UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2019

OR

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

For the transition period from to

Commission File Number: 001-38484

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

Texas (State or other jurisdiction of incorporation or organization)	**90-0499552** (I.R.S. Employer Identification No.)
1836 Spirit of Texas Way **Conroe, TX** (Address of principal executive offices)	**77301** (Zip Code)

Registrant's telephone number, including area code: (936) 521-1836

Former name, former address and former fiscal year, if changed since last report:

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, no par value	STXB	The NASDAQ Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☒
		Emerging growth company	☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of August 2, 2019, the registrant had 15,794,282 shares of common stock, no par value, outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements (Unaudited)

SPIRIT OF TEXAS BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Dollars in thousands, except per share data)

	June 30, 2019	December 31, 2018
Assets:		
Cash and due from banks	$ 26,150	$ 22,664
Interest-bearing deposits in other banks	137,008	66,351
Total cash and cash equivalents	163,158	89,015
Time deposits in other banks	1,225	-
Investment securities:		
Available for sale securities, at fair value	171,058	179,461
Total investment securities	171,058	179,461
Loans held for sale	2,583	3,945
Loans:		
Loans held for investment	1,409,338	1,092,940
Less: allowance for loan and lease losses	(6,277)	(6,286)
Loans, net	1,403,061	1,086,654
Premises and equipment, net	62,815	53,877
Accrued interest receivable	7,039	4,934
Other real estate owned and repossessed assets	1,324	782
Goodwill	43,889	18,253
Core deposit intangible	12,583	8,558
SBA servicing asset	3,570	3,965
Deferred tax asset, net	48	328
Bank-owned life insurance	15,432	7,401
Federal Home Loan Bank and other bank stock, at cost	6,190	5,304
Other assets	4,485	4,276
Total assets	$ 1,898,460	$ 1,466,753
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Transaction accounts:		
Noninterest-bearing	$ 367,892	$ 256,784
Interest-bearing	569,839	378,822
Total transaction accounts	937,731	635,606
Time deposits	632,873	547,042
Total deposits	1,570,604	1,182,648
Accrued interest payable	1,134	702
Short-term borrowings	—	12,500
Long-term borrowings	80,525	67,916
Other liabilities	2,087	4,191
Total liabilities	1,654,350	1,267,957
Commitments and contingencies (Note 13)		
Stockholders' Equity:		
Preferred stock, $1 par value; 5 million shares authorized; 0 shares issued and outstanding	—	—
Common stock, no par value; 50 million shares authorized; 13,790,332 and 12,103,753 shares issued and outstanding	204,974	169,939
Retained earnings	36,640	27,003
Accumulated other comprehensive income (loss)	2,496	1,854
Total stockholders' equity	244,110	198,796
Total liabilities and stockholders' equity	$ 1,898,460	$ 1,466,753

The accompanying notes are an integral part of these unaudited, consolidated financial statements

SPIRIT OF TEXAS BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(Dollars in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Interest income:				
Interest and fees on loans	$ 22,204	$ 13,078	$ 39,322	$ 25,369
Interest and dividends on investment securities	1,302	195	2,484	409
Other interest income	794	215	1,378	363
Total interest income	24,300	13,488	43,184	26,141
Interest expense:				
Interest on deposits	3,938	1,941	7,009	3,672
Interest on FHLB advances and other borrowings	611	465	989	1,006
Total interest expense	4,549	2,406	7,998	4,678
Net interest income	19,751	11,082	35,186	21,463
Provision for loan losses	332	635	1,181	974
Net interest income after provision for loan losses	19,419	10,447	34,005	20,489
Noninterest income:				
Service charges and fees	969	419	1,698	776
SBA loan servicing fees	40	548	304	1,172
Mortgage referral fees	198	208	308	364
Gain on sales of loans, net	1,384	1,041	2,188	2,515
Gain on sales of investment securities	1,053	-	2,134	-
Other noninterest income	131	87	200	64
Total noninterest income	3,775	2,303	6,832	4,891
Noninterest expense:				
Salaries and employee benefits	8,765	6,043	15,889	12,901
Occupancy and equipment expenses	1,690	1,221	2,952	2,457
Professional services	1,022	314	2,063	625
Data processing and network	731	321	1,216	634
Regulatory assessments and insurance	315	266	413	521
Amortization of intangibles	1,006	175	1,609	351
Advertising	167	102	264	217
Marketing	132	121	271	239
Telephone expense	338	114	478	212
Conversion expense	453	-	1,604	-
Other operating expenses	1,206	704	2,070	1,350
Total noninterest expense	15,825	9,381	28,829	19,507
Income before income tax expense	7,369	3,369	12,008	5,873
Income tax expense	1,542	688	2,371	1,179
Net income	$ 5,827	$ 2,681	$ 9,637	$ 4,694
Earnings per common share:				
Basic	$ 0.42	$ 0.30	$ 0.74	$ 0.58
Diluted	$ 0.41	$ 0.29	$ 0.72	$ 0.56
Weighted average common shares outstanding:				
Basic	13,765,929	8,851,446	12,963,700	8,104,370
Diluted	14,236,244	9,306,029	13,432,760	8,445,960

The accompanying notes are an integral part of these unaudited, consolidated financial statements

SPIRIT OF TEXAS BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(Dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net income	$ 5,827	$ 2,681	$ 9,637	$ 4,694
Other comprehensive income (loss):				
Unrealized net holding gains (losses) on investment securities available for sale, net of (tax) and benefit of $(390), $17, $(699) and $153, respectively	1,468	(66)	2,630	(576)
Reclassification adjustment for realized (gains) losses on investment securities available for sale included in net income, net of taxes of $260, $0, $529 and $0, respectively	(976)	—	(1,988)	—
Total other comprehensive income (loss)	492	(66)	642	(576)
Total comprehensive income	$ 6,319	$ 2,615	$ 10,279	$ 4,118

The accompanying notes are an integral part of these unaudited, consolidated financial statements

SPIRIT OF TEXAS BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)
(Dollars in thousands)

	Shares of Common Stock	Shares of Preferred Stock	Common Stock	Preferred Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Three Months Ended June 30,							
Balance as of April 1, 2018	7,486,611	—	$ 84,952	$ —	$ 19,038	$ (1,011)	$ 102,979
Net income	—	—	—	—	2,681	—	2,681
Shares issued in offering, net	2,300,000	—	42,219				42,219
Stock-based compensation	—	—	173	—	—	—	173
Other comprehensive income (loss)	—	—	—	—	—	(66)	(66)
Balance as of June 30, 2018	9,786,611	—	$ 127,344	$ —	$ 21,719	$ (1,077)	$ 147,986
Balance as of April 1, 2019	12,195,891	—	$ 171,159	$ —	$ 30,813	$ 2,004	$ 203,976
Net income	—	—	—	—	5,827	—	5,827
Shares issued in business combination	1,579,191	—	33,479	—	—	—	33,479
Exercise of stock options and warrants	15,250	—	185	—	—	—	185
Stock-based compensation	—	—	151	—	—	—	151
Other comprehensive income (loss)	—	—	—	—	—	492	492
Balance as of June 30, 2019	13,790,332	—	$ 204,974	$ —	$ 36,640	$ 2,496	$ 244,110
Six Months Ended June 30,							
Balance as of January 1, 2018	7,280,183	—	$ 82,615	$ —	$ 17,025	$ (501)	$ 99,139
Net income	—	—	—	—	4,694	—	4,694
Shares issued in offering, net	2,300,000	—	42,219				42,219
Exercise of stock options and warrants	206,428	—	2,185	—	—	—	2,185
Stock-based compensation	—	—	325	—	—	—	325
Other comprehensive income (loss)	—	—	—	—	—	(576)	(576)
Balance as of June 30, 2018	9,786,611	—	$ 127,344	$ —	$ 21,719	$ (1,077)	$ 147,986
Balance as of January 1, 2019	12,103,753	—	$ 169,939	$ —	$ 27,003	$ 1,854	$ 198,796
Net income	—	—	—	—	9,637	—	9,637
Shares issued in business combination	1,579,191	—	33,479	—	—	—	33,479
Exercise of stock options and warrants	107,388	—	1,288	—	—	—	1,288
Stock-based compensation	—	—	268	—	—	—	268
Other comprehensive income (loss)	—	—	—	—	—	642	642
Balance as of June 30, 2019	13,790,332	—	$ 204,974	$ —	$ 36,640	$ 2,496	$ 244,110

The accompanying notes are an integral part of these unaudited, consolidated financial statements

SPIRIT OF TEXAS BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in thousands)

	Six Months Ended June 30,	
	2019	2018
Cash Flows From Operating Activities:		
Net income	$ 9,637	$ 4,694
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	1,181	974
Depreciation and amortization	1,353	945
Net amortization (accretion) of premium (discount) on investment securities	180	162
Amortization of core deposit intangible	1,609	351
Accretion of discount on retained SBA loans	(831)	(560)
Deferred tax expense (benefit)	269	17
Originations of loans held for sale	(24,774)	(34,082)
Proceeds from loans held for sale	28,422	32,740
Net gains on sale of loans held for sale	(2,188)	(2,515)
(Gain) loss on sale of investment securities	(2,134)	—
(Gain) loss on sale of other real estate owned	(53)	3
Fair value adjustment on SBA servicing asset	915	469
Stock-based compensation	268	325
Increase in cash surrender value of BOLI	(128)	(3)
Net change in operating assets and liabilities:		
Net change in accrued interest receivable	(955)	271
Net change in accrued interest payable	92	24
Net change in other assets	811	544
Net change in other liabilities	(2,306)	(1,588)
Net cash provided by (used in) operating activities	11,368	2,771
Cash Flows From Investing Activities:		
Purchases of investment securities available for sale	(32,536)	—
Sales of investment securities available for sale	79,920	—
Paydown and maturities of investment securities available for sale	21,135	1,833
Net purchase of FHLB and other bank stock	297	(18)
Proceeds from the sale of loans held for investment	—	1,451
Net change in loans	(21,042)	(50,816)
Proceeds from the sale of other real estate owned	884	18
Purchase of premises and equipment	(4,224)	(3,701)
Net cash received in business combination	28,565	-
Net cash provided by (used in) investing activities	72,999	(51,233)
Cash Flows From Financing Activities:		
Net change in deposits	(11,698)	9,315
Redemption of trust preferred securities	77	—
Proceeds from long-term borrowings	23,174	—
Repayment of long-term borrowings	(10,565)	(10,220)
Proceeds from short-term borrowings	—	10,000
Repayment of short-term borrowings	(12,500)	(10,000)
Shares issued in offering, net	—	42,219
Exercise of stock options and warrants	1,288	2,185
Net cash provided by (used in) financing activities	(10,224)	43,499
Net Change in Cash and Cash Equivalents	74,143	(4,963)
Cash and Cash Equivalents at Beginning of Period	89,015	57,949
Cash and Cash Equivalents at End of Period	$ 163,158	$ 52,986
Supplemental Disclosures of Cash Flow Information:		
Interest paid	$ 7,264	$ 3,648
Income taxes paid	1,000	2,050
Supplemental disclosure of noncash investing and financing activities:		

Transfer of loans to other real estate owned and repossessed assets	$	15	$	289
Fair value of assets acquired in business combination, excluding cash		405,561		—
Goodwill recorded		25,636		—
Liabilities assumed in business combination		400,197		—
Stock issued in business combination		33,480		—

The accompanying notes are an integral part of these unaudited, consolidated financial statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Spirit of Texas Bancshares, Inc. (the "Holding Company" or "Company") is a bank holding company headquartered in Conroe, Texas that provides, through its bank subsidiary, a variety of financial services to individuals and corporate customers in Texas, which are primarily agricultural, light industrial and commercial areas.

The Company consummated the underwritten initial public offering of its common stock in May 2018. In connection with the initial public offering, the Company issued and sold 2,300,000 shares of its common stock, including300,000 shares of common stock sold pursuant to the underwriters' full exercise of their option to purchase additional shares, at an offering price of $21.00 per share, for aggregate gross proceeds of $48.3 million before deducting underwriting discounts and offering expenses, and aggregate net proceeds of $42.1 million after deducting underwriting discounts and offering expenses.

Basis of Presentation

The consolidated financial statements include the accounts of the Holding Company and the accounts of its wholly-owned subsidiary, Spirit of Texas Bank SSB (the "Bank"). All significant intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") for interim financial information and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Operating results for the period ended June 30, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019 and should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2018 previously filed with the Securities and Exchange Commission ("SEC") in the Company's Annual Report on Form 10-K.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for the fair presentation of these consolidated financial statements have been included. The preparation of financial statements in conformity with these accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and income and expense during the reporting periods and the related disclosures. Although management's estimates and assumptions are based on current expectations, estimates, forecasts and projections about future performance of the Company, such estimates and assumptions are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult for the Company to assess. Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.

Accounting Policies Recently Adopted and Pending Accounting Pronouncements

Accounting Standards Update (ASU) 2019-04, "Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments" – issued in April 2019, ASU No. 2019-04 clarifies a number of issues discussed at the June 2018 and November 2018 Credit Losses Transition Resource Group meetings. The clarifications address a variety of identified issues including but not limited to the treatment of accrued interest receivable as it relates to the allowance for credit losses, transfers between loan classifications and categories, recoveries, and using projections of future interest rate environments in expected cash flow calculations. Management is evaluating these clarifications concurrently with our assessment of ASU 2016-13.

ASU 2018-13, "Fair Value Measurement Disclosure Framework"– issued in August 2018, ASU No. 2018-13 modifies the disclosure requirements on fair value measurements outlined in Topic 820, Fair Value Measurements. Specifically the amendments in the ASU remove the requirements to disclose the amount and reasons for transfers between fair value hierarchy levels, the policy for timing of transfers between levels, the valuation processes for Level 3 fair value measurements, and for nonpublic entities, disclosure of the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements. Additionally, the ASU adds disclosure requirements regarding changes in unrealized gains and losses for the period included in other comprehensive income related to Level 3 fair value measurements, and disclosure of the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The amendments of ASU 2018-13 are effective for all entities for interim and annual periods beginning after December 15, 2019. Management adopted the provisions of this ASU removing fair value disclosure requirements as of December 31, 2018 as early adoption of the removal provisions was allowed and will adopt the remaining provisions of the ASU as of the effective date.

ASU 2018-09, "Codification Improvements." - issued in July 2018, ASU No. 2018-09 makes changes to a variety of topics to clarify, correct errors in, or make minor improvements to the Accounting Standards Codification. The majority of the amendments in ASU 2018-09 will be effective in annual periods beginning after December 15, 2018. ASU 2018-09 is not expected to have a material impact on the Company's consolidated financial statements.

ASU 2017-04, "Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." Issued in January 2017, ASU 2017-04 simplifies the manner in which an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. In computing the implied fair value of goodwill under Step 2, an entity, prior to the amendments in ASU 2017-04, had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities, including unrecognized assets and liabilities, in accordance with the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. However, under the amendments in ASU 2017-04, an entity should (1) perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and (2) recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, with the understanding that the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, ASU 2017-04 removes the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails such qualitative test, to perform Step 2 of the goodwill impairment test. ASU 2017-04 is effective prospectively for public entities for annual, or any interim, goodwill impairment tests in fiscal years beginning after December 15, 2019 and for all other entities for impairment tests in fiscal years beginning after December 15, 2021. Management will adopt this ASU using the public company effective date as early adoption is permitted and will continue to evaluate the impact this ASU will have on the consolidated financial statements through its effective date; however, the adoption of ASU 2017-04 is not expected to have a material impact on the Company's consolidated financial statements.

ASU 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." Issued in June 2016, ASU 2016-13 will add FASB ASC Topic 326, "Financial Instruments-Credit Losses" and finalizes amendments to FASB ASC Subtopic 825-15, "Financial Instruments-Credit Losses." The amendments of ASU 2016-13 are intended to provide financial statement users with more decision-useful information related to expected credit losses on financial instruments and other commitments to extend credit by replacing the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates. The amendments of ASU 2016-13 eliminate the probable initial recognition threshold and, in turn, reflect an entity's current estimate of all expected credit losses. ASU 2016-13 does not specify the method for measuring expected credit losses, and an entity is allowed to apply methods that reasonably reflect its expectations of the credit loss estimate. Additionally, the amendments of ASU 2016-13 require that credit losses on available for sale debt securities be presented as an allowance rather than as a write-down. The amendments of ASU 2016-13 were originally effective for public entities for interim and annual periods beginning after December 15, 2019 and for all other entities for periods beginning after December 15, 2020. Issued in November 2018, ASU 2018-19 *Codification Improvements to Topic 326, Financial Instruments-Credit Losses*, alters the effective date of ASU 2016-13 for private companies. Under the provisions of ASU 2018-19, ASU 2016-13 is now effective for fiscal years beginning after December 15, 2021 including interim periods within those years for non-public business entities. Earlier application is permitted for interim and annual periods beginning after December 15, 2018. Management has elected to adopt this ASU using the updated private company effective date and is currently evaluating the impact this ASU will have on the consolidated financial statements and that evaluation will depend on economic conditions and the composition of the Company's loan and lease portfolio at the time of adoption.

ASU 2016-02, "Leases (Topic 842)." Issued in February 2016, ASU 2016-02 was issued by the FASB to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and by disclosing key information about leasing arrangements. ASU 2016-02 will, among other things, require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, the ASU contains some targeted improvements that are intended to align, where necessary, lessor accounting with the lessee accounting model and with the updated revenue recognition guidance issued in 2014. The amendments of ASU 2016-02 are effective for public entities for interim and annual periods beginning after December 15, 2018 and for other entities for periods beginning after December 15, 2019. The adoption of this ASU will result in an increase to the Consolidated Balance Sheets for right-of-use assets and associated lease liabilities for operating leases in which the Company is the lessee. Under current accounting standards, all of the Company's leases are classified as operating leases and, as such, are not recognized on the Company's Consolidated Balance Sheet. Additionally, in July 2018, the FASB issued ASU No. 2018-10, Codification Improvements to Topic 842, Leases and ASU No. 2018-11, Leases, Targeted Improvements. The amendments in these updates provide additional clarification and implementation guidance on certain aspects of ASU 2016-02 and have the same effective and transition requirements as ASU 2016-02. Specifically, ASU 2018-11 creates an additional transition method option allowing entities to record a cumulative effect adjustment to opening retained earnings in the year of adoption. In December 2018, the FASB further issued ASU 2018-20, *Leases (Topic 842) Narrow-Scope Improvements for Lessors.* The amendments in this update permits lessors to make an accounting policy election to not evaluate whether certain sales taxes and other similar taxes are lessor costs or lessee costs and instead account for the costs as if they were lessee costs. Additionally, the amendment requires lessors to exclude from variable payments, and therefore revenue, lessor costs paid by lessees directly to third parties. The amendments also require lessors to account for costs excluded from the consideration of a contract that are paid by the lessor and reimbursed by the lessee as variable payments. In March 2019, the FASB also issued ASU 2019-01,*Leases (Topic 842) Codification Improvements,* to further clarify certain identified issues regarding implementation of ASU 2016-02. Specifically, the amendments in ASU 2019-01 clarify the determination of fair value of underlying assets by lessors that are not manufacturers or dealers, the cash flow presentation of sales-type or direct financing leases, and transition disclosures for interim periods. Management will adopt these ASUs using the private company effective date of January 1, 2020 and is currently evaluating the impact to the consolidated financial statements and related method of adoption, specifically, we are in the process of determining an appropriate discount rate to record identified right-of-use assets.

NOTE 2. REVENUE RECOGNITION

On January 1, 2019, the Company adopted ASU No. 2014-09,*Revenue from Contracts with Customers (Topic 606)*, and all subsequent ASUs that modified Topic 606. The implementation of the new standard did not have a material impact on the measurement or recognition of revenue; as such, a cumulative effect adjustment to opening retained earnings was not deemed necessary. Results for reporting periods beginning after January 1, 2019 are presented under Topic 606, while prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain non-interest income streams such as fees associated with mortgage servicing rights, financial guarantees, derivatives, and certain credit card fees are also not in scope of the new guidance. Topic 606 is applicable to non-interest revenue streams, such as deposit related fees, interchange fees, merchant income, and brokerage and investment advisory service commissions. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Substantially all of the Company's revenue is generated from contracts with customers. Non-interest revenue streams in-scope of Topic 606 are discussed below.

Core Service Charges on Deposit Accounts

Core service charges on deposit accounts consist of account analysis fees (i.e., net fees earned on analyzed business and public checking accounts) and monthly service fees. The Company's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

Transaction Based Fee Income on Deposit Accounts

Transaction based fee income on deposit accounts consists of variable revenue streams associated with activities which a deposit account holder may initiate on a transaction by transaction basis. The majority of transaction based fee income arises from interchange revenue received when deposit customers use a debit card for a point of sale transaction over a third party card payment network. Interchange revenue is recorded net of related interchange expenses in the month in which the transaction occurs.

Merchant services income is realized through a third party service provider who is contracted by the Bank under a referral arrangement. Such fees represent fees charged to merchants to process their debit card transactions, in addition to account management fees. The third party service provider also issues credit cards as private label in the Company's name in exchange for a referral fee. Fees are earned and recorded in the same period as the referral occurs and the card is issued.

Other transaction based service charges on deposit accounts include revenue from processing wire transfers, issuing cashier's checks, processing check orders, and renting safe deposit boxes. The Company's performance obligation related to these service charges is largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or charged to the customers' account in the period the service is provided. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. The Company determined that since rentals and renewals occur fairly consistently over time, revenue is recognized on a basis consistent with the duration of the performance obligation.

Mortgage Referral Fees

Mortgage referral fees are also transaction based fee income. The Company's performance obligation for fees is largely satisfied when the services are rendered or upon completion. Payment is typically received immediately.

The following presents non-interest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the three and six months ended June 30, 2019 and 2018:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Non-Interest Income				
In-scope of Topic 606				
Deposit accounts core service charges	$ 149	$ 78	$ 261	$ 145
Deposit account transaction based fee income	829	344	1,460	639
Mortgage referral fees	198	208	308	364
Non-Interest Income (in-scope of Topic 606)	1,176	630	2,029	1,148
Non-Interest Income (out-of-scope of Topic 606)	2,599	1,673	4,803	3,743
Total Non-Interest Income	$ 3,775	$ 2,303	$ 6,832	$ 4,891

Contract Balances

A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Company's non-interest revenue streams are largely based on transactional activity, or standard month-end revenue accruals. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. The Company did not have any significant contract balances at June 30, 2019 or December 31, 2018.

Contract Acquisition Costs

In connection with the adoption of Topic 606, an entity is required to capitalize, and subsequently amortize into expense, certain incremental costs of obtaining a contract with a customer if these costs are expected to be recovered. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, sales commission). The Company utilizes the practical expedient which allows entities to immediately expense contract acquisition costs when the asset that would have resulted from capitalizing these costs would have been amortized in one year or less. Upon adoption of Topic 606, the Company did not capitalize any contract acquisition cost.

NOTE 3. BUSINESS COMBINATIONS

Comanche National Corporation

On November 14, 2018, Spirit of Texas Bancshares, Inc. (the "Company" or "Spirit") completed its acquisition of Comanche National Corporation and its subsidiary, The Comanche National Bank (together, "Comanche"). This transaction resulted in 8 additional branches in the North Texas region. The Company issued2,142,811 shares of its common stock as well as a net cash payment to Comanche shareholders of $12.2 million, for a total consideration of $52.9 million, for all outstanding stock of Comanche and resulted in 100% ownership interest.

The Company has recognized total goodwill of $13.8 million which is calculated as the excess of both the consideration exchanged and liabilities assumed compared to the fair market value of identifiable assets acquired. The fair value of the consideration exchanged related to the Company's common stock was calculated based upon the closing market price of the Company's common stock as of November 14, 2018. None of the goodwill recognized is expected to be deductible for income tax purposes.

The Company did not incur any expenses related to the acquisition for the three months ended June, 30 2019 and incurred approximately $1.2 million for the six months ended June 30, 2019, which are included in noninterest expense in consolidated statements of income. The Company did not incur any expenses related to the acquisition during the three or six months ended June 30, 2018.

Non-credit impaired loans had a fair value of $116.2 million at the acquisition date and contractual balance of $117.2 million. As of the acquisition date, the Company expects that an insignificant amount of the contractual balance of these loans will be uncollectible. The difference of $946 thousand will be recognized into interest income as an adjustment to yield over the life of the loans.

Fair values of the assets acquired and liabilities assumed in this transaction as of the closing date are as follows:

Assets of acquired bank (Dollars in thousands):		
Cash and cash equivalents	$	57,135
Securities available for sale		144,735
Loans held for investment		116,220
Premises and equipment, net		6,634
Other real estate owned		33
Goodwill		13,768
Core deposit intangible		5,988
Other assets		11,712
Total assets acquired	$	356,225
Liablilities of acquired bank:		
Deposits	$	297,778
Trust preferred securities		2,811
Other liabilities		2,698
Total liabilities assumed	$	303,287
Common stock issued at $18.99 per share	$	40,692
Cash paid	$	12,246

As of June 30, 2019, management has completed its evaluation of the fair values of other assets and other liabilities. Amounts shown above are considered finalized.

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

First Beeville Financial Corporation

On April 2, 2019 Spirit completed its acquisition of First Beeville Financial Corporation and its subsidiary, The First National Bank of Beeville (together, "Beeville"). This transaction resulted in three additional branches and two loan production offices in the South Texas region. The Company issuedl,579,191 shares of its common stock as well as a net cash payment to Beeville shareholders of $32.4 million, for a total consideration of $65.9 million, for all outstanding stock of Beeville and resulted in100% ownership interest.

The Company has recognized total goodwill of $25.6 million which is calculated as the excess of both the consideration exchanged and liabilities assumed compared to the fair market value of identifiable assets acquired. The fair value of the consideration exchanged related to the Company's common stock was calculated based upon the closing market price of the Company's common stock as of April 2, 2019. None of the goodwill recognized is expected to be deductible for income tax purposes.

The Company incurred expenses related to the acquisition of approximately $1.2 million and $1.7 million for the three and six months ended June 30, 2019, respectively, which are included in noninterest expense in consolidated statements of income. The Company did not incur any expenses related to the acquisition during the three or six months ended June 30, 2018.

Non-credit impaired loans had a fair value of $296.3 million at the acquisition date and contractual balance of $298.9 million. As of the acquisition date, the Company expects that an insignificant amount of the contractual balance of these loans will be uncollectible. The difference of $2.6 million will be recognized into interest income as an adjustment to yield over the life of the loans.

Estimated fair values of the assets acquired and liabilities assumed in this transaction as of the closing date are as follows:

Assets of acquired bank (Dollars in thousands):		
Cash and cash equivalents	$	60,941
Securities available for sale		57,206
Loans held for investment		296,348
Premises and equipment, net		6,067
Other real estate owned		1,359
Goodwill		25,636
Core deposit intangible		5,635
Other assets		12,860
Total assets acquired	$	466,052
Liabilities of acquired bank:		
Deposits	$	399,654
Other liabilities		543
Total liabilities assumed	$	400,197
Common stock issued at $21.20 per share	$	33,480
Cash paid	$	32,375

As of June 30, 2019, the purchase accounting adjustments associated with loans, time deposits, core deposit intangible, and deferred taxes were preliminary. Management is still evaluating the assumptions used in the fair value calculations and expects to finalize these values by the fourth quarter of 2019.

For the three months ending June 30, 2019, revenues and earnings of the acquired company since the acquisition date were $5.2 million and $2.6 million respectively.

NOTE 4. INVESTMENT SECURITIES

The amortized cost, gross unrealized gains and losses and approximate fair values of securities available for sale are as follows:

June 30, 2019	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(Dollars in thousands)			
Available for sale:				
U.S. Treasury securities	$ 32,537	$ 3	$ 4	$ 32,536
U.S. Government agencies	4,084	37	-	4,121
State and municipal obligations	24,988	459	29	25,418
Residential mortgage-backed securities	102,151	2,306	1,154	103,303
Corporate bonds and other debt securities	5,645	38	3	5,680
Total available for sale	$ 169,405	$ 2,843	$ 1,190	$ 171,058

December 31, 2018		Amortized Cost		Unrealized Gains		Unrealized Losses		Fair Value
				(Dollars in thousands)				
Available for sale:								
U.S. Government agencies	$	2,015	$	—	$	81	$	1,934
State and municipal obligations		17,201		847		—		18,048
Residential mortgage-backed securities		152,232		2,614		872		153,974
Corporate bonds and other debt securities		5,667		—		162		5,505
Total available for sale	$	177,115	$	3,461	$	1,115	$	179,461

Taxable interest and dividends on investment securities were $1.1 million and $195 thousand for the three months ended June 30, 2019 and 2018, respectively. Tax-exempt interest and dividends on investment securities were $163 thousand for the three months ended June 30, 2019. There wereno tax-exempt interest or dividends on investment securities for the three months ended June 30, 2018.

Taxable interest and dividends on investment securities were $2.2 million and $409 thousand for the six months ended June 30, 2019 and 2018, respectively. Tax-exempt interest and dividends on investment securities were $271 thousand for the six months ended June 30, 2019. There wereno tax-exempt interest or dividends on investment securities for the six months ended June 30, 2018.

There were $145.1 million and $106.6 million securities pledged to collateralize public funds at June 30, 2019and December 31, 2018, respectively.

The amortized cost and estimated fair value of securities available for sale, by contractual maturity, are as follows:

June 30, 2019		Amortized Cost		Fair Value
		(Dollars in thousands)		
Available for sale:				
Due in one year or less	$	9,695	$	9,690
Due after one year through five years		43,470		43,535
Due after five years through ten years		8,417		8,459
Due after ten years		5,672		6,071
Residential mortgage-backed securities		102,151		103,303
Total available for sale	$	169,405	$	171,058

For purposes of the maturity table, residential mortgage-backed securities, the principal of which are repaid periodically, are presented as a single amount. The expected lives of these securities will differ from contractual maturities because borrowers may have the right to prepay the underlying loans with or without prepayment penalties.

The following tables present the estimated fair values and gross unrealized losses on investment securities available for sale, aggregated by investment category and length of time individual securities have been in a continuous unrealized loss position as of the periods presented:

	Less than 12 Months				12 Months or More				Total			
June 30, 2019		Fair Value		Unrealized Loss		Fair Value		Unrealized Loss		Fair Value		Unrealized Loss
						(Dollars in thousands)						
Available for sale:												
U.S. Treasury securities	$	14,447	$	4	$	-	$	-	$	14,447	$	4
U.S. Government agencies		—		—		-		-		-		-
State and municipal obligations		—		—		11,014		29		11,014		29
Residential mortgage-backed securities		—		—		26,009		1,154		26,009		1,154
Corporate bonds and other debt securities		—		—		1,996		3		1,996		3
Total available for sale	$	14,447	$	4	$	39,019	$	1,186	$	53,466	$	1,190

December 31, 2018	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(Dollars in thousands)					
Available for sale:						
U.S. Government agencies	$ —	$ —	$ 1,934	$ 81	$ 1,934	$ 81
State and municipal obligations	—	—	—	—	—	—
Residential mortgage-backed securities	1	—	25,479	872	25,480	872
Corporate bonds and other debt securities	—	—	5,505	162	5,505	162
Total available for sale	$ 1	$ —	$ 32,918	$ 1,115	$ 32,919	$ 1,115

At June 30, 2019, the Company's securities portfolio consisted of229 securities, 69 of which were in an unrealized loss position.Sixty-four of the sixty-nine securities in an unrealized loss position at June 30, 2019 were in an unrealized loss position for more than 12 months. The unrealized losses for these securities resulted primarily from changes in interest rates and spreads.

The Company monitors its investment securities for other-than-temporary-impairment ("OTTI"). Impairment is evaluated on an individual security basis considering numerous factors, and its relative significance. The Company has evaluated the nature of unrealized losses in the investment securities portfolio to determine if OTTI exists. The unrealized losses relate to changes in market interest rates and specific market conditions that do not represent credit-related impairments. Furthermore, the Company does not intend to sell nor is it more likely than not that it will be required to sell these investments before the recovery of their amortized cost basis. Management has completed an assessment of each security in an unrealized loss position for credit impairment and has determined that no individual security was other-than-temporarily impaired at June 30, 2019. The following describes the basis under which the Company has evaluated OTTI:

U.S. Treasury Securities, U.S. Government Agencies and Residential Mortgage-Backed Securities ("MBS"):

The unrealized losses associated with U.S. Treasury securities, U.S. Government agencies and residential MBS are primarily driven by changes in interest rates. These securities have either an explicit or implicit U.S. government guarantee.

Corporate Bonds & Other Debt Securities:

Securities are generally underwritten in accordance with the Company's investment standards prior to the decision to purchase, without relying on a bond issuer's guarantee in making the investment decision. These investments are investment grade and will continue to be monitored as part of the Company's ongoing impairment analysis, but are expected to perform in accordance with their terms.

Sale proceeds from the sale of available for sale securities for the three and six months ended June 30, 2019 were $4.7 million and $79.9 million which resulted in gross realized gains of $1.1 million and $2.1 million, respectively. There wereno securities sold for the three or six months ended June 30, 2018.

NOTE 5. LOANS, NET

Loans consisted of the following at June 30, 2019 and December 31, 2018:

	June 30, 2019	December 31, 2018
	(Dollars in thousands)	
Commercial and industrial loans (1)	$ 197,774	$ 173,892
Real estate:		
1-4 single family residential loans	277,560	275,644
Construction, land and development	176,567	159,734
Commercial real estate loans (including multifamily)	666,981	397,953
Consumer loans and leases	20,745	24,378
Municipal and other loans	69,711	61,339
Total loans held in portfolio (2)	$ 1,409,338	$ 1,092,940
Allowance for loan losses	(6,277)	(6,286)
Loans held in portfolio, net	$ 1,403,061	$ 1,086,654

(1) Balance includes $71.3 million and $76.9 million of the unguaranteed portion of SBA loans as of June 30, 2019 and December 31, 2018, respectively.
(2) Balance includes $(8.1) million and $(4.9) million of deferred fees, cost, premium and discount as of June 30, 2019 and December 31, 2018, respectively.

At June 30, 2019 and December 31, 2018, the Company had pledged loans as collateral for FHLB advances of $516.4 million and $385.5 million, respectively. There were no recorded investments of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process as of June 30, 2019 and December 31, 2018.

The Company originates and sells loans secured by the SBA. The Company retains the unguaranteed portion of the loan and servicing on the loans sold and receives a fee based upon the principal balance outstanding. During the three months ended June 30, 2019 and 2018, the Company sold approximately $16.4 million and $12.9 million, respectively, in loans to third parties. The loan sales resulted in realized gains of $1.4 million and $1.0 million for the three months ended June 30, 2019 and 2018, respectively.

During the six months ended June 30, 2019 and 2018, the Company sold approximately $26.5 and $30.0 million, respectively, in loans to third parties. The loan sales resulted in realized gains of $2.2 million and $2.5 million for the six months ended June 30, 2019 and 2018, respectively.

In the ordinary course of business, the Company makes loans to executive officers and directors. Loans to these related parties, including companies in which they are principal owners, are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(Dollars in thousands)			
Principal outstanding, beginning of year	$ 93	$ 442	$ 107	$ 463
Additions (reductions) of affiliations	2,352	—	2,352	—
New loans made in current year	—	—	—	—
Repayments	(12)	(21)	(26)	(42)
Principal outstanding, end of year	$ 2,433	$ 421	$ 2,433	$ 421

There were no unfunded commitments to related parties at June 30, 2019 or December 31, 2018.

NOTE 6. ALLOWANCE FOR LOAN AND LEASE LOSSES

The allowance for loan and lease losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The methodology is based on historical loss experience by type of credit and internal risk grade, changes in the composition and volume of the portfolio, and specific loss allocations, with adjustments for current events and conditions. The Company's process for determining the appropriate level of the allowance for loan and lease losses is designated to account for credit deterioration as it occurs.

Prior to the second quarter of 2018, the Company was utilizing a peer bank allowance coverage ratio in the qualitative reserve calculation, as the Company did not have enough historical defaults to rely on its own loss factors. Beginning the second quarter of 2018, the Company had a sufficient amount of defaults over the five year lookback period to transition over to relying more on its own historical loss data versus peer data. While this did not result in a significant change to the allowance for loan and lease losses as a whole, it continues to impact the provision for certain loan categories in which the Company had experienced more historical defaults.

On November 14, 2018, the Company closed its acquisition of Comanche. At the date of acquisition, Comanche had $117.2 million in loans. In accordance with ASC 805 Business Combinations, the Company utilized a third party to value the loan portfolio as of the acquisition date. Based upon the third party valuation, the fair value of the loans was approximately $116.2 million at the acquisition date. The overall discount calculated was $946 thousand and will be accreted into interest income over the life of the loans.

On April 2, 2019, the Company closed its acquisition of Beeville. At the date of acquisition, Beeville had $298.9 million in loans. In accordance with ASC 805 Business Combinations, the Company utilized a third party to value the loan portfolio as of the acquisition date. Based upon the third party valuation, the fair value of the loans was approximately $296.3 million at the acquisition date. The overall discount calculated was $2.6 million and will be accreted into interest income over the life of the loans.

As of June 30, 2019, all purchased loans were excluded from the allowance for loan and lease losses calculation given there was no deterioration between the acquisition date and the end of the second quarter of 2019. Purchased credit impaired loans were insignificant. Going forward, management will evaluate the remaining credit quality, credit discount and charge-offs associated with these purchased loans to determine if an additional allowance is deemed necessary.

The following tables present information related to allowance for loan and lease losses for the periods presented:

Three Months Ended June 30, 2019	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
	Allowance Rollforward				
	(Dollars in thousands)				
Commercial and industrial loans	$ 4,661	$ (643)	$ 31	$ 168	$ 4,217
Real estate:					
1-4 single family residential loans	34	—	—	(2)	32
Construction, land and development loans	749	—	—	45	794
Commercial real estate loans (including multifamily)	1,057	—	—	134	1,191
Consumer loans and leases	57	(16)	3	(9)	35
Municipal and other loans	11	—	1	(4)	8
Ending allowance balance	$ 6,569	$ (659)	$ 35	$ 332	$ 6,277

Three Months Ended June 30, 2018	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
	Allowance Rollforward				
	(Dollars in thousands)				
Commercial and industrial loans	$ 2,906	$ (321)	$ 3	$ 2,298	$ 4,886
Real estate:					
1-4 single family residential loans	887	(5)	—	(564)	318
Construction, land and development loans	540	—	—	(345)	195
Commercial real estate loans (including multifamily)	1,032	—	—	(799)	233
Consumer loans and leases	175	(24)	—	195	346
Municipal and other loans	187	—	—	(150)	37
Ending allowance balance	$ 5,727	$ (350)	$ 3	$ 635	$ 6,015

Six Months Ended June 30, 2019	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
	Allowance Rollforward				
	(Dollars in thousands)				
Commercial and industrial loans	$ 4,453	$ (1,221)	$ 59	$ 926	$ 4,217
Real estate:					
1-4 single family residential loans	59	—	—	(27)	32
Construction, land and development loans	731	—	—	63	794
Commercial real estate loans (including multifamily)	960	—	—	231	1,191
Consumer loans and leases	80	(34)	5	(16)	35
Municipal and other loans	3	—	1	4	8
Ending allowance balance	$ 6,286	$ (1,255)	$ 65	$ 1,181	$ 6,277

Six Months Ended June 30, 2018	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
	Allowance Rollforward				
	(Dollars in thousands)				
Commercial and industrial loans	$ 3,046	$ (645)	$ 69	$ 2,416	$ 4,886
Real estate:					
1-4 single family residential loans	902	(5)	—	(579)	318
Construction, land and development loans	441	—	—	(246)	195
Commercial real estate loans (including multifamily)	898	—	—	(665)	233
Consumer loans and leases	198	(30)	—	178	346
Municipal and other loans	167	—	—	(130)	37
Ending allowance balance	$ 5,652	$ (680)	$ 69	$ 974	$ 6,015

Credit Quality Indicators

In evaluating credit risk, the Company looks at multiple factors; however, management considers delinquency status to be the most meaningful indicator of the credit quality of 1-4 single family residential, home equity loans and lines of credit and consumer loans. Delinquency statistics are updated at least monthly. Internal risk ratings are considered the most meaningful indicator of credit

quality for commercial, construction, land and development and commercial real estate loans. Internal risk ratings are updated on a continuous basis.

The following tables present an aging analysis of the recorded investment for delinquent loans by portfolio and segment:

June 30, 2019		Accruing				
	Current	30 to 59 Days Past Due	60 to 89 Days Past Due	90 Days or More Past Due	Non-Accrual	Total
			(Dollars in thousands)			
Commercial and industrial loans	$ 192,098	$ 332	$ 62	$ —	$ 5,282	$ 197,774
Real estate:						
1-4 single family residential loans	277,004	303	45	—	208	277,560
Construction, land and development	174,373	2,194	—	—	—	176,567
Commercial real estate loans (including multifamily)	665,764	13	1,068	—	136	666,981
Consumer loans and leases	20,495	157	47	—	46	20,745
Municipal and other loans	69,576	—	82	—	53	69,711
Total loans	$ 1,399,310	$ 2,999	$ 1,304	$ —	$ 5,725	$ 1,409,338

December 31, 2018		Accruing				
	Current	30 to 59 Days Past Due	60 to 89 Days Past Due	90 Days or More Past Due	Non-Accrual	Total
			(Dollars in thousands)			
Commercial and industrial loans	$ 169,206	$ 605	$ 223	$ 288	$ 3,570	$ 173,892
Real estate:						
1-4 single family residential loans	273,909	581	64	—	1,090	275,644
Construction, land and development	159,723	11	—	—	—	159,734
Commercial real estate loans (including multifamily)	396,559	451	589	—	354	397,953
Consumer loans and leases	24,109	208	44	—	17	24,378
Municipal and other loans	61,289	50	—	—	—	61,339
Total loans	$ 1,084,795	$ 1,906	$ 920	$ 288	$ 5,031	$ 1,092,940

There were no loans 90 days or more past due and still accruing at June 30, 2019. There werefour loans 90 days or more past due and still accruing at December 31, 2018 with a recorded investment of $288 thousand.

At June 30, 2019, non-accrual loans that were 30 to 59 days past due were $38 thousand, non-accrual loans that were 60 to 89 days past due were $59 thousand, and non-accrual loans that were 90 days or more past due were $1.7 million. At December 31, 2018, non-accrual loans that were 30 to 59 days past due were $175 thousand, non-accrual loans that were 60 to 89 days past due were $143 thousand, and non-accrual loans that were 90 days or more past due were $2.0 million.

Loans exhibiting potential credit weaknesses that deserve management's close attention and that if left uncorrected may result in deterioration of the repayment capacity of the borrower are categorized as special mention. Loans with well-defined credit weaknesses including payment defaults, declining collateral values, frequent overdrafts, operating losses, increasing balance sheet leverage, inadequate cash flow, project cost overruns, unreasonable construction delays, past due real estate taxes or exhausted interest reserves are assigned an internal risk rating of substandard. Loans classified as substandard can be on an accrual or non-accrual basis, as determined by its unique characteristics. A loan with a weakness so severe that collection in full is highly questionable or improbable will be assigned an internal risk rating of doubtful.

The following table summarizes the Company's loans by key indicators of credit quality:

June 30, 2019	Pass	Special Mention	Substandard	Doubtful
	(Dollars in thousands)			
Commercial and industrial loans	$ 191,854	$ 2,812	$ 3,108	$ —
Real estate:				
1-4 single family residential loans	276,076	951	533	—
Construction, land and development	175,610	10	947	—
Commercial real estate loans (including multifamily)	660,606	3,214	3,161	—
Consumer loans and leases	20,734	—	11	—
Municipal and other loans	69,711	—	—	—
Total loans	$ 1,394,591	$ 6,987	$ 7,760	$ —

December 31, 2018	Pass	Special Mention	Substandard	Doubtful
	(Dollars in thousands)			
Commercial and industrial loans	$ 163,908	$ 3,170	$ 6,601	$ 213
Real estate:				
1-4 single family residential loans	270,839	1,714	2,547	544
Construction, land and development	157,688	24	2,022	—
Commercial real estate loans (including multifamily)	383,323	12,412	1,806	412
Consumer loans and leases	20,798	1,836	180	1,564
Municipal and other loans	60,837	484	—	18
Total loans	$ 1,057,393	$ 19,640	$ 13,156	$ 2,751

Internal risk ratings and other credit metrics are key factors in identifying loans to be individually evaluated for impairment and impact management's estimates of loss factors used in determining the amount of the allowance for loan and lease losses.

The following table shows the Company's investment in loans disaggregated based on the method of evaluating impairment:

	Loans - Recorded Investment		Allowance for Credit Loss	
June 30, 2019	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
	(Dollars in thousands)			
Commercial and industrial loans	$ 3,783	$ 193,991	$ 1,618	$ 2,599
Real estate:				
1-4 single family residential loans	1,401	276,159	4	28
Construction, land and development	219	176,348	—	794
Commercial real estate loans (including multifamily)	241	666,740	—	1,191
Consumer loans and leases	16	20,729	4	31
Municipal and other loans	—	69,711	—	8
Total loans	$ 5,660	$ 1,403,678	$ 1,626	$ 4,651

	Loans - Recorded Investment		Allowance for Credit Loss	
December 31, 2018	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
	(Dollars in thousands)			
Commercial and industrial loans	$ 3,640	$ 170,252	$ 1,234	$ 3,219
Real estate:				
1-4 single family residential loans	1,193	274,451	29	30
Construction, land and development	—	159,734	—	731
Commercial real estate loans (including multifamily)	—	397,953	—	960
Consumer loans and leases	17	24,361	4	76
Municipal and other loans	—	61,339	—	3
Total loans	$ 4,850	$ 1,088,090	$ 1,267	$ 5,019

The following tables set forth certain information regarding the Company's impaired loans that were evaluated for specific reserves:

June 30, 2019	Impaired Loans - With Allowance			Impaired Loans - With no Allowance	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance
	(Dollars in thousands)				
Commercial and industrial loans	$ 3,124	$ 6,490	$ 1,618	$ 659	$ 3,170
Real estate:					
1-4 single family residential loans	152	160	4	1,249	1,582
Construction, land and development	—	—	—	219	223
Commercial real estate loans (including multifamily)	—	—	—	241	246
Consumer loans and leases	16	16	4	—	—
Municipal and other loans	—	—	—	—	—
Total loans	$ 3,292	$ 6,666	$ 1,626	$ 2,368	$ 5,221

December 31, 2018	Impaired Loans - With Allowance			Impaired Loans - With no Allowance	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance
	(Dollars in thousands)				
Commercial and industrial loans	$ 1,843	$ 5,392	$ 1,234	$ 1,797	$ 3,500
Real estate:					
1-4 single family residential loans	116	124	29	1,077	1,086
Construction, land and development	—	—	—	—	—
Commercial real estate loans (including multifamily)	—	—	—	—	—
Consumer loans and leases	17	17	4	—	—
Municipal and other loans	—	—	—	—	—
Total loans	$ 1,976	$ 5,533	$ 1,267	$ 2,874	$ 4,586

	Three Months Ended June 30,			
	2019		2018	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
Commercial and industrial loans	$ 3,691	$ —	$ 2,435	$ —
Real estate:				
1-4 single family residential loans	1,282	—	1,511	—
Construction, land and development	220	—	24	—
Commercial real estate loans (including multifamily)	243	—	149	—
Consumer loans and leases	16	—	101	—
Municipal and other loans	—	—	—	—
Total loans	$ 5,452	$ —	$ 4,220	$ —

	Six Months Ended June 30,			
	2019		2018	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
Commercial and industrial loans	$ 3,797	$ —	$ 2,620	$ —
Real estate:				
1-4 single family residential loans	1,295	—	1,518	—
Construction, land and development	222	—	25	—
Commercial real estate loans (including multifamily)	245	—	151	—
Consumer loans and leases	17	—	103	—
Municipal and other loans	—	—	—	—
Total loans	$ 5,576	$ —	$ 4,417	$ —

Troubled Debt Restructurings:

The following table provides a summary of troubled debt restructurings (“TDRs”) based upon delinquency status, all of which are considered impaired:

	June 30, 2019		December 31, 2018	
	Number of contracts	Recorded Investment	Number of contracts	Recorded Investment
	(Dollars in thousands)			
Performing TDRs:				
Commercial and industrial loans	3	$ 122	3	$ 69
Real estate:				
1-4 single family residential loans	2	132	2	141
Construction, land and development	—	—	—	—
Commercial real estate loans (including multifamily)	—	—	—	—
Consumer loans and leases	—	—	—	—
Municipal and other loans	—	—	—	—
Total performing TDRs	5	254	5	210
Nonperforming TDRs	9	455	7	448
Total TDRs	14	$ 709	12	$ 658
Allowance attributable to TDRs		$ 224		$ 149

The following table summarizes TDRs and includes newly designated TDRs as well as modifications made to existing TDRs. Modifications may include, but are not limited to, granting a material extension of time, entering into a forbearance agreement, adjusting the interest rate, accepting interest only payments for an extended period of time, a change in the amortization period or a combination of any of these. Post-modification balances represent the recorded investment at the end of Day 2 in which the modification was made:

	Three Months Ended June 30,							
	2019				2018			
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Related Allowance	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Related Allowance
	(Dollars in thousands)							
Commercial and industrial loans	3	$ 185	$ 185	$ 88	2	$ 73	$ 73	$ 53
Real estate:								
1-4 single family residential loans	—	—	—	—	1	34	34	—
Construction, land and development	—	—	—	—	—	—	—	—
Commercial real estate loans (including multifamily)	—	—	—	—	—	—	—	—
Consumer loans and leases	—	—	—	—	—	—	—	—
Municipal and other loans	—	—	—	—	—	—	—	—

	Six Months Ended June 30,							
	2019				2018			
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Related Allowance	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Related Allowance
	(Dollars in thousands)							
Commercial and industrial loans	3	$ 185	$ 185	$ 88	7	$ 442	$ 442	$ 192
Real estate:								
1-4 single family residential loans	—	—	—	—	1	34	34	—
Construction, land and development	—	—	—	—	—	—	—	—
Commercial real estate loans (including multifamily)	—	—	—	—	—	—	—	—
Consumer loans and leases	—	—	—	—	—	—	—	—
Municipal and other loans	—	—	—	—	—	—	—	—

There have been no defaults of troubled debt restructurings that took place within the three or six months ended June 30, 2019 and 2018.

NOTE 7. GOODWILL AND INTANGIBLES

Goodwill and other intangible assets, which consist of core deposit intangibles, are summarized as follows:

	Six Months Ended June 30, 2019	Year Ended December 31, 2018
	(Dollars in thousands)	
Beginning goodwill	$ 18,253	$ 4,485
Arising from business combination	25,636	13,768
Ending goodwill	$ 43,889	$ 18,253
Core deposit intangible	8,558	13,166
Arising from business combination	10,244	—
Less: Accumulated amortization	(6,219)	(4,608)
Core deposit intangible, net	$ 12,583	$ 8,558

Amortization expense for core deposit intangibles for the three months ended June 30, 2019 and 2018 totaled $1.0 million and $175 thousand, respectively. Amortization expense for the core deposit intangibles for the six months ended June 30, 2019 and 2018 totaled $1.6 million and $351 thousand, respectively.

The estimated amount of amortization expense for core deposit intangible assets to be recognized over the next five fiscal years is as follows:

Type of intangibles	Remainder of 2019	2020	2021	2022	2023	2024
	(Dollars in thousands)					
Core deposit intangible	$ 1,977	$ 3,503	$ 2,852	$ 2,063	$ 1,378	$ 649

NOTE 8. SBA SERVICING ASSET

SBA servicing assets are recognized separately when rights are acquired through the sale of the guaranteed portion of SBA loans. These servicing rights are initially measured at fair value at the date of sale and included in the gain on sale. Updated fair values are obtained from an independent third party on a quarterly basis and adjustments are presented in SBA loan servicing fees on the consolidated statements of income. To determine the fair value of SBA servicing rights, the Company uses market prices for comparable servicing contracts, when available, or alternatively, uses a valuation model that calculates the present value of estimated future net servicing income.

Loans serviced for others are not included in the accompanying balance sheets. The unpaid principal balances of loans serviced for others were $213.5 million and $225.0 million at June 30, 2019 and December 31, 2018, respectively. SBA loan servicing fees were $40 thousand and $548 thousand for the three months ended June 30, 2019 and 2018, respectively. SBA loan servicing fees were $304 thousand and $1.2 million for the six months ended June 30, 2019 and 2018, respectively.

The risks inherent in the SBA servicing asset relate primarily to changes in prepayments that result from shifts in interest rates.The following summarizes the activity pertaining to SBA servicing rights, which are in the consolidated balance sheets, for the three and six months ended June 30, 2019 and 2018:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(Dollars in thousands)			
Beginning balance	$ 3,747	$ 3,512	$ 3,965	$ 3,411
Origination of servicing assets	322	247	520	579
Change in fair value:				
Due to run-off	(239)	(245)	(404)	(453)
Due to market changes	(260)	7	(511)	(16)
Ending balance	$ 3,570	$ 3,521	$ 3,570	$ 3,521

NOTE 9. DEPOSITS

The following table sets forth the Company’s deposits by category:

	June 30, 2019	December 31, 2018
	(Dollars in thousands)	
Noninterest-bearing demand deposits	$ 367,892	$ 256,784
Interest-bearing demand deposits	292,550	124,933
Interest-bearing NOW accounts	7,638	7,961
Savings and money market accounts	269,651	245,928
Time deposits	632,873	547,042
Total deposits	$ 1,570,604	$ 1,182,648
Time deposits $100,000 and greater	$ 500,044	$ 422,447
Time deposits $250,000 and greater	177,235	129,424
Related party deposits (executive officers and directors)	11,956	7,847

The aggregate amount of overdraft demand deposits reclassified to loans was $94 thousand and $93 thousand at June 30, 2019 and December 31, 2018, respectively. The aggregate amount of maturities for time deposits for each of the five years following the latest balance sheet date totaled $505.9 million, $92.0 million, $15.8 million, $13.1 million and $6.1 million, respectively.

NOTE 10. STOCK-BASED COMPENSATION AND OTHER BENEFIT PLANS

Spirit of Texas Bancshares, Inc. 2008 Stock Plan (the “2008 Stock Plan”)

Option activity for the period indicated is summarized as follows:

	2008 Stock Plan			
	Options	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)	Weighted Average Remaining Contractual Life (Years)
Outstanding at January 1, 2019	1,116,672	$ 13.04		
Granted	—			
Exercised	(91,550)	$ 12.01	$ 960	
Forfeited	(3,000)	$ 16.00		
Expired	—			
Outstanding at June 30, 2019	1,022,122	$ 13.13	$ 9,577	4.55
Vested and exercisable at June 30, 2019	889,102	$ 12.94	$ 8,500	4.26

The total unrecognized compensation cost of $426 thousand related to the 2008 Stock Plan for the share awards outstanding at June 30, 2019 will be recognized over a weighted average remaining period of 1.50 years.

Spirit of Texas Bancshares, Inc. 2017 Stock Plan (the “2017 Stock Plan”)

Option activity for the period indicated is summarized as follows:

	2017 Stock Plan			
	Options	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)	Weighted Average Remaining Contractual Life (Years)
Outstanding at January 1, 2019	205,725	$ 17.45		
Granted	850	$ 23.18	$ 1	
Exercised	(5,000)	$ 15.00	$ 38	
Forfeited	—			
Expired	—			
Outstanding at June 30, 2019	201,575	$ 17.53	$ 1,002	8.21
Vested and exercisable at June 30, 2019	89,379	$ 15.95	$ 585	7.86

The fair values of the stock options granted for the six months ended June 30, 2019 were determined utilizing the Black-Scholes pricing model methodology. A summary of assumptions used to calculate the fair values of the 2017 Stock Plan awards is presented below:

	2017 Stock Plan
	Six Months Ended June 30, 2019
Expected volatility	23.3 %
Expected dividend yield	0.0 %
Expected term (years)	7.5
Risk-free interest rate	2.58 %
Weighted average grant date fair value	$ 7.57

The expected volatility is based on the combination of the Company's historical volatility and the volatility of comparable peer banks. The expected term represents the period of time that the 2017 Stock Plan awards are expected to be outstanding from the date of grant. The risk-free interest rate is based on the U.S. Treasury yields for the expected term of the instrument.

The total unrecognized compensation cost of $605 thousand related to the 2017 Stock Plan for the share awards outstanding at June 30, 2019 will be recognized over a weighted average remaining period of 3.62 years.

2017 Stock Plan – Restricted Stock Unit Awards

On three different dates during the period ended June 30, 2019, the Company granted a total of19,500 restricted stock units to employees and directors that vest in full (i.e. cliff vesting) on the five year anniversary of the grant date. The fair value of the restricted stock units on the grant date was $424 thousand and will be recognized as compensation expense over the requisite vesting period ending on the respective five year anniversary of the restricted stock unit award's grant date.

The following table presents the activity during the period related to restricted stock units from the 2017 Stock Plan:

	2017 Stock Plan	
	Restricted Stock Unit Awards	
	Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2019	—	$ —
Granted	19,500	$ 21.75
Vested	—	
Forfeited	—	
Outstanding at June 30, 2019	19,500	$ 21.75

A summary of selected data related to stock-based compensation expense for the six months ended June 30, 2019 and 2018 are as follows:

	Restricted Stock Unit Awards	
	June 30,	
	2019	2018
	(Dollars in thousands)	
Stock-based compensation expense	$ 15	$ —
Unrecognized compensation expense related to stock-based compensation	$ 409	$ —
Weighted-average life over which expense is expected to be recognized (years)	4.82	—

Warrants

Activity for the Bank4Texas Warrants for the period indicated is summarized as follows:

	Bank4Texas Warrants			
	Warrants	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)	Weighted Average Remaining Contractual Life (Years)
Outstanding at January 1, 2019	10,710	$ 10.50		
Granted	—			
Exercised	(838)	$ 10.50	$ 10	
Forfeited (1)	—			
Expired	—			
Outstanding at June 30, 2019	9,872	$ 10.50	$ 118	1.15
Vested and exercisable at June 30, 2019	9,872	$ 10.50	$ 118	1.15

There was no activity during the three or six months ended June 30, 2019 on the Oasis Warrants.

NOTE 11. BASIC AND DILUTED EARNINGS PER COMMON SHARE

The following table presents the computation of basic and diluted EPS:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(Dollars in thousands, except per share data)			
Net income available to common stockholders	$ 5,827	$ 2,681	$ 9,637	$ 4,694
Weighted average number of common shares - basic	13,765,929	8,851,446	12,963,700	8,104,370
Effect of dilutive securities:				
Employee stock-based compensation awards and warrants	470,315	454,583	469,060	341,590
Weighted average number of common shares - diluted	14,236,244	9,306,029	13,432,760	8,445,960
Basic earnings per common share	$ 0.42	$ 0.30	$ 0.74	$ 0.58
Diluted earnings per common share	$ 0.41	$ 0.29	$ 0.72	$ 0.56
Anti-dilutive warrants and stock options	9,350	70,266	1,850	70,266

NOTE 12. INCOME TAXES

The effective tax rates for the three months ended June 30, 2019 and 2018 were20.9% and 20.4%, respectively. The increase in the effective tax rate for the three months ended June 30, 2019 was primarily due to nondeductible merger related expenses related to the Beeville acquisition.

The effective tax rates for the six months ended June 30, 2019 and 2018 were19.7% and 20.1%, respectively. The decrease in the effective tax rate for the six months ended June 30, 2019 was primarily due to a return to provision adjustment recorded during the first quarter of 2019.

NOTE 13. COMMITMENTS AND CONTINGENCIES

The Company issues off-balance sheet financial instruments in connection with its lending activities and to meet the financing needs of its customers. These financial instruments include commitments to fund loans and lines of credit as well as commercial and standby letters of credit. These commitments expose the Company to varying degrees of credit and market risk which are essentially the same as those involved in extending loans to customers. The Company follows the same credit policies in making commitments as it does for instruments recorded on the Company's consolidated balance sheet. Collateral is obtained based on management's assessment of the customer's credit risk.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. As of June 30, 2019 and December 31, 2018, the Company's reserve for unfunded commitments totaled $55 thousand and $48 thousand, respectively.

Fees collected on off-balance sheet financial instruments represent the fair value of those commitments and are deferred and amortized over their term.

Financial Instruments Commitments

Unfunded commitments are as follows:

	June 30, 2019	December 31, 2018
	(Dollars in thousands)	
Unfunded loan commitments	$ 211,064	$ 176,156
Commercial and standby letters of credit	1,088	547
Total	$ 212,152	$ 176,703

Unfunded loan commitments:

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 drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer’s creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Company upon extension of credit, is based upon management’s credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

Commercial and standby letters of credit:

Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Letters of credit are primarily issued to support trade transactions or guarantee arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments if deemed necessary.

Other Commitments and Contingencies

Legal Proceedings

The Company, from time to time, is involved as plaintiff or defendant in various legal actions arising in the normal course of business. While the ultimate outcome of any such proceedings cannot be predicted with certainty, it is the opinion of management, based upon advice of legal counsel, that no proceedings exist, either individually or in the aggregate, which, if determined adversely to the Company, would have a material effect on the Company’s consolidated balance sheet, results of operations or cash flows.

NOTE 14. FAIR VALUE MEASUREMENTS

When determining the fair value measurements for assets and liabilities and the related fair value hierarchy, the Company considers the principal or most advantageous market in which it would transact and the assumptions that market participants would use when pricing the asset or liability. When possible, the Company looks to active and observable markets to price identical assets or liabilities. When identical assets and liabilities are not traded in active markets, the Company looks to market observable data for similar assets and liabilities. It is the Company’s policy to maximize the use of observable inputs, minimize the use of unobservable inputs and use unobservable inputs to measure fair value to the extent that observable inputs are not available. The need to use unobservable inputs generally results from the lack of market liquidity, resulting in diminished observability of both actual trades and assumptions that would otherwise be available to value these instruments, or the value of the underlying collateral is not market observable. Although third party price indications may be available for an asset or liability, limited trading activity would make it difficult to support the observability of these quotations.

Financial Instruments Carried at Fair Value on a Recurring Basis

The following is a description of the valuation methodologies used for financial instruments measured at fair value on a recurring basis, as well as the general classification of each instrument under the valuation hierarchy.

Investment Securities—Investment securities available for sale are carried at fair value on a recurring basis. When available, fair value is based on quoted prices for the identical security in an active market and as such, would be classified as Level 1. If quoted market prices are not available, fair values are estimated using quoted prices of securities with similar characteristics, discounted cash flows or matrix pricing models. Investment securities available for sale for which Level 1 valuations are not available are classified as Level 2, and include U.S. Government agencies and sponsored enterprises obligations and agency mortgage-backed securities; state and municipal obligations; asset-backed securities; and corporate debt and other securities. Pricing of these securities is generally spread driven.

Observable inputs that may impact the valuation of these securities include benchmark yield curves, credit spreads, reported trades, dealer quotes, bids, issuer spreads, current rating, historical constant prepayment rates, historical voluntary prepayment rates, structural and waterfall features of individual securities, published collateral data, and for certain securities, historical constant default rates and default severities.

SBA Servicing Asset—The SBA Servicing Asset is carried at fair value on a recurring basis. To determine the fair value of SBA servicing rights, The Company uses market prices for comparable servicing contracts, when available, or alternatively, uses a valuation model that calculates the present value of estimated future net servicing income. In using this valuation method, the Company incorporates assumptions that market participants would use in estimating future net servicing income, which includes estimates of the cost to service, the discount rate, custodial earnings rate, an inflation rate, ancillary income, prepayment speeds, default rates, late fees and losses. The SBA Servicing Asset is classified as Level 3.

The following table presents the assets and liabilities measured at fair value on a recurring basis:

	June 30, 2019			
	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
Assets:				
U.S. Treasury securities	$ 32,536	$ —	$ —	$ 32,536
U.S. Government agencies	—	4,121	—	4,121
State and municipal obligations	—	25,418	—	25,418
Residential mortgage-backed securities	—	103,303	—	103,303
Corporate bonds and other debt securities	—	5,680	—	5,680
SBA servicing rights	—	—	3,570	3,570
Total	$ 32,536	$ 138,522	$ 3,570	$ 174,628

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
Assets:				
U.S. Government agencies	$ —	$ 1,934	$ —	$ 1,934
State and municipal obligations	—	18,048	—	18,048
Residential mortgage-backed securities	—	153,974	—	153,974
Corporate bonds and other debt securities	—	5,505	—	5,505
SBA servicing rights	—	—	3,965	3,965
Total	$ —	$ 179,461	$ 3,965	$ 183,426

There were no transfers of financial assets between levels of the fair value hierarchy during the three or six months ended June 30, 2019.

Financial Instruments Measured at Fair Value on a Non-Recurring Basis

The following is a description of the methodologies used to estimate the fair values of assets and liabilities measured at fair value on a non-recurring basis, and the level within the fair value hierarchy in which those measurements are typically classified.

Impaired loans and other real estate owned (“OREO”)—The carrying amount of collateral dependent impaired loans is typically based on the fair value of the underlying collateral, which may be real estate or other business assets, less estimated costs to sell. The carrying value of OREO is initially measured based on the fair value, less estimated cost to sell, of the real estate acquired in foreclosure and subsequently adjusted to the lower of cost or estimated fair value, less estimated cost to sell. Fair values of real estate collateral are typically based on real estate appraisals which utilize market and income valuation techniques incorporating both observable and unobservable inputs. When current appraisals are not available, the Company may use brokers’ price opinions, home price indices, or other available information about changes in real estate market conditions to adjust the latest appraised value available. These adjustments to appraised values may be subjective and involve significant management judgment. The fair value of collateral consisting of other business assets is generally based on appraisals that use market approaches to valuation, incorporating primarily unobservable inputs. Fair value measurements related to collateral dependent impaired loans and OREO are classified within Level 3 of the fair value hierarchy.

The following tables provide information about certain assets measured at fair value on a non-recurring basis:

	Estimated Fair Value	
	June 30, 2019	December 31, 2018
	(Dollars in thousands)	
Assets (classified in Level 3):		
Impaired loans	$ 3,117	$ 2,696
Other real estate and repossessed assets	1,324	782

Impairment charges resulting from the non-recurring changes in fair value of underlying collateral of impaired loans are included in the provision for loan losses in the consolidated statement of income. Impairment charges resulting from the non-recurring changes in fair value of OREO are included in other real estate and acquired assets resolution expenses in the consolidated statement of income.

The following tables show significant unobservable inputs used in the recurring and non-recurring fair value measurements of Level 3 assets:

Level 3 Asset	Fair Value	Valuation Technique	Unobservable Inputs	Range/Weighted Average
June 30, 2019				
Non-recurring:				
Impaired loans	$ 3,117	Third party appraisals	Collateral discounts	0.0% - 100.0% (20.9%)
Other real estate owned	1,324	Third party appraisals	Collateral discounts and estimated cost to sell	10.0 %
Recurring:				
SBA servicing assets	3,570	Discounted cash flows	Conditional prepayment rate	12.7 %
			Discount rate	11.5 %
December 31, 2018				
Non-recurring:				
Impaired loans	$ 2,696	Third party appraisals	Collateral discounts	0.0% - 100.0% (19.2%)
Other real estate owned	782	Third party appraisals	Collateral discounts and estimated cost to sell	10.0 %
Recurring:				
SBA servicing assets	3,965	Discounted cash flows	Conditional prepayment rate	11.8 %
			Discount rate	11.5 %

The carrying amounts and estimated fair values, as well as the level within the fair value hierarchy, of the Company’s financial instruments are as follows:

June 30, 2019	Carrying Value	Fair Value	Level 1	Level 2	Level 3
			(Dollars in thousands)		
Financial Assets:					
Cash and cash equivalents	$ 163,158	$ 163,158	$ 163,158	$ —	$ —
Time deposits in other banks	1,225	1,225	1,225		
Available for sale securities	171,058	171,058	32,536	138,522	—
FHLB and other bank stock	6,190	6,190	—	6,190	—
Loans, net	1,403,061	1,397,245	—	—	1,397,245
Loans held for sale	2,583	2,801	—	2,801	—
Accrued interest receivable	7,039	7,039	—	7,039	—
Bank-owned life insurance	15,432	15,432	—	15,432	—
SBA servicing rights	3,570	3,570	—	—	3,570
Financial Liabilities:					
Deposits	$ 1,570,604	$ 1,532,821	$ —	$ 1,532,821	$ —
Accrued interest payable	1,134	1,134	—	1,134	—
Long-term borrowings	80,525	77,543	—	77,543	—

December 31, 2018	Carrying Value	Fair Value	Level 1	Level 2	Level 3
			(Dollars in thousands)		
Financial Assets:					
Cash and cash equivalents	$ 89,015	$ 89,015	$ 89,015	$ —	$ —
Available for sale securities	179,461	179,461	—	179,461	—
FHLB and other bank stock	5,304	5,304	—	5,304	—
Loans, net	1,086,654	1,075,252	—	—	1,075,252
Loans held for sale	3,945	4,200	—	4,200	—
Accrued interest receivable	4,934	4,934	—	4,934	—
Bank-owned life insurance	7,401	7,401	—	7,401	—
SBA servicing rights	3,965	3,965	—	—	3,965
Financial Liabilities:					
Deposits	$ 1,182,648	$ 1,181,606	$ —	$ 1,181,606	$ —
Accrued interest payable	702	702	—	702	—
Short-term borrowings	12,500	12,500	—	12,500	—
Long-term borrowings	67,916	66,735	—	66,735	—

Certain financial instruments are carried at amounts that approximate fair value due to their short-term nature and generally negligible credit risk. Financial instruments for which fair value approximates the carrying amount at June 30, 2019 and December 31, 2018, include cash and cash equivalents, time deposits in other banks and accrued interest receivable and payable.

NOTE 15. SUBSEQUENT EVENTS

On July 24, 2019, the Company and Chandler Bancorp, Inc., a Texas corporation (“Chandler”), entered into an Agreement and Plan of Reorganization (the “Reorganization Agreement”), joined in by Kidd Partners, Ltd., a Texas limited partnership, as sole shareholder of Chandler (“Kidd Partners”), providing for the acquisition by the Company of Chandler through the merger of Chandler with and into the Company, with the Company surviving the merger.

Pursuant to the terms and subject to the conditions of the Reorganization Agreement, which has been approved by the Board of Directors of each of the Company and Chandler and by Kidd Partners, as the sole shareholder of Chandler, the transaction provides for the payment to the sole shareholder of Chandler of (i) $19.2 million in cash, subject to adjustment described in the Reorganization Agreement, and (ii) 2,100,000 shares of the Company’s common stock, subject to adjustment described in the Reorganization Agreement. Based on the closing price of $22.10 for the Company’s common stock on July 23, 2019, the transaction would have an aggregate value of $65.6 million.

On July 25, 2019, the Company and the Bank entered into an underwriting agreement (the “Underwriting Agreement”) with Stephens Inc. and Keefe, Bruyette & Woods, Inc., as representatives of the several underwriters named in Schedule A thereto (collectively, the “Underwriters”), to issue and sell 2,000,000 shares of the Company’s common stock, no par value per share (“Common Stock”), at a public offering price of $21.50 per share in an underwritten public offering (the “Offering”). As part of the Offering, the Company granted the Underwriters a 30-day option to purchase up to an additional 300,000 shares of its common stock at the public offering price, less the underwriting discount.

In connection with the Offering, the Company issued and sold 2,300,000 shares of its common stock, including 300,000 shares sold pursuant to the Underwriters’ full exercise of their option to purchase additional shares, for net proceeds of approximately $46.3 million after deducting underwriting discounts and commissions and estimated offering expenses. The Company intends to use approximately $19.2 million of the net proceeds from the Offering to fund the cash portion of the merger consideration to be paid to the sole shareholder of Chandler in the Company’s acquisition of Chandler and its subsidiary, Citizens State Bank, and approximately $21.0 million of the net proceeds from this Offering to pay off a line of credit with a third-party lender. The remaining net proceeds will be used by the Company for other general corporate purposes in order to support its continued growth, including investments in its bank subsidiary and future strategic acquisitions.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis is intended to assist readers in understanding our financial condition as of and results of operations for the three and six months ended June 30, 2019 and should be read in conjunction with our consolidated financial statements and the accompanying notes thereto included in this Quarterly Report on Form 10-Q (this "Form 10-Q") and in our Annual Report on Form 10-K for the year ended December 31, 2018. Unless we state otherwise or the context otherwise requires, references in this Form 10-Q to "Company," "we," "our," and "us" refer to Spirit of Texas Bancshares, Inc., a Texas corporation, and our wholly-owned banking subsidiary, Spirit of Texas Bank SSB, a Texas state savings bank. References in this Form 10-Q to "Bank" refer to Spirit of Texas Bank, SSB. References in this Form 10-Q to "Houston metropolitan area," "Dallas/Fort Worth metropolitan area" and "Bryan/College Station metropolitan area" refer to the Houston-The Woodlands-Sugar Land Metropolitan Statistical Area, the Dallas-Fort Worth- Arlington Metropolitan Statistical Area and the College Station-Bryan Metropolitan Statistical Area, respectively. Unless otherwise indicated, the reported results are for the three and six months ended June 30, 2019 with the "same period," the "comparable period," and "prior period" being the respective three and six months ended June 30, 2018.

Cautionary Notice Regarding Forward-Looking Statements

Statements and financial discussion and analysis contained in this Form 10-Q 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 with or furnished to the SEC. In addition, our senior management may make forward-looking statements orally to investors, analysts, representatives of the media and others. These statements are often, but not always, preceded by, followed by or 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" or the negative version of those words or other comparable words or phrases of a future or forward-looking nature. These forward-looking statements are not historical facts and are based on current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

We have made the forward-looking statements in this Form 10-Q based on assumptions and estimates that we believe to be reasonable in light of the information available to us at this time. However, these forward-looking statements are subject to significant risks and uncertainties, and could be affected by many factors. These factors include, but are not limited to, the following:

1. risks related to the concentration of our business in Texas, and in the Houston and Dallas/Fort Worth metropolitan areas in particular, including risks associated with any downturn in the real estate sector and risks associated with a decline in the values of single family homes in our Texas markets;

2. general market conditions and economic trends nationally, regionally and particularly in our Texas markets, including a decrease in or the volatility of oil and gas prices;

3. risks related to our concentration in our primary markets, which are susceptible to severe weather events that could negatively impact the economies of our markets, our operations or our customers, any of which could have a material adverse effect on our business, financial condition and results of operations;

4. our ability to implement our growth strategy, including identifying and consummating suitable acquisitions, raising additional capital to finance such transactions, entering new markets, possible failures in realizing the anticipated benefits from such acquisitions and an inability of our personnel, systems and infrastructure to keep pace with such growth;

5. risks related to the integration of any acquired businesses, including exposure to potential asset quality and credit quality risks and unknown or contingent liabilities, the time and costs associated with integrating systems, technology platforms, procedures and personnel, the need for additional capital to finance such transactions, and possible failures in realizing the anticipated benefits from acquisitions;

6. changes in SBA loan products, including specifically the Section 7(a) program and Section 504 loans, or changes in SBA standard operating procedures;

7. risks associated with our ability to diligence our loans to and deposit accounts from foreign nationals;

8. risks associated with the relatively unseasoned nature of a significant portion of our loan portfolio;
9. the accuracy and sufficiency of the assumptions and estimates we make in establishing reserves for potential loan losses and other estimates;
10. the risk of deteriorating asset quality and higher loan charge-offs;
11. risks related to the significant amount of credit that we have extended to a limited number of borrowers and in a limited geographic area;
12. our ability to maintain adequate liquidity and to raise necessary capital to fund our acquisition strategy and operations or to meet increased minimum regulatory capital levels;
13. material decreases in the amount of deposits we hold, or a failure to grow our deposit base as necessary to help fund our growth and operations;
14. changes in market interest rates that affect the pricing of our loans and deposits and our net interest income;
15. potential fluctuations in the market value and liquidity of our investment securities;
16. the effects of competition from a wide variety of local, regional, national and other providers of financial, investment and insurance services;
17. our ability to maintain an effective system of disclosure controls and procedures and internal controls over financial reporting;
18. risks associated with fraudulent, negligent, or other acts by our customers, employees or vendors;
19. our ability to keep pace with technological change or difficulties when implementing new technologies;
20. risks associated with system failures or failures to protect against cybersecurity threats, such as breaches of our network security;
21. risks associated with data processing system failures and errors;
22. potential impairment on the goodwill we have recorded or may record in connection with business acquisitions;
23. the initiation and outcome of litigation and other legal proceedings against us or to which we become subject;
24. our ability to comply with various governmental and regulatory requirements applicable to financial institutions, including regulatory requirements to maintain minimum capital levels;
25. the impact of recent and future legislative and regulatory changes, including changes in banking, securities and tax laws and regulations and their application by our regulators, such as the implementation of the Economic Growth, Regulatory Relief and Consumer Protection Act;
26. changes in tariffs and trade barriers;
27. governmental monetary and fiscal policies, including the policies of the Board of Governors of the Federal Reserve System (“Federal Reserve”);
28. our ability to comply with supervisory actions by federal and state banking agencies;
29. changes in the scope and cost of Federal Deposit Insurance Corporation (“FDIC”), insurance and other coverage; and
30. systemic risks associated with the soundness of other financial institutions.
31. the cost savings from our recent acquisitions may not be fully realized or may take longer to realize than expected; and

32. operating costs, customer loss and business disruption following the acquisitions, including adverse effects on relationships with employees, may be greater than expected; and

33. competition from other financial services companies in the Company's markets.

Other factors not identified above, including those described under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018 and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q, may also cause our results to differ materially from the anticipated or estimated results described in our forward-looking statements. The foregoing factors should not be construed as exhaustive, and you should consider these factors in connection with considering any forward-looking statements that may be made by us. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statements speaks only as of the date on which it is made, and we undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events unless we are required to do so by law.

Overview

We are a Texas corporation and a registered bank holding company located in the Houston metropolitan area with headquarters in Conroe, Texas. We offer a broad range of commercial and retail banking services through our wholly-owned bank subsidiary, Spirit of Texas Bank SSB. We operate through 26 full-service branches and two loan productions offices located primarily in the Houston, Dallas/Fort Worth, San Antonio-New Braunfels, and Corpus Christi metropolitan areas. As of June 30, 2019, we had total assets of $1.90 billion, loans held for investment of $1.41 billion, total deposits of $1.57 billion and total stockholders' equity of $244.1 million.

As a bank holding company, we generate most of our revenues from interest income on loans, gains on sale of the guaranteed portion of SBA loans, customer service and loan fees, brokerage fees derived from secondary mortgage originations 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. Our goal is to maximize income generated from interest-earning assets, while also minimizing interest expense associated with our funding base to widen net interest spread and drive net interest margin expansion. Net interest margin is a ratio calculated as net interest income divided by average interest-earning assets. Net interest income is the difference between interest income on interest-earning assets, such as loans and securities, and interest expense on interest-bearing liabilities, such as deposits and borrowings that are used to fund those assets. Net interest spread is the difference between rates earned on interest-earning assets and rates paid on interest-bearing liabilities.

Changes in market interest rates and the interest rates we earn on interest-earning assets or pay on interest-bearing liabilities, as well as the volume and types of interest-earning assets, interest-bearing and noninterest-bearing liabilities and stockholders' equity, are usually the largest drivers of periodic changes in net interest spread, net interest margin and net interest income. 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. 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, as well as developments affecting the real estate, technology, financial services, insurance, transportation, manufacturing and energy sectors within our target markets and throughout Texas.

Results of Operations

Our results of operations depend substantially on net interest income and noninterest income. Other factors contributing to our results of operations include our level of our noninterest expenses, such as salaries and employee benefits, occupancy and equipment and other miscellaneous operating expenses.

Net Interest Income

Net interest income represents interest income less interest expense. We generate interest income from interest, dividends and fees received on interest-earning assets, including loans and investment securities we own. We incur interest expense from interest paid on interest-bearing liabilities, including interest-bearing deposits and borrowings. To evaluate net interest income, we measure and monitor (1) yields on our loans and other interest-earning assets, (2) the costs of our deposits and other funding sources, (3) our net interest spread, (4) our net interest margin and (5) our provisions for loan losses. 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 the annualized net interest income divided by average interest-earning assets. Because noninterest-bearing sources of funds, such as noninterest-bearing deposits and stockholders' equity, also fund interest-earning assets, net interest margin includes the benefit of these noninterest-bearing sources.

Changes in market interest rates and the interest rates we earn on interest-earning assets or pay on interest-bearing liabilities, as well as the volume and types of interest-earning assets, interest-bearing and noninterest-bearing deposits and stockholders' equity, are usually the largest drivers of periodic changes in net interest spread, net interest margin and net interest income. We measure net interest income before and after provision for loan losses required to maintain our allowance for loan and lease losses at acceptable levels.

Noninterest Income

Our noninterest income includes the following: (1) service charges and fees; (2) SBA loan servicing fees; (3) mortgage referral fees; (4) gain on the sales of loans, net; (5) gain (loss) on sales of investment securities; and (6) other.

Noninterest Expense

Our noninterest expense includes the following: (1) salaries and employee benefits; (2) occupancy and equipment expenses; (3) professional services; (4) data processing and network; (5) regulatory assessments and insurance; (6) amortization of core deposit intangibles; (7) advertising; (8) marketing; (9) telephone expenses; (10) conversion expenses; and (11) other.

Financial Condition

The primary factors we use to evaluate and manage our financial condition include liquidity, asset quality and capital.

Liquidity

We manage liquidity based upon factors that include the amount of core deposits as a percentage of total deposits, the level of diversification of our funding sources, the allocation and amount of our deposits among deposit types, the short-term funding sources used to fund assets, the amount of non-deposit funding used to fund assets, the availability of unused funding sources, off-balance sheet obligations, the availability of assets to be readily converted into cash without undue loss, the amount of cash and liquid securities we hold, and the repricing characteristics and maturities of our assets when compared to the repricing characteristics of our liabilities, the ability to securitize and sell certain pools of assets and other factors.

Asset Quality

We manage the diversification and quality of our assets based upon factors that include the level, distribution, severity and trend of problem, classified, delinquent, nonaccrual, nonperforming and restructured assets, the adequacy of our allowance for loan and lease losses, discounts and reserves for unfunded loan commitments, the diversification and quality of loan and investment portfolios and credit risk concentrations.

Capital

We manage capital based upon factors that include the level and quality of capital and our overall financial condition, the trend and volume of problem assets, the adequacy of discounts and reserves, the level and quality of earnings, the risk exposures in our balance sheet, the levels of Tier 1 (core), risk-based and tangible equity capital, the ratios of tier 1 (core), risk-based and tangible equity capital to total assets and risk-weighted assets and other factors.

Performance Highlights

Operating and financial highlights for the three months ended June 30, 2019 include the following:

- Net income for the second quarter of 2019 increased to $5.8 million. Adjusted net income for the second quarter of 2019 was $5.8 million, which excluded $997 thousand of after-tax, merger-related expenses and $1.1 million of gain on sale of investment securities.

- Diluted earnings per share were $0.41 for the second quarter of 2019. Adjusted diluted earnings per share were also $0.41 for the second quarter of 2019, which excluded $997 thousand of after-tax, merger-related expenses and $1.1 million of gain on sale of investment securities.

- Net Interest Margin and Tax Equivalent Net Interest Margin were 4.61% and 4.64%, respectively.

- Organic loan growth of $6.4 million, or 2.30% annualized.

- Return on Average Assets was 1.26%, annualized including merger related expenses and the gain on sale of investment securities
- Book value per share was $17.70 and tangible book value per share was $13.61.
- Completed the acquisition of First Beeville Financial Corporation and its subsidiary, The First National Bank of Beeville (together, "Beeville"), on April 2, 2019. The combined organization has 28 locations and total assets of $1.9 billion as of June 30, 2019.

Tax equivalent net interest margin, adjusted net income, adjusted basic and diluted earnings per share and tangible book value per share are non-GAAP financial measures. See our reconciliation of non-GAAP financial measures to their most directly comparable GAAP financial measures under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures."

Analysis of Results of Operations

Net income for the three months ended June 30, 2019 totaled $5.8 million, which generated diluted earnings per common share of $0.41 for the three months ended June 30, 2019. Adjusted net income for the three months ended June 30, 2019 totaled $5.8 million which excluded $997 thousand of after-tax merger related expenses and $1.1 million of gain on sale of investment securities, which generated adjusted diluted earnings per common share of $0.41. Net income for the three months ended June 30, 2018 totaled $2.7 million, which generated diluted earnings per common share of $0.29 for the three months ended June 30, 2018. The increase in net income was driven by an increase in interest income of $10.8 million that was primarily attributable to increasing loan yields and organic and acquired growth in the average balance of loans, partially offset by an increase in noninterest expense of $6.4 million, which was mainly the result of an increase of salaries and employee benefits of $2.7 million and merger related expenses of $1.1 million. Our results of operations for the three months ended June 30, 2019 produced an annualized return on average assets of 1.26% compared to an annualized return on average assets of 1.02% for the three months ended June 30, 2018. We had an annualized return on average stockholders' equity of 10.79% for the three months ended June 30, 2019, compared to an annualized return on average stockholders' equity of 9.03% for the three months ended June 30, 2018.

Net income for the six months ended June 30, 2019 totaled $9.6 million, which generated diluted earnings per common share of $0.72 for the six months ended June 30, 2019. Adjusted net income for the six months ended June 30, 2019 totaled $9.9 million which excluded $2.4 million of after-tax merger related expenses and $2.1 million of gain on sale of investment securities, which generated adjusted diluted earnings per common share of $0.73. Net income for the six months ended June 30, 2018 totaled $4.7 million, which generated diluted earnings per common share of $0.56 for the six months ended June 30, 2018. The increase in net income was driven by an increase in interest income of $17.0 million that was primarily attributable to increasing loan yields and organic and acquired growth in the average balance of loans, partially offset by an increase in noninterest expense of $9.3 million, which was mainly the result of an increase of salaries and employee benefits of $3.0 million and merger related expenses of $1.1 million. Our results of operations for the six months ended June 30, 2019 produced an annualized return on average assets of 1.15% compared to an annualized return on average assets of 0.91% for the six months ended June 30, 2018. We had an annualized return on average stockholders' equity of 8.82% for the six months ended June 30, 2019, compared to an annualized return on average stockholders' equity of 8.59% for the six months ended June 30, 2018.

Net Interest Income and Net Interest Margin

The following table presents, for the periods indicated, information about (1) average balances, the total dollar amount of interest income from interest-earning assets and the resultant average yields; (2) average balances, the total dollar amount of interest expense on interest-bearing liabilities and the resultant average rates; (3) the interest rate spread; (4) net interest income and margin; and (5) net interest income and margin (tax equivalent). Interest earned on loans that are classified as nonaccrual is not recognized in income, however the balances are reflected in average outstanding balances for that period. Any nonaccrual loans have been included in the table as loans carrying a zero yield.

	Three Months Ended June 30,					
	2019			2018		
	Average Balance (1)	Interest/ Expense	Annualized Yield/Rate	Average Balance (1)	Interest/ Expense	Annualized Yield/Rate
	(Dollars in thousands)					
Interest-earning assets:						
Interest-earning deposits in other banks	$ 120,568	$ 742	2.47 %	$ 41,396	$ 183	1.77 %
Loans, including loans held for sale (2)	1,419,004	22,204	6.28 %	901,103	13,078	5.82 %
Investment securities and other	177,227	1,354	3.06 %	40,005	227	2.28 %
Total interest-earning assets	1,716,799	24,300	5.68 %	982,504	13,488	5.51 %
Noninterest-earning assets	143,434			75,278		
Total assets	$ 1,860,233			$ 1,057,782		
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 295,274	$ 394	0.54 %	$ —	$ —	0.00 %
Interest-bearing NOW accounts	7,619	3	0.16 %	8,102	3	0.15 %
Savings and money market accounts	267,357	588	0.88 %	221,792	337	0.61 %
Time deposits	634,700	2,953	1.87 %	431,666	1,601	1.49 %
FHLB advances and other borrowings	75,856	611	3.23 %	85,612	465	2.18 %
Total interest-bearing liabilities	1,280,806	4,549	1.42 %	747,172	2,406	1.29 %
Noninterest-bearing liabilities and shareholders' equity:						
Noninterest-bearing demand deposits	359,559			188,628		
Other liabilities	3,228			2,855		
Stockholders' equity	216,640			119,127		
Total liabilities and stockholders' equity	$ 1,860,233			$ 1,057,782		
Net interest rate spread			4.26 %			4.22 %
Net interest income and margin		$ 19,751	4.61 %		$ 11,082	4.52 %
Net interest income and margin (tax equivalent)(3)		$ 19,863	4.64 %		$ 11,196	4.57 %

(1) Average balances presented are derived from daily average balances.
(2) Includes loans on nonaccrual status.
(3) In order to make pretax income and resultant yields on tax-exempt loans comparable to those on taxable loans, a tax-equivalent adjustment has been computed using a federal tax rate of 21% for the three months ended June 30, 2019 and 2018, which is a non-GAAP financial measure. See our reconciliation of non-GAAP financial measures to their most directly comparable GAAP financial measures under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures."

	Six Months Ended June 30,					
	2019			2018		
	Average Balance (1)	Interest/ Expense	Annualized Yield/Rate	Average Balance (1)	Interest/ Expense	Annualized Yield/Rate
	(Dollars in thousands)					
Interest-earning assets:						
Interest-earning deposits in other banks	$ 109,558	$ 1,377	2.53 %	$ 34,657	$ 307	1.79 %
Loans, including loans held for sale (2)	1,261,244	39,322	6.29 %	892,858	25,369	5.73 %
Investment securities and other	139,862	2,483	3.58 %	40,691	465	2.30 %
Total interest-earning assets	1,510,664	43,182	5.76 %	968,206	26,141	5.44 %
Noninterest-earning assets	177,284			75,542		
Total assets	$ 1,687,948			$ 1,043,748		
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 232,410	$ 309	0.27 %	$ -	$ -	0.00 %
Interest-bearing NOW accounts	13,400	10	0.15 %	7,926	6	0.15 %
Savings and money market accounts	231,728	1,277	1.11 %	228,571	679	0.60 %
Time deposits	597,865	5,412	1.83 %	424,381	2,987	1.42 %
FHLB advances and other borrowings	71,503	959	2.70 %	89,538	1,006	2.26 %
Total interest-bearing liabilities	1,146,906	7,967	1.40 %	750,416	4,678	1.26 %
Noninterest-bearing liabilities and shareholders' equity:						
Noninterest-bearing demand deposits	318,988			179,210		
Other liabilities	1,841			3,883		
Stockholders' equity	220,213			110,239		
Total liabilities and stockholders' equity	$ 1,687,948			$ 1,043,748		
Net interest rate spread			4.36 %			4.18 %
Net interest income and margin		$ 35,215	4.70 %		$ 21,463	4.47 %
Net interest income and margin (tax equivalent)(3)		$ 35,744	4.73 %		$ 21,694	4.52 %

(1) Average balances presented are derived from daily average balances.
(2) Includes loans on nonaccrual status.
(3) In order to make pretax income and resultant yields on tax-exempt loans comparable to those on taxable loans, a tax-equivalent adjustment has been computed using a federal tax rate of 21% for the six months ended June 30, 2019 and 2018, which is a non-GAAP financial measure. See our reconciliation of non-GAAP financial measures to their most directly comparable GAAP financial measures under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures."

Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest-earning assets and liabilities, as well as changes in average interest rates. The following table shows the effect that these factors had on the interest earned on our interest-earning assets and the interest incurred on our interest-bearing liabilities for the periods indicated. The effect of changes in volume is determined by multiplying the change in volume by the prior period's average rate. Similarly, the effect of rate changes is calculated by multiplying the change in average rate by the prior period's volume.

A summary of increases and decreases in interest income and interest expense resulting from changes in average balances (volume) and average interest rates follows:

	Three Months Ended June 30, 2019 compared to 2018		
	Increase (Decrease) Due to		
	Volume (1)	Rate (1)	Total
	(Dollars in thousands)		
Interest-earning assets:			
Interest-earning deposits in other banks	$ 463	$ 96	$ 559
Loans, including loans held for sale (2)	8,023	1,103	9,126
Investment securities and other	1,025	102	1,127
Total change in interest income	$ 9,511	$ 1,301	$ 10,812
Interest-bearing liabilities:			
Interest-bearing demand deposits	$ 394	$ —	$ 394
Interest-bearing NOW accounts	(1)	1	—
Savings and money market accounts	80	171	251
Time deposits	877	475	1,352
FHLB advances and other borrowings	(316)	462	146
Total change in interest expenses	1,034	1,109	2,143
Total change in net interest income	$ 8,477	$ 192	$ 8,669

(1) Variances attributable to both volume and rate are allocated on a consistent basis between rate and volume based on the absolute value of the variances in each category.
(2) Includes loans on nonaccrual status.

	Six Months Ended June 30, 2019 compared to 2018		
	Increase (Decrease) Due to		
	Volume (1)	Rate (1)	Total
	(Dollars in thousands)		
Interest-earning assets:			
Interest-earning deposits in other banks	$ 898	$ 172	$ 1,070
Loans, including loans held for sale (2)	11,281	2,672	13,953
Investment securities and other	1,643	375	2,018
Total change in interest income	$ 13,822	$ 3,219	$ 17,041
Interest-bearing liabilities:			
Interest-bearing demand deposits	$ 100	$ -	$ 100
Interest-bearing NOW accounts	4	—	4
Savings and money market accounts	10	588	598
Time deposits	1,421	1,004	2,425
FHLB advances and other borrowings	(425)	378	(47)
Total change in interest expenses	1,110	1,970	3,080
Total change in net interest income	$ 12,712	$ 1,249	$ 13,961

(1) Variances attributable to both volume and rate are allocated on a consistent basis between rate and volume based on the absolute value of the variances in each category.
(2) Includes loans on nonaccrual status.

Three months ended June 30, 2019 compared to three months ended June 30, 2018

Net interest income was $19.8 million for the three months ended June 30, 2019 compared to $11.1 million for the three months ended June 30, 2018, representing an increase of $8.7 million, or 78.4%. The increase in net interest income was primarily due to an increase in interest income of $10.8 million partially offset by an increase in interest expense of $2.1 million. Interest income on loans increased by $9.1 million for the three months ended June 30, 2019. The growth in average loans of $517.9 million, including loans held for sale, for the three months ended June 30, 2019 was the primary driver of the increase in interest income on loans, as well as an increase in the average rate on loans of 46 basis points over the same period.

Interest expense was $4.5 million for the three months ended June 30, 2019 compared to $2.4 million for the three months ended June 30, 2018, representing an increase of $2.1 million. This increase was mainly due to an increase in interest expense on deposits. Interest expense on deposits totaled $3.9 million for the three months ended June 30, 2019 compared to $1.9 million for the three months ended June 30, 2018, representing an increase of $2.0 million, resulting primarily from an increase in the average rate paid on time deposits of 38 basis points for the three months ended June 30, 2019 over the three months ended June 30, 2018. The average cost of deposits for the three months ended June 30, 2019 was 1.01%. This represents an increase of 9 basis points compared to the average cost of deposits of 0.92% for the three months ended June 30, 2018. The increase in cost of deposits was primarily attributable to the increase in interest rates by the Federal Open Market Committee during 2018. For the three months ended June 30, 2019, the average rate paid on time deposits was 1.87% compared to 1.49% for the three months ended June 30, 2018.

The net interest margin was 4.61% for the three months ended June 30, 2019 compared to 4.52% for the three months ended June 30, 2018, representing an increase of 9 basis points. The tax equivalent net interest margin was 4.64% for the three months ended June 30, 2019 compared to 4.57% for the three months ended June 30, 2018, representing an increase of 7 basis points. The average yield on interest-earning assets increased by 17 basis points for the three months ended June 30, 2019 compared to the three months ended June 30, 2018 while the average rate paid on interest-bearing liabilities increased by 13 basis points, resulting in a 4 basis point increase in the interest rate spread. The increase in both net interest margin and interest rate spread primarily resulted from the increase in the average loan balance of $517.9 million as well as the increase in loan yields of 46 basis points for the three months ended June 30, 2019.

Six months ended June 30, 2019 compared to six months ended June 30, 2018

Net interest income was $35.2 million for the six months ended June 30, 2019 compared to $21.5 million for the six months ended June 30, 2018, representing an increase of $13.7 million, or 63.7%. The increase in net interest income was primarily due to an increase in interest income of $17.0 million partially offset by an increase in interest expense of $3.3 million. Interest income on loans increased by $14.0 million for the six months ended June 30, 2019. The growth in average loans of $368.4 million, including loans held for sale, for the six months ended June 30, 2019 was the primary driver of the increase in interest income on loans, as well as an increase in the average rate on loans of 56 basis points over the same period.

Interest expense was $8.0 million for the six months ended June 30, 2019 compared to $4.7 million for the six months ended June 30, 2018, representing an increase of $3.3 million. This increase was mainly due to an increase in interest expense on deposits. Interest expense on deposits totaled $7.0 million for the six months ended June 30, 2019 compared to $3.7 million for the six months ended June 30, 2018, representing an increase of $3.3 million, resulting primarily from an increase in the average rate paid on time deposits of 41 basis points for the six months ended June 30, 2019 over the six months ended June 30, 2018. The average cost of deposits for the six months ended June 30, 2019 was 1.02%. This represents an increase of 14 basis points compared to the average cost of deposits of 0.88% for the six months ended June 30, 2018. The increase in cost of deposits was primarily attributable to the increase in interest rates by the Federal Open Market Committee during 2018. For the six months ended June 30, 2019, the average rate paid on time deposits was 1.83% compared to 1.42% for the six months ended June 30, 2018.

The net interest margin was 4.70% for the six months ended June 30, 2019 compared to 4.47% for the six months ended June 30, 2018, representing an increase of 23 basis points. The tax equivalent net interest margin was 4.73% for the six months ended June 30, 2019 compared to 4.52% for the six months ended June 30, 2018, representing an increase of 21 basis points. The average yield on interest-earning assets increased by 32 basis points for the six months ended June 30, 2019 compared to the six months ended June 30, 2018 while the average rate paid on interest-bearing liabilities increased by 14 basis points, resulting in a 18 basis point increase in the interest rate spread. The increase in both net interest margin and interest rate spread primarily resulted from the increase in the average loan balance of $368.4 million as well as the increase in loan yields of 56 basis points for the six months ended June 30, 2019.

Provision for Loan Losses

The provision for loan losses represents the amount determined by management to be necessary to maintain the allowance for loan and lease losses at a level capable of absorbing inherent losses in the loan portfolio. See the discussion under "—Critical Accounting Policies—Allowance for Loan and Lease Losses." Our management and board of directors review the adequacy of the allowance for loan and lease losses on a quarterly basis. The allowance for loan and lease losses calculation is segregated by call report code and then further segregated into various segments that include classified loans, loans with specific allocations and pass rated loans. A pass rated loan is generally characterized by a very low to average risk of default and in which management perceives there is a minimal risk of loss. Loans are rated using a nine-point risk grade scale by loan officers that are subject to validation by a third party loan review or our internal credit committee. Risk ratings are categorized as pass, watch, special mention, substandard, doubtful and loss, with some general allocation of reserves based on these grades. Impaired loans are reviewed specifically and separately under the Financial Accounting Standards Board ("FASB")'s Accounting Standards Codification ("ASC") 310, "Receivables", to determine the appropriate reserve allocation. Management compares the investment in an impaired loan with the present value of expected future cash flow discounted at the loan's effective interest rate, the loan's observable market price or the fair value of the collateral, if the loan is collateral-dependent, to determine the specific reserve allowance. Reserve percentages assigned to non-impaired loans are based on historical charge-off experience adjusted for other risk factors. To evaluate the overall adequacy of the allowance to absorb losses inherent in our loan portfolio, our management considers historical loss experience based on volume and types of loans, trends in classifications, volume and trends in delinquencies and nonaccruals, economic conditions and other pertinent information. Based on future evaluations, additional provisions for loan losses may be necessary to maintain the allowance for loan and lease losses at an appropriate level.

Three months ended June 30, 2019 compared to three months ended June 30, 2018

The provision for loan losses was $332 thousand for the three months ended June 30, 2019 and $635 thousand for the three months ended June 30, 2018. The ratio of net charged-off loans to average loans (annualized) was 0.18% for the three months ended June 30, 2019 and 0.15% for the three months ended June 30, 2018. Charge-offs taken in the second quarter of 2019 were primarily on impaired loans which had been provided for in a previous period.

Six months ended June 30, 2019 compared to six months ended June 30, 2018

The provision for loan losses was $1.2 million for the six months ended June 30, 2019 and $974 thousand for the six months ended June 30, 2018. The ratio of net charged-off loans to average loans (annualized) was 0.19% for the six months ended June 30, 2019 and 0.14% for the six months ended June 30, 2018. Charge-offs taken in the first half of 2019 were primarily on impaired loans which had been provided for in a previous period.

Our management maintains a proactive approach in managing nonperforming loans, which were $5.7 million, or 0.40% of loans held for investment, at June 30, 2019, and $5.1 million, or 0.49% of loans held for investment, at December 31, 2018. The allowance for loan and lease losses totaled $6.3 million, or 0.45% of loans held for investment, at June 30, 2019 compared to $6.3 million, or 0.58% of loans held for investment, at December 31, 2018. The ratio of allowance for loan and lease losses to nonperforming loans was 109.99% at June 30, 2019, compared to 118.18% at December 31, 2018.

Noninterest Income

Our noninterest income includes the following: (1) service charges and fees; (2) SBA loan servicing fees; (3) mortgage referral fees; (4) gain on the sales of loans, net; (5) gain (loss) on sales of investment securities; and (6) other.

The following table presents a summary of noninterest income by category, including the percentage change in each category, for the periods indicated:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018	Change from the Prior Period	2019	2018	Change from the Prior Period
Noninterest income:						
Service charges and fees	969	419	131.3%	1,698	776	118.8%
SBA loan servicing fees	40	548	-92.7%	304	1,172	-74.1%
Mortgage referral fees	198	208	-4.8%	308	364	-15.4%
Gain on sales of loans, net	1,384	1,041	32.9%	2,188	2,515	-13.0%
Gain on sales of investment securities	1,053	—	100.0%	2,134	-	100.0%
Other noninterest income	131	87	50.6%	200	64	212.5%
Total noninterest income	$ 3,775	$ 2,303	63.9%	$ 6,832	$ 4,891	39.7%

Three months ended June 30, 2019 compared to three months ended June 30, 2018

For the three months ended June 30, 2019, noninterest income totaled $3.8 million, a $718 thousand, or 23.5%, increase from $3.1 million for the prior period. This increase was primarily due to an increase in the gain on sales of loans, net of $580 thousand.

Gain on sales of investment securities were $1.1 million for the three months ended June 30, 2019. There was no gain on sales of investment securities for the three months ended June 30, 2018. During June 2019, the Company sold $34.7 million of investment securities in an effort to rebalance the portfolio and shorten the duration given changes in interest rates.

Gain on sales of loans, net was $1.4 million for the three months ended June 30, 2019, compared to $1.0 million for the three months ended June 30, 2018.

Six months ended June 30, 2019 compared to six months ended June 30, 2018

For the six months ended June 30, 2019, noninterest income totaled $6.8 million, a $1.9 million, or 39.7%, increase from $4.9 million for the prior period. This increase was primarily due to an increase in the gain on sales of investment securities of $2.1 million, partially offset by a decrease in the gain on sales of loans, net of $327 thousand.

Gain on sales of investment securities were $2.1 million for the six months ended June 30, 2019. There was no gain on sales of investment securities for the six months ended June 30, 2018. During January and June 2019, the Company sold $45.2 and $34.7 million, respectively, of investment securities in order to fund future loan growth, shorten portfolio duration, and harvest gains accumulated in the portfolio as a result of interest rate changes.

Gain on sales of loans, net was $2.1 million for the six months ended June 30, 2019, compared to $2.5 million for the six months ended June 30, 2018. The closure of the U.S. government during the first quarter of 2019 adversely affected the Company's ability to sell loans into the secondary market, as the Company was unable to secure new SBA guarantees.

Noninterest Expense

Our noninterest expense includes the following: (1) salaries and employee benefits; (2) occupancy and equipment expenses; (3) professional services; (4) data processing and network; (5) regulatory assessments and insurance; (6) amortization of core deposit intangibles; (7) advertising; (8) marketing; (9) telephone expense; (10) conversion expense; and (11) other.

The following table presents a summary of noninterest expenses by category, including the percentage change in each category, for the periods indicated:

	Three Months Ended June 30,			**Six Months Ended June 30,**		
	2019	**2018**	**Change from the Prior Period**	**2019**	**2018**	**Change from the Prior Period**
Noninterest expense:						
Salaries and employee benefits	8,765	6,043	45.0%	15,889	12,901	23.2%
Occupancy and equipment expenses	1,690	1,221	38.4%	2,952	2,457	20.1%
Professional services	1,022	314	225.5%	2,063	625	230.1%
Data processing and network	731	321	127.7%	1,216	634	91.8%
Regulatory assessments and insurance	315	266	18.4%	413	521	-20.7%
Amortization of intangibles	1,006	175	474.9%	1,609	351	358.4%
Advertising	167	102	63.7%	264	217	21.7%
Marketing	132	121	9.1%	271	239	13.4%
Telephone expense	338	114	196.5%	478	212	125.5%
Conversion expense	453	—	100.0%	1,604	-	100.0%
Other operating expenses	1,206	704	71.3%	2,070	1,350	53.3%
Total noninterest expense	$ 15,825	$ 9,381	68.7%	$ 28,829	$ 19,507	47.8%

Three months ended June 30, 2019 compared to three months ended June 30, 2018

For the three months ended June 30, 2019, noninterest expenses totaled $15.8 million, a $6.4 million, or 68.1%, increase from $9.4 million for the prior period. This increase was primarily due to an increase in salaries and employee benefits of $2.7 million, conversion expense of $453 thousand, an increase in professional services of $708 thousand and an increase in the amortization of core deposit intangibles of $891 thousand.

Conversion expense totaled $453 thousand for the three months ended June 30, 2019 related to the data conversion expense of the Beeville acquisition.

Professional services totaled $1.0 million for the three months ended June 30, 2019 compared to $314 thousand for the three months ended June 30, 2018. This increase is primarily the result of the merger related expenses for the Beeville acquisition.

Amortization of core deposit intangibles increased $831 thousand for the three months ended June 30, 2019 compared to June 30, 2018. This is driven by the increase in the core deposit intangible booked for the Beeville acquisition.

Six months ended June 30, 2019 compared to six months ended June 30, 2018

For the six months ended June 30, 2019, noninterest expenses totaled $28.8 million, a $9.3 million, or 47.7%, increase from $19.5 million for the prior period. This increase was primarily due to an increase in salaries and employee benefits of $3.0 million, conversion expense of $1.6 million, an increase in professional services of $1.4 million and an increase in the amortization of core deposit intangibles of $1.3 million.

Conversion expense totaled $1.6 million for the six months ended June 30, 2019. Conversion expenses related to the data conversion expense and early termination fees of the Comanche and Beeville acquisitions.

Professional services totaled $2.1 million for the six months ended June 30, 2019 compared to $625 thousand for the six months ended June 30, 2018. This increase is primarily the result of the merger related expenses for the Comanche and Beeville acquisitions.

Amortization of core deposit intangibles increased $1.3 million for the six months ended June 30, 2019 compared to June 30, 2018. This is driven by the increase in the core deposit intangible booked for the Comanche and Beeville acquisitions.

Income Tax Expense

The provision for income taxes includes both federal and state taxes. Fluctuations in effective tax rates reflect the differences in the inclusion or deductibility of certain income and expenses for income tax purposes. Our future effective income tax rate will fluctuate based on the mix of taxable and tax-free investments we make, periodic increases in surrender value of bank-owned life insurance policies for certain former executive officers and our overall taxable income.

Three months ended June 30, 2019 compared to three months ended June 30, 2018

Income tax expense was $1.5 million for the three months ended June 30, 2019, an increase of $854 thousand compared to income tax expense of $688 thousand for the three months ended June 30, 2018. Our effective tax rates for the three months ended June 30, 2019 and 2018 were 20.9% and 20.4%, respectively.

Six months ended June 30, 2019 compared to six months ended June 30, 2018

Income tax expense was $2.3 million for the six months ended June 30, 2019, an increase of $1.1 million compared to income tax expense of $1.2 million for the six months ended June 30, 2018. Our effective tax rates for the six months ended June 30, 2019 and 2018 were 19.7% and 20.1%, respectively, primarily due to a return to provision adjustment recorded during the first quarter of 2019 offset by nondeductible merger expenses.

Financial Condition

Our total assets increased $431.7 million, or 29.4%, from $1.47 billion as of December 31, 2018 to $1.90 billion as of June 30, 2019, primarily as a result of the completion of the Beeville acquisition.

Investment Securities

We use our investment securities portfolio to provide a source of liquidity, provide an appropriate return on funds invested, manage interest rate risk, and meet collateral requirements and meet regulatory capital requirements. The average balance of the securities portfolio including FHLB, FRB and The Independent Bankers Bank, or TIB, bank stock for the three months ended June 30, 2019 and 2018 was $177.2 million and $40.0 million, respectively, with a pre-tax yield of 3.06% and 2.28%, respectively. The average balance of the securities portfolio including FHLB, FRB and The Independent Bankers Bank, or TIB, bank stock for the six months ended June 30, 2019 and 2018 was $139.9 million and $40.7 million, respectively, with a pre-tax yield of 3.58% and 2.30%, respectively. We held 229 securities classified as available for sale with an amortized cost of $167.9 million as of June 30, 2019.

Management evaluates securities for other-than-temporary impairment, or OTTI, at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. No securities were determined to be OTTI as of June 30, 2019 or December 31, 2018.

The following tables show contractual maturities and the weighted average yields on our investment securities as of the dates presented. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Weighted average yields are not presented on a taxable equivalent basis:

	Maturity as of June 30, 2019							
	One Year or Less		One to Five Years		Five to Ten Years		After Ten Years	
(Dollars in thousands)	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
Available for sale:								
U.S. treasury securities	$ 8,962	2.08 %	$ 23,575	1.93 %	$ -	0.00 %	$ -	0.00 %
U.S. Government agencies	—	0.00 %	3,600	2.31 %	479	2.92 %	-	0.00 %
State and municipal obligations	731	2.67 %	11,141	2.45 %	7,401	2.48 %	5,672	4.46 %
Residential mortgage-backed securities	—	0.00 %	59,437	3.38 %	26,673	2.92 %	14,599	2.75 %
Corporate bonds and other debt securities	—	0.00 %	5,133	2.53 %	512	2.86 %	—	0.00 %
Total available for sale	$ 9,693	2.12 %	$ 102,886	2.87 %	$ 35,065	2.83 %	$ 20,271	3.23 %

As a member institution of the FHLB, FRB and TIB, the Bank is required to own capital stock in the FHLB, FRB and TIB. As of June 30, 2019 and December 31, 2018, the Bank held approximately $6.2 million in FHLB, FRB and TIB bank stock. No market exists for this stock, and the Bank's investment can be liquidated only through repurchase by the FHLB, FRB or TIB. Such repurchases have historically been at par value. We monitor our investment in FHLB, FRB and TIB stock for impairment through review of recent financial results, dividend payment history and information from credit agencies. As of June 30, 2019 and December 31, 2018, management did not identify any indicators of impairment of FHLB, FRB and TIB stock.

Except for securities issued by U.S. government agencies, we did not have any concentrations where the total outstanding balances issued by a single issuer exceed 10% of our stockholders' equity as of June 30, 2019 and December 31, 2018.

Our securities portfolio had a weighted average life of 3.47 years and an effective duration of 3.14 years as of June 30, 2019 and a weighted average life of 7.65 years and an effective duration of 5.14 years as of December 31, 2018.

Loans Held for Sale

Loans held for sale consist of the guaranteed portion of SBA loans that we intend to sell after origination. Our loans held for sale were $2.6 million as of June 30, 2019 and $3.9 million as of December 31, 2018.

Loan Concentrations

Our primary source of income is interest on loans to individuals, professionals, small and medium-sized businesses and commercial companies located in the Houston and Dallas/Fort Worth metropolitan areas. Our loan portfolio consists primarily of

commercial and industrial loans, 1-4 single family residential real estate loans and loans secured by commercial real estate properties located in our primary market areas. Our loan portfolio represents the highest yielding component of our earning asset base.

Our total loans held for investment of $1.41 billion as of June 30, 2019 represented an increase of $316.4 million, or 28.9%, compared to $1.09 billion as of December 31, 2018. Our loans as a percentage of assets were 74.2% and 74.5% as of June 30, 2019 and December 31, 2018, respectively.

The current concentrations in our loan portfolio may not be indicative of concentrations in our loan portfolio in the future. We plan to maintain a relatively diversified loan portfolio to help reduce the risk inherent in concentration in certain types of collateral. The following table summarizes the allocation of loans by type as of the dates presented.

	June 30, 2019		December 31, 2018	
(Dollars in thousands)	**Amount**	**% of Total**	**Amount**	**% of Total**
Commercial and industrial loans (1)	$ 197,774	14.1 %	$ 173,892	15.9 %
Real estate:				
1-4 single family residential loans	277,560	19.7 %	275,644	25.2 %
Construction, land and development loans	176,567	12.5 %	159,734	14.6 %
Commercial real estate loans (including multifamily)	666,981	47.3 %	397,953	36.4 %
Consumer loans and leases	20,745	1.5 %	24,378	2.3 %
Municipal and other loans	69,711	4.9 %	61,339	5.6 %
Total loans held in portfolio	$ 1,409,338	100.0 %	$ 1,092,940	100.0 %

(1) Balance includes $71.3 million and $76.9 million of the unguaranteed portion of SBA loans as of June 30, 2019 and December 31, 2018, respectively.

Commercial and Industrial Loans (including SBA loans)

Commercial and industrial loans, including SBA loans, are underwritten after evaluating and understanding the borrower's ability to repay the loan through operating profitably and effectively growing its business. Our management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the credit quality and cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee to add strength to the credit and reduce the risk on a transaction to an acceptable level; however, some short-term loans may be made on an unsecured basis to the most credit worthy borrowers.

In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. Due to the nature of accounts receivable and inventory secured loans, we closely monitor credit availability and collateral through the use of various tools, including but not limited to borrowing-base formulas, periodic accounts receivable agings, periodic inventory audits, and/or collateral inspections.

Commercial and industrial loans, including SBA loans, totaled $197.8 million as of June 30, 2019 and represented an increase of $23.9 million, or 13.7%, from $173.9 million as of December 31, 2018. The increase in commercial and industrial loans during the six months ended June 30, 2019 was due to acquired loans associated with the Beeville acquisition. We believe we are well-positioned for continued loan growth in our commercial and industrial loan portfolio based on our strategic presence in the Houston, Dallas/Fort Worth, and San Antonio/Corpus Christi metropolitan areas, which are expected to continue to benefit from favorable economic conditions.

The primary focus of our SBA lending program is financing well-known national franchises for which the United States generally will guarantee between 75% and 85% of the loan. We are a SBA preferred lender, and originate SBA loans to national franchises in Texas and nationwide. We routinely sell the guaranteed portion of SBA loans to third parties for a premium and retain the servicing rights, for which we earn a 1% fee, and maintain the nonguaranteed portion in our loan portfolio.

SBA loans held in our loan portfolio totaled $71.3 million and $76.9 million at June 30, 2019 and December 31, 2018, respectively. We intend to continue to expand our SBA lending program in the future.

Real estate loans

1-4 single family residential real estate loans (including loans to foreign nationals)

1-4 single family residential real estate loans, including foreign national loans, are subject to underwriting standards and processes similar to commercial and industrial loans. We provide mortgages for the financing of 1-4 single family residential homes

for primary occupancy, vacation or rental purposes. The borrowers on these loans generally qualify for traditional market financing.We also specialize in 1-4 single family residential real estate loans to foreign national customers, in which the borrower does not qualify for traditional market financing.

We define our foreign national loans as loans to borrowers who derive more than 50% of their personal income from outside the U.S. We provide mortgages for these foreign nationals in Texas for primary occupancy or secondary homes while travelling to the U.S. Because more than 50% of the borrower's income is derived from outside of the U.S., they do not qualify for traditional market financing. We have developed an enhanced due diligence process for foreign national loans that includes larger down payments than a traditional mortgage, as well as minimum reserves equal to an amount of mortgage payments over a specified period held in the Bank and monthly escrows for taxes and insurance.

1-4 single family residential real estate loans (including loans to foreign nationals) totaled $277.6 million as of June 30, 2019 and represented an increase of $2.0 million, or 0.7%, from $275.6 million as of December 31, 2018. We believe we are well-positioned for continued loan growth in our 1-4 single family residential real estate loan portfolio based on our strategic presence in the Houston, Dallas/Fort Worth, and San Antonio/Corpus Christi metropolitan areas, which are expected to continue to benefit from favorable economic conditions.

Construction, land and development loans

With respect to loans to developers and builders, we generally require the borrower to have a proven record of success and expertise in the building industry. Construction loans are underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analysis of absorption and lease rates and financial analysis of the developers and property owners. Construction loans are generally based upon estimates of costs and value associated with the complete project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment primarily dependent on the success of the ultimate project.

Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from us until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing. Due to the nature of the real estate industry, we evaluate the borrower's ability to service the interest of the debt from other sources other than the sale of the constructed property.

Construction loans totaled $176.6 million as of June 30, 2019 and represented an increase of $16.9 million, or 10.6%, from $159.7 million as of December 31, 2018. We believe we are well-positioned for continued loan growth in our construction, land and development loan portfolio based on our strategic presence in the Houston, Dallas/Fort Worth, and San Antonio/Corpus Christi metropolitan areas, which are expected to continue to benefit from favorable economic conditions.

Commercial real estate loans

Commercial real estate loans are subject to underwriting standards and processes similar to commercial loans. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan.

Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. Management monitors and evaluates commercial real estate loans based on collateral and risk grade criteria. As a general rule, we avoid financing special use projects unless strong secondary support is present to help mitigate risk.

Commercial real estate loans consist of owner and nonowner-occupied commercial real estate loans, multifamily loans and farmland. Total commercial real estate loans of $667.0 million as of June 30, 2019 represented an increase of $269.0 million, or 67.6%, from $398.0 million as of December 31, 2018. We believe we are well-positioned for continued loan growth in our commercial real estate loan portfolio based on our strategic presence in the Houston, Dallas/Fort Worth, and San Antonio/Corpus Christi metropolitan areas, which are expected to continue to benefit from favorable economic conditions.

Consumer loans and leases

Our non-real estate consumer loans are based on the borrower's proven earning capacity over the term of the loan. We monitor payment performance periodically for consumer loans to identify any deterioration in the borrower's financial strength. To monitor and manage consumer loan risk, management develops and adjusts policies and procedures as needed. This activity, coupled with a relatively small volume of consumer loans, minimizes risk.

All of our leases are related to the financing of vehicle leases to individuals. These loans are originated by a well-known third party leasing company and subsequently purchased by us after our final credit review. We limit our exposure to individuals living in Texas, within our defined local markets.

Consumer loans and leases totaled $20.7 million as of June 30, 2019 and represented a decrease of $3.7 million, or 15.2%, from $24.4 million as of December 31, 2018. We have not actively grown our consumer portfolio because we believe current pricing on these loans does not adequately cover the inherent risk.

Municipal and other loans

Municipal and other loans consist primarily of loans made to municipalities and emergency service, hospital and school districts as well as agricultural loans.

We make loans to municipalities and emergency service, hospital and school districts primarily throughout Texas. The majority of these loans have tax or revenue pledges and in some cases are additionally supported by collateral. Municipal loans made without a direct pledge of taxes or revenues are usually made based on some type of collateral that represents an essential service. Lending money directly to these municipalities allows us to earn a higher yield for similar durations than we could if we purchased municipal securities. Total loans to municipalities and emergency service, hospital and school districts and others were $69.7 million as of June 30, 2019 and represented an increase of $8.4 million, or 13.7%, from $61.3 million as of December 31, 2018. The growth in municipal and other loans was primarily driven by an increase in agricultural loans in the North Texas region.

Asset Quality

The following table sets forth the composition of our nonperforming assets, including nonaccrual loans, accruing loans 90 days or more days past due, other real estate owned and repossessed assets and restructured loans as of the dates indicated:

	June 30, 2019	December 31, 2018
	(Dollars in thousands)	
Nonperforming assets		
Nonaccrual loans:		
Commercial and industrial loans	$ 3,648	$ 3,570
Real estate:		
1-4 single family residential loans	1,348	1,090
Construction, land and development loans	219	—
Commercial real estate loans (including multifamily)	377	354
Consumer loans and leases	62	17
Municipal and other loans	53	—
Total nonaccrual loans	5,707	5,031
Accruing loans 90 days or more past due	—	288
Total nonperforming loans	5,707	5,319
Other real estate owned and repossessed assets	1,324	782
Total nonperforming assets	$ 7,031	$ 6,101
Restructured loans (1)	$ 254	$ 210

(1) 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.

Nonperforming loans totaled $5.7 million at June 30, 2019, an increase of $388 thousand, or 7.3%, from $5.3 million at December 31, 2018. Nonperforming assets totaled $7.0 million at June 30, 2019, an increase of $930 thousand, or 15.2%, from $6.1 million at December 31, 2018.

We classify loans as past due when the payment of principal or interest is greater than 30 days delinquent based on the contractual next payment due date. Our policies related to when loans are placed on nonaccrual status conform to guidelines prescribed by bank regulatory authorities. Loans are placed on nonaccrual status when it is probable that principal or interest is not fully collectible, or when principal or interest becomes 90 days past due, whichever occurs first. Loans are removed from nonaccrual status when they become current as to both principal and interest and concern no longer exists as to the collectability of principal and interest.

Loans are identified for restructuring based on their delinquency status, risk rating downgrade, or at the request of the borrower. Borrowers that are 90 days delinquent and/or have a history of being delinquent, or experience a risk rating downgrade, are contacted to discuss options to bring the loan current, cure credit risk deficiencies, or other potential restructuring options that will reduce the inherent risk and improve collectability of the loan. In some instances, a borrower will initiate a request for loan restructure. We require borrowers to provide current financial information to establish the need for financial assistance and satisfy applicable prerequisite conditions required by us. We may also require the borrower to enter into a forbearance agreement.

Modification of loan terms may include the following: reduction of the stated interest rate; extension of maturity date or other payment dates; reduction of the face amount or maturity amount of the loan; reduction in accrued interest; forgiveness of past-due interest; or a combination of the foregoing.

We engage an external consulting firm to complete an independent loan review and validate our credit risk program on a periodic basis. Results of these reviews are presented to management. The loan review process complements and reinforces the risk ratings and credit quality assessment decisions made by lenders and credit personnel, as well as our policies and procedures.

The following table sets forth our asset and credit quality ratios for the periods presented:

	June 30, 2019	December 31, 2018
Asset and Credit Quality Ratios		
Nonperforming loans to loans held for investment (1)	0.40 %	0.49 %
Nonperforming assets to loans plus OREO	0.50 %	0.56 %
Nonperforming assets to total assets (2)	0.37 %	0.42 %
Net charge-offs to average loans (annualized)(3)	0.18 %	0.16 %
Allowance for loan losses to nonperforming loans	109.99 %	118.18 %
Allowance for loan losses to loans held for investment	0.45 %	0.58 %
Allowance for loan losses to organic loans(4)	0.61 %	0.64 %

(1) Nonperforming loans include loans in nonaccrual status.
(2) Nonperforming assets include loans in nonaccrual status and other real estate owned.
(3) December 31, 2018 ratio uses year to date net charge-offs.
(4) Organic loans exclude loans acquired through a business combination.

Analysis of the Allowance for Loan and Lease Losses

Allowance for loan and lease losses reflects management's estimate of probable credit losses inherent in the loan portfolio. The computation of the allowance for loan and lease losses includes elements of judgment and high levels of subjectivity.

The following tables summarize the allocation of allowance for loan and lease losses related to our loans as of the dates and for the periods presented. This allocation is calculated on an approximate basis and is not necessarily indicative of future losses or allocations. The entire amount of the allowance is available to absorb losses occurring in any category of loans:

	Allowance Rollforward				
Three Months Ended June 30, 2019	**Beginning Balance**	**Charge-offs**	**Recoveries**	**Provision**	**Ending Balance**
			(Dollars in thousands)		
Commercial and industrial loans	$ 4,661	$ (643)	$ 31	$ 168	$ 4,217
Real estate:					
1-4 single family residential loans	34	—	—	(2)	32
Construction, land and development loans	749	—	—	45	794
Commercial real estate loans (including multifamily)	1,057	—	—	134	1,191
Consumer loans and leases	57	(16)	3	(9)	35
Municipal and other loans	11	—	1	(4)	8
Ending allowance balance	$ 6,569	$ (659)	$ 35	$ 332	$ 6,277

Three Months Ended June 30, 2018	Allowance Rollforward				
	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
	(Dollars in thousands)				
Commercial and industrial loans	$ 2,906	$ (321)	$ 3	$ 2,298	$ 4,886
Real estate:					
1-4 single family residential loans	887	(5)	—	(564)	318
Construction, land and development loans	540	—	—	(345)	195
Commercial real estate loans (including multifamily)	1,032	—	—	(799)	233
Consumer loans and leases	175	(24)	—	195	346
Municipal and other loans	187	—	—	(150)	37
Ending allowance balance	$ 5,727	$ (350)	$ 3	$ 635	$ 6,015

Six Months Ended June 30, 2019	Allowance Rollforward				
	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
	(Dollars in thousands)				
Commercial and industrial loans	$ 4,453	$ (1,221)	$ 59	$ 926	$ 4,217
Real estate:					
1-4 single family residential loans	59	—	—	(27)	32
Construction, land and development loans	731	—	—	63	794
Commercial real estate loans (including multifamily)	960	—	—	231	1,191
Consumer loans and leases	80	(34)	5	(16)	35
Municipal and other loans	3	—	1	4	8
Ending allowance balance	$ 6,286	$ (1,255)	$ 65	$ 1,181	$ 6,277

Six Months Ended June 30, 2018	Allowance Rollforward				
	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
	(Dollars in thousands)				
Commercial and industrial loans	$ 3,046	$ (645)	$ 69	$ 2,416	$ 4,886
Real estate:					
1-4 single family residential loans	902	(5)	—	(579)	318
Construction, land and development loans	441	—	—	(246)	195
Commercial real estate loans (including multifamily)	898	—	—	(665)	233
Consumer loans and leases	198	(30)	—	178	346
Municipal and other loans	167	—	—	(130)	37
Ending allowance balance	$ 5,652	$ (680)	$ 69	$ 974	$ 6,015

In determining the allowance for loan and lease losses, we estimate losses on specific loans, or groups of loans, where the probable loss can be identified and reasonably determined. The balance of the allowance for loan and lease losses is based on internally assigned risk classifications of loans, historical loan loss rates, changes in the nature of the loan portfolio, overall portfolio quality, industry concentrations, delinquency trends, current economic factors and the estimated impact of current economic conditions on certain historical loan loss rates.

Prior to the second quarter of 2018, we were utilizing a peer bank allowance coverage ratio in the qualitative reserve calculation, as we did not have enough historical defaults to rely on our own loss factors. Beginning the second quarter of 2018, we had a sufficient amount of defaults over the five year lookback period to transition over to relying more on our own historical loss data versus peer data. While this did not result in a significant change to the allowance for loan and lease losses as a whole, it continues to impact the provision for certain loan categories that we had experienced more historical defaults.

On November 14, 2018, the Company closed its acquisition of Comanche. At the date of acquisition, Comanche had $117.2 million in loans. In accordance with ASC 805 Business Combinations, the Company utilized a third party to value the loan portfolio as of the acquisition date. Based upon the third party valuation, the fair value of the loans was approximately $116.2 million at the acquisition date. The overall discount calculated was $946 thousand and will be accreted into interest income over the life of the loans.

As of June 30, 2019, all purchased loans were excluded from the allowance for loan and lease losses calculation given there was no deterioration between the acquisition date and the end of the first quarter of 2019. Purchased credit impaired loans were insignificant. Going forward, management will evaluate the remaining credit quality, credit discount and charge-offs associated with these purchased loans to determine if an additional allowance is deemed necessary.

The allowance for loan and lease losses was $6.3 million at June 30, 2019 as compared to $6.3 million at December 31, 2018. The allowance for loan and lease losses as a percentage of nonperforming loans and allowance for loan and lease losses as a percentage of loans held for investment was 109.99% and 0.59%, respectively, as of June 30, 2019, compared to 118.18% and 0.58%, respectively, as of December 31, 2018.

Net loan charge-offs for the three months ended June 30, 2019 totaled $624 thousand, an increase from $347 thousand of net loan charge-offs for the same period of 2018. Net loan charge-offs for the six months ended June 30, 2019 totaled $1.2 million, an increase from $611 thousand of net loan charge-offs for the same period of 2018.

The following table provides the allocation of the allowance for loan and lease losses as of the dates presented:

	June 30, 2019		December 31, 2018	
	Amount	% Loans in each category	Amount	% Loans in each category
	(Dollars in thousands)			
Commercial and industrial loans	$ 4,217	14.1 %	$ 4,453	15.9 %
Real estate:				
1-4 single family residential loans	32	19.7 %	59	25.2 %
Construction, land and development loans	794	12.5 %	731	14.6 %
Commercial real estate loans (including multifamily)	1,191	47.3 %	960	36.4 %
Consumer loans and leases	35	1.5 %	80	2.3 %
Municipal and other loans	8	4.9 %	3	5.6 %
Total	$ 6,277	100.0 %	$ 6,286	100.0 %

Deposits

We expect deposits to be our primary funding source in the future as we optimize our deposit mix by continuing to shift our deposit composition from higher cost time deposits to lower cost demand deposits. Non-time deposits include noninterest-bearing and interest-bearing demand deposits, NOW accounts, and savings and money market accounts.

The following table shows the deposit mix as of the dates presented:

	June 30, 2019		December 31, 2018	
	Amount	% of Total	Amount	% of Total
	(Dollars in thousands)			
Noninterest-bearing demand deposits	$ 367,892	23.3 %	$ 256,784	21.7 %
Interest-bearing demand deposits	292,550	18.6 %	124,933	10.6 %
Interest-bearing NOW accounts	7,638	0.5 %	7,961	0.7 %
Savings and money market accounts	269,651	17.2 %	245,928	20.8 %
Time deposits	632,873	40.3 %	547,042	46.2 %
Total deposits	$ 1,570,604	99.9 %	$ 1,182,648	100.0 %

Total deposits at June 30, 2019 were $1.57 billion, an increase of $388.5 million, or 32.9%, from total deposits at December 31, 2018 of $1.18 billion.

The average cost of deposits for the three months ended June 30, 2019 was 1.01%. This represents an increase of 9 basis points compared to the average cost of deposits of 0.92% for the three months ended June 30, 2018. The increase in cost of deposits was primarily attributable to the increase in interest rates by the Federal Open Market Committee during 2018. For the three months ended June 30, 2019, the average rate paid on time deposits was 1.87% compared to 1.49% for the three months ended June 30, 2018.

The average cost of deposits for the six months ended June 30, 2019 was 1.02%. This represents an increase of 14 basis points compared to the average cost of deposits of 0.88% for the six months ended June 30, 2018. The increase in cost of deposits was primarily attributable to the increase in interest rates by the Federal Open Market Committee during 2018. For the six months ended June 30, 2019, the average rate paid on time deposits was 1.83% compared to 1.42% for the six months ended June 30, 2018.

The following table shows the remaining maturity of time deposits of $100,000 and greater as of the date indicated:

		June 30, 2019
		(Dollars in thousands)
Time deposits $100,000 or greater with remaining maturity of:		
Three months or less	$	117,811
After three months through six months		104,881
After six months through twelve months		179,283
After twelve months		98,069
Total	$	500,044

Borrowings

In addition to deposits, we utilize advances from the FHLB and other borrowings as a supplementary funding source to finance our operations.

FHLB borrowings: The FHLB allows us to borrow, both short and long-term, on a blanket floating lien status collateralized by certain securities and loans. As of June 30, 2019 and December 31, 2018, total remaining borrowing capacity of $440.1 million and $292.3 million, respectively, was available under this arrangement.

Line of credit: We entered into a line of credit with a third party lender in May 2017 that allows us to borrow up to $20 million. In January 2019, we increased this line of credit to allow us to borrow up to $50 million. The interest rate on this line of credit is based upon 90-day LIBOR plus 4.0%, and unpaid principal and interest is due at the stated maturity of May 12, 2022. This line of credit is secured by a pledge of all of the common stock of the Bank. This line of credit may be prepaid at any time without penalty, so long as such prepayment includes the payment of all interest accrued through the date of the repayments, and, in the case of prepayment of the entire loan, the amount of attorneys' fees and disbursements of the lender. At June 30, 2019, total borrowing capacity of $29.0 million was available under this line of credit.

Total borrowings consisted of the following as of the dates presented:

		June 30, 2019		December 31, 2018
		(Dollars in thousands)		
Short-term FHLB borrowings	$	—	$	12,500
Long-term FHLB borrowings		80,525		65,105
Trust preferred securities		—		2,811
Total borrowings	$	80,525	$	80,416

At June 30, 2019, total borrowings were $80.5 million, an increase of $109 thousand, or 0.1%, from $80.4 million at December 31, 2018.

Short-term borrowings consist of debt with maturities of one year or less. Our short-term borrowings consist of FHLB borrowings and a third party line of credit. The following table is a summary of short-term borrowings as of and for the periods presented:

	As of/For the Three Months Ended June 30,				As of/For the Six Months Ended June 30,			
		2019		2018		2019		2018
	(Dollars in thousands)							
Short-term borrowings:								
Maximum outstanding at any month-end during the period	$	—	$	20,000	$	—	$	20,000
Balance outstanding at end of period		—		15,000		—		15,000
Average outstanding during the period		—		15,769		—		16,740
Average interest rate during the period		0.00 %		1.75 %		0.00 %		1.73 %
Average interest rate at the end of the period		0.00 %		1.74 %		0.00 %		1.74 %

Stockholders' Equity

The following table summarizes the changes in our stockholders' equity for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(Dollars in thousands)		(Dollars in thousands)	
Balance at beginning of period	$ 203,976	$ 102,979	$ 198,796	$ 99,139
Net income	5,827	2,681	9,637	4,694
Shares issued in offering, net	—	42,219	—	42,219
Shares issued in business combination	33,479	—	33,479	—
Exercise of stock options and warrants	185	—	1,288	2,185
Stock-based compensation	151	173	268	325
Other comprehensive income (loss)	492	(66)	642	(576)
Balance at end of period	$ 244,110	$ 147,986	$ 244,110	$ 147,986

Net income totaled $5.8 million for the three months ended June 30, 2019, an increase of $3.1 million, compared to $2.7 million for the three months ended June 30, 2018. Our results of operations for the three months ended June 30, 2019 produced an annualized return on average assets of 1.26% compared to 1.02% for the three months ended June 30, 2018. Our results of operations for the three months ended June 30, 2019 produced an annualized return on average stockholders' equity of 10.79% compared to 9.03% for the three months ended June 30, 2018.

Net income totaled $9.6 million for the six months ended June 30, 2019, an increase of $4.9 million, compared to $4.7 million for the six months ended June 30, 2018. Our results of operations for the six months ended June 30, 2019 produced an annualized return on average assets of 1.15% compared to 0.91% for the six months ended June 30, 2018. Our results of operations for the six months ended June 30, 2019 produced an annualized return on average stockholders' equity of 8.82% compared to 8.59% for the six months ended June 30, 2018.

Stockholders' equity was $244.1 million as of June 30, 2019, an increase of $45.3 million from $198.8 million as of December 31, 2018. The increase was primarily driven by shares issued in conjunction with the Beeville acquisition of $33.5 million and net income of $9.6 million.

Off-Balance Sheet Arrangements

In the normal course of business, we enter into various transactions, which, in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"), are not included on our consolidated balance sheets. We enter into these transactions to meet the financing needs of our customers. These transactions include commitments to extend credit and commercial and standby letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized on our consolidated balance sheets.

We enter into contractual loan commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Since a portion of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent our future cash requirements. Substantially all of our commitments to extend credit are contingent upon customers maintaining specific credit standards until the time of loan funding. We seek to minimize our exposure to loss under these commitments by subjecting them to prior credit approval and ongoing monitoring procedures. We assess the credit risk associated with certain commitments to extend credit and establish a liability for probable credit losses. As of June 30, 2019 and December 31, 2018, our reserve for unfunded commitments totaled $55 thousand and $48 thousand, respectively.

Commercial and standby letters of credit are written conditional commitments issued by us to guarantee the performance of a customer to a third party. In the event 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. The maximum potential amount of future payments we could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, we would be entitled to seek recovery from the customer. Our policies generally require that standby letter of credit arrangements contain security and debt covenants similar to those contained in loan agreements.

The following table summarizes our commitments as of the dates presented:

	June 30, 2019	December 31, 2018
	(Dollars in thousands)	
Unfunded loan commitments	$ 211,064	$ 176,156
Commercial and standby letters of credit	1,088	547
Total	$ 212,152	$ 176,703

Management believes that we have adequate liquidity to meet all known contractual obligations and unfunded commitments, including loan commitments over the next twelve months. Additionally, management believes that our off-balance sheet arrangements have not had or are not reasonably likely to have a current or future material effect on our financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources.

Capital Resources

We are required to comply with certain "risk-based" capital adequacy guidelines issued by the Board of Governors of the Federal Reserve System (the "FRB") and the Federal Deposit Insurance Corporation (the "FDIC"). The risk-based capital guidelines assign varying risk weights to the individual assets held by a bank. The guidelines also assign weights to the "credit-equivalent" amounts of certain off-balance sheet items, such as letters of credit and interest rate and currency swap contracts.

Under the Basel III rules, we are required to maintain a leverage ratio of 4.0% (5.0% to be considered "well capitalized"), common equity tier 1 capital to risk-weighted assets ratio of 4.5% (6.5% to be considered "well capitalized"), a tier 1 capital to risk-weighted assets ratio of 6.0% (8.0% to be considered "well capitalized"), and a total capital to risk-weighted assets ratio of 8.0% (10.0% to be considered "well capitalized"). In addition, the risk-weighted capital ratios include a capital conservation buffer of 2.5%, which is in addition to the minimum risk-based capital standards. Institutions that do not maintain this required capital conservation buffer will become subject to progressively more stringent limitations on the percentage of earnings that can be paid out in dividends or used for stock repurchases and on the payment of discretionary bonuses to senior executive management. The capital conservation buffer was phased in over four years beginning in 2016, such that the buffer was fully phased-in as of January 1, 2019. We have included the 1.875% and 2.5% increases for 2018 and 2019, respectively, in our minimum capital adequacy ratios in the table below. The capital conservation buffer effectively raised the minimum required common equity tier 1 capital ratio to 7.0%, the tier 1 capital ratio to 8.5%, and the total capital ratio to 10.5% on a fully phased-in basis on January 1, 2019.

The risk-based capital ratios measure the adequacy of a bank's capital against the riskiness of its assets and off-balance sheet activities. Failure to maintain adequate capital is a basis for "prompt corrective action" or other regulatory enforcement action. In assessing a bank's capital adequacy, regulators also consider other factors such as interest rate risk exposure; liquidity, funding and market risks; quality and level of earnings; concentrations of credit, quality of loans and investments; risks of any nontraditional activities; effectiveness of bank policies; and management's overall ability to monitor and control risks.

The following table sets forth the regulatory capital ratios, excluding the impact of the capital conservation buffer, as of the dates indicated:

	Minimum Capital Requirement	Minimum Capital Requirement with Capital Buffer	Minimum To Be Well Capitalized	June 30, 2019 Actual	December 31, 2018 Actual
Capital ratios (Company):					
Tier 1 leverage ratio	4.0%	4.0%	N/A	10.09%	12.11%
Common equity tier 1 capital ratio	4.5%	7.0%	N/A	12.39%	14.56%
Tier 1 risk-based capital ratio	6.0%	8.5%	N/A	12.39%	14.81%
Total risk-based capital ratio	8.0%	10.5%	N/A	12.82%	15.37%
Capital ratios (Bank):					
Tier 1 leverage ratio	4.0%	4.0%	5.0%	11.14%	11.04%
Common equity tier 1 capital ratio	4.5%	7.0%	6.5%	13.67%	12.38%
Tier 1 risk-based capital ratio	6.0%	8.5%	8.0%	13.67%	12.38%
Total risk-based capital ratio	8.0%	10.5%	10.0%	14.10%	12.94%

At June 30, 2019, both we and the Bank met all the capital adequacy requirements to which we and the Bank were subject. At June 30, 2019, the Bank was "well capitalized" under the regulatory framework for prompt corrective action. Management believes that no conditions or events have occurred since June 30, 2019 that would materially adversely change such capital classifications. From time to time, we may need to raise additional capital to support our and the Bank's further growth and to maintain the Bank's "well capitalized" status.

As of June 30, 2019, we had a tier 1 leverage ratio of 12.39%. As of June 30, 2019, the Bank had a tier 1 leverage ratio of 13.67%, which provided $105.1 million of excess capital relative to the minimum requirements to be considered "well capitalized."

Liquidity

Liquidity involves our ability to raise funds to support asset growth and acquisitions or reduce assets to meet deposit withdrawals and other payment obligations, to maintain reserve requirements and otherwise to operate on an ongoing basis and manage unexpected events. At June 30, 2019 and December 31, 2018, our liquidity needs were primarily met by core deposits, security and loan maturities and amortizing investment and loan portfolios. Although access to brokered deposits, purchased funds from correspondent banks and overnight advances from the FHLB are available and have been utilized on occasion to take advantage of investment opportunities, we do not generally rely on these external funding sources. The Bank maintained four Federal Funds lines of credit with commercial banks which provide for extensions of credit with an availability to borrow up to an aggregate $35.0 million as of June 30, 2019 and December 31, 2018. There were no advances under these lines of credit outstanding as of June 30, 2019 or December 31, 2018.

Our primary source of funds is deposits, and our primary use of funds is loans. We do not expect a change in the primary source or use of our funds in the foreseeable future. We predominantly invest excess deposits in overnight deposits with the Federal Reserve, securities, interest-bearing deposits at other banks or other short-term liquid investments until needed to fund loan growth. Our securities portfolio had a weighted average life of 3.47 years and an effective duration of 3.14 years as of June 30, 2019.

As of June 30, 2019, we had outstanding $211.1 million in commitments to extend credit and $1.1 million in commitments associated with outstanding commercial and standby letters of credit. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the total outstanding may not necessarily reflect the actual future cash funding requirements.

As of June 30, 2019, we believe we had no exposure to future cash requirements associated with known uncertainties. Capital expenditures, including buildings and construction in process, for the three months ended June 30, 2019 and 2018 were $2.3 million and $1.9 million, respectively. Capital expenditures, including buildings and construction in process, for the six months ended June 30, 2019 and 2018 were $4.2 million and $2.8 million, respectively.

On June 13, 2019, the Company approved a stock buyback program pursuant to which the Company may, from time to time, purchase up to $11.7 million of its outstanding shares of common stock (the "Stock Buyback Program"). The shares may be repurchased from time to time in privately negotiated transactions or the open market, including pursuant to Rule 10b5-1 trading plans, and in accordance with applicable regulations of the SEC. The timing and exact amount of any repurchases will depend on various factors including, the performance of the Company's stock price, general market and other conditions, applicable legal requirements and other factors. The Stock Buyback Program has an expiration date of June 14, 2020. The Stock Buyback Program may be terminated or amended by the Company's board of directors at any time prior to the expiration date.

Non-GAAP Financial Measures

Our accounting and reporting policies conform to GAAP, and the prevailing practices in the banking industry. However, we also evaluate our performance based on certain additional financial measures discussed in this Form 10-Q as being a non-GAAP financial measures. 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 GAAP as in effect from time to time in the United States in our statements of income, balance sheets 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 financial measures calculated in accordance with GAAP.

The non-GAAP financial measures that we discuss in this Form 10-Q should not be considered in isolation or as a substitute for the most directly comparable or other financial measures calculated in accordance with GAAP. Moreover, the manner in which we calculate the non-GAAP financial measures that we discuss in this Form 10-Q may differ from that of other banking organizations 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 prospectus when comparing such non-GAAP financial measures.

Net Interest Margin

We show net interest margin on a fully taxable equivalent basis, which is a non-GAAP financial measure.

We believe the fully tax equivalent basis is the preferred industry measurement basis for net interest margin and that it enhances comparability of net interest income arising from taxable and tax-exempt sources.

The following table reconciles, as of the dates set forth below, net interest margin on a fully taxable equivalent basis:

	As of or for the Three Months Ended June 30,		As of or for the Six Months Ended June 30,	
	2019	2018	2019	2018
	(Dollars in thousands, except per share data)			
Net interest margin - GAAP basis:				
Net interest income	$ 19,751	$ 11,082	$ 35,215	$ 21,463
Average interest-earning assets	1,716,799	982,504	1,510,664	968,206
Net interest margin	4.61 %	4.52 %	4.70 %	4.47 %
Net interest margin - Non-GAAP basis:				
Net interest income	$ 19,751	$ 11,082	$ 35,215	$ 21,463
Plus:				
Impact of fully taxable equivalent adjustment	112	114	529	231
Net interest income on a fully taxable equivalent basis	$ 19,863	$ 11,196	$ 35,744	$ 21,694
Average interest-earning assets	1,716,799	982,504	1,510,664	968,206
Net interest margin on a fully taxable equivalent basis - Non-GAAP basis	4.64 %	4.57 %	4.77 %	4.52 %

Adjusted Net Income and Adjusted Earnings per Common Share – Basic and Diluted

Adjusted earnings per common share – basic and diluted is a non-GAAP financial measure that excludes merger related expenses. In our judgment, the adjustments made to net income allow investors and analysts to better assess our basic and diluted earnings per common share by removing the volatility that is associated with merger related expenses and gain/loss on the sale of investment securities that are unrelated to our core business.

Merger related expenses for the three months ended June 30, 2019 consisted of $997 thousand of after-tax merger related expenses and a $1.1 million gain on sales of investment securities. There were no merger related expenses or gain on sales of investment securities for the three months ended June 30, 2018.

Merger related expenses for the six months ended June 30, 2019 consisted of $2.1 million of after-tax merger related expenses and a $2.1 million gain on sales of investment securities. There were no merger related expenses or gain on sales of investment securities for the six months ended June 30, 2018.

The following table reconciles, as of the date set forth below, basic and diluted earnings per common share and presents our basic and diluted earnings per common share exclusive of the impact of our merger related adjustments:

	As of or for the Three Months Ended June 30,		As of or for the Six Months Ended June 30,	
	2019	2018	2019	2018
	(Dollars in thousands, except per share data)			
Basic and diluted earnings per share - GAAP basis:				
Net income available to common stockholders	$ 5,827	$ 2,681	$ 9,637	$ 4,694
Weighted average number of common shares - basic	13,765,929	8,851,446	12,963,700	8,104,370
Weighted average number of common shares - diluted	14,236,244	9,306,029	13,432,760	8,445,960
Basic earnings per common share	$ 0.42	$ 0.30	$ 0.74	$ 0.58
Diluted earnings per common share	$ 0.41	$ 0.29	$ 0.72	$ 0.56
Basic and diluted earnings per share - Non-GAAP basis:				
Net income available to common stockholders	$ 5,827	$ 2,681	$ 9,637	$ 4,694
Pre-tax adjustments:				
Noninterest income				
Gain on the sales of investment securities	$ (1,053)	$ -	$ (2,134)	$ -
Noninterest expense				
Merger related expenses	1,165	—	2,943	—
Taxes:				
Tax effect of adjustments	(168)	—	(541)	—
Adjusted net income	$ 5,771	$ 2,681	$ 9,905	$ 4,694
Weighted average number of common shares - basic	13,765,929	8,851,446	12,963,700	8,104,370
Weighted average number of common shares - diluted	14,236,244	9,306,029	13,432,760	8,445,960
Basic earnings per common share - Non-GAAP basis	$ 0.42	$ 0.30	$ 0.76	$ 0.58
Diluted earnings per common share - Non-GAAP basis	$ 0.41	$ 0.29	$ 0.74	$ 0.56

Tangible Book Value Per Share

Tangible book value per share is a non-GAAP financial measure generally used by investors, financial analysts and investment bankers to evaluate financial institutions. We calculate (1) tangible book value per share as tangible equity divided by shares of common stock outstanding at the end of the respective period, and (2) tangible equity as common stockholders' equity less goodwill and other intangible assets, net of accumulated amortization. The most directly comparable GAAP financial measure for tangible book value per share is book value per share.

We believe that this measure is important to many investors in the marketplace who are interested in changes from period to period in book value per share exclusive of changes in intangible assets. Goodwill and other intangible assets have the effect of increasing total book value while not increasing our tangible book value.

The following table reconciles, as of the dates set forth below, total stockholders' equity to tangible equity and presents our tangible book value per share compared to our book value per share:

	June 30, 2019	December 31, 2018
	(Dollars in thousands, except per share data)	
Total stockholders' equity	$ 244,110	$ 198,796
Less:		
Goodwill and other intangible assets	56,472	26,811
Tangible stockholders' equity	$ 187,638	$ 171,985
Shares outstanding	13,790,332	12,103,753
Book value per share	$ 17.70	$ 16.42
Less:		
Goodwill and other intangible assets per share	4.10	2.21
Tangible book value per share	$ 13.61	$ 14.21

Critical Accounting Policies

Our financial reporting and accounting policies conform to GAAP. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Our accounting policies and estimates are described in greater detail in Note 1 Summary of Significant Accounting Policies in the notes to our consolidated financial statements included elsewhere in this Form 10-Q.

We have identified the following accounting policies and estimates that, due to the difficult, subjective or complex judgments and assumptions inherent in those policies and estimates and the potential sensitivity of our financial statements to those judgments and assumptions, are critical to an understanding of our financial condition and results of operations. We believe that the judgments, estimates and assumptions used in the preparation of our financial statements are appropriate. Our accounting policies are integral to understanding our results of operations.

Allowance for Loan and Lease Losses

Management's ongoing evaluation of the adequacy of the allowance for loan and lease losses is based on our past loan loss experience, the volume and composition of our lending, adverse situations that may affect a borrower's ability to repay, the estimated value of any underlying collateral, current economic conditions and other factors affecting the known and inherent risk in the portfolio. The allowance for loan and lease losses is increased by charges to income through the provision for loan and lease losses and decreased by charge-offs (net of recoveries). The allowance is maintained at a level that management, based upon its evaluation, considers adequate to absorb losses inherent in the loan portfolio. This evaluation is inherently subjective as it requires material estimates including, among others, the amount and timing of expected future cash flows on impacted loans, exposure at default, value of collateral, and estimated losses on our loan portfolio. All of these estimates may be susceptible to significant change.

The allowance consists of specific allowances for impaired loans and a general allowance on the remainder of the portfolio. Although management determines the amount of each element of the allowance separately, the allowance for loan and lease losses is available for the entire loan portfolio.

Management establishes an allowance on certain impaired loans for the amount by which the discounted cash flows, observable market price, or fair value of collateral if the loan is collateral dependent, is lower than the carrying value of the loan. A loan is considered to be impaired when, based upon current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan. A delay or shortfall in amount of payments does not necessarily result in the loan being identified as impaired.

Management also establishes a general allowance on non-impaired loans to recognize the inherent losses associated with lending activities, but which, unlike specific allowances, have not been allocated to particular loans. This general valuation allowance is determined by segregating the loans by loan category and assigning allowance percentages based on our historical loss experience, delinquency trends, and management's evaluation of the collectability of the loan portfolio.

Management also evaluates classified loans, which are not impaired. We segregate these loans by category and assign qualitative factors to each loan based on inherent losses associated with each type of lending and consideration that these loans, in the aggregate, represent an above-average credit risk and that more of these loans will prove to be uncollectible compared to loans in the general portfolio. Classification of a loan within this category is based on identified weaknesses that increase the credit risk of the loan.

The allowance is adjusted for significant factors that, in management's judgment, affect the collectability of the portfolio as of the evaluation date. These significant factors may include changes in lending policies and procedures, changes in existing general economic and business conditions affecting its primary lending areas, credit quality trends, collateral value, loan volumes and concentrations, seasoning of the loan portfolio, loss experience in particular segments of the portfolio, duration of the current business cycle, and bank regulatory examination results. The applied loss factors are re-evaluated each reporting period to ensure their relevance in the current economic environment.

Prior to the second quarter of 2018, we were utilizing a peer bank allowance coverage ratio in the qualitative reserve calculation, as we did not have enough historical defaults to rely on our own loss factors. Beginning the second quarter of 2018, we had a sufficient amount of defaults over the five year lookback period to transition over to relying more on our own historical loss data versus peer data. While this did not result in a significant change to the allowance for loan and lease losses as a whole, it continues to impact the provision for certain loan categories that the Company had experienced more historical defaults.

While management uses the best information known to it in order to make loan loss allowance valuations, adjustments to the allowance may be necessary based on changes in economic and other conditions, changes in the composition of the loan portfolio, or changes in accounting guidance. In times of economic slowdown, either regional or national, the risk inherent in the loan portfolio could increase resulting in the need for additional provisions to the allowance for loan and lease losses in future periods. An increase could also be necessitated by an increase in the size of the loan portfolio or in any of its components even though the credit quality of the overall portfolio may be improving. Historically, the estimates of the allowance for loan and lease losses have provided adequate coverage against actual losses incurred.

Goodwill and Other Intangible Assets

Goodwill represents the excess of consideration transferred in business combinations over the fair value of tangible and identifiable intangible assets acquired. Goodwill is assessed annually for impairment or more frequently if events or circumstances indicate that impairment may have occurred.

Goodwill acquired in a purchase business combination that is determined to have an indefinite useful life, is not amortized, but tested for impairment as described above. We perform our annual impairment test in the fourth quarter. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

Core deposit intangible (“CDI”) is a measure of the value of checking and savings deposit relationships acquired in a business combination. The fair value of the CDI stemming from any given business combination is based on the present value of the expected cost savings attributable to the core deposit funding relative to an alternative source of funding. CDI is amortized over the estimated useful lives of the existing deposit relationships acquired, but does not exceed 12 years. We evaluate such identifiable intangibles for impairment when events and circumstances indicate that its carrying amount may not be recoverable.

Income Taxes

Management makes estimates and judgments to calculate various tax liabilities and determine the recoverability of various deferred tax assets, which arise from temporary differences between the tax and financial statement recognition of revenues and expenses. Management also estimates a reserve for deferred tax assets if, based on the available evidence, it is more likely than not that some portion or all of the recorded deferred tax assets will not be realized in future periods. These estimates and judgments are inherently subjective. Historically, management’s estimates and judgments to calculate the deferred tax accounts have not required significant revision.

In evaluating our ability to recover deferred tax assets, management considers all available positive and negative evidence, including the past operating results and forecasts of future taxable income. In determining future taxable income, management makes assumptions for the amount of taxable income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require management to make judgments about the future taxable income and are consistent with the plans and estimates used to manage the business. Any reduction in estimated future taxable income may require management to record a valuation allowance against the deferred tax assets. An increase in the valuation allowance would result in additional income tax expense in the period and could have a significant impact on future earnings.

Stock-based Compensation

We sponsor incentive stock option plans under which options may be granted periodically to all of our full-time employees and directors or affiliates at a specific exercise price to acquire shares of our common stock. Shares are issued out of authorized unissued common shares. Compensation cost is measured based on the estimated fair value of the award at the grant date and is recognized in earnings on a straight-line basis over the requisite service period. The fair value of stock options is estimated at the date of grant using the Black-Scholes option pricing model. This model requires assumptions as to the expected stock volatility, dividends, terms and risk-free rates. We use the fair value method to account for our options. The expected volatility is based on the volatility of comparable peer banks. The expected term represents the period of time that options are expected to be outstanding from the grant date. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for the appropriate life of each option.

SBA Servicing Asset

A servicing asset related to SBA loans is initially recorded when these loans are sold and the servicing rights are retained. The servicing asset is recorded on the balance sheet. An updated fair value of the servicing asset is obtained from an independent third party on a quarterly basis and any necessary adjustments are included in SBA loan servicing fees on the consolidated statements of income. The valuation begins with the projection of future cash flows for each asset based on their unique characteristics, market-based assumptions for prepayment speeds and estimated losses and recoveries. The present value of the future cash flows are then calculated utilizing market-based discount ratio assumptions. In all cases, we model expected payments for every loan for each

quarterly period in order to create the most detailed cash flow stream possible. We use various assumptions and estimates in determining the impairment of the SBA servicing asset. These assumptions include prepayment speeds and discount rates commensurate with the risks involved and comparable to assumptions used by participants to value and bid serving rights available for sale in the market.

Recently Issued Accounting Pronouncements

See Note 1, Summary of Significant Accounting Policies, in the notes to our consolidated financial statements included elsewhere in this Form 10-Q regarding the impact of new accounting pronouncements which we have adopted.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

As described in more detail in our Annual Report on Form 10-K for the year ended December 31, 2018, risk management involves the monitoring and evaluation of interest rate risk, liquidity risk, operational risk, compliance risk and strategic and/or reputation risk. The Company has not experienced any material change in these risks from December 31, 2018 to June 30, 2019. For additional disclosure of our market risks, see our Annual Report on Form 10-K for the year ended December 31, 2018.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Form 10-Q, the Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures. In designing and evaluating the disclosure controls and procedures, management recognizes that 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 Securities Exchange Act of 1934, as amended ("Exchange Act") were effective as of the end of the period covered by this Form 10-Q.

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) that occurred during the three or six months ended June 30, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company, from time to time, is involved as plaintiff or defendant in various legal actions arising in the normal course of business. While the ultimate outcome of any such proceedings cannot be predicted with certainty, it is the opinion of management, based upon advice of legal counsel, that no proceedings exist, either individually or in the aggregate, which, if determined adversely to the Company, would have a material effect on the Company's consolidated balance sheet, results of operations or cash flows. See Note 13 "Commitments and Contingencies" in the "Notes to Consolidated Financial Statements."

Item 1A. Risk Factors

In evaluating an investment in any of our securities, investors should consider carefully, among other things, information under the heading "Cautionary Note Regarding Forward-Looking Statements" in this Form 10-Q, the risk factors previously disclosed under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018, and such other risk factors as we may disclose in other reports and statements filed with the SEC. There have been no material changes in the risk factors disclosed by the Company in its Annual Report on Form 10-K for the year ended December 31, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
3.1	Second Amended and Restated Certificate of Formation of Spirit of Texas Bancshares, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Form S-1 filed with the Commission on April 6, 2018) (File No. 333-224172)
3.2	Amended and Restated Bylaws of Spirit of Texas Bancshares, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Form S-1 filed with the Commission on April 6, 2018) (File No. 333-224172)
3.3	Certificate of Amendment to the Second Amended and Restated Certificate of Formation of Spirit of Texas Bancshares, Inc.(incorporated by reference to Exhibit 3.3 to the Company's Form S-1 filed with the Commission on April 6, 2018) (File No. 333-224172)
31.1*	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following material from Spirit of Texas Bancshares, Inc.'s Form 10-Q for the quarter ended March 31, 2019, formatted in iXBRL (Inline eXtensible Business Reporting Language), filed herewith: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Unaudited Consolidated Financial Statements.

* Filed with this Form 10-Q

** Furnished with this Form 10-Q

SIGNATURES

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

Spirit of Texas Bancshares, Inc.

Date:	August 9, 2019	By:	/s/ Dean O. Bass Dean O. Bass Chairman and Chief Executive Officer
Date:	August 9, 2019	By:	/s/ Jeffrey A. Powell Jeffrey A. Powell EVP and Chief Financial Officer

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Dean O. Bass, certify that:

1. I have reviewed this Quarterly Report on Form10-Q of Spirit of Texas Bancshares, Inc. for the quarter ended June 30, 2019;

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 officer 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)) 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) 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

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) 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 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: August 9, 2019

By: /s/ Dean O. Bass
Dean O. Bass
Chairman and Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jeffrey A. Powell, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Spirit of Texas Bancshares, Inc. for the quarter ended June 30, 2019;

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 officer 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)) 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) 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

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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 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: August 9, 2019

By: /s/ Jeffrey A. Powell
Jeffrey A. Powell
EVP and 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 Quarterly Report on Form 10-Q of Spirit of Texas Bancshares, Inc. (the “Company”) for the quarter ended June 30, 2019 (the “Report”), as filed with the Securities and Exchange Commission on the date hereof, I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(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 results of operations of the Company.

Date: August 9, 2019

By: /s/ Dean O. Bass
Dean O. Bass
Chairman and 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 Quarterly Report on Form 10-Q of Spirit of Texas Bancshares, Inc. (the "Company") for the quarter ended June 30, 2019 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(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 results of operations of the Company.

Date: August 9, 2019

By: /s/ Jeffrey A. Powell
Jeffrey A. Powell
EVP and Chief Financial Officer