
Net deferred tax assets	$ 1,060	$ 290

Interest and penalties related to tax positions are recognized in the period in which they begin accruing or when the entity claims the position that does not meet the minimum statutory thresholds. The Company does not have any uncertain tax positions and does not have any interest and penalties recorded in the income statement for the years ended December 31, 2020, 2019 and 2018. The Company is no longer subject to examination by the US Federal Tax Jurisdiction for the years prior to 2017.

15. STOCK BASED COMPENSATION

At December 31, 2020, the Company had two stock-based employee compensation plans with awards outstanding. In connection with the acquisition of Post Oak Bancshares, Inc., on October 1, 2018, the Company assumed the Post Oak Bancshares, Inc. Stock Option Plan, under which no additional awards will be issued. During 2019, the Company's Board of Directors and shareholders approved the 2019 Amended and Restated Stock Awards and Incentive Plan (the "Plan") covering certain awards of stock-based compensation to key employees and directors of the Company and its affiliates. Under the Plan, the Company is authorized to issue a maximum aggregate of 3,200,000 shares of stock, up to 1,800,000 of which may be issued through incentive stock options. The Company accounts for stock based employee compensation plans using the fair value-based method of accounting. The Company recognized total stock based compensation expense of $3.4 million, $3.1 million and $1.7 million for the years ended December 31, 2020, 2019 and 2018, respectively.

Stock Options

Options to purchase a total of 1,309,231 shares of Company stock have been granted as of December 31, 2020. There were no stock options granted during 2020 and 2019. Under the Plan, options are exercisable up to 10 years from the date of the grant and, dependent on the terms of the applicable award agreement generally vest 4 years after the date of grant. The fair value of stock options granted is estimated at the date of grant using the Black-Scholes model.

A summary of the activity in the stock option plans during the years ended December 31, 2020 and 2019 is set forth below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	(Shares in thousands)		(In years)	(Dollars in thousands)
Options outstanding, January 1, 2019	802	$ 18.88	4.61	$ 10,830
Options granted	—	—		
Options exercised	(179)	15.16		
Options forfeited	(7)	24.18		
Options outstanding, December 31, 2019	616	$ 19.90	4.00	$ 10,904
Options granted	—	—		
Options exercised	(141)	15.72		
Options forfeited	(6)	20.36		
Options outstanding, December 31, 2020	469	$ 21.08	3.43	$ 6,118
Options vested and exercisable, December 31, 2020	455	$ 20.58	3.34	$ 6,164

The Company expects all outstanding options at December 31, 2020 to vest.

Information related to the stock option plans during each year is as follows:

	2020	2019	2018
	(Dollars in thousands, except per share data)		
Intrinsic value of options exercised	$ 734	$ 751	$ 3,254
Cash received from option exercises	2,221	2,709	3,393
Weighted average fair value of options granted	$ —	$ —	$ 18.00

As of December 31, 2020, there was $110 thousand of total unrecognized compensation cost related to nonvested stock options granted under the plans. The cost is expected to be recognized over a weighted-average period of 0.53 years.

Restricted Stock Awards

The Company has issued 378,091 restricted stock awards under the Plan as of December 31, 2020. During 2019, the Company awarded 87,950 shares of restricted stock with a weighted average grant date fair value of $34.97. During 2020, the Company awarded 63,596 shares of restricted stock with a weighted average grant date fair value of $22.59. The shares of restricted stock generally vest over a period of 4 years and are considered outstanding at the date of issuance. The Company accounts for shares of restricted stock by recording the fair value of the grant on the award date as compensation expense over the vesting period.

A summary of the activity of the nonvested shares of restricted stock as of December 31, 2020 and 2019 including changes during the years then ended is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
	(Shares in thousands)	
Nonvested share awards outstanding, January 1, 2019	143	$ 37.48
Share awards granted	88	34.97
Share awards vested	(45)	36.70
Unvested share awards forfeited or cancelled	(19)	38.46
Nonvested share awards outstanding, December 31, 2019	167	$ 36.23
Share awards granted	64	22.59
Share awards vested	(60)	33.97
Unvested share awards forfeited or cancelled	(13)	37.92
Nonvested share awards outstanding, December 31, 2020	158	$ 30.78

At December 31, 2020, there was $4.3 million of unrecognized compensation expense related to the restricted stock awards which is expected to be recognized over a weighted-average period of 2.28 years. The total fair value of restricted stock awards that fully vested during the years ended December 31, 2020, 2019 and 2018 was approximately $2.0 million, $1.6 million and $621 thousand, respectively.

Performance Share Units ("PSUs")

PSUs are earned subject to certain performance goals being met after the two-year performance period and will be settled in shares of Allegiance Common Stock following a one-year service period. During 2020, the Company awarded 46,243 PSUs. During 2019, the Company awarded 34,628 PSUs. The grant date fair value of the PSUs is based on the probable outcome of the applicable performance conditions and is calculated at target based on a combination of the closing market price of our common stock on the grant date and a Monte Carlo simulated fair value in accordance with ASC 718. At December 31, 2020, there was $1.2 million of unrecognized compensation expense related to the PSUs, which is expected to be recognized over a weighted-average period of 1.88 years.

16. OTHER EMPLOYEE BENEFITS

401(k) benefit plan

The Company has a 401(k) benefit plan whereby participants may contribute a percentage of their compensation. The Company matches 50% of an employee's contributions up to 6% of the employee's compensation, for a maximum match of 3% of compensation. Matching contribution expense as of December 31, 2020, 2019 and 2018 was $1.4 million, $1.4 million and $962 thousand, respectively.

Profit sharing plan

The financial statements include an accrual for $3.5 million, $3.7 million and $2.5 million for a contribution to the plan as a profit sharing contribution for the years ended December 31, 2020, 2019 and 2018, respectively.

Employee Stock Purchase Plan

The Company offers its employees an opportunity to purchase shares of Allegiance's common stock, pursuant to the terms of the Allegiance Bancshares, Inc. 2019 Amended and Restated Employee Stock Purchase Plan ("ESPP"). The ESPP was adopted by the Board of Directors to provide employees with an opportunity to purchase shares of Allegiance in order to provide employees a more direct opportunity to participate in the Company's growth. The Company allows employees to purchase shares at a 15% discount to

market value and thus incurs stock based compensation expense for the fair value of the discount given. The Company recognized total stock based compensation expense of $142 thousand, $210 thousand and $48 thousand for the years ended December 31, 2020, 2019, and 2018 respectively.

17. OFF-BALANCE SHEET ARRANGEMENTS, COMMITMENTS AND CONTINGENCIES

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

Commitments to Extend Credit

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being fully drawn upon, the total commitment amounts disclosed do not necessarily represent future cash funding requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The Company minimizes its exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures. Management assesses the credit risk associated with certain commitments to extend credit in determining the level of the allowance for credit losses. The amount and type of collateral, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer.

Standby Letters of Credit

Standby letters of credit are written conditional commitments issued by the Company to guarantee the performance of a customer to a third party. In the event of nonperformance by the customer, the Company has the rights to the underlying collateral. The credit risk to the Company in issuing letters of credit is essentially the same as that involved in extending loan facilities to its customers. The Company's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

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

	December 31, 2020		December 31, 2019	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
	(Dollars in thousands)			
Commitments to extend credit	$ 761,938	$ 480,067	$ 507,411	$ 531,470
Standby letters of credit	9,252	8,003	10,843	4,309
Total	$ 771,190	$ 488,070	$ 518,254	$ 535,779

Commitments to make loans are generally made for periods of 120 days or less. As of December 31, 2020, the fixed rate loan commitments have interest rates ranging from 1.20% to 18.00% with a weighted average maturity and rate of 3.53 years and 5.13%, respectively.

18. REGULATORY CAPITAL MATTERS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations involve quantitative measures of assets, liabilities and certain off balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings and other factors. Failure to meet minimum capital requirements can initiate actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Management believes as of December 31, 2020 and 2019, the Company and the Bank met all capital adequacy requirements to which they were subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial

condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited as is asset growth and expansion, and capital restoration plans are required. At year-end 2020 and 2019, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

The following is a summary of the Company's and the Bank's actual and required capital ratios at December 31, 2020 and 2019:

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required Plus Capital Conservation Buffer		To Be Categorized As Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)							
ALLEGIANCE BANCSHARES, INC.								
(Consolidated)								
As of December 31, 2020								
Total Capital (to risk weighted assets)	$ 642,155	15.71%	$ 327,084	8.00%	$ 429,298	10.50%	N/A	N/A
Common Equity Tier 1 Capital (to risk weighted assets)	482,643	11.80%	183,985	4.50%	286,199	7.00%	N/A	N/A
Tier 1 Capital (to risk weighted assets)	492,281	12.04%	245,313	6.00%	347,527	8.50%	N/A	N/A
Tier 1 Capital (to average tangible assets)	492,281	8.51%	231,518	4.00%	231,518	4.00%	N/A	N/A
As of December 31, 2019								
Total Capital (to risk weighted assets)	$ 596,684	14.83%	$ 321,775	8.00%	$ 422,330	10.50%	N/A	N/A
Common Equity Tier 1 Capital (to risk weighted assets)	459,447	11.42%	180,999	4.50%	281,553	7.00%	N/A	N/A
Tier 1 Capital (to risk weighted assets)	468,972	11.66%	241,331	6.00%	341,886	8.50%	N/A	N/A
Tier 1 Capital (to average tangible assets)	468,972	10.02%	187,146	4.00%	187,146	4.00%	N/A	N/A
ALLEGIANCE BANK								
As of December 31, 2020								
Total Capital (to risk weighted assets)	$ 635,223	15.55%	$ 326,804	8.00%	$ 428,931	10.50%	$ 408,506	10.00%
Common Equity Tier 1 Capital (to risk weighted assets)	544,331	13.32%	183,828	4.50%	285,954	7.00%	265,529	6.50%
Tier 1 Capital (to risk weighted assets)	544,331	13.32%	245,103	6.00%	347,230	8.50%	326,804	8.00%
Tier 1 Capital (to average tangible assets)	544,331	9.41%	231,334	4.00%	231,334	4.00%	289,167	5.00%
As of December 31, 2019								
Total Capital (to risk weighted assets)	$ 578,425	14.39%	$ 321,556	8.00%	$ 422,043	10.50%	$ 401,945	10.00%
Common Equity Tier 1 Capital (to risk weighted assets)	509,372	12.67%	180,875	4.50%	281,362	7.00%	261,265	6.50%
Tier 1 Capital (to risk weighted assets)	509,372	12.67%	241,167	6.00%	341,654	8.50%	321,556	8.00%
Tier 1 Capital (to average tangible assets)	509,372	10.89%	187,018	4.00%	187,018	4.00%	233,773	5.00%

Dividend Restrictions

Allegiance's principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. In addition, Allegiance's credit agreement with another financial institution also limits its ability to pay dividends. Under applicable banking regulations, the amount of dividends that may be paid by the Bank in any calendar year is limited to the current year's net profits combined with the retained net profits of the preceding two years, subject to the capital requirements described above.

19. EARNINGS PER COMMON SHARE

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

	For the Years Ended December 31,					
	2020		2019		2018	
	Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount
	(Amounts in thousands, except per share data)					
Net income attributable to shareholders	$ 45,534		$ 52,959		$ 37,309	
Basic:						
Weighted average shares outstanding	20,415	$ 2.23	21,152	$ 2.50	15,485	$ 2.41
Diluted:						
Add incremental shares for:						
Dilutive effect of stock option exercises	131		272		288	
Total	20,546	$ 2.22	21,424	$ 2.47	15,773	$ 2.37

Stock options for 39,050, 23,125 and 54,175 shares were not considered in computing diluted earnings per share as of December 31, 2020, 2019 and 2018, respectively, because they were antidilutive.

20. PARENT COMPANY ONLY FINANCIAL STATEMENTS

ALLEGIANCE BANCSHARES, INC
(PARENT COMPANY ONLY)
CONDENSED BALANCE SHEETS

	December 31, 2020	December 31, 2019
	(Dollars in thousands)	
ASSETS		
Cash and due from banks	$ 19,340	$ 17,775
Investment in subsidiary	820,699	760,131
Other assets	2,691	1,665
TOTAL	$ 842,730	$ 779,571
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Other borrowed funds	$ 15,514	$ 504
Subordinated debentures	68,577	68,184
Accrued interest payable and other liabilities	(30)	1,018
Total liabilities	84,061	69,706
SHAREHOLDERS' EQUITY:		
Common stock	20,208	20,524
Capital surplus	508,794	521,066
Retained earnings	195,236	163,375
Accumulated other comprehensive income	34,431	4,900
Total shareholders' equity	758,669	709,865
TOTAL	$ 842,730	$ 779,571

ALLEGIANCE BANCSHARES, INC
(PARENT COMPANY ONLY)
CONDENSED STATEMENTS OF INCOME

	For the Years Ended December 31,		
	2020	2019	2018
	(Dollars in thousands)		
OPERATING INCOME:			
Other income	$ 16	$ 25	$ 16
Total income	16	25	16
OPERATING EXPENSE:			
Interest expense on borrowed funds	3,497	1,459	38
Other expenses	1,595	1,922	1,692
Total operating expense	5,092	3,381	1,730
Income before income tax benefit and equity in undistributed income of subsidiaries	(5,076)	(3,356)	(1,714)
Income tax benefit	1,066	705	360
Income before equity in undistributed income of subsidiaries	(4,010)	(2,651)	(1,354)
Dividends from subsidiary and equity in undistributed income of subsidiaries	49,544	55,610	38,663
Net income	$ 45,534	$ 52,959	$ 37,309

ALLEGIANCE BANCSHARES, INC
(PARENT COMPANY ONLY)
CONDENSED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2020	2019	2018
	(Dollars in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 45,534	$ 52,959	$ 37,309
Adjustments to reconcile net income to net cash used in operating activities:			
Equity in undistributed earnings of subsidiaries	(49,544)	(55,610)	(38,663)
Net amortization of discount on subordinated debentures	392	169	110
Stock based compensation expense	3,425	3,100	1,685
Increase in other assets	(1,026)	(639)	(236)
(Decrease) increase in accrued interest payable and other liabilities	(1,038)	166	279
Net cash (used in) provided by operating activities	(2,257)	145	484
CASH FLOWS FROM INVESTING ACTIVITIES:			
Dividend from subsidiary	13,000	7,500	—
Capital investment in bank subsidiary	—	—	—
Net cash provided by investing activities	13,000	7,500	—
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from the issuance of common stock, stock option exercises and the ESPP	2,569	3,412	3,552
Net increase in borrowings under credit agreement	15,000	—	—
Proceeds from subordinated notes issuance, net of offering expenses	—	58,601	—
Dividends paid to common shareholders	(8,165)	—	—
Repurchase of common stock	(18,582)	(58,663)	(2,113)
Net cash (used in) provided by financing activities	(9,178)	3,350	1,439
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,565	10,995	1,923
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	17,775	6,780	4,857
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 19,340	$ 17,775	$ 6,780

21. QUARTERLY FINANCIAL DATA (UNAUDITED)

	Interest Income	Net Interest Income	Net Income Attributable to Common Shareholders	Earnings Per Share[1] Basic	Earnings Per Share[1] Diluted
	(Dollars in thousands, except per share data)				
2020					
First quarter[2]	$ 57,452	$ 45,025	$ 3,516	$ 0.17	$ 0.17
Second quarter[2]	60,452	50,847	9,907	0.49	0.48
Third quarter[2]	60,811	51,909	16,170	0.79	0.79
Fourth quarter	63,047	54,902	15,941	0.78	0.77
2019					
First quarter	$ 57,149	$ 44,603	$ 12,678	$ 0.58	$ 0.58
Second quarter	58,946	45,571	14,248	0.67	0.66
Third quarter	58,665	44,837	12,047	0.57	0.57
Fourth quarter	58,147	44,526	13,986	0.68	0.67

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

(2) Does not reflect the adoption of ASC 326.

22. SUBSEQUENT EVENT

Dividend Declaration

On January 27, 2021, the Company declared a cash dividend of $0.12 per share of common stock to be paid on March 15, 2021 to all shareholders of record as of February 26, 2021.

Exhibit 4.2

DESCRIPTION OF THE REGISTRANT'S SECURITIES

REGISTERED PURSUANT TO SECTION 12 OF THE

SECURITIES EXCHANGE ACT OF 1934

Allegiance Bancshares, Inc. has one class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended: its common stock, par value $1.00 per share (the "common stock"). As used in this exhibit, the terms "Allegiance," "the Company," "we," "us" and "our" refer to Allegiance Bancshares, Inc. and do not refer to its consolidated subsidiaries, unless the context otherwise requires.

General

The following discussion summarizes some of the important rights of the holders of shares of our common stock. This discussion does not purport to be a complete description of these rights and may not contain all of the information regarding our common stock that is important to you. These rights can be determined in full only by reference to federal and state banking laws and regulations, the Texas Business Organizations Code, or "the TBOC," and our amended and restated certificate of formation and bylaws.

We are incorporated in the State of Texas. The rights of our shareholders are generally covered by Texas law and our amended and restated certificate of formation and bylaws. The terms of our capital stock are therefore subject to Texas law, including the TBOC, and the common and constitutional law of Texas. The following discussion describes the terms of our amended and restated certificate of formation and bylaws. Our amended and restated certificate of formation and bylaws have been filed with the SEC as exhibits to the Annual Report on Form 10-K of which this exhibit is a part.

Our amended and restated certificate of formation authorizes us to issue up to 80,000,000 shares of common stock, par value $1.00 per share, and 1,000,000 shares of preferred stock, par value $1.00 per share. The authorized but unissued shares of our capital stock will be available for future issuance without shareholder approval, unless otherwise required by applicable law or the rules of any applicable securities exchange.

Voting Rights

Subject to any special voting rights that may be given to any series of preferred stock that we may issue in the future, holders of our common stock are entitled to one vote per share in the election of directors and on all other matters submitted to a vote of our shareholders. Shareholders are not entitled to cumulate their votes with respect to the election of directors. Directors are elected by a plurality of the votes cast.

Dividend Rights

Holders of our common stock are entitled to dividends when, as and if declared by our board of directors out of funds legally available therefor.

Liquidation Rights

On liquidation of the Company, the holders of the common stock are entitled to share pro rata with the holders of shares of other common stock of the Company in any distribution of the assets of the Company after the holders of shares of preferred stock, if any, have received the liquidation preference of their shares as determined by our board of directors plus any declared but unpaid dividends, if any, and after all other indebtedness of the Company has been retired.

Other

Our common stock has no preemptive or conversion rights and is not entitled to the benefits of any redemption or sinking fund provision.

Preferred Stock

Our amended and restated certificate of formation permits us to issue one or more series of preferred stock and authorizes our board of directors to designate the designations, preferences, limitations and relative rights of any such series of preferred stock, in each case, without any further action by our shareholders. While the terms of preferred stock may vary from series to series, holders of our common stock should assume that all shares of preferred stock will be senior to our common stock in respect of distributions and on liquidation.

Our board of directors may authorize the issuance of preferred stock with voting rights that affect adversely the voting power or other rights of our other classes of stock, including the common stock. The issuance of preferred stock also could have the effect of delaying, deferring or preventing a change in control or causing the market price of our common stock to decline.

We currently have no shares of preferred stock issued or outstanding.

Listing

Our common stock is listed on the NASDAQ Global Market under the symbol "ABTX."

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Computershare Investor Services, c/o Shareholder Services, whose address is 150 Royall Street, Canton, MA 02021.

Business Combinations under Texas Law

A number of provisions of Texas law, our amended and restated certificate of formation and our bylaws could have an anti-takeover effect and make more difficult the acquisition of the Company by means of a tender offer, a proxy contest or otherwise and the removal of incumbent directors. These provisions are intended to discourage coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us to negotiate first with our board of directors.

We are subject to the provisions of Title 2, Chapter 21, Subchapter M of the TBOC, or the Texas Business Combination Law, which provides that a Texas corporation may not engage in specified types of business combinations, including mergers, consolidations and asset sales, with a person, or an affiliate or associate of that person, who is an "affiliated shareholder." For purposes of this law, an "affiliated shareholder" is generally defined as the holder of 20% or more of the corporation's voting shares, for a period of three years from the date that person became an affiliated shareholder. The law's prohibitions do not apply if:

- the business combination or the acquisition of shares by the affiliated shareholder was approved by the board of directors of the corporation before the affiliated shareholder became an affiliated shareholder; or

- the business combination was approved by the affirmative vote of the holders of at least two-thirds of the outstanding voting shares of the corporation not beneficially owned by the affiliated shareholder, at a meeting of shareholders called for that purpose, not less than six months after the affiliated shareholder became an affiliated shareholder.

We have more than 100 shareholders and are considered to be an "issuing public corporation" for purposes of this law. The Texas Business Combination Law does not apply to the following:

- the business combination of an issuing public corporation: where the corporation's original certificate of formation or bylaws contain a provision expressly electing not to be governed by the Texas Business Combination Law; or that adopts an amendment to its certificate of formation or bylaws, by the affirmative vote of the holders, other than affiliated shareholders, of at least two-thirds of the outstanding voting shares of the corporation, expressly electing not to be governed by the Texas Business Combination Law and so long as the amendment does not take effect for 18 months following the date of the vote and does not apply

to a business combination with an affiliated shareholder who became affiliated on or before the effective date of the amendment;

- a business combination of an issuing public corporation with an affiliated shareholder that became an affiliated shareholder inadvertently, if the affiliated shareholder divests itself, as soon as possible, of enough shares to no longer be an affiliated shareholder and would not at any time within the three- year period preceding the announcement of the business combination have been an affiliated shareholder but for the inadvertent acquisition;
- a business combination with an affiliated shareholder who became an affiliated shareholder through a transfer of shares by will or intestacy and continuously was an affiliated shareholder until the announcement date of the business combination; and
- a business combination of a corporation with its wholly owned subsidiary if such subsidiary is a Texas entity and not an affiliate or associate of the affiliated shareholder other than by reason of the affiliated shareholder's beneficial ownership of voting shares of the corporation.

Neither our amended and restated certificate of formation nor our bylaws contain any provision expressly providing that the Company will not be subject to the Texas Business Combination Law. The Texas Business Combination Law may have the effect of inhibiting a nonnegotiated merger or other business combination involving Allegiance, even if that event would be beneficial to our shareholders.

Action by Written Consent

Under Texas law, no action required or permitted to be taken at an annual or special meeting of shareholders may be taken by written consent in lieu of a meeting of shareholders without the unanimous written consent of all shareholders entitled to vote on the action unless the certificate of formation specifically allows action to be taken by a written consent of the shareholders holding at least the minimum number of shares necessary to take the action that is subject to that consent at a meeting of shareholders, even though such consent is not signed by all of the corporation's shareholders. Our amended and restated certificate of formation provides for shareholder action by less than unanimous written consent.

Certain Certificate of Formation and Bylaw Provisions Potentially Having an Anti-takeover Effect

Our amended and restated certificate of formation and bylaws contain certain provisions that could have an anti-takeover effect and thus discourage potential takeover attempts and make it more difficult for our shareholders to change management or receive a premium for their shares. These provisions include:

- staggered terms for directors, who may be removed from office only for cause ;
- a prohibition on cumulative voting in the election of directors;
- authority for our board of directors to issue shares of our preferred stock without shareholder approval and upon such terms as our board of directors may determine;
- 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 our shareholders may be called only by a majority of our board of directors, the President or a holder or group of holders of at least 50 % of our shares entitled to vote at the meeting.

In addition to these provisions of our amended and restated certificate of formation and bylaws, 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 Bank Holding Company Act and the Change in Bank Control Act. These laws could delay or prevent an acquisition.

Limitation of Liability and Indemnification of Officers and Directors

Our amended and restated certificate of formation provides that our directors and officers will be indemnified by us to the fullest extent permitted under the TBOC and applicable federal laws and regulations, against all reasonable expenses incurred in connection with their service for or on our behalf. Our amended and restated certificate of formation also makes mandatory the indemnification permitted under Section 8.101 of the TBOC and makes mandatory the payment or reimbursement of reasonable expenses under Section 8.101 of the TBOC, and extends this mandatory indemnification and mandatory payment or reimbursement of expenses to all former or present officers of the Company and all persons who were serving at the request of the Company as the director, officer, partner, agent or trustee of another foreign or domestic entity. In addition, our amended and restated certificate of formation provides that our directors and officers will not be personally liable for monetary damages to us to the fullest extent permitted by the TBOC.

We have entered into indemnification agreements with our executive officers and directors pursuant to which they will be indemnified as described above and will be advanced costs and expenses subject to the condition that such executive officers and directors will reimburse us for all advancements paid if a final judicial determination is made that such executive officer or director is not entitled to indemnification under applicable law or regulation.

Exhibit 21.1

ALLEGIANCE BANCSHARES, INC. LIST OF SUBSIDIARIES
AS OF MARCH 10, 2021

Direct Subsidiaries	*Jurisdiction of Organization*	*Parent Entity*
Allegiance Bank	Texas	Allegiance Bancshares, Inc.
Farmers & Merchants Capital Trust II	Delaware	Allegiance Bancshares, Inc.
Farmers & Merchants Capital Trust III	Delaware	Allegiance Bancshares, Inc.

Indirect Subsidiaries	*Jurisdiction of Organization*	*Parent Entity*
ABTX Financial, Inc.	Texas	Allegiance Bank
American Prudential Capital, Inc.	Texas	Allegiance Bank

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Forms S-8 (Nos. 333-207342, 333-208600, 333-218732, 333-228119, 333-231141 and 333-231142) and S-3 (No. 333-236103) of Allegiance Bancshares, Inc. of our report dated March 10, 2021 relating to the consolidated financial statements and effectiveness of internal control over financial reporting, appearing in this Annual Report on Form 10-K.

/s/ Crowe LLP

Dallas, Texas
March 10, 2021

Exhibit 31.1

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

I, Steven F. Retzloff, certify that:

1. I have reviewed this Annual Report on Form 10-K of Allegiance Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2021

/s/ Steven F. Retzloff

Steven F. Retzloff
Chief Executive Officer

Exhibit 31.2

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

I, Paul P. Egge, certify that:

1. I have reviewed this Annual Report on Form 10-K of Allegiance Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2021

/s/ Paul P. Egge

Paul P. Egge
Chief Financial Officer

Exhibit 32.1

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

In connection with the Annual Report of Allegiance Bancshares, Inc. (the "Company") on Form 10-K for the period ending December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven F. Retzloff, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

IN WITNESS WHEREOF, the undersigned has executed this Certificate, effective as of March 10, 2021.

/s/ Steven F. Retzloff

Steven F. Retzloff
Chief Executive Officer

Exhibit 32.2

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

In connection with the Annual Report of Allegiance Bancshares, Inc. (the “Company”) on Form 10-K for the period ending December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Paul P. Egge, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

IN WITNESS WHEREOF, the undersigned has executed this Certificate, effective as of March 10, 2021.

/s/ Paul P. Egge

Paul P. Egge
Chief Financial Officer