Independent Bank Group, Inc.
Form 10-K
February 25, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)

ý ANNUAL REPORT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934

For The Fiscal Year Ended December 31, 2015.

¨ 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 001-35854
Independent Bank Group, Inc.
(Exact name of registrant as specified in its charter)

Texas	13-4219346
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1600 Redbud Boulevard, Suite 400 McKinney, Texas	75069-3257
(Address of principal executive offices)	(Zip Code)

(972) 562-9004
(Registrant’s telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on which Registered
Common Stock, par value $0.01 per share	NASDAQ Stock Market, Inc., Global Select Market System

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No ý
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý
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 ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained to the best of registrant’s knowledge, in definitive proxy or

information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ¨ Accelerated filer ý Non-accelerated filer ¨ Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No ý
The aggregate market value of the shares of common stock held by non-affiliates based on the closing price of the common stock on the NASDAQ Global Market on June 30, 2015 was approximately $419,190,000 .
At February 24, 2016, the Company had outstanding 18,464,880 shares of common stock, par value $.01 per share.
Documents Incorporated By Reference:
Portions of the Company's Proxy Statement relating to the 2016 Annual Meeting of Shareholders, which will be filed within 120 days after December 31, 2015, are incorporated by reference into Part III, Items 10 - 14 of this Annual Report on Form 10-K.

INDEPENDENT BANK GROUP, INC. AND SUBSIDIARIES
Annual Report on Form 10-K
December 31, 2015

Signatures

PART I

ITEM 1. BUSINESS
The disclosures set forth in this item are qualified by Item 1A. Risk Factors, and the section captioned "Forward-Looking Statements" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this report and other cautionary statements set forth elsewhere in this report.
General
Independent Bank Group (the "Company") is a registered bank holding company headquartered in McKinney, Texas, which is located in the northern portion of the Dallas-Fort Worth metropolitan area. The Company was organized as a Texas corporation on September 20, 2002. Through the Company's wholly owned subsidiary, Independent Bank, a Texas state chartered bank, the Company provides a wide range of relationship-driven commercial banking products and services tailored to meet the needs of businesses, professionals and individuals. The Company operates 42 banking offices in the Dallas-Fort Worth metropolitan area, the Austin/Central Texas area, and the Houston metropolitan area. As of December 31, 2015, the Company had consolidated total assets of approximately $5.0 billion, total loans of approximately $3.9 billion, total deposits of approximately $4.0 billion and total stockholders' equity of approximately $603 million.
The Company's primary function is to own all of the stock of Independent Bank. Independent Bank is a locally managed community bank that seeks to provide personal attention and professional assistance to its customer base, which consists principally of small to medium sized businesses, professionals and individuals. Independent Bank's philosophy includes offering direct access to its officers and personnel, providing friendly, informed and courteous service, local and timely decision making, flexible and reasonable operating procedures, and consistently applied credit policies.
The Company consummated the underwritten initial public offering of its common stock in April 2013. The Company's common stock is traded on the NASDAQ Global Select Market.
Business Strategy
The Company operates based upon the following core strategies, which the Company designed to enhance shareholder value by growing strategically while preserving asset quality, improving efficiency and increasing profitability:
Grow Organically. The Company focuses on continued organic growth through the Company's existing footprint and business lines. The Company plans to follow the Company's community-focused, relationship-driven customer strategy to increase loans and deposits through the Company's existing locations. Preserving the safety and soundness of the Company's loan portfolio is a fundamental element of the Company's organic growth strategy. The Company has a strong and conservative credit culture, which allows the Company to maintain the Company's asset quality as the Company grows.
Grow Through Acquisitions. The Company plans to continue to take advantage of opportunities to acquire other banking franchises both within and outside the Company's current footprint. Since mid-2010, the Company has completed nine acquisitions that the Company believes have enhanced shareholder value and the Company's market presence. The following table summarizes each of the nine acquisitions completed since 2010.

Acquired Institution/Market	Date of Acquisition	Fair Value of Total Assets Acquired (dollars in thousands)
Town Center Bank Dallas/North Texas	July 31, 2010	$37,451
Farmersville Bancshares, Inc. Dallas/North Texas	September 30, 2010	99,420
I Bank Holding Company, Inc. Austin/Central Texas	April 1, 2012	172,587
The Community Group, Inc. Dallas/North Texas	October 1, 2012	110,967
Collin Bank Dallas/North Texas	November 30, 2013	168,320
Live Oak Financial Corp. Dallas/North Texas	January 1, 2014	131,008
BOH Holdings, Inc. Houston, Texas	April 15, 2014	1,188,893
Houston City Bancshares, Inc. Houston, Texas	October 1, 2014	350,747
Grand Bank Dallas, Texas	November 1, 2015	620,176 *

* Estimated values subject to change pending final acquisition accounting adjustments

The BOH Holdings acquisition represented the Company's entry into the Houston market. Houston City Bancshares was a follow on acquisition in the Houston market. Through these two acquisitions, the Company now operates 11 banking centers in the Houston metropolitan area with an aggregate of $1.12 billion in total assets.

The Grand Bank acquisition represented the Company's continued expansion in the Dallas metropolitan area. Through this acquisition, the Company added two locations in attractive sub markets in the Dallas area and added approximately $620 million in assets. The assets acquired in this acquisition represented 15% of the Company's asset growth in 2015.

The Company plans to explore additional opportunities in the growing sub markets within the Company's current market regions as well as in attractive new markets such as Fort Worth and the San Antonio metropolitan area. Factors considered by the Company to evaluate expansion opportunities include a) similar management and operating philosophy, b) accretive to earnings and increase shareholder value, c) ability to improve efficiency, d) strategic expansion of Company footprint and e) enhance market presence in existing markets. The Company has a scalable infrastructure and experienced acquisition team which it believes will enable the Company to successfully integrate acquired banks. The Company intends to remain disciplined in its approach to acquisitions using appropriate valuation metrics.

Improve Efficiency and Increase Profitability. The Company employs a systematic and calculated approach to increasing the Company's profitability and improving the Company's efficiencies. The Company has updated the Company's operating capabilities and created synergies within the Company in the areas of technology, data processing, finance, compliance and human resources. The Company believes that the Company's scalable infrastructure provides the Company with an efficient operating platform from which to grow in the near term without incurring significant incremental noninterest expenses, which will enhance the Company's returns.

Independent's Community Banking Services

The Independent Way. Nearly a century after the Company's beginning, the Company's dedication to serving the needs of businesses and individuals in the Company's communities remains stronger than ever. The Company strives to provide the Company's customers with innovative financial products and services, local decision making and a level of service and responsiveness that is second to none. The Company's innovative and independent spirit is balanced by adherence to fundamental banking principles that have enabled the Company to remain strong, sound and financially secure even during challenging economic times. The Company is also steeped in a tradition of civic pride as evidenced by the investment of the Company's time, energies and financial resources in many local organizations to improve and benefit the Company's communities.

Lending Operations. Through Independent Bank, the Company offers a broad range of commercial and retail lending products to businesses, professionals and individuals. Commercial lending products include owner-occupied commercial real estate loans, interim construction loans, commercial loans (such as SBA guaranteed loans, business term loans, equipment financing and lines of credit and energy related loans) to a diversified mix of small and midsized businesses, and loans to professionals, particularly medical practices. Retail lending products include residential first and second mortgage loans and consumer installment loans, such as loans to purchase cars, boats and other recreational vehicles.

The Company's strategy is to maintain a broadly diversified loan portfolio by type and location. The Company's loans are primarily real estate secured loans spread among a variety of types of borrowers, including owner occupied offices for small businesses, medical practices and offices, retail operations and multi-family properties. The Company's loans are diversified geographically throughout the Company's Dallas/North Texas region (approximately 49%), the Company's Houston region (approximately 27%) and the Company's Austin/Central Texas region (approximately 24%). See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Loan Portfolio" for a more detailed description of the Company's lending operations.

Deposits. Deposits are the Company's principal source of funds for use in lending and other general banking purposes. The Company provides a full range of deposit products and services, including a variety of checking and savings accounts, debit cards, online banking, mobile banking, eStatements and bank-by-mail and direct deposit services. The Company also offers business accounts and management services, including analyzed business checking, business savings, and treasury management services. The Company solicits deposits through its relationship-driven team of dedicated and accessible bankers and through community focused marketing.

Other Services. In connection with our relationship driven approach to our customers, the Company offers residential mortgages through our mortgage brokerage division. As a mortgage broker, the Company originates residential mortgages which are sold into the secondary market shortly after closing. The Company also provides wealth management services to its customers including investment advisory and other related services.

Competition

The Company competes in the commercial banking industry solely through Independent Bank and firmly believes that Independent Bank's long-standing presence in the community and personal service philosophy enhance the Company's ability to attract and retain customers. This industry is highly competitive, and Independent Bank faces strong direct competition for deposits, loans and other financial-related services. The Company competes with other commercial banks, thrifts and credit unions. Although some of these competitors are situated locally, others have statewide or nationwide presence. In addition, the Company competes with large banks in major financial centers and other financial intermediaries, such as consumer finance companies, brokerage firms, mortgage banking companies, insurance companies, securities firms, mutual funds and certain government agencies as well as major retailers, all actively engaged in providing various types of loans and other financial services. The Company believes that its banking professionals, the range and quality of products that the Company offers and its emphasis on building long-lasting relationships distinguishes Independent Bank from its competitors.

Employees

As of December 31, 2015, the Company employed approximately 587 persons. The Company provides extensive training to the Company's employees in an effort to ensure that the Company's customers receive superior customer service. None of the Company's employees are represented by any collective bargaining unit or are parties to a collective bargaining agreement. The Company believes that the Company's relations with the Company's employees are good.

Available Information

The Company files reports, proxy statements and other information with the Securities and Exchange Commission, or SEC, under the Securities Exchange Act of 1934, as amended. You may read and copy this information at the SEC's Public Reference Room, 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements and other information about issuers, like the Company, who file electronically with the SEC. The address of that site is http://www.sec.gov.

Documents filed by the Company with the SEC are available from the Company without charge (except for exhibits to the documents). You may obtain documents filed by the Company with the SEC by requesting them in writing or by telephone from the Company at the following address:

Independent Bank Group, Inc.
1600 Redbud Boulevard, Suite 400
McKinney, Texas 75069-3257
Attention: Michelle S. Hickox
Executive Vice President and Chief Financial Officer
Telephone: (972) 562-9004

Documents filed by the Company with the SEC are also available on the Company's website, www.ibtx.com. Information furnished by the Company and information on, or accessible through, the SEC's or the Company's website is not part of this Annual Report on Form 10-K.

Supervision and Regulation

General. The U.S. banking industry is highly regulated under federal and state law. Consequently, the growth and earnings performance of the Company and its subsidiaries will be affected not only by management decisions and general and local economic conditions, but also by the statutes administered by, and the regulations and policies of, various governmental regulatory authorities. These authorities include the Board of Governors of the Federal Reserve System, or Federal Reserve, the Federal Deposit Insurance Corporation, or the FDIC, the Office of the Comptroller of the Currency, or the OCC, the Texas Department of Banking, or TDB, the Internal Revenue Service and state taxing authorities. The effect of these statutes, regulations and policies, and any changes to such statutes, regulations and policies, can be significant and cannot be predicted.

The primary goals of the bank regulatory scheme are to maintain a safe and sound banking system and to facilitate the conduct of sound monetary policy. The system of supervision and regulation applicable to the Company and its subsidiaries establishes a comprehensive framework for their respective operations and is intended primarily for the protection of the FDIC's deposit insurance fund, the banks' depositors and the public, rather than the Company's shareholders or creditors. The description below summarizes certain elements of the applicable bank regulatory framework. This description is not intended to describe all laws and regulations applicable to the Company and its subsidiaries, and the description is qualified in its entirety by reference to the full text of the statutes, regulations, policies, interpretive letters and other written guidance that are described herein.

The Dodd-Frank Act. The Dodd-Frank Wall Street Reform and Consumer Protection Act, known as the Dodd-Frank Act, was signed into law on July 21, 2010. The Dodd-Frank Act has had a broad impact on the regulation and operation of financial institutions. The Dodd-Frank Act codified the "source of strength" doctrine, authorized the Consumer Financial Protection Bureau and implemented new mortgage lending rules, established a risk retention rule, imposed limitations on trading activities, made permanent the deposit insurance limit of $250,000 and increased the minimum Deposit Insurance Fund reserve ratio, enhanced the restrictions on transactions with affiliates, and expanded corporate governance requirements and executive compensation limitations for U.S. public companies. Many of the requirements have recently been implemented, or are in the

4

process of being implemented. Given the uncertainty associated with the manner in which the Dodd-Frank Act will be implemented and interpreted, the full impact of these changes will not be known for several years. The changes resulting from the Dodd-Frank Act, to the extent known, are incorporated in the discussion of supervision and regulation of the Company and Independent Bank below.

Independent Bank Group as a Bank Holding Company

As a bank holding company, the Company is subject to regulation under the Bank Holding Company Act of 1956, or the BHC Act, and to supervision, examination and enforcement by the Federal Reserve. The BHC Act and other federal laws subject bank holding companies to particular restrictions on the types of activities in which they may engage, and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations. The Federal Reserve’s jurisdiction also extends to any company that the Company directly or indirectly controls, such as the Company’s nonbank subsidiaries.

Regulatory Restrictions on Dividends; Source of Strength. The Company is regarded as a legal entity separate and distinct from Independent Bank. The principal source of the Company’s revenues is dividends received from Independent Bank. As described in more detail below, Texas state law places limitations on the amount that state banks may pay in dividends, which Independent Bank must adhere to when paying dividends to the Company. The Federal Reserve has issued a policy statement that provides that a bank holding company should not pay dividends unless (a) its net income over the last four quarters (net of dividends paid) has been sufficient to fully fund the dividends, (b) the prospective rate of earnings retention appears to be consistent with the capital needs, asset quality and overall financial condition of the bank holding company and its subsidiaries and (c) the bank holding company will continue to meet minimum required capital adequacy ratios. Accordingly, the Company should not pay cash dividends that exceed its net income in any year or that can only be funded in ways that weaken its ability to serve as a source of financial strength for its banking subsidiaries, including by borrowing money to pay dividends.

Under Federal Reserve policy, bank holding companies have historically been required to act as a source of financial and managerial strength to each of its banking subsidiaries, and the Dodd-Frank Act codified this policy as a statutory requirement. Under this requirement, the Company is expected to commit resources to support Independent Bank, including at times when the Company may not be in a financial position to provide such resources. Any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary banks. As discussed below, a bank holding company, in certain circumstances, could be required to guarantee the capital restoration plan of an undercapitalized banking subsidiary. If the capital of Independent Bank were to become impaired, the Federal Reserve could assess the Company for the deficiency. If the Company failed to pay the assessment within three months, the Federal Reserve could order the sale of the Company’s stock in Independent Bank to cover the deficiency.

Scope of Permissible Activities. Under the BHC Act, the Company is prohibited from acquiring a direct or indirect interest in or control of more than 5% of the voting shares of any company that is not a bank or financial holding company and from engaging directly or indirectly in activities other than those of banking, managing or controlling banks or furnishing services to or performing services for its subsidiary banks, except that the Company may engage in, directly or indirectly, and may own shares of companies engaged in, certain activities found by the Federal Reserve to be so closely related to banking or managing and controlling banks as to be a proper. These activities include, among others, operating a mortgage, finance, credit card or factoring company; performing certain data processing operations; providing investment and financial advice; acting as an insurance agent for certain types of credit-related insurance; leasing personal property on a full-payout, nonoperating basis; and providing certain stock brokerage and investment advisory services. In approving acquisitions or the addition of activities, the Federal Reserve considers, among other things, whether the acquisition or the additional activities can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh such possible adverse effects as undue concentration of resources, decreased or unfair competition, conflicts of interest or unsound banking practices.

Notwithstanding the foregoing, the Gramm-Leach-Bliley Act, also known as the Financial Services Modernization Act of 1999, effective March 11, 2000, or the GLB Act, amended the BHC Act and eliminated the barriers to affiliations among banks, securities firms, insurance companies and other financial service providers. The GLB Act permits bank holding companies to become financial holding companies and thereby affiliate with securities firms and insurance companies and engage in other activities that are financial in nature. The GLB Act defines “financial in nature” to include securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; merchant banking activities; and activities that the Federal Reserve has determined to be closely related to banking. No regulatory approval will be required for a financial holding company to acquire a company, other than a bank or savings association, engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve.

Safe and Sound Banking Practices. Bank holding companies are not permitted to engage in unsafe and unsound banking practices. The Federal Reserve's Regulation Y, for example, generally requires a bank holding company to provide the Federal Reserve with prior notice of any redemption or repurchase of its own equity securities, if the consideration to be paid, together with the consideration paid for any repurchases or redemptions in the preceding year, is equal to 10% or more of the bank holding company's consolidated net worth. The Federal Reserve may oppose the transaction if it believes that the transaction would constitute an unsafe or unsound practice or would violate any law or regulation. In certain circumstances, the Federal Reserve could take the position that paying a dividend would constitute an unsafe or unsound banking practice.

The Federal Reserve has broad authority to prohibit activities of bank holding companies and their nonbanking subsidiaries which represent unsafe and unsound banking practices or which constitute violations of laws or regulations, and can assess civil money penalties for certain activities conducted on a knowing and reckless basis, if those activities caused a substantial loss to a depository institution. The penalties can be as high as one million dollars ($1,000,000) for each day the activity continues.

Anti-Tying Restrictions. Bank holding companies and their affiliates are prohibited from tying the provision of certain services, such as extensions of credit, to other nonbanking services offered by a bank holding company or its affiliates.

Capital Adequacy Requirements. The Federal Reserve has historically utilized a system based upon risk-based capital guidelines under a two-tier capital framework to evaluate the capital adequacy of bank holding companies. Tier 1 capital generally consists of common stockholders' equity, retained earnings, a limited amount of qualifying perpetual preferred stock, qualifying trust preferred securities and noncontrolling interests in the equity accounts of consolidated subsidiaries, less goodwill and certain intangibles. Tier 2 capital generally consists of certain hybrid capital instruments and perpetual debt, mandatory convertible debt securities and a limited amount of subordinated debt, qualifying preferred stock, loan loss allowance, and unrealized holding gains on certain equity securities. The regulatory capital requirements are applicable to the Company because its total consolidated assets equal more than $1 billion. Independent Bank is subject to the capital requirements of the FDIC.

Under the guidelines, specific categories of assets are assigned different risk weights, based generally on the perceived credit risk of the asset. These risk weights are multiplied by corresponding asset balances to determine a "risk-weighted" asset base. The guidelines require a minimum ratio of total capital to total risk-weighted assets of 8.0% (of which at least 4.0% is required to consist of Tier 1 capital elements). Total capital is the sum of Tier 1 and Tier 2 capital. Risk-weighted assets exclude intangible assets such as goodwill and core deposit intangibles.

In addition to the risk-based capital guidelines, the Federal Reserve uses a leverage ratio as an additional tool to evaluate the capital adequacy of bank holding companies. The leverage ratio is a company's Tier 1 capital divided by its average total consolidated assets. Certain highly rated bank holding companies may maintain a minimum leverage ratio of 3.0%, but other bank holding companies are required to maintain a leverage ratio of at least 4.0%.

The federal banking agencies' risk-based and leverage capital ratios are minimum supervisory ratios generally applicable to banking organizations that meet certain specified criteria. Banking organizations not meeting these criteria are expected to operate with capital positions well above the minimum ratios. The federal bank regulatory agencies may set capital requirements for a particular banking organization that are higher than the minimum ratios when circumstances warrant. Federal Reserve guidelines also provide that banking organizations experiencing internal growth or making acquisitions must maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets.

On July 2, 2013, the Federal Reserve approved a final rule implementing the revised capital standards issued by the Basel Committee on Banking Supervision, commonly known as "Basel III," as well as additional capital reforms required by the Dodd-Frank Act. This final rule, once fully phased-in, requires bank holding companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity.

The new final capital framework, among other things, (i) introduces as a new capital measure "Common Equity Tier 1," or CET1, (ii) specifies that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting specified requirements, (iii) defines CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expands the scope of the adjustments as compared to existing regulations.

The new capital rule, when fully phased in, requires, among other things, a new common equity Tier 1 risk-based ratio with a minimum required ratio of 4.5% of total assets and an increase in the minimum required amount of Tier 1 capital from the current level of 4% of total assets to 6% of total risk weighted assets and the continuation of the requirement to maintain total capital of 8% of total risk-weighted assets. Moreover, the new rule requires banks to hold additional capital equal to 2.5% of total assets as a “capital conservation buffer” in order to avoid restrictions on certain activities, including the payment of dividends and certain bonuses. The new rule also provides for a “countercyclical capital buffer” that would be added to the capital conservation buffer generally to be imposed when national regulators determine that excess aggregate credit growth becomes associated with a buildup of systemic risk.

The Company became subject to the new capital rules on January 1, 2015. The Company believes that it will be in compliance with the new capital rules going forward and that the new capital rules will not have a material impact on the Company.

Proposed Liquidity Requirements. Historically, regulation and monitoring of bank and bank holding company liquidity has been addressed as a supervisory matter, without required formulaic measures. The Basel III final framework requires banks and bank holding companies to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, going forward will be required by regulation. One test, referred to as the liquidity coverage ratio, or LCR, is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity’s expected net cash outflow for a 30-day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute liquidity stress scenario. The other, referred to as the net stable funding ratio, or NSFR, is designed to promote more medium- and long-term funding of the assets and activities of banking entities over a one-year time horizon. These requirements will incentivize banking entities to increase their holdings of U.S. Treasury securities and other sovereign debt as a component of assets and increase the use of long-term debt as a funding source. The LCR was introduced as a requirement on January 1, 2015, but the NSFR will not be introduced as a requirement until January 1, 2018. These new standards are subject to further rulemaking and their terms could change before implementation.

Imposition of Liability for Undercapitalized Subsidiaries. Bank regulators are required to take prompt corrective action to resolve problems associated with insured depository institutions whose capital declines below certain levels. In the event an institution becomes undercapitalized, it must submit a capital restoration plan. The capital restoration plan will not be accepted by the regulators unless each company having control of the undercapitalized institution guarantees the subsidiary’s compliance with the capital restoration plan up to a certain specified amount. Any such guarantee from a depository institution’s holding company is entitled to a priority of payment in bankruptcy.

The aggregate liability of the holding company of an undercapitalized bank is limited to the lesser of 5.0% of the institution’s assets at the time it became undercapitalized or the amount necessary to cause the institution to be adequately capitalized. The bank regulators have greater power in situations where an institution becomes significantly or critically undercapitalized or fails to submit a capital restoration plan. For example, a bank holding company controlling such an institution can be required to obtain prior Federal Reserve approval of proposed dividends, or might be required to consent to a consolidation or to divest the troubled institution or other affiliates.

Acquisitions by Bank Holding Companies. The BHC Act requires every bank holding company to obtain the prior approval of the Federal Reserve before it acquires all or substantially all of the assets of any bank, or ownership or control of any voting shares of any bank if after such acquisition it would own or control, directly or indirectly, more than 5% of the voting shares of such bank. In approving bank acquisitions by bank holding companies, the Federal Reserve is required to consider, among other things, the effect of the acquisition on competition, the financial condition, managerial resources and future prospects of the bank holding company and the banks concerned, the convenience and needs of the communities to be served (including the record of performance under the Community Reinvestment Act, or CRA), the effectiveness of the applicant in combating money laundering activities and the extent to which the proposed acquisition would result in greater or more concentrated risks to the stability of the U.S. banking or financial system. The Company’s ability to make future acquisitions will depend on its ability to obtain approval for such acquisitions from the Federal Reserve. The Federal Reserve could deny the Company’s application based on the above criteria or other considerations. For example, the Company could be required to sell banking centers as a condition to receiving regulatory approval, which condition may not be acceptable to the Company or, if acceptable, may reduce the benefit of a proposed acquisition.

Control Acquisitions. Federal and state laws, including the BHCA and the Change in Bank Control Act, or the CBCA, impose additional prior notice or approval requirements and ongoing regulatory requirements on any investor that seeks to acquire direct or indirect “control” of an FDIC-insured depository institution or bank holding company. Whether an investor “controls” a depository institution is based on all of the facts and circumstances surrounding the investment. As a general matter, an investor is deemed to control a depository institution or other company if the investor owns or controls 25% or more of any class of voting securities. Subject to rebuttal, an investor is presumed to control a depository institution or other company if the investor owns or controls 10% or more of any class of voting securities and either the depository institution or company is a public company or no other person will hold a greater percentage of that class of voting securities after the acquisition. If an investor's ownership of the Company's voting securities were to exceed certain thresholds, the investor could be deemed to "control" the Company for regulatory purposes, which could subject such investor to regulatory filings or other regulatory consequences.

Regulation of Independent Bank

Independent Bank is a Texas-chartered banking association, the deposits of which are insured by the deposit insurance fund of the FDIC. Independent Bank is not a member of the Federal Reserve System; therefore, Independent Bank is subject to supervision and regulation by the FDIC and the TDB. Such supervision and regulation subject Independent Bank to special restrictions, requirements, potential enforcement actions and periodic examination by the FDIC and the TDB. Because the Federal Reserve regulates the Company, the Federal Reserve also has supervisory authority that directly affects Independent Bank.

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

Financial Modernization. Under the GLB Act, a national bank may establish a financial subsidiary and engage, subject to limitations on investment, in activities that are financial in nature, other than insurance underwriting as principal, insurance company portfolio investment, real estate development, real estate investment, annuity issuance and merchant banking activities. To do so, a bank must be well capitalized, well managed and have a Community Reinvestment Act, or CRA, rating from the FDIC of satisfactory or better. Subsidiary banks of a financial holding company or national banks with financial subsidiaries must remain well capitalized and well managed in order to continue to engage in activities that are financial in nature without regulatory actions or restrictions. Such actions or restrictions could include divestiture of the "financial in nature" subsidiary or subsidiaries. In addition, a financial holding company or a bank may not acquire a company that is engaged in activities that are financial in nature unless each of the subsidiary banks of the financial holding company or the bank has a CRA rating of satisfactory of better. Although the powers of state chartered banks are not specifically addressed in the GLB Act, Texas- chartered banks such as Independent Bank will have the same if not greater powers as national banks through the parity provisions contained in the Texas Constitution and other Texas statutes.

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

Restrictions on Transactions with Affiliates and Insiders. Transactions between Independent Bank and its nonbanking subsidiaries and/or affiliates, including the Company, are subject to Section 23A of the Federal Reserve Act. In general, Section 23A of the Federal Reserve Act imposes limits on the amount of such transactions, and also requires certain levels of collateral for loans to affiliated parties. It also limits the amount of advances to third parties that are collateralized by the securities or obligations of the Company or its subsidiaries. Covered transactions with any single affiliate may not exceed 10% of the capital stock and surplus of Independent Bank, and covered transactions with all affiliates may not exceed, in the aggregate, 20% of Independent Bank's capital and surplus. For a bank, capital stock and surplus refers to the bank's Tier 1 and Tier 2 capital, as calculated under the risk-based capital guidelines, plus the balance of the allowance for credit losses excluded from Tier 2 capital. Independent Bank's transactions with all of its affiliates in the aggregate are limited to 20% of the foregoing capital. "Covered transactions" are defined by statute to include a loan or extension of credit to an affiliate, as well as a purchase of securities issued by an affiliate, a purchase of assets (unless otherwise exempted by the Federal Reserve) from the affiliate, the acceptance of securities issued by the affiliate as collateral for a loan, and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate. In addition, in connection with covered transactions that are extensions of credit, Independent Bank may be required to hold collateral to provide added security to Independent Bank, and the types of permissible collateral may be limited. The Dodd-Frank Act generally enhances the restrictions on transactions with affiliates.

Affiliate transactions are also subject to Section 23B of the Federal Reserve Act, which generally requires that certain transactions between Independent Bank and its affiliates be on terms substantially the same, or at least as favorable to Independent Bank, as those prevailing at the time for comparable transactions with or involving other nonaffiliated persons.

The restrictions on loans to directors, executive officers, principal shareholders and their related interests (collectively referred to herein as "insiders") contained in the Federal Reserve Act and in Regulation O promulgated by the Federal Reserve apply to all insured institutions and their subsidiaries and bank holding companies. These restrictions include limits on loans to one borrower and conditions that must be met before such a loan can be made. There is also an aggregate limitation on all loans to insiders and their related interests. Generally, these loans cannot exceed the institution's total unimpaired capital and surplus, and the FDIC may determine that a lesser amount is appropriate. Loans to senior executive officers of a bank are even further restricted, generally limited to $100,000 per senior executive officer. Insiders are subject to enforcement actions for knowingly accepting loans in violation of applicable restrictions.

Restrictions on Distribution of Subsidiary Bank Dividends and Assets. Dividends paid by Independent Bank have provided a substantial part of the Company's operating funds, and for the foreseeable future, it is anticipated that dividends paid by Independent Bank to the Company will continue to be the Company's principal source of operating funds. However, capital adequacy requirements serve to limit the amount of dividends that may be paid by Independent Bank. Under federal law, Independent Bank cannot pay a dividend if, after paying the dividend, it would be undercapitalized. The FDIC may declare a dividend payment to be unsafe and unsound even though Independent Bank would continue to meet its capital requirements after payment of the dividend.

Because the Company is a legal entity separate and distinct from its subsidiaries, its right to participate in the distribution of assets of any subsidiary upon the subsidiary's liquidation or reorganization will be subject to the prior claims of the subsidiary's creditors. The Federal Deposit Insurance Act, or the FDI Act, provides that, in the event of a "liquidation or other resolution" of an insured depository institution, the claims of depositors of the institution (including the claims of the FDIC as subrogee of insured depositors) and certain claims for administrative expenses of the FDIC as a receiver will have priority over other general unsecured claims against the institution. If Independent Bank fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, nondeposit creditors, including the Company, with respect to any extensions of credit it has made to Independent Bank.

Examinations. The FDIC periodically examines and evaluates state nonmember banks. Based on such an evaluation, the FDIC may revalue the assets of the institution and require that it establish specific reserves to compensate for the difference between the FDIC determined value and the book value of such assets. The TDB also conducts examinations of state banks, but may accept the results of a federal examination in lieu of conducting an independent examination. In addition, the FDIC and TDB may elect to conduct a joint examination.

Audit Reports. Insured institutions with total assets of $500 million or more must submit annual audit reports prepared by independent auditors to federal and state regulators. In some instances, the audit report of the institution's holding company can be used to satisfy this requirement. Auditors of an insured institution must receive examination reports, supervisory agreements and reports of enforcement actions. For institutions with total assets of $1 billion or more, financial statements prepared in accordance with GAAP, management's certifications signed by the Company's and Independent Bank's chief executive officer and chief accounting or financial officer concerning management's responsibility for the financial statements, and an attestation by the auditors regarding Independent Bank's internal controls must also be submitted. For institutions with total assets of more than $3 billion, independent auditors may be required to review quarterly financial statements. The FDICIA requires that Independent Bank have an independent audit committee, consisting only of outside directors, or that the Company has an audit committee that is entirely independent. The committees of such institutions must include members with experience in banking or financial management, must have access to outside counsel, and must not include representatives of large customers.

Capital Adequacy Requirements. The FDIC has adopted regulations establishing minimum requirements for the capital adequacy of insured institutions and may establish higher minimum requirements if, for example, a bank has previously received special attention or has a high susceptibility to interest rate risk. The FDIC's risk-based capital guidelines generally require state banks to have a minimum ratio of Tier 1 capital to total risk-weighted assets of 4.0%

and a ratio of total capital to total risk-weighted assets of 8.0%. The capital categories have the same definitions for Independent Bank as for the Company. The FDIC’s leverage guidelines require state banks to maintain Tier 1 capital of no less than 4.0% of average total assets, except in the case of certain highly rated banks for which the requirement is 3.0% of average total assets. The TDB has issued a policy which generally requires state chartered banks to maintain a leverage ratio (defined in accordance with federal capital guidelines) of 5.0%.

Corrective Measures for Capital Deficiencies. The federal banking regulators are required by the FDI Act to take "prompt corrective action" with respect to capital-deficient institutions that are FDIC-insured. Agency regulations define, for each capital category, the levels at which institutions are "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." A "well capitalized" bank has a total risk-based capital ratio of 10.0% or higher, a Tier 1 risk-based capital ratio of 6.0% or higher, a leverage ratio of 5.0% or higher, and is not subject to any written agreement, order or directive requiring it to maintain a specific capital level for any capital measure. An "adequately capitalized" bank has a total risk-based capital ratio of 8.0% or higher, a Tier 1 risk-based capital ratio of 4.0% or higher, a leverage ratio of 4.0% or higher (3.0% or higher if the bank was rated a composite 1 in its most recent examination report and is not experiencing significant growth), and does not meet the criteria for a well capitalized bank. A bank is "undercapitalized" if it fails to meet any one of the ratios required to be adequately capitalized.

In addition to requiring undercapitalized institutions to submit a capital restoration plan, agency regulations contain broad restrictions on certain activities of undercapitalized institutions, including asset growth, acquisitions, branch establishment and expansion into new lines of business. With certain exceptions, an insured depository institution is prohibited from making capital distributions, including dividends, and is prohibited from paying management fees to control persons if the institution would be undercapitalized after any such distribution or payment.

As an institution's capital decreases, the FDIC's enforcement powers become more severe. A significantly undercapitalized institution is subject to mandated capital raising activities, restrictions on interest rates paid and transactions with affiliates, removal of management and other restrictions. The FDIC has only very limited discretion in dealing with a critically undercapitalized institution and is virtually required to appoint a receiver or conservator.

Banks with risk-based capital and leverage ratios below the required minimums may also be subject to certain administrative actions, including the termination of deposit insurance upon notice and hearing, or a temporary suspension of insurance without a hearing in the event the institution has no tangible capital.

Deposit Insurance Assessments. Substantially all of the deposits of Independent Bank are insured up to applicable limits by the deposit insurance fund of the FDIC, and Independent Bank must pay annual deposit insurance assessments to the FDIC for such deposit insurance protection. The FDIC maintains the deposit insurance fund by designating a required reserve ratio. If the reserve ratio falls below the designated level, the FDIC must adopt a restoration plan that provides that the deposit insurance fund will return to an acceptable level generally within five years.

On December 20, 2010, the FDIC raised the minimum designated reserve ratio of the deposit insurance fund to 2.00%, which exceeds the 1.35% reserve ratio that is required by the Dodd-Frank Act. The FDIC has the discretion to set the price for deposit insurance according to the risk for all insured institutions regardless of the level of the reserve ratio. Under the Dodd-Frank Act, the FDIC is required to offset the effect of the higher reserve ratio on small insured depository institutions, which are those with consolidated assets of less than $10 billion.

The deposit insurance fund reserve ratio is maintained by assessing depository institutions and establishing an insurance premium based upon statutory factors. Under its current regulations, the FDIC imposes assessments for deposit insurance according to a depository institution's ranking in one of four risk categories based upon supervisory and capital evaluations.

On February 7, 2012, the FDIC approved a final rule that amends its existing deposit insurance funds restoration plan and implements certain provisions of the Dodd-Frank Act. Effective as of July 1, 2012, the assessment base is determined using average consolidated total assets minus average tangible equity rather than the current assessment base of adjusted domestic deposits. Because the change resulted in a much larger assessment base, the final rule also lowered the assessment rates in order to keep the total amount collected from financial institutions relatively unchanged from the amounts previously being collected. After the effect of potential base-rate adjustments, the total base assessment rate for Independent Bank could range from 2.5 to 45 basis points on an annualized basis.

Brokered Deposit Restrictions. Adequately capitalized institutions cannot accept, renew or roll over brokered deposits, without receiving a waiver from the FDIC, and are subject to restrictions on the interest rates that can be paid on any deposits. Undercapitalized institutions may not accept, renew or roll over brokered deposits.

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

Cross-Guarantee Provisions. The Financial Institutions Reform, Recovery and Enforcement Act of 1989, or the FIRREA, contains a "cross-guarantee" provision, which generally makes commonly controlled insured depository institutions liable to the FDIC for any losses incurred in connection with the failure of a commonly controlled depository institution.

Community Reinvestment Act. The CRA and the regulations issued thereunder are intended to encourage banks to help meet the credit needs of their entire service area, including low and moderate income neighborhoods, consistent with the safe and sound operations of such banks. These regulations also provide for regulatory assessment of a bank's record in meeting the needs of its service area when considering applications to establish branches, merger applications and applications to acquire the assets and assume the liabilities of another bank. The FIRREA requires federal banking agencies to make public a rating of a bank's performance under the CRA. In the case of a bank holding company, the CRA performance record of the banks involved in the transaction are reviewed in connection with the filing of an application to acquire ownership or control of shares or assets of a bank or to merge with any other bank holding company. An unsatisfactory CRA record could substantially delay approval or result in denial of an application.

Consumer Laws and Regulations. In addition to the laws and regulations discussed herein, Independent Bank is also subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. While the list set forth herein is not exhaustive, these laws and regulations include the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, and the Fair Housing Act, among others. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits or making loans to such customers. Independent Bank must comply with the applicable provisions of these consumer protection laws and regulations as part of their ongoing customer relations.

The Dodd-Frank Act created a new independent Consumer Financial Protection Bureau, which has broad authority to regulate and supervise retail financial services activities of banks, such as Independent Bank, and has the authority to promulgate regulations, issue orders, guidance and policy statements, conduct examinations and bring enforcement actions with regard to consumer financial products and services. In general, however, banks with assets of $10 billion or less, such as Independent Bank, will continue to be examined for consumer compliance by their primary bank regulator.

Privacy. In addition to expanding the activities in which banks and bank holding companies may engage, the GLB Act also imposed new requirements on financial institutions with respect to customer privacy. The GLB Act generally prohibits disclosure of customer information to nonaffiliated third parties unless the customer has been given the opportunity to object and has not objected to such disclosure. Financial institutions are further required to disclose their privacy policies to customers annually. Financial institutions, however, are required to comply with state law if it is more protective of customer privacy than the GLB Act.

Anti-Money Laundering and Anti-Terrorism Legislation. A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA PATRIOT Act of 2001, or the USA Patriot Act, substantially broadened the scope of U.S. anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The U.S. Treasury Department has issued and, in some cases, proposed a number of regulations that apply various requirements of the USA Patriot Act to financial institutions. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. The USA Patriot Act requires, among other things, financial institutions to comply with certain due diligence requirements in connection with correspondent or private banking relationships with non-U.S. financial institutions or persons, establish an anti-money laundering program that includes employee training and an independent audit, follow minimum standards for identifying customers and maintaining records of the identification information and make regular comparisons of customers against agency lists of suspected terrorists, their organizations and money launderers. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution.

Office of Foreign Assets Control Regulation. The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These are typically known as the "OFAC" rules based on their administration by the U.S. Treasury Department Office of Foreign Assets Control, or OFAC. The OFAC-administered sanctions targeting certain countries take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on “U.S. persons” engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to a U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences.

Changes in Laws, Regulations or Policies

In general, regulators have increased their focus on the regulation of financial institutions. From time to time, various legislative and regulatory initiatives are introduced in Congress and state legislatures. Such initiatives may change banking statutes and the operating environment of the Company and Independent Bank in substantial and unpredictable ways. The Company cannot determine the ultimate effect that any potential legislation, if enacted, or implementing regulations with respect thereto, would have, upon the financial condition or results of operations of the Company or Independent Bank. A change in statutes, regulations or regulatory policies applicable to the Company or Independent Bank could have a material effect on the financial condition, results of operations or business of the Company and Independent Bank.

Enforcement Powers of Federal and State Banking Agencies

The federal banking agencies have broad enforcement powers, including the power to terminate deposit insurance, impose substantial fines and other civil and criminal penalties, and appoint a conservator or receiver. Failure to comply with applicable laws, regulations and supervisory agreements could subject the Company or Independent Bank and their subsidiaries, as well as their respective officers, directors, and other institution affiliated parties, to administrative sanctions and potentially substantial civil money penalties. In addition to the grounds discussed above under “Corrective Measures for Capital Deficiencies,” the appropriate federal banking agency may appoint the FDIC as conservator or receiver for a banking institution (or the FDIC may appoint itself, under certain circumstances) if any one or more of a number of circumstances exist. The TDB also has broad enforcement powers over Independent Bank, including the power to impose orders, remove officers and directors, impose fines and appoint supervisors and conservators.

Effect on Economic Environment

The policies of regulatory authorities, including the monetary policy of the Federal Reserve, have a significant effect on the operating results of bank holding companies and their subsidiaries. Among the means available to the Federal Reserve to affect the money supply are open market operations in U.S. government securities, changes in the discount rate on member bank borrowings, and changes in reserve requirements against member bank deposits. These means are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may affect interest rates charged on loans or paid for deposits.

Federal Reserve monetary policies have materially affected the operating results of commercial banks in the past and are expected to continue to do so in the future. The Company cannot predict the nature of future monetary policies and the effect of such policies on the business and earnings of it and its subsidiaries.

Item 1A. RISK FACTORS

Item 1A. Risk Factors

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

Risks Related to the Company's Business

The Company's success depends significantly on the Company's management team, and the loss of the Company's senior executive officers or other key employees and the Company's inability to recruit or retain suitable replacements could adversely affect the Company's business, results of operations and growth prospects.

The Company's success depends significantly on the continued service and skills of the Company's existing executive management team. The implementation of the Company's business and growth strategies also depends significantly on the Company's ability to retain officers and employees with experience and business relationships within their respective market areas. The Company could have difficulty replacing officers and employees with persons who are experienced in the specialized aspects of the Company's business or who have ties to the communities within the Company's market areas. The unexpected loss of any of the Company's key personnel could therefore have an adverse impact on the Company's business and growth.

Volatile market conditions and economic trends could adversely affect the Company's business, financial condition and results of operations.

The Company is operating in a dynamic and challenging economic environment, including uncertain global, national and local market conditions. In particular, Texas based financial institutions are affected by volatility in the energy markets and the potential impact of that volatility on real estate and other markets. The Company is also subject to uncertain interest rate conditions. These volatile economic conditions could adversely affect borrowers and their businesses as well as the value of collateral (particularly real estate collateral) securing loans, which could adversely affect the Company's business, financial condition and results of operation.

The Company's business concentration in Texas imposes risks and may magnify the adverse effects and consequences to the Company resulting from any regional or local economic downturn affecting Texas.

The Company conducts its operations almost exclusively in Texas. This geographic concentration imposes risks from lack of geographic diversification. The economic conditions in Texas affect the Company's business, financial condition, results of operations, and future prospects, where adverse economic developments, among other things, could affect the volume of loan originations, increase the level of nonperforming assets, increase the rate of foreclosure losses on loans and reduce the value of the Company's loans and loan servicing portfolio. Moreover, if the population or income growth in the Company's market areas is slower than projected, income levels, deposits and housing starts could be adversely affected and could result in a reduction of the Company's expansion, growth and profitability. The decline in oil prices in 2015 and the current volatility in oil prices has had, and is expected to continue to have, a significant impact on the overall Texas economy. Any regional or local economic downturn that affects Texas or existing or prospective borrowers or property values in such areas may affect the Company and the Company's profitability more significantly and more adversely than the Company's competitors whose operations are less geographically concentrated.

If the Company does not effectively manage the Company's asset quality and credit risk, the Company would experience loan losses, which could have a material adverse effect on the Company's financial condition and results of operation.

Making any loan involves risk, including risks inherent in dealing with individual borrowers, risks of nonpayment, risks resulting from uncertainties as to the future value of collateral and cash flows available to service debt, and risks resulting from changes in economic and market conditions. The Company's credit risk approval and monitoring procedures may fail to identify or reduce these credit risks, and they cannot completely eliminate all credit risks related to the Company’s loan

13

portfolio. The Company faces a variety of risk related to its types of loans. Adverse developments affecting commercial real estate values in the Company's market areas could increase the credit risk associated with commercial real estate loans, impair the value of the property pledged as collateral for these loans, and affect the Company's ability to sell the collateral upon foreclosure without a loss. Further, due to the larger average size of commercial real estate loans, the Company faces risk that losses incurred on a small number of commercial real estate loans could have a material adverse effect on the Company's financial condition and results of operations. The Company's commercial real estate loans also have the risk that repayment is subject to the ongoing business operations of the borrower. The Company's commercial loans equally have the risk that repayment is subject to the ongoing business operations of the borrower. Commercial loans are often secured by personal property, such as inventory, and intangible property, such as accounts receivable, which if the business is unsuccessful, typically have values insufficient to satisfy the loan without a loss. If the overall economic climate in the United States, generally, or the Company's market areas in Texas, specifically, experiences material disruption, the Company's borrowers may experience difficulties in repaying their loans, the collateral the Company holds may decrease in value or become illiquid, and the level of nonperforming loans, charge-offs and delinquencies could rise and require additional provisions for loan losses, which would cause the Company's net income and return on equity to decrease.

Negative changes in the economy affecting real estate values and liquidity, and business operating conditions generally, could impair the repayment ability of borrowers and the value of collateral securing the Company's loans which would result in loan and other losses.

As of December 31, 2015, approximately 80% of the Company's loan portfolio was comprised of loans with real estate as a primary or secondary component of collateral, excluding agricultural loans secured by real estate. As a result, adverse developments affecting real estate values in the Company's market areas could increase the credit risk associated with the Company's real estate loan portfolio. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the area in which the real estate is located. Adverse changes affecting real estate values and the liquidity of real estate in one or more of the Company's markets could increase the credit risk associated with the Company's loan portfolio, and could result in losses that would adversely affect credit quality, financial condition, and results of operation. Negative changes in the economy affecting real estate values and liquidity in the Company's market areas could significantly impair the value of property pledged as collateral on loans and affect the Company's ability to sell the collateral upon foreclosure without a loss or additional losses. Collateral may have to be sold for less than the outstanding balance of the loan, which could result in losses on such loans. Such declines and losses would have a material adverse impact on the Company's business, results of operations and growth prospects. If real estate values decline, it is also more likely that the Company would be required to increase the Company's allowance for loan losses, which could adversely affect the Company's financial condition, results of operations and cash flows.

Further, due to the larger average size of commercial real estate loans, the Company faces risk that losses incurred on a small number of commercial real estate loans could have a material adverse effect on the Company's financial condition and results of operations. Commercial real estate loans also have the risk that repayment is subject to the ongoing business operations of the borrower. The Company's commercial loans equally have the risk that repayment is subject to the ongoing business operations of the borrower. Commercial loans are often secured by personal property, such as inventory, and intangible property, such as accounts receivable, which if the business is unsuccessful, typically have values insufficient to satisfy the loan without a loss.

The decline in oil prices could have a negative effect on the Company's asset quality.

As of December 31, 2015, approximately 5% of the Company's loan portfolio was composed of loans made to companies engaged in oil production. Another 1% of the portfolio was made to borrowers engaged in oilfield services. The significant decline in oil prices during 2015 and the continuing volatility in oil prices could adversely effect these borrowers' ability to repay these loans and could impair the value of collateral securing these loans. Further, because energy is a material segment of the overall Texas economy, the decline and volatility in oil prices could have an impact on other segments of the Texas economy, including real estate. The Houston market economy in particular would be adversely affected. If oil prices remain at historic lows for a sustained period of time, the Company could be required to increase its allowance for loan losses, which could adversely affect the Company's financial condition,

results of operation and cash flows.
The Company’s small to medium-sized business customers may have fewer financial resources than larger entities to weather a downturn in the economy, which may impair a borrower’s ability to repay a loan, and such impairment could adversely affect the Company’s results of operations and financial condition.
The Company focuses its business development and marketing strategy primarily to serve the banking and financial services needs of small to medium-sized businesses. These small to medium-sized businesses generally have fewer financial resources

in terms of capital or borrowing capacity than larger entities. If general economic conditions negatively impact the Dallas/North Texas, Austin/Central Texas, and Houston market areas in which the Company operates or the Texas market generally and small to medium-sized businesses are adversely affected, the Company's results of operations and financial condition may be negatively affected.

The Company's allowance for loan losses may prove to be insufficient to absorb potential losses in the Company's loan portfolio, which may adversely affect the Company's business, financial condition and results of operations.

The Company establishes its allowance for loan losses and maintains it at a level considered adequate by management to absorb probable loan losses based on the Company's analysis of its portfolio and market environment. The allowance for loan losses represents the Company's estimate of probable losses in the portfolio at each balance sheet date and is based upon relevant information available to the Company. The allowance contains provisions for probable losses that have been identified relating to specific borrowing relationships, as well as probable losses inherent in the loan portfolio and credit undertakings that are not specifically identified. Additions to the allowance for loan losses, which are charged to earnings through the provision for loan losses, are determined based on a variety of factors, including an analysis of the loan portfolio, historical loss experience and an evaluation of current economic conditions in the Company's market areas. The actual amount of loan losses is affected by changes in economic, operating and other conditions within the Company's markets, as well as changes in the financial condition, cash flows, and operations of the Company's borrowers, all of which are beyond the Company's control, and such losses may exceed current estimates.

As of December 31, 2015, the Company's allowance for loan losses as a percentage of total loans was 0.68% and as a percentage of total nonperforming loans was 181.99%. Additional loan losses will likely occur in the future and may occur at a rate greater than the Company has previously experienced. The Company may be required to take additional provisions for loan losses in the future to further supplement the allowance for loan losses, either due to management's decision to do so or requirements by the Company's banking regulators. In addition, bank regulatory agencies will periodically review the Company's allowance for loan losses and the value attributed to nonaccrual loans or to real estate acquired through foreclosure. Such regulatory agencies may require the Company to recognize future charge-offs. These adjustments may adversely affect the Company's business, financial condition and results of operations.

If the Company is not able to continue its historical levels of growth, it may not be able to maintain its historical earnings trends.

To achieve its past levels of growth, the Company has focused on both internal growth and acquisitions. The Company may not be able to sustain its historical rate of growth or may not be able to grow at all. More specifically, the Company may not be able to obtain the financing necessary to fund additional growth and may not be able to find suitable acquisition candidates. Various factors, such as economic conditions and competition, may impede or prohibit the opening of new banking centers and the completion of acquisitions. Further, the Company may be unable to attract and retain experienced bankers, which could adversely affect its internal growth. If the Company is not able to continue its historical levels of growth, it may not be able to maintain its historical earnings trends.

The Company's strategy of pursuing acquisitions exposes the Company to financial, execution and operational risks that could have a material adverse effect on the Company's business, financial condition, results of operations and growth prospects.

The Company has been pursuing a growth strategy that includes the acquisition of other financial institutions in target markets. The Company has completed nine acquisitions since 2010, most recently completing the Grand Bank acquisition on November 1, 2015, and the Company intends to continue this strategy. Such an acquisition strategy, involves significant risks, including the following:

- finding suitable markets for expansion;
- finding suitable candidates for acquisition;
- attracting funding to support additional growth;
- maintaining asset quality;
- attracting and retaining qualified management; and
- maintaining adequate regulatory capital.

Accordingly, the Company may be unable to find suitable acquisition candidates in the future that fit its acquisition and growth strategy.

Acquisitions of financial institutions also involve operational risks and uncertainties, and acquired companies may have unknown or contingent liabilities with no available manner of recourse, exposure to unexpected asset quality problems, key employee and customer retention problems and other problems that could negatively affect the Company’s organization. The Company may not be able to complete future acquisitions or, if completed, the Company may not be able to successfully integrate the operations, management, products and services of the entities that the Company acquires and eliminate redundancies. The integration process may also require significant time and attention from the Company’s management that they would otherwise direct toward servicing existing business and developing new business. Further, the integration process could result in the loss of key employees, disruption of the combined entity’s ongoing business, or inconsistencies in standards, controls, procedures and policies that adversely affect the Company’s ability to maintain relationships with customers or employees or to achieve the anticipated benefits of the transaction. Failure to successfully integrate the entities the Company acquires into the Company’s existing operations may increase the Company’s operating costs significantly and adversely affect the Company’s business and earnings. Acquisitions typically involve the payment of a premium over book and market values and, therefore, some dilution of the Company’s tangible book value and net income per common share may occur in connection with any future transaction.

If the Company does not manage the Company’s growth effectively, the Company’s business, financial condition, results of operations and future prospects could be negatively affected, and the Company may not be able to continue to implement the Company’s business strategy and successfully conduct the Company’s operations.

The Company acquired two separate financial institutions during 2014 which conducted operations in the Houston financial market where the Company had no prior operating experience.

In 2014, the Company acquired two separate banking operations and began operating in the Houston metropolitan area financial market. As a result, the Company initially relied on the management teams at these banking organizations who joined the Company to provide guidance regarding operating in this new geographic market. Should these key employees be unable to provide the necessary support and guidance for the Company to operate in this new market, the Company may not achieve the results it desires from these two acquisitions. Further, because these acquisitions did not involve as much geographic overlap as some of the Company’s prior acquisitions, the Company may be unable to realize all planned operating efficiencies as a result of the Houston based acquisitions. The Houston market economy has been adversely affected by the disruption in the energy markets and the Company’s lack of prior operating history in Houston could adversely affect the Company’s ability to respond to changing market conditions in Houston.

The Company may fail to realize the cost savings anticipated from its acquisitions.

Although the Company anticipates that it will realize certain cost savings with respect to the acquisitions that it has completed, it is possible that the Company may not realize all of the cost savings that the Company has estimated or will estimate that it can realize. For example, unanticipated growth in the Company’s business may require the Company to continue to operate or maintain some facilities or support functions that are expected to be combined or reduced as a result of an acquisition. The Company’s realization of the estimated cost savings also will depend on the Company’s ability to combine the operations of any target bank with Independent Bank in a manner that permits those costs savings to be realized. If the Company is not able to integrate target bank’s operations into Independent Bank’s operations successfully, the anticipated cost savings may not be fully realized, if at all, or may take longer to realize than expected.

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

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

The Company determines impairment by comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Any such adjustments are reflected in the Company's results of operations in the periods in which they become known. As of December 31, 2015, the Company's goodwill totaled $258.6 million. While the Company has not recorded any such impairment charges since the Company initially recorded the goodwill, there can be no assurance that the Company's future evaluations of goodwill will not result in findings of impairment and related write-downs, which may have a material adverse effect on the Company's financial condition and results of operations.

A lack of liquidity could adversely affect the Company's operations and jeopardize the Company's business, financial condition and results of operations.

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

Other primary sources of funds consist of cash flows from operations, investment maturities and sales of investment securities, and proceeds from the issuance and sale of the Company's equity and debt securities to investors. Additional liquidity is provided by the ability to borrow from the Federal Reserve Bank and the Federal Home Loan Bank. The Company also may borrow funds from third-party lenders, such as other financial institutions. The Company's access to funding sources in amounts adequate to finance or capitalize the Company's activities, or on terms that are acceptable to the Company, could be impaired by factors that affect the Company directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry.

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

The Company may need to raise additional capital in the future, and if the Company fails to maintain sufficient capital, whether due to losses, an inability to raise additional capital, growth or otherwise, the Company's financial condition, liquidity and results of operations, as well as the Company's ability to maintain regulatory compliance, would be adversely affected.

The Company faces significant capital and other regulatory requirements as a financial institution. The Company may need to raise additional capital in the future to provide the Company with sufficient capital resources and liquidity to meet the Company's commitments and business needs, which could include the possibility of financing acquisitions. In addition, the Company, on a consolidated basis, and Independent Bank, on a stand-alone basis, must meet certain regulatory capital requirements and maintain sufficient liquidity. The Company faces significant capital and other regulatory requirements as a financial institution. The Company's ability to raise additional capital depends on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry, market conditions and governmental activities, and on the Company's financial condition and performance. In the future, the Company may not be able to raise additional capital if needed or on terms acceptable to the Company. If the Company fails to maintain capital to meet regulatory requirements, the Company's financial condition, liquidity and results of operations would be materially and adversely affected.

The redemption by the Company of its Series A preferred stock has reduced the Company's capital levels and could negatively effect the Company's capital adequacy in the future.

In connection with the acquisition of BOH Holdings, the Company, among other things, issued 23,938.35 shares of its Senior Non-Cumulative Perpetual SBLF Preferred Stock, Series A, or the Series A preferred stock, at $1,000 par value to the Treasury in exchange for the 23,938.35 shares of BOH Holdings Series C SBLF Preferred Stock that the Treasury previously held. The Series A preferred stock qualifies as Tier 1 capital. The Series A preferred stock paid noncumulative dividends, payable quarterly. The dividend rate was determined based on the level of Qualified Small Business Lending at BOH Holdings and was set at 1.00% at time of acquisition. The Company qualified for the 1.00% rate continuing through January 14, 2016, at which time the dividend rate would have increased to 9.00%.

Given the increased cost of the Series A preferred stock, on January 14, 2016, the Company redeemed all 23,938.35 outstanding shares of the Series A preferred stock for a redemption price of $23,946,994.40. The source of funds for the redemption was a dividend from Independent Bank. This redemption reduced the capital levels and ratios of the Company and

17

Independent Bank. While the Company and Independent Bank continue to be well capitalized for regulatory purposes, the reduction in capital resulting from the redemption could impact the Company's ability to grow as well as its ability to absorb unanticipated losses. Further, the Company may be unable to replace the capital provided by the Series A preferred stock in the future. If the Company is unable to maintain required capital levels, the Company's financial condition would be materially and adversely affected.

Interest rate shifts may reduce net interest income and otherwise negatively impact the Company's financial condition and results of operations.

The majority of the Company's banking assets are monetary in nature and subject to risk from changes in interest rates. Like most financial institutions, the Company's earnings are significantly dependent on the Company's net interest income, the principal component of the Company's earnings, which is the difference between interest earned by the Company from the Company's interest-earning assets, such as loans and investment securities, and interest paid by the Company on the Company's interest-bearing liabilities, such as deposits and borrowings. The Company expects that it will periodically experience "gaps" in the interest rate sensitivities of the Company's assets and liabilities, meaning that either its interest-bearing liabilities will be more sensitive to changes in market interest rates than the Company's interest-earning assets, or vice versa. In either event, if market interest rates should move contrary to the Company's position, this "gap" will negatively impact the Company's earnings. The impact on earnings is more adverse when the slope of the yield curve flattens, that is, when short-term interest rates increase more than long-term interest rates or when long-term interest rates decrease more than short-term interest rates. Many factors impact interest rates, including governmental monetary policies, inflation, recession, changes in unemployment, the money supply, and international disorder and instability in domestic and foreign financial markets.

Interest rate increases often result in larger payment requirements for the Company's borrowers, which increase the potential for default. At the same time, the marketability of the property securing a loan may be adversely affected by any reduced demand resulting from higher interest rates. In a declining interest rate environment, there may be an increase in prepayments on loans as borrowers refinance their loans at lower rates.

Changes in interest rates also can affect the value of loans, securities and other assets. An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans may lead to an increase in nonperforming assets and a reduction of income recognized, which could have a material adverse effect on the Company's results of operations and cash flows. Further, when the Company places a loan on nonaccrual status, the Company reverses any accrued but unpaid interest receivable, which decreases interest income. At the same time, the Company continues to have a cost to fund the loan, which is reflected as interest expense, without any interest income to offset the associated funding expense. Thus, an increase in the amount of nonperforming assets would have an adverse impact on net interest income.

If short-term interest rates remain at their historically low levels for a prolonged period, and assuming longer term interest rates fall further, the Company could experience net interest margin compression as the Company's interest earning assets would continue to reprice downward while the Company's interest-bearing liability rates could fail to decline in tandem. Such an occurrence would have a material adverse effect on the Company's net interest income and the Company's results of operations.

The Company's accounting estimates and risk management processes rely on analytical and forecasting models.

The processes the Company uses to estimate its probable credit losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on the Company's financial condition and results of operations, depend upon the use of analytical and forecasting models. These models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are accurate, the models may prove to be inadequate or inaccurate because of other flaws in their design or their implementation.

If the models the Company uses for interest rate risk and asset-liability management are inadequate, the Company may incur increased or unexpected losses upon changes in market interest rates or other market measures. If the models the Company uses for determining its probable credit losses are inadequate, the allowance for credit losses may not be sufficient to support future charge-offs. If the models the Company uses to measure the fair value of financial instruments is inadequate, the fair value of such financial instruments may fluctuate unexpectedly or may not accurately reflect what the Company could realize upon sale or settlement of such financial instruments. Any such failure in the Company’s analytical or forecasting models could have a material adverse effect on the Company’s business, financial condition and results of operations.

The Company could recognize losses on securities held in the Company's securities portfolio, particularly if interest rates increase or economic and market conditions deteriorate.

While the Company attempts to invest a significant percentage of its assets in loans (the Company's loan to deposit ratio was 98.6% as of December 31, 2015), the Company invests a percentage of its total assets (approximately 5.4% as of December 31, 2015) in investment securities as part of its overall liquidity strategy. As of December 31, 2015, the fair value of the Company's securities portfolio was approximately $273.5 million.

Factors beyond the Company's control can significantly influence the fair value of securities in its portfolio and can cause potential adverse changes to the fair value of these securities. For example, fixed-rate securities are generally subject to decreases in market value when market interest rates rise. Additional factors include, but are not limited to, rating agency downgrades of the securities, defaults by the issuer or individual borrowers with respect to the underlying securities, and continued instability in the credit markets. Any of the foregoing factors could cause an other-than-temporary impairment in future periods and result in realized losses. The process for determining whether impairment is other-than-temporary usually requires difficult, subjective judgments about the future financial performance of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security. Because of changing economic and market conditions affecting market interest rates, the financial condition of issuers of the securities and the performance of the underlying collateral, the Company may recognize realized and/or unrealized losses in future periods, which could have an adverse effect on the Company's financial condition and results of operations.

The Company faces strong competition from financial services companies and other companies that offer banking services, which could harm the Company's business.

The Company conducts its operations almost exclusively in Texas. Many of the Company's competitors offer the same, or a wider variety of, banking services within the Company's market areas. These competitors include banks with nationwide operations, regional banks and other community banks. The Company also faces competition from many other types of financial institutions, including savings and loan institutions, finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. In addition, a number of out-of-state financial intermediaries have opened production offices, or otherwise solicit deposits, in the Company's market areas. Increased competition in the Company's markets may result in reduced loans and deposits, as well as reduced net interest margin and profitability. Ultimately, the Company may not be able to compete successfully against current and future competitors. If the Company is unable to attract and retain banking customers, the Company may be unable to continue to grow its loan and deposit portfolios, and the Company's business, financial condition and results of operations may be adversely affected.

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

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. The Company's future success will depend in part upon the Company's ability to address the needs of the Company's customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in the Company's operations as it continues to grow and expand the Company's market area. The Company may experience operational challenges as it implements these new technology enhancements or products, which could result in the Company not fully realizing the anticipated benefits from such new technology or require the Company to incur significant costs to remedy any such challenges in a timely manner.

Many of the Company's larger competitors have substantially greater resources to invest in technological improvements. As a result, they may be able to offer additional or superior products to those that the Company will be able to provide, which would put the Company at a competitive disadvantage. Accordingly, the Company may not be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to its customers.

System failure or cybersecurity breaches of the Company’s network security could subject the Company to increased operating costs as well as litigation and other liabilities.

The computer systems and network infrastructure the Company uses could be vulnerable to unforeseen problems. The Company’s operations are dependent upon its ability to protect its computer equipment against damage from physical theft, fire, power loss, telecommunications failure or a similar catastrophic event, as well as from cybersecurity breaches, denial of service attacks, viruses, worms and other disruptive problems caused by hackers. Any damage or failure that causes breakdowns or disruptions in the Company's customer relationship management, general ledger, deposit, loan and other systems could damage the Company's reputation, result in a loss of customer business, subject the Company to additional regulatory scrutiny, or expose the Company to civil litigation and possible financial liability, any of which could have a material adverse effect on the Company. Computer break-ins, phishing and other cybersecurity disruptions could also jeopardize the security of information stored in and transmitted through the Company's computer systems and network infrastructure, which may result in significant liability to the Company and may cause existing and potential customers to refrain from doing business with the Company. In addition, advances in computer capabilities could result in a compromise or breach of the systems the Company and the Company's third-party service providers use to encrypt and protect customer transaction data. A failure of such security measures could have a material adverse effect on the Company's financial condition and results of operations.

The Company may be materially and adversely affected by the creditworthiness and liquidity of other financial institutions.

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

The Company's operations could be interrupted if the Company's third-party service providers experience difficulty, terminate their services or fail to comply with banking regulations.

The Company depends on a number of relationships with third-party service providers. Specifically, the Company receives core systems processing, essential web hosting and other Internet systems, deposit processing and other processing services from third-party service providers. If these third-party service providers experience difficulties, or terminate their services, and the Company is unable to replace them with other service providers, particularly on a timely basis, the Company's operations could be interrupted. If an interruption were to continue for a significant period of time, the Company's business, financial condition and results of operations could be adversely affected, perhaps materially. Even if the Company is able to replace third party service providers, it may be at a higher cost to the Company, which could adversely affect the Company's business, financial condition and results of operations.

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

Employee errors and employee and customer misconduct could subject the Company to financial losses or regulatory sanctions and seriously harm the Company's reputation. Misconduct by the Company's employees could include hiding unauthorized activities from the Company, improper or unauthorized activities on behalf of the Company's customers or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions the Company takes to prevent and detect this activity may not be effective in all cases. Employee errors could also subject the Company to financial claims for negligence.

The Company maintains a system of internal controls and insurance coverage to mitigate against operational risks, including data processing system failures and errors and customer or employee fraud. If the Company's internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on the Company's business, financial condition and results of operations.

In addition, the Company relies heavily upon information supplied by third parties, including the information contained in credit applications, property appraisals, title information, equipment pricing and valuation and employment and income documentation, in deciding which loans the Company will originate, as well as the terms of those loans. If any of the information upon which the Company relies is misrepresented, either fraudulently or inadvertently, and the misrepresentation is not detected prior to asset funding, the value of the asset may be significantly lower than expected, or the Company may fund a loan that the Company would not have funded or on terms the Company would not have extended. Whether a misrepresentation is made by the applicant or another third party, the Company generally bears the risk of loss associated with the misrepresentation. A loan subject to a material misrepresentation is typically unsellable or subject to repurchase if it is sold prior to detection of the misrepresentation. The sources of the misrepresentations are often difficult to locate, and it is often difficult to recover any of the monetary losses that the Company may suffer.

New lines of business or new products and services may subject the Company to additional risks.

From time to time, the Company may implement or may acquire new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services, the Company may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of the Company’s system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on the Company’s business, financial condition and results of operations.

Legal and regulatory proceedings could adversely affect the Company’s business, financial condition, and results of operation.

The Company, like all financial institutions, has been and may in the future become involved in legal and regulatory proceedings. The Company considers most of these proceedings to be in the normal course of business or typical for the industry. However, it is inherently difficult to assess the outcome of these matters. Any material legal or regulatory proceeding could impose substantial cost and cause management to divert its attention from the Company’s business and operations. Any adverse determination in a legal or regulatory proceeding could have a material adverse effect on the Company’s business, financial condition and results of operations.

The Company is subject to claims and litigation pertaining to intellectual property from time to time.

Banking and other financial services companies, such as the Company, rely on technology companies to provide information technology products and services necessary to support the Company’s day-to-day operations. Technology companies frequently enter into litigation based on allegations of patent infringement or other violations of intellectual property rights. In addition, patent holding companies seek to monetize patents they have purchased or otherwise obtained. Competitors of the Company’s vendors, or other individuals or companies, have from time to time claimed to hold intellectual property sold to the Company by its vendors. Such claims may increase in the future as the financial services sector becomes more reliant on information technology vendors. The plaintiffs in these actions frequently seek injunctions and substantial damages.

Regardless of the scope or validity of such patents or other intellectual property rights, or the merits of any claims by potential or actual litigants, the Company may have to engage in protracted litigation. Such litigation is often expensive, time-consuming, disruptive to the Company’s operations and distracting to management. If the Company is found to infringe one or more patents or other intellectual property rights, it may be required to pay substantial damages or royalties to a third-party. In certain cases, the Company may consider entering into licensing agreements for disputed intellectual property, although no assurance can be given that such licenses can be obtained on acceptable terms or that litigation will not occur. These licenses may also significantly increase the Company’s operating expenses. If legal matters related to intellectual property claims were resolved against the Company or settled, the Company could be required to make payments in amounts that could have a material adverse effect on its business, financial condition and results of operations.

The Company could experience claims and litigation pertaining to fiduciary responsibility.

From time to time, customers make claims and take legal action pertaining to the Company’s performance of its fiduciary responsibilities. Whether customer claims and legal action related to the Company’s performance of its fiduciary responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to the Company, they may result in significant financial liability, adversely affect the market perception of the Company and its products and services and/or impact customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on the Company’s business, financial condition and results of operations.

The Company could be subject to environmental risks and associated costs on the Company’s foreclosed real estate assets, which could materially and adversely affect the Company.

A significant portion of the Company’s loan portfolio is secured by real property. During the ordinary course of business, the Company may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, the Company may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require the Company to incur substantial expenses and may materially reduce the affected property's value or limit the Company's ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase the Company's exposure to environmental liability. Although the Company has policies and procedures to perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on the Company's financial condition and results of operations.

The Company's Chairman and Chief Executive Officer, the Company's largest shareholder, and certain other officers and directors of the Company, are business partners in business ventures in addition to the Company, which creates potential conflicts of interest and corporate governance issues.

Messrs. David Brooks, Viola, Cifu, Berntsen and Daniel Brooks are partners in Himalayan Ventures, LP, a real estate investment partnership. A dispute between these individuals in connection with this business venture outside of the Company could impact their relationship at the Company and, because of their prominence within the Company, the Company itself.

Risks Related to an Investment in the Company's Common Stock

The Company's stock can be volatile.

Stock price volatility may make it more difficult for you to resell your common stock when you want and at prices you find attractive. The Company's stock price can fluctuate significantly in response to a variety of factors including, among other things:

- actual or anticipated variations in quarterly results of operations;
- recommendations by securities analysts;
- operating and stock price performance of other companies that investors deem comparable to the Company;
- new reports relating to trends, concerns and other issues in the financial services industry;
- perceptions in the marketplace regarding the Company and/or its competitors;
- new technology used, or services offered, by competitors;
- significant acquisitions or business combinations involving the Company or its competitors;
- the public float and trading volumes for the Company's common stock;
- changes in government regulations, including tax laws; and
- volatility in economic conditions, including changes in interest rates, disruption in energy markets and changes in the global economy.

The Company is dependent upon Independent Bank for cash flow, and Independent Bank's ability to make cash distributions is restricted.

The Company's primary tangible asset is Independent Bank. As such, the Company depends upon Independent Bank for cash distributions (through dividends on Independent Bank's stock) that the Company uses to pay the Company's operating expenses, satisfy the Company's obligations (including the Company's senior indebtedness, subordinated debentures, and junior subordinated indebtedness issued in connection with trust preferred securities), and to pay dividends on the Company's common stock and preferred stock. There are numerous laws and banking regulations that limit Independent Bank's ability to pay dividends to the Company. If Independent Bank is unable to pay dividends to the Company, the Company will not be able to satisfy the Company's obligations or pay dividends on the Company's common stock and preferred stock. Federal and state statutes and regulations restrict Independent Bank's ability to make cash distributions to the Company. These statutes and regulations require, among other things, that Independent Bank maintain certain levels of capital in order to pay a dividend. Further, state and federal banking authorities have the ability to restrict the payment of dividends by supervisory action.

The Company's dividend policy may change without notice, and the Company's future ability to pay dividends is subject to restrictions.

The Company may change its dividend policy at any time without notice to the Company's shareholders. Holders of the Company's common stock are entitled to receive only such dividends as the Company's board of directors may declare out of funds legally available for such payments. Any declaration and payment of dividends on preferred stock and common stock will depend upon the Company's earnings and financial condition, liquidity and capital requirements, the general economic and regulatory climate, the Company's ability to service any equity or debt obligations senior to the preferred stock and, ultimately, the common stock and other factors deemed relevant by its board of directors. Furthermore, consistent with the Company's strategic plans, growth initiatives, capital availability, projected liquidity needs, and other factors, the Company has made, and will continue to make, capital management decisions and policies that could adversely impact the amount of dividends, if any, paid to the Company's common shareholders.

The Federal Reserve has indicated that bank holding companies should carefully review their dividend policy in relation to the organization's overall asset quality, level of current and prospective earnings and level, composition and quality of capital. The guidance provides that the Company inform and consult with the Federal Reserve prior to declaring and paying a dividend that exceeds earnings for the period for which the dividend is being paid or that could result in an adverse change to the Company's capital structure, including interest on senior debt, subordinated debt and the subordinated debentures underlying the Company's trust preferred securities. If required payments on the Company's outstanding senior debt, subordinated debt and junior subordinated debentures, held by its unconsolidated subsidiary trusts, are not made or are suspended, the Company would be prohibited from paying dividends on its common stock.

The Company has adopted a Stock Repurchase Program which, upon implementation, could have an impact upon the Company's capital adequacy and its tangible book value.

On January 28, 2016, the Company renewed its stock repurchase program providing for the repurchase of up to $30 million of its common stock. The amount and timing of any share repurchases will depend upon a variety of factors, including the trading price of the Company's common stock, liquidity, securities laws restrictions, other regulatory restrictions, potential alternative uses of capital, and market and economic conditions. As of February 24, 2016, the Company had not made any repurchases under the program. If the Company repurchases shares, any such repurchase will reduce the stockholder's equity of the Company and, depending upon the circumstances, could have a negative effect upon the Company's overall capital adequacy. Further, such repurchases could result in a reduction in the tangible book value per share of the Company's common stock depending upon the price paid for the repurchased shares.

The Company's largest shareholder and board of directors have historically controlled, and in the future will continue to be able to control, the Company.

Collectively, as of January 31, 2016, Messrs. Vincent Viola and David Brooks owned 31.4% of the Company's outstanding common stock on a fully diluted basis. Vincent Viola, the largest shareholder of the Company, currently owns 25.5% of the Company's outstanding common stock, and David Brooks, the Company's Chairman of the Board and Chief Executive Officer, currently owns 6.0% of the Company's common stock, each calculated on a fully diluted basis. Further, as of the date hereof, the Company's other directors and executive officers currently own collectively approximately 9.7% of the Company's outstanding common stock. As a result, these individuals exert controlling influence in the Company's management and policies. Further, given the large ownership position of these individuals, it will be difficult for any other shareholder to elect members to the Company's board of directors or otherwise influence the Company's management or direction.

In addition, three of the Company's directors have close professional and personal ties to Vincent Viola, the Company's largest shareholder. Doug Cifu is the Chief Executive Officer of Virtu Financial, LLC, Mr. Viola's primary operating entity; Torry Berntsen, the Company's President and Chief Operating Officer, was formerly Vice Chairman of Virtu Management, LLC, Mr. Viola's family investment vehicle; and Michael Viola is the son of Vincent Viola. Further, David Brooks, the Company's Chairman and Chief Executive Officer, has over a 25 year history of ownership and operation of Independent Bank with Vincent Viola; and he has joint investments with Mr. Viola outside of the Company. Given these close relationships, even though he will not serve on the Company's board, Mr. Viola has and will continue to have a large influence over the direction and operation of the Company.

The Company's corporate organizational documents and the provisions of Texas law to which the Company is subject contain certain provisions that could have an anti-takeover effect and may delay, make more difficult or prevent an attempted acquisition of the Company that you may favor.

The Company's certificate of formation and bylaws contain various provisions that could have an anti-takeover effect and may delay, discourage or prevent an attempted acquisition or change in control of the Company. These provisions include the following:

- staggered terms for directors;

- a provision that directors cannot be removed except for cause;
- a provision that any special meeting of the Company’s shareholders may be called only by a majority of the Company’s board of directors, the Chairman or a holder or group of holders of at least 20% of the Company’s shares entitled to vote at such special meeting;

- a provision that requires the vote of two-thirds of the shares outstanding for major corporate actions, such as an amendment to the Company’s certificate of formation or bylaws or the approval of a merger; and
- a provision establishing certain advance notice procedures for nomination of candidates for election as directors and for shareholder proposals to be considered only at an annual or special meeting of shareholders.

The Company’s certificate of formation provides for noncumulative voting for directors and authorizes the board of directors to issue shares of its preferred stock without shareholder approval and upon such terms as the board of directors may determine. The issuance of the Company’s preferred stock, while providing desirable flexibility in connection with possible acquisitions, financings and other corporate purposes, could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from acquiring, a controlling interest in the Company. In addition, certain provisions of Texas law, including a provision which restricts certain business combinations between a Texas corporation and certain affiliated shareholders, may delay, discourage or prevent an attempted acquisition or change in control of the Company. Also, the Company’s certificate of formation prohibits shareholder action by written consent.

The holders of the Company’s debt obligations and any shares of the Company’s preferred stock currently outstanding or that may be outstanding in the future will have priority over the Company’s common stock with respect to payment in the event of liquidation, dissolution or winding up and with respect to the payment of interest and preferred dividends.

In the event of any winding up and termination of the Company, the Company common stock would rank below all claims of the holders of the Company’s debt and preferred stock. The Company has a senior, revolving credit facility under which the Company may borrow up to $50 million. As of December 31, 2015, the Company currently had not drawn upon this credit facility. Further, as of December 31, 2015, the Company had outstanding

- $70.8 million of aggregate principal amount of subordinated indebtedness. Note that $5.8 million was redeemed in January 2016;
- $18.1 million of subordinated debentures issued in connection with trust preferred securities; and
- $23.9 million of its Series A preferred stock. Note that the Series A preferred stock was redeemed on January 14, 2016.

Upon the winding up and termination of the Company, holders of the Company’s common stock will not be entitled to receive any payment or other distribution of assets until after all of the Company’s obligations to the Company’s debt holders have been satisfied and holders of the Company’s senior debt, subordinated debt, and junior subordinated debentures issued in connection with trust preferred securities have received any payments and other distributions due to them. In addition, the Company is required to pay interest on the Company’s senior debt, subordinated debt and subordinated debentures and junior subordinated debentures issued in connection with the Company’s trust preferred securities before the Company pays any dividends on the Company’s common stock. Furthermore, the Company’s board of directors may also, in its sole discretion, designate and issue one or more series of preferred stock from the Company’s authorized and unissued preferred stock, which may have preferences with respect to common stock in dissolution, dividends, liquidation or otherwise.

Prior to April 1, 2013, the Company was treated as an S corporation under Sections 1361 through 1379 of the Internal Revenue Code of 1986, as amended, and claims of taxing authorities related to the Company’s prior status as an S corporation could harm the Company.

On April 1, 2013, the Company’s prior status as an S corporation status terminated and the Company is now treated as a C corporation under the Internal Revenue Code of 1986, as amended, which is applicable to most corporations. As a result, the Internal Revenue Service treats the Company as an entity that is separate and distinct from its shareholders. If the unaudited, open tax years in which the Company was an S corporation are audited by the Internal Revenue Service and the Company is determined not to have qualified for, or to have violated, the Company’s S corporation status, the Company would then be obligated to pay back taxes, interest and penalties, and the Company would not have the right to reclaim tax distributions that the Company previously made to the Company’s shareholders during those periods. These amounts could include taxes on all of the Company’s taxable income while the Company was an

S corporation. Any such claims could result in additional costs to the Company and could have a material adverse effect on the Company's results of operations and financial condition.

The Company has entered into tax indemnification agreements with the persons holding shares of the Company's common stock immediately prior to the consummation of the Company's initial public offering, including Messrs. Vincent Viola and David Brooks, and the Company could become obligated to make payments to them for any additional federal, state or local income taxes assessed against them for fiscal periods prior to the completion of the Company's initial public offering.

Prior to April 1, 2013, the Company had been treated as an S corporation for U.S. federal income tax purposes. In connection with the Company's initial public offering, the Company's S corporation status terminated and the Company is now subject to federal and increased state income taxes. In the event of an adjustment to the Company's reported taxable income for a period or periods prior to termination of the Company's S corporation status, the Company's existing shareholders could be liable for additional income taxes for those prior periods. Therefore, the Company has entered into tax indemnification agreements with the persons holding shares of the Company's common stock immediately prior to the consummation of the Company's initial public offering. Pursuant to those agreements, the Company has agreed that upon filing any tax return (amended or otherwise), or in the event of any restatement of the Company's taxable income, in each case for any period during which the Company was an S corporation, the Company will make a payment to each shareholder on a pro rata basis in an amount sufficient so that the shareholder with the highest incremental estimated tax liability (calculated as if the shareholder would be taxable on its allocable share of the Company's taxable income at the highest applicable federal, state and local tax rates and taking into account all amounts the Company previously distributed in respect of taxes for the relevant period) receives a payment equal to that shareholder's incremental tax liability. The Company has also agreed to indemnify the shareholders for any interest, penalties, losses, costs or expenses (including reasonable attorneys' fees) arising out of any claim under the agreements.

The Company is an emerging growth company, and the Company cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make the Company's common stock less attractive to investors.

The Company is an "emerging growth company," as defined in the JOBS Act, and the Company is taking advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including, but not limited to, reduced disclosure obligations regarding executive compensation in the Company's periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. In addition, even if the Company complies with the greater obligations of public companies that are not emerging growth companies, the Company may avail itself of the reduced requirements applicable to emerging growth companies from time to time in the future, so long as the Company qualifies as an emerging growth company. The Company will remain an emerging growth company for up to five years, though the Company may cease to be an emerging growth company earlier under certain circumstances, including if, before the end of such five years, the Company is deemed to be a large accelerated filer under the rules of the SEC (which depends on, among other things, having a market value of common stock held by nonaffiliates in excess of $700 million). Investors and securities analysts may find it more difficult to evaluate the Company's common stock because the Company will rely on one or more of these exemptions, and, as a result, investor confidence and the market price of the Company's common stock may be materially and adversely affected.

Further, Section 102(b)(1) of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies (that is, those that have not had a Securities Act registration statement declared effective or do not have a class of securities registered under the Exchange Act) are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can elect to opt out of the extended transition period and comply with the requirements that apply to nonemerging growth companies but any such election to opt out is irrevocable. The Company has elected not to opt out of such extended transition period which means that when a standard is issued or revised and it has different application dates for public or private companies, the Company, as an emerging growth company, can adopt the new or revised standard at the time private companies adopt the new or revised standard. This may make the Company's financial statements not comparable with those of another public company which is neither an emerging growth company nor an emerging growth company which has opted out of using the extended transition period because of the potential differences in accounting standards used.

An investment in the Company’s common stock is not an insured deposit and is not guaranteed by the FDIC, so you could lose some or all of your investment.

An investment in the Company’s common stock is not a bank deposit and, therefore, is not insured against loss or guaranteed by the FDIC, any other deposit insurance fund or by any other public or private entity. An investment in the Company’s common stock is inherently risky for the reasons described in this report and shareholders who acquire the Company’s common stock could lose some or all of their investment.

Risks Related to the Business Environment and the Company’s Industry

The Company operates in a highly regulated environment and, as a result, is subject to extensive regulation and supervision.

The Company and Independent Bank are subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors’ funds, federal deposit insurance funds and the banking system as a whole, not the Company’s shareholders. These regulations affect the Company’s lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Any change in applicable regulations or federal or state legislation could have a substantial impact on the Company, Independent Bank and their respective operations.

The Dodd-Frank Act, enacted in July 2010, instituted major changes to the banking and financial institutions regulatory regimes in light of the recent performance of and government intervention in the financial services sector. Additional legislation and regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could significantly affect the Company’s powers, authority and operations, or the powers, authority and operations of Independent Bank in substantial and unpredictable ways. Further, regulators have significant discretion and power to prevent or remedy unsafe or unsound practices or violations of laws by banks and bank holding companies in the performance of their supervisory and enforcement duties. The exercise of this regulatory discretion and power could have a negative impact on the Company. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on the Company’s business, financial condition and results of operations.

The Dodd-Frank Act created the Consumer Financial Protection Bureau, or the CFPB, with broad powers to supervise and enforce consumer protection laws. The CFPB has broad rule-making authority, including the authority to prohibit unfair, deceptive, and abusive acts and practices. Compliance with the CFPB rules required changes to the Company’s underwriting practices with respect to mortgage loans, and has resulted in increased regulatory compliance costs. These rules may subject the Company to increased potential liabilities related to residential mortgage lending activities.

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

In addition to being affected by general economic conditions, the Company’s earnings and growth are affected by the policies of the Federal Reserve. An important function of the Federal Reserve is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve to implement these objectives are open market operations in U.S. government securities, adjustments of the discount rate and changes in reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

The monetary policies and regulations of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The Company cannot predict the effects of such policies upon the Company’s business, financial condition and results of operations.

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

The Federal Reserve, which examines the Company and Independent Bank, requires a bank holding company to act as a source of financial and managerial strength to a subsidiary bank and to commit resources to support such subsidiary bank. Under the “source of strength” doctrine, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to such a subsidiary bank. In addition, the Dodd-Frank Act directs the federal bank regulators to require that all companies that directly or indirectly control an insured depository institution serve as a source of strength for the institution. Under these requirements, in the future, the Company could be required to provide financial assistance to Independent Bank if it experiences financial distress.

A capital injection may be required at times when the Company does not have the resources to provide it, and therefore the Company may be required to borrow the funds. In the event of a bank holding company's bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the holding company's general unsecured creditors, including the holders of its note obligations.

Thus, any borrowing that must be done by the holding company in order to make the required capital injection becomes more difficult and expensive and will adversely impact the holding company's cash flows, financial condition, results of operations and prospects.

Federal banking agencies periodically conduct examinations of the Company's business, including compliance with laws and regulations, and the Company's failure to comply with any supervisory actions to which the Company becomes subject as a result of such examinations could materially and adversely affect the Company.

Texas and federal banking agencies periodically conduct examinations of the Company's business, including compliance with laws and regulations. If, as a result of an examination, a Texas or federal banking agency were to determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of the Company's operations had become unsatisfactory, or that the Company or its management was in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin "unsafe or unsound" practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in the Company's capital, to restrict the Company's growth, to assess civil monetary penalties against Independent Bank, the Company's officers or directors, to remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate the Company's deposit insurance. If the Company becomes subject to such regulatory actions, the Company could be materially and adversely affected.

The Company may be required to pay significantly higher FDIC deposit insurance assessments in the future, which could materially and adversely affect the Company.

Previous economic conditions and the Dodd-Frank Act caused the FDIC to increase deposit insurance assessments and may result in increased assessments in the future. On February 7, 2011, the FDIC approved a final rule that amended the Deposit Insurance Fund restoration plan and implemented certain provisions of the Dodd-Frank Act. Effective April 1, 2011, the assessment base is determined using average consolidated total assets minus average tangible equity rather than the previous assessment base of adjusted domestic deposits. The final rule also provides the FDIC's board with the flexibility to adopt actual rates that are higher or lower than the total base assessment rates adopted on February 7, 2011 without notice and comment, if certain conditions are met. An increase in the assessment rates could materially and adversely affect the Company.

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

The federal Bank Secrecy Act, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, or Patriot Act, and other laws and regulations require financial institutions, among other duties, to institute and maintain effective anti-money laundering programs and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network, established by the Treasury to administer the Bank Secrecy Act, is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration and Internal Revenue Service. There is also increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control. If the Company's policies, procedures and systems are deemed deficient or the policies, procedures and systems of the financial institutions that the Company has already acquired or may acquire in the future are deficient, the Company would be subject to liability, including fines and regulatory actions such as restrictions on the Company's ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of the Company's business plan (including the Company's acquisition plans), which would negatively impact the Company's business, financial condition and results of operations. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for the Company.

There are substantial regulatory limitations on changes of control of bank holding companies.

With certain limited exceptions, federal regulations prohibit a person or company or a group of persons deemed to be "acting in concert" from, directly or indirectly, acquiring more than 10% (5% if the acquirer is a bank holding company) of any class of the Company’s voting stock or obtaining the ability to control in any manner the election of a majority of the Company’s directors or otherwise direct the management or policies of the Company without prior notice or application to and the approval of the Federal Reserve. Accordingly, prospective investors need to be aware of and comply with these requirements, if applicable, in connection with any such purchase of shares of the Company’s common stock. These provisions effectively inhibit certain mergers or other business combinations, which, in turn, could adversely affect the market price of the Company’s common stock

ITEM 1B. UNRESOLVED STAFF COMMENTS
None.

ITEM 2. PROPERTIES
The Company owns its corporate headquarters, which is a 62,000 square foot, four story office building located at 1600 Redbud Blvd., Suite 400, McKinney, Texas 75069, and serves as Independent Bank's home office. The Company's building is the most prominent office building in McKinney, providing significant visibility and enhancing the Company's brand in Collin County. The Company's remodeling of its headquarters building won U.S. Green Building Council's "2010 LEED Silver Certification."
The Company also owns or leases other facilities in which its banking centers are located. The expiration dates of the leases range from 2016 to 2025 and a portion of the leases include renewal periods that may be available at the Company's option. The following table sets forth specific information regarding the banking centers located in each of the Company's geographical market areas at December 31, 2015:

County	Number of Banking Centers	Number of Leased Banking Centers	Deposits at December 31, 2015 (in millions)
Brazoria	1	—	$86.0
Collin	10	1	1,109.1
Dallas	5	2	702.6
Denton	3	—	233
Fort Bend	1	1	38.9
Grayson	6	—	354.9
Harris	8	4	926.1
McLennan	2	2	187.0
Montgomery	1	1	15.5
Travis	3	—	205.5
Williamson	2	—	169.7

The Company believes that the leases to which the Company is subject are generally on terms consistent with prevailing market terms. With the exception of the Company's Woodway Branch in Waco (see "Certain Relationships and Related Transactions and Director Independence" incorporated by reference into Part III, Item 13), none of the leases are with the Company's directors, officers, beneficial owners of more than 5% of the Company's voting securities or any affiliates of the foregoing. The Company believes that the Company's facilities are in good condition and are adequate to meet the Company's operating needs for the foreseeable future.

Item 3. LEGAL PROCEEDINGS
In the normal course of business, the Company and Independent Bank are named as defendants in various lawsuits. Management of the Company and Independent Bank, following consultation with legal counsel, do not expect the ultimate disposition of any, or a combination, of these matters to have a material adverse effect on the business of the Company or Independent Bank. A legal proceeding that the Company believes could become material is described below.

Independent Bank is a party to a legal proceeding inherited by Independent Bank in connection with its acquisition of BOH Holdings, Inc. and its subsidiary, Bank of Houston, or BOH, that was completed on April 15, 2014. Several entities related to R. A. Stanford, or the Stanford Entities, including Stanford International Bank, Ltd., or SIBL, had deposit accounts at BOH. Certain individuals who had purchased certificates of deposit from SIBL filed a class action lawsuit against several banks, including BOH, on November 11, 2009 in the U.S. District Court Northern District of Texas, Dallas Division, alleging, among other things, that the plaintiffs were victims of fraud by SIBL and other Stanford Entities and seeking to recover damages and alleged fraudulent transfers by the defendant banks.

On May 1, 2015, the plaintiffs filed a motion requesting permission to file a Second Amended Class Action Complaint in this case, which motion was subsequently granted. The Second Amended Class Action Complaint asserts previously unasserted

---

claims, including aiding and abetting or participation in a fraudulent scheme based upon the large amount of deposits that the Stanford Entities held at BOH and the alleged knowledge of certain BOH officers. Given the new allegations, Independent Bank notified its insurance carriers of the claims made in the Second Amended Class Action Complaint. The insurance carriers have initially indicated that a “loss” has not yet occurred or that the claims are not covered by the policies. However, Independent Bank is continuing to pursue insurance coverage for these claims, as well as for the reimbursement of defense costs, through the initiation of litigation and other means.

Independent Bank believes that the claims made in this lawsuit are without merit and is vigorously defending this lawsuit. This is complex litigation involving a number of procedural matters and issues. As such, Independent Bank is unable to predict when this matter may be resolved and, given the uncertainty of litigation, the ultimate outcome of, or potential costs or damages arising from, this case.

ITEM 4. MINE SAFETY DISCLOSURES
Not applicable.

PART II

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

Common Stock Market Prices

From April 3, 2013 through December 31, 2013, the Company common stock was listed for trading on the NASDAQ Global Market under the symbol "IBTX." On January 2, 2014, the Company common stock started trading on the NASDAQ Global Select Market. Quotations of the sales volume and the closing sales prices of the common stock of the Company are listed daily in the NASDAQ Global Select Market's listings. As of February 24, 2016, there were 422 holders of record for the Company's common stock.

The following table sets forth, for the periods indicated, the high and low intraday sales prices for the Company common stock as reported by the NASDAQ Global Market:

	High	Low
Quarter ending March 31, 2016 (through February 24, 2016)	$34.95	$25.74
Quarter ended March 31, 2015	$39.45	$29.66
Quarter ended June 30, 2015	45.93	38.04
Quarter ended September 30, 2015	46.66	37.85
Quarter ended December 31, 2015	43.16	31.11
Quarter ended March 31, 2014	$59.96	$48.54
Quarter ended June 30, 2014	61.49	44.86
Quarter ended September 30, 2014	56.20	46.01
Quarter ended December 31, 2014	48.78	38.13

Dividends

Payment of Dividends on Common Stock. The following table summarizes the cash dividends paid on the Company's common stock for the interim period through February 24, 2016 and for the quarterly periods in the years ended December 31, 2015 and 2014.

	Cash Dividends Declared per Share
For the Quarter Ending March 31, 2016 (through February 24, 2016)	$0.08
Quarter ended December 31, 2015	0.08
Quarter ended September 30, 2015	0.08
Quarter ended June 30, 2015	0.08
Quarter ended March 31, 2015	0.08
Quarter ended December 31, 2014	0.06
Quarter ended September 30, 2014	0.06
Quarter ended June 30, 2014	0.06
Quarter ended March 31, 2014	0.06

The Company currently expects to continue to pay (when, as and if declared by the Company's board of directors out of funds legally available for that purpose and subject to regulatory restrictions) regular quarterly cash dividends on its common stock; however, there can be no assurance that the Company will continue to pay dividends in the future. Future dividends on the Company common stock will depend upon its earnings and financial condition, liquidity and capital requirements, the general economic and regulatory climate, its ability to service any equity or debt obligations senior to the common stock (including the

Company's senior debt and preferred stock discussed below) and other factors deemed relevant by the board of directors of the Company.

As a holding company, the Company is ultimately dependent upon its subsidiaries particularly Independent Bank, to provide funding for its operating expenses, debt service and dividends. Various banking laws applicable to Independent Bank limit the payment of dividends and other distributions by Independent Bank to the Company, and may therefore limit the Company's ability to pay dividends on its common stock. Regulatory authorities could impose administratively stricter limitations on the ability of Independent Bank to pay dividends to the Company if such limits were deemed appropriate to preserve certain capital adequacy requirements.

Under the credit agreement between the Company and U.S. Bank National Association, or U.S. Bank, the Company cannot make any dividend payments without the prior written consent of U.S. Bank; provided, however, that, so long as no default under the credit agreement has occurred and is continuing, or will occur as a result of any such dividend, the Company may pay dividends and distributions to its shareholders as permitted by applicable governmental laws and regulations, including dividends with respect to the Company's common stock.

Under the terms of the Company's junior subordinated debentures held by the Company's unconsolidated subsidiary trusts, if required payments on such junior subordinated debentures are not made or suspended, the Company would be prohibited from paying dividends on its common stock.

Payment of Dividends on Preferred Stock. During 2015, holders of the Company's Series A preferred stock, which ranked senior to the Company's common stock, were entitled to receive at the end of each quarterly dividend period an amount equal to one quarter of the applicable dividend rate (which rate is approximately 1% at December 31, 2015) multiplied by the liquidation amount per each share of Series A preferred stock, which liquidation amount is currently equal to $1,000 per share, or approximately $60,000 per quarter. In January 2016, the Company redeemed all 23,938.35 outstanding shares of its Series A preferred stock. As of February 24, 2016, the Company had no shares of preferred stock outstanding. The Company has the authority to issue shares of preferred stock in the future, which may include preferential dividend rights.

Recent Sales of Unregistered Securities

None.

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information as of December 31, 2015, regarding the Company's equity compensation plans under which the Company's equity securities are authorized for issuance:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	—	N/A	373,512
Equity compensation plans not approved by security holders	—	N/A	—

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

31

Performance Graph

The following Performance Graph compares the cumulative total shareholder return on the Company's common stock for the period beginning at the close of trading on April 3, 2013 (the end of the first day of trading of the Company's common stock on the NASDAQ Global Market) to December 31, 2015, with the cumulative total return of the S&P 500 Total Return Index and NASDAQ Bank Index for the same period. Dividend reinvestment has been assumed. The Performance Graph assumes $100 invested on April 3, 2013, in the Company's common stock, the S&P 500 Total Return Index and NASDAQ Bank Index. The historical stock price performance for the Company's common stock shown on the graph below is not necessarily indicative of future stock performance.

Comparison of Cumulative Total Return*

Among Independent Bank Group, Inc., the S&P 500 Index and the NASDAQ Bank Index

* $100 invested on April 3, 2013, in stock or index, including investment of dividends. Fiscal year ended December 31.

	April 3, 2013	June 30, 2013	December 31, 2013	June 30, 2014	December 31, 2014	June 30, 2015	December 31, 2015
Independent Bank Group, Inc.	$100.00	$103.54	$169.65	$190.64	$134.10	$147.91	$110.76
S&P 500 Index	100.00	103.91	120.86	129.48	137.40	139.09	139.30
NASDAQ Bank Index	100.00	109.28	128.58	128.76	132.23	142.45	140.99

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data of the Company for, and as of, the end of each of the years in the five-year period ended December 31, 2015, is derived from and should be read in conjunction with the Company's consolidated financial statements and the notes thereto appearing elsewhere in this Annual Report on Form 10-K. You should read the following financial information relating to the Company in conjunction with other information contained in this Annual Report on Form 10-K, including the information set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" under Part II, Item 7, beginning on page 36 and the consolidated financial statements of the Company and related accompanying notes included elsewhere in this Annual Report on Form 10-K. The Company's historical results for any prior period are not necessarily indicative of results to be expected in any future period. As described elsewhere in this Annual Report on Form 10-K, the Company has consummated several acquisitions in recent fiscal periods. The results and other financial information of those acquired operations are not included in the information below for the periods prior to their respective acquisition dates and, therefore, the results for these prior periods are not comparable in all respects and may not be predictive of the Company's future results.

	As of and for the Year Ended December 31,				
(dollars in thousands except per share)	2015	2014	2013	2012	2011
Selected Income Statement Data					
Interest income	$174,027	$140,132	$87,214	$71,890	$59,639
Interest expense	19,929	15,987	12,281	13,337	13,358
Net interest income	154,098	124,145	74,933	58,553	46,281
Provision for loan losses	9,231	5,359	3,822	3,184	1,650
Net interest income after provision for loan losses	144,867	118,786	71,111	55,369	44,631
Noninterest income	16,128	13,624	11,021	9,168	7,708
Noninterest expense	103,198	88,512	57,671	47,160	38,639
Income tax expense	19,011	14,920	4,661	—	—
Net income	38,786	28,978	19,800	17,377	13,700
Preferred stock dividends	240	169	—	—	—
Net income available to common shareholders	38,546	28,809	19,800	17,377	13,700
Pro forma net income [1] (unaudited)	n/a	n/a	16,174	12,147	9,357
Per Share Data (Common Stock)[2]					
Earnings:					
Basic	$2.23	$1.86	$1.78	$2.23	$2.00
Diluted [3]	2.21	1.85	1.77	2.23	2.00
Pro forma earnings:[1] (unaudited)					
Basic	n/a	n/a	1.45	1.56	1.37
Diluted [3]	n/a	n/a	1.44	1.56	1.37
Dividends [4]	0.32	0.24	0.77	1.12	0.89
Book value [5]	32.79	30.35	18.96	15.06	12.55
Tangible book value [6]	17.85	16.15	15.89	11.19	10.53
Selected Period End Balance Sheet Data					
Total assets	$5,055,000	$4,132,639	$2,163,984	1,740,060	$1,254,377
Cash and cash equivalents	293,279	324,047	93,054	102,290	56,654
Securities available for sale	273,463	206,062	194,038	113,355	93,991
Total loans (gross)	4,001,704	3,205,537	1,726,543	1,378,676	988,671
Allowance for loan losses	27,043	18,552	13,960	11,478	9,060
Goodwill and core deposit intangible	275,000	241,912	37,852	31,993	13,886
Other real estate owned	2,168	4,763	3,322	6,819	8,392
Adriatica real estate owned	—	—	—	9,727	16,065

Noninterest-bearing deposits	1,071,656	818,022	302,756	259,664	168,849
Interest-bearing deposits	2,956,623	2,431,576	1,407,563	1,131,076	861,635
Borrowings (other than junior subordinated debentures)	371,283	306,147	195,214	201,118	118,086
Junior subordinated debentures [7]	18,147	18,147	18,147	18,147	14,538
Series A Preferred Stock	23,938	23,938	—	—	—
Total stockholders' equity	603,371	540,851	233,772	124,510	85,997

33

Selected Performance Metrics										
Return on average assets[8]	0.88	%	0.87	%	1.04	%	1.17%		1.16%	
Return on average equity [8]	6.83		6.65		9.90		16.54		17.36	
Return on average common equity [8]	7.13		6.89		9.90		16.54		17.36	
Pro forma return on average assets[1] [8] (unaudited)	n/a		n/a		0.85		0.82		0.79	
Pro forma return on average equity[1] [8] (unaudited)	n/a		n/a		8.09		11.56		11.86	
Net interest margin [9]	4.05		4.19		4.30		4.40		4.42	
Efficiency ratio [10]	60.62		64.25		67.10		69.64		71.57	
Dividend payout ratio [11]	14.35		12.90		14.20		11.89		13.26	
Credit Quality Ratios										
Nonperforming assets to total assets	0.36	%	0.36	%	0.58	%	1.59	%	2.85	%
Nonperforming loans to total loans [12]	0.37		0.32		0.53		0.81		1.14	
Allowance for loan losses to nonperforming loans [12]	1.82		183.43		152.93		104.02		80.32	
Allowance for loan losses to total loans	0.68		0.58		0.81		0.83		0.92	
Net charge-offs to average loans outstanding (unaudited)	0.02		0.03		0.09		0.06		0.11	
Capital Ratios										
Common equity tier 1 capital to risk-weighted assets [13]	7.94	%	n/a		n/a		n/a		n/a	
Tier 1 capital to average assets	8.28		8.15	%	10.71	%	6.45	%	6.89	%
Tier 1 capital to risk-weighted assets [13]	8.92		9.83		12.64		8.22		8.59	
Total capital to risk-weighted assets [13]	11.14		12.59		13.83		10.51		11.19	
Total stockholders' equity to total assets	11.94		13.09		10.80		7.16		6.86	
Total common equity to total assets [14]	12.41		12.51		10.80		7.16		6.86	
Tangible common equity to tangible assets [14]	6.37		7.07		9.21		5.42		5.81	

(1) Prior to April 1, 2013, the Company elected to be taxed for federal income tax purposes as an S corporation under the provisions of Sections 1361 through 1379 of the Internal Revenue Code of 1986, as amended, and, as a result, the Company did not pay U.S. federal income taxes and has not been required to make any provision or recognize any liability for federal income tax in its consolidated financial statements for any period ended on or before March 31, 2013. As of April 1, 2013, the Company terminated its S corporation election and commenced being subject to federal income taxation as a C corporation. The Company has calculated its pro forma net income, pro forma earnings per share on a basic and diluted basis, pro forma return on average assets and pro forma return on average equity for each period presented by calculating a pro forma provision for federal income taxes using an assumed annual effective federal income tax rate of 33.9%, 30.1%, 31.7% and 33.1% for the years ended December 31, 2013, 2012, 2011 and 2010, respectively, and adjusting its historical net income for each period presented to give effect to the pro forma provision for federal income taxes for such period.

(2) The per share amounts and the weighted average shares outstanding for each of the periods shown have been adjusted to give effect to the 3.2-for-one split of the shares of the Company's common stock that was effective as of February 22, 2013.

(3) The Company calculates its diluted earnings per share for each period shown as its net income divided by the weighted-average number of its common shares outstanding during the relevant period adjusted for the dilutive effect of its outstanding warrants to purchase shares of common stock. The increase in 2013 largely relates to the Company's initial public offering, the increase in 2014 largely relates to shares issued in three acquisitions completed in 2014 and the increase in 2015 relates to shares issued in the acquisition completed in 2015.. See Note 1 to the Company's consolidated financial statements appearing elsewhere in this Annual Report on Form 10 K for

more information regarding the dilutive effect of its outstanding warrants and regarding certain nonvested shares of common stock, the effect of which is anti-dilutive. Earnings per share on a basic and diluted basis and pro forma earnings per share on a basic and diluted basis were calculated using the following outstanding share amounts:

	For the Year Ended December 31,				
	2015	2014	2013	2012	2011
Weighted average shares outstanding-basic	17,321,513	15,208,544	10,921,777	7,626,205	6,668,534
Weighted average shares outstanding-diluted	17,406,108	15,306,998	10,990,245	7,649,366	6,675,078

(4) Dividends declared include quarterly cash distributions paid to the Company’s shareholders in the relevant period to provide them with funds to pay their federal income tax liabilities incurred as a result of the pass-through of the Company’s net taxable income for the first three months of the year ended December 31, 2013 and for each other such period shown to its shareholders as holders of shares in an S corporation for federal income tax purposes. The aggregate amounts of such cash distributions relating to the payment of tax liabilities were $0.00 per share, $0.00 per share, $0.52 per share, $0.85 per share and $0.63 per share for the years ended December 31, 2015, 2014, 2013, 2012 and 2011, respectively.

(5) Book value per share equals the Company’s total common stockholders’ equity (excludes preferred stock) as of the date presented divided by the number of shares of its common stock outstanding as of the date presented. The number of shares of its common stock outstanding as of December 31, 2015, 2014, 2013, 2012 and 2011was 18,399,194 shares, 17,032,669 shares, 12,330,158 shares, 8,269,707 shares and 6,850,288 shares, respectively.

(6) The Company calculates tangible book value per share as of the end of a period as total common stockholders’ equity (excluding preferred stock) less goodwill and other intangible assets at the end of the relevant period divided by the outstanding number of shares of its common stock at the end of that period. Tangible book value is a non-GAAP financial measure, and, as the Company calculates tangible book value, the most directly comparable GAAP financial measure is total stockholders’ equity.

(7) Each of five wholly owned, but nonconsolidated, subsidiaries of the Company holds a series of the Company's junior subordinated debentures purchased by the subsidiary in connection with, and paid for with the proceeds of, the issuance of trust issued preferred securities by that subsidiary. The Company has guaranteed the payment of the amounts payable under each of those issues of trust preferred securities.

(8) The Company has calculated its return on average assets and return on average equity for a period by dividing net income for that period by its average assets and average equity, as the case may be, for that period. The Company has calculated its pro forma return on average assets and pro forma return on average equity for a period by calculating its pro forma net income for that period as described in note 1 above and dividing that by its average assets and average equity, as the case be, for that period. The Company calculates its average assets and average equity for a period by dividing the sum of its total asset balance or total stockholder's equity balance, as the case may be, as of the close of business on each day in the relevant period and dividing by the number of days in the period. The Company calculates its return on average common equity by excluding the preferred stock dividends to derive at net income available to common shareholders and excluding the average balance of its Series A preferred stock from the total average equity to derive at common average equity.

(9) Net interest margin for a period represents net interest income for that period divided by average interest-earning assets for that period.

(10) Efficiency ratio for a period represents noninterest expenses for that period divided by the sum of net interest income and noninterest income for that period, excluding bargain purchase gains recognized in connection with certain of the Company's acquisitions and realized gains or losses from sales of investment securities for that period.

(11) The Company calculates its dividend payout ratio for each period presented as the dividends paid per share for such period (excluding cash distributions made to shareholders in connection with tax liabilities as described in note (4) above) divided by its basic earnings per share for such period.

(12) Nonperforming loans include nonaccrual loans, loans past due 90 days or more and still accruing interest, and accruing loans modified under troubled debt restructurings.

(13) Prior to 2015, the Company calculated its risk-weighted assets using the standardized method of the Basel II Framework, as implemented by the Federal Reserve and the FDIC. Beginning January 1, 2015, the Company calculated its risk-weighted assets using the Basel III Framework. The common equity tier 1 capital to risk-weighted assets ratio was a new ratio required under the Basel III Framework, effective January 1, 2015. This ratio is not applicable for periods prior to January 1, 2015.

(14) The Company calculates common equity as of the end of the period as total stockholders' equity less the preferred stock at period end. The Company calculates tangible common equity as of the end of a period as total common stockholders' equity (excluding preferred stock) less goodwill and other intangible assets as of the end of the period and calculates tangible assets as of the end of a period as total assets less goodwill and other intangible assets as of the end of the period. Tangible common equity to tangible assets is a non-GAAP financial measure, and as the Company calculates tangible common equity to tangible assets, the most directly comparable GAAP financial measure is total stockholders' equity to total assets.

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

This discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the Company's consolidated financial statements and the accompanying notes included elsewhere in this Annual Report on Form 10-K. Certain risks, uncertainties and other factors, including those set forth under "Risk Factors" in Part I, Item 1A, and elsewhere in this Annual Report on Form 10-K, may cause actual results to differ materially from those projected results discussed in the forward-looking statements appearing in this discussion and analysis.

Cautionary Note Regarding Forward Looking Statements

This Annual Report on Form 10-K, our other filings with the SEC, and other press releases, documents, reports and announcements that we make, issue or publish may contain statements that we believe are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are statements or projections with respect to matters such as our future results of operations, including our future revenues, income, expenses, provision for taxes, effective tax rate, earnings per share and cash flows, our future capital expenditures and dividends, our future financial condition and changes therein, including changes in our loan portfolio and allowance for loan losses, our future capital structure or changes therein, the plan and objectives of management for future operations, our future or proposed acquisitions, the future or expected effect of acquisitions on our operations, results of operations and financial condition, our future economic performance and the statements of the assumptions underlying any such statement. Such statements are typically identified by the use in the statements of words or phrases such as "aim," "anticipate," "estimate," "expect," "goal," "guidance," "intend," "is anticipated," "is estimated expected," "is intended," "objective," "plan," "projected," "projection," "will affect," "will be," "will continue," "will decrease "will impact," "will increase," "will incur," "will reduce," "will remain," "will result," "would be," variations of such words or phrases (including where the word "could", "may" or "would" is used rather than the word "will" in a phrase) and similar words and phrases indicating that the statement addresses some future result, occurrence, plan or objective. The forward-looking statements that we make are based on the Company's current expectations and assumptions regarding its business, the economy, and other future conditions. Because forward-looking statements relate to future results and occurrences, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. The Company's actual results may differ materially from those contemplated by the forward-looking statements, which are neither statements of historical fact nor guarantees or assurances of future performance. Many possible events or factors could affect the future financial results and performance of the Company and could cause such results or performance to differ materially from those expressed in forward-looking statements. These factors include, but are not limited to, the following:

- worsening business and economic conditions nationally, regionally and in our target markets, particularly in Texas and the geographic areas in which we operate;
- our dependence on our management team and our ability to attract, motivate and retain qualified personnel;
- the concentration of our business within our geographic areas of operation in Texas;
- deteriorating asset quality and higher loan charge-offs;
- concentration of our loan portfolio in commercial and residential real estate loans and changes in the prices, values and sales volumes of commercial and residential real estate;
- inaccuracy of the assumptions and estimates we make in establishing reserves for probable loan losses and other estimates;
- the quality of the assets acquired from other organizations being lower than determined in our due diligence investigation and related exposure to unrecoverable losses on loans acquired;
- lack of liquidity, including as a result of a reduction in the amount of sources of liquidity we currently have;
- material decreases in the amount of deposits we hold;
- regulatory requirements to maintain minimum capital levels and transactions in which we engage that impact our capital levels;
- changes in market interest rates that affect the pricing of our loans and deposits and our net interest income;
-

- fluctuations in the market value and liquidity of the securities that we hold for sale;
- effects of competition from a wide variety of local, regional, national and other providers of financial, investment and insurance services;
- changes in economic and market conditions that affect the amount of assets that we have under administration;
- the institution and outcome of litigation and other legal proceeding against us or to which we become subject;
- worsening market conditions affecting the financial industry generally;
- 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 Dodd-Frank Wall Street Reform and Consumer Protection Act;

- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission and/or Public Company Accounting Oversight Board:
- governmental monetary and fiscal policies;
- changes in the scope and cost of FDIC insurance and other coverage;
- the effects of war or other conflicts, acts of terrorism (including cyber attacks) or other catastrophic events, including storms, droughts, tornadoes and flooding, that may affect general economic conditions; and
- the other factors that are described in Part I, Item 1A. of this Annual Report on Form 10-K under the caption "Risk Factors."

We urge you to consider all of these risks, uncertainties and other factors carefully in evaluating all of the various forward-looking statements that we may make. As a result of these and other matters, including changes in facts, assumptions not being realized or other factors, the actual results relating to the subject matter of any forward-looking statement may different materially from the anticipated results expressed or implied in that forward-looking statement. Any forward-looking statement made by the Company in any report, filing, press release, document, report or announcement speaks only as of the date on which it is made. The Company undertakes no obligation to update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

A forward looking-statement may include a statement of the assumptions or bases underlying the forward-looking statement. The Company believes it has chosen these assumptions or bases in good faith and they are reasonable. However, the Company cautions you that assumptions or bases almost always vary from actual results, and the differences between assumptions or bases and actual results can be material. The Company undertakes no obligation to publicly update or otherwise revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

The Company was organized as a bank holding company in 2002. On January 1, 2009, the Company merged with Independent Bank Group Central Texas, Inc., and, since that time, the Company has pursued a strategy to create long-term shareholder value through organic growth and through selective acquisitions of complementary banking institutions with operations in the Company's market areas or in new market areas, such as Houston, Texas. On April 8, 2013, the Company consummated the initial public offering of its common stock which is traded on the NASDAQ Global Select Market.

The Company's principal business is lending to and accepting deposits from businesses, professionals and individuals. The Company conducts all of the Company's banking operations through Independent Bank. The Company derives its income principally from interest earned on loans and, to a lesser extent, income from securities available for sale. The Company also derives income from noninterest sources, such as fees received in connection with various deposit services and mortgage brokerage operations. From time to time, the Company also realizes gains on the sale of assets. The Company's principal expenses include interest expense on interest-bearing customer deposits, advances from the Federal Home Loan Bank of Dallas, or FHLB, and other borrowings, operating expenses, such as salaries, employee benefits, occupancy costs, data processing and communication costs, expenses associated with other real estate owned, other administrative expenses, provisions for loan losses and the Company's assessment for FDIC deposit insurance.

The Company intends for this discussion and analysis to provide the reader with information that will assist in understanding the Company's financial statements, the changes in certain key items in those financial statements from period to period and the primary factors that accounted for those changes. This discussion relates to the Company and its consolidated subsidiaries and should be read in conjunction with the Company's consolidated financial statements as of December 31, 2015 and 2014 and for the fiscal years ended December 31, 2015, 2014 and 2013, and the accompanying notes, appearing elsewhere in this Annual Report on Form 10-K. The Company's fiscal year ends on December 31.

Certain Events Affect Year-over-Year Comparability

Acquisitions

During 2015, 2014 and 2013, the Company completed a total of five acquisitions. These acquisitions increased total assets, gross loans and deposits on their respective acquisition date as detailed below.

(dollars in millions)	Acquisition Date	Total Assets	Gross Loans	Deposits
Collin Bank	November 29, 2013	$168.3	$72.3	$111.7
Live Oak Financial Corp.	January 1, 2014	131.0	71.3	105.0
BOH Holdings, Inc.	April 15, 2014	1,188.9	785.2	820.8
Houston Community Bancshares, Inc.	October 1, 2014	350.7	194.9	303.1
Grand Bank *	November 1, 2015	620.2	273.6	523.7

* Estimated values subject to change pending final acquisition accounting adjustments

The Company issued an aggregate 6,016,599 shares of common stock in connection with these acquisitions. The comparability of the Company's consolidated results of operations for the years ended December 31, 2015, 2014 and 2013 are affected by these acquisitions.

For more information on these acquisitions, see the Grow Through Acquisitions section as discussed in Part I, Item 1. Business.

The Company's Initial Public Offering

The Company consummated the initial public offering of its common stock in April 2013. The period-over-period comparability of certain aspects of the Company's results of operations and the changes in the Company's financial condition from December 31, 2013, to December 31, 2015, are affected by the issuance of 3,680,000 shares of the Company's common stock in that offering and the Company's receipt of the net proceeds of the sale of those shares of the Company's common stock. In particular, the period-over-period comparability of the Company's earnings per share and return on equity is affected by such issuance of the shares in its initial public offering.

S Corporation Status

From its formation in 2002 through March 31, 2013, the Company elected to be taxed for federal income tax purposes as an S corporation under the provisions of Section 1361 through 1379 of the Internal Revenue Code. As a result, the Company's net income was not subject to, and the Company did not pay, U.S. federal income taxes and the Company was not required to make any provision or recognize any liability for federal income tax in its financial statements for the periods ended on or prior to March 31, 2013. The Company terminated its status as an S corporation in connection with its initial public offering as of April 1, 2013. Starting April 1, 2013, the Company became subject to corporate federal income tax and the Company's net income for each subsequent fiscal year and each subsequent interim period reflects and, in the future, will reflect, a provision for federal income taxes. As a result of that change in the Company's status under the federal income tax laws, the net income and earnings per share data presented in the Company's historical financial statements set forth elsewhere in this Annual Report on Form 10-K, which do not include any provision for federal income taxes, are not comparable with the Company's net income and earnings per share in periods in which the Company was taxed as a C corporation, which is calculated by including a provision for federal income taxes.

Deferred tax assets and liabilities are, and in future periods will be, recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of any change in tax rates will be recognized in income in the quarter such change takes place. On April 1, 2013, the Company recorded an initial net deferred tax asset of $1.8 million to recognize the difference between the financial statement carrying amounts of assets and liabilities and their respective tax bases as of the date that the Company became a taxable corporate entity.

38

Discussion and Analysis of Results of Operations
The following discussion and analysis of the Company’s results of operations compares its results of operations for the year ended December 31, 2015, with its results of operations for the year ended December 31, 2014, and its results of operations for the year ended December 31, 2013.
Results of Operations
The Company’s net income available to common shareholders increased by $9.7 million, or 33.8%, to $38.5 million ($2.21 per common shares on a diluted basis) for the year ended December 31, 2015, from $28.8 million ($1.85 per common share on a diluted basis) for the year ended December 31, 2014. The increase resulted from a $30.0 million increase in net interest income and a $2.5 million increase in noninterest income, partially offset by a $3.9 million increase in the provision for loan losses, a $14.7 million increase in noninterest expense and a $4.1 million increase in income tax expense. The Company’s net income for the year ended December 31, 2015, and, therefore, the Company’s return on average assets and the Company’s return on average equity, were adversely affected by $1.4 million of acquisition-related expenses. The Company posted returns on average common equity of 7.13% and 6.89%, returns on average assets of 0.88% and 0.87%, and efficiency ratios of 60.62% and 64.25% for the fiscal years ended December 31, 2015, and 2014, respectively. The efficiency ratio is calculated by dividing total noninterest expense (which does not include the provision for loan losses) by net interest income plus noninterest income. The Company’s dividend payout ratio was 14.35% and12.90% and the equity to assets ratio was 12.41% and 13.09% for the years ended December 31, 2015 and 2014, respectively.
The Company’s net income available to common shareholders increased by $9.0 million, or 45.5%, to $28.8 million ($1.85 per common shares on a diluted basis) for the year ended December 31, 2014, from $19.8 million ($1.77 per common share on a diluted basis) for the year ended December 31, 2013. The increase resulted from a $49.2 million increase in net interest income and a $2.6 million increase in noninterest income, partially offset by a $1.5 million increase in the provision for loan losses and a $30.8 million increase in noninterest expense. The Company’s net income for the year ended December 31, 2014, and, therefore, the Company’s return on average assets and the Company’s return on average equity, were adversely affected by $3.6 million of acquisition-related expenses. The Company posted returns on average common equity of 6.89% and 9.90%, returns on average assets of 0.87% and 1.04%, and efficiency ratios of 64.25% and 67.10% for the fiscal years ended December 31, 2014, and 2013, respectively. The efficiency ratio is calculated by dividing total noninterest expense (which does not include the provision for loan losses) by net interest income plus noninterest income. The Company’s dividend payout ratio was 12.90% and 14.20% and the equity to assets ratio was 13.09% and 10.80% for the years ended December 31, 2014 and 2013, respectively.
Net Interest Income
The Company’s net interest income is its interest income, net of interest expenses. Changes in the balances of the Company’s earning assets and its deposits, FHLB advances and other borrowings, as well as changes in the market interest rates, affect the Company’s net interest income. The difference between the Company’s average yield on earning assets and its average rate paid for interest-bearing liabilities is its net interest spread. Noninterest-bearing sources of funds, such as demand deposits and stockholders’ equity, also support the Company’s earning assets. The impact of the noninterest-bearing sources of funds is reflected in the Company’s net interest margin, which is calculated as annualized net interest income divided by average earning assets.
The Company earned net interest income of $154.1 million for the year ended December 31, 2015, an increase of $30.0 million, or 24.1%, from $124.1 million for the year ended December 31, 2014. The increase in net interest income was primarily due to growth of the Company’s average interest-earning assets during the year. The Company’s net interest margin for 2015 decreased to 4.05% from 4.19% in 2014, and the Company’s interest rate spread for 2015 decreased to 3.89% from the 4.03% interest rate spread for 2014. The average balance of interest-earning assets for 2015 increased by $846.4 million, or 28.6%, to $3.8 billion from an average balance of $3.0 billion for 2014. The increases in interest-earning assets during the year was primarily due to organic loan growth but also in part due to the acquisition that the Company completed in November 2015. The Company’s net interest margin for the year ended December 31, 2015 was adversely affected by a 16 basis point decline in the weighted-average yield on

interest-earning assets to 4.57% for the year ended December 31, 2015, from 4.73% for the year ended December 31, 2014. This decline in yield resulted from changes in market interest rates and the competitive landscape in the Company's lending area.
The Company earned net interest income of $124.1 million for the year ended December 31, 2014, an increase of $49.2 million, or 65.7%, from $74.9 million for the year ended December 31, 2013. The increase in net interest income was due to

39

growth of the Company's average interest-earning assets and a reduction in the Company's cost of funds for the fiscal year ended 2014 as a result of an increase in noninterest-bearing deposits. The Company's net interest margin for the fiscal year ended 2014 decreased to 4.19% from 4.30% in the fiscal year ended 2013, and the Company's interest rate spread for the fiscal year ended 2014 decreased to 4.03% from the 4.15% interest rate spread for the fiscal year ended 2013. The average balance of interest-earning assets for the fiscal year ended 2014 increased by $1.2 billion, or 69.9%, to $3.0 billion from an average balance of $1.7 billion for the fiscal year ended 2013. The average aggregate balance of noninterest-bearing checking accounts increased to $601.8 million for the fiscal year ended 2014 from $259.4 million for the fiscal year ended 2013. The increases in interest-earning assets and noninterest-bearing deposits occurred as a result of the three acquisitions that the Company completed in 2014, while the balance of the increases came from organic loan and deposit growth. The decrease in net interest margin was offset by an increase in the ratio of average interest-earning assets to interest-bearing liabilities to 129.76% for the year ended December 31, 2014 from 121.42% for the prior year. The Company's net interest margin for the year ended December 31, 2014 was adversely affected by a 28 basis point decline in the weighted-average yield on interest-earning assets to 4.73% for the year ended December 31, 2014, from 5.01% for the year ended December 31, 2013. This decline in yield resulted from changes in market interest rates and the competitive landscape.

Average Balance Sheet Amounts, Interest Earned and Yield Analysis. The following table presents average balance sheet information, interest income, interest expense and the corresponding average yields earned and rates paid for the fiscal years ended December 31, 2015, 2014 and 2013. The average balances are principally daily averages and, for loans, include both performing and nonperforming balances.

	For The Years Ended December 31,								
	2015			2014			2013		
	Average Outstanding Balance [1]	Interest	Yield/ Rate	Average Outstanding Balance [1]	Interest	Yield/ Rate	Average Outstanding Balance [1]	Interest	Yield/ Rate
(dollars in thousands)									
Interest-earning assets:									
Loans [1]	$3,456,128	$169,504	4.90 %	$2,628,667	$135,461	5.15 %	$1,502,817	$84,350	5.61 %
Taxable securities	139,924	2,168	1.55	174,578	2,803	1.61	95,259	1,516	1.59 %
Nontaxable securities	69,112	1,783	2.58	57,825	1,429	2.47	31,247	1,024	3.28 %
Federal funds sold and other	141,374	572	0.40	99,083	439	0.44	112,841	324	0.29 %
Total interest-earning assets	3,806,538	$174,027	4.57	2,960,153	$140,132	4.73	1,742,164	$87,214	5.01 %
Noninterest-earning assets	589,014			369,449			158,748		
Total assets	$4,395,552			$3,329,602			$1,900,912		
Interest-bearing liabilities:									
Checking accounts	$1,297,948	$5,649	0.44	$1,052,528	$4,797	0.46	$734,475	$3,826	0.52
Savings accounts	143,476	263	0.18	129,707	345	0.27	114,699	373	0.33
Money market accounts	319,982	829	0.26	123,392	347	0.28	50,661	135	0.27
Certificates of deposit	842,087	5,283	0.63	674,556	4,048	0.60	334,269	2,640	0.79
Total deposits	2,603,493	12,024	0.46	1,980,183	9,537	0.48	1,234,104	6,974	0.57
FHLB advances	225,934	3,077	1.36	242,695	3,678	1.52	165,354	3,303	2.00
Notes payable, repurchase agreements and other borrowings	78,074	4,289	5.49	40,179	2,230	5.55	17,255	1,461	8.47
Junior subordinated debentures	18,147	539	2.97	18,147	542	2.99	18,147	543	2.99
Total interest-bearing liabilities	2,925,648	19,929	0.68	2,281,204	15,987	0.70	1,434,860	12,281	0.86
Noninterest-bearing checking accounts	895,789			601,764			259,432		
Noninterest-bearing liabilities	9,688			11,152			6,626		
Stockholders' equity	564,427			435,482			199,994		

Total liabilities and equity	$4,395,552			$3,329,602			$1,900,912		
Net interest income		$154,098			$124,145			$74,933	
Interest rate spread			3.89 %			4.03 %			4.15 %
Net interest margin (2)			4.05			4.19			4.30
Average interest earning assets to interest bearing liabilities			130.11			129.76			121.42

(1) Average loan balances include nonaccrual loans.

(2) Net interest margins for the periods presented represent: (i) the difference between interest income on interest-earning assets and the interest expense on interest-bearing liabilities, divided by (ii) average interest-earning assets for the period.

41

Interest Rates and Operating Interest Differential. Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest-earning assets and interest-bearing liabilities, as well as changes in average interest rates. The following table shows the effect that these factors had on the interest earned on the Company’s interest-earning assets and the interest incurred on the Company’s interest-bearing liabilities. The effect of changes in volume is determined by multiplying the change in volume by the previous year’s average rate. Similarly, the effect of rate changes is calculated by multiplying the change in average rate by the prior year’s volume. For purpose of the following table, changes attributable to both volume and rate, which cannot be segregated, have been allocated to the changes due to volume and the changes due to rate in proportion to the relationship of the absolute dollar amount of change in each.

	For the Fiscal Year Ended December 31, 2015 vs. 2014			For the Fiscal Year Ended December 31, 2014 vs. 2013		
	Increase (Decrease) Due to		Total	Increase (Decrease) Due to		Total
(dollars in thousands)	Volume	Rate	Increase (Decrease)	Volume	Rate	Increase (Decrease)
Interest-earning assets						
Loans	$40,856	$(6,813)	$34,043	$58,527	$(7,416)	$51,111
Taxable securities	(540)	(95)	(635)	1,273	14	1,287
Nontaxable securities	289	65	354	705	(300)	405
Federal funds sold and other	174	(41)	133	(43)	158	115
Total interest-earning assets	40,779	(6,884)	33,895	60,462	(7,544)	52,918
Interest-bearing liabilities						
Checking accounts	$1,076	$(224)	$852	$1,496	$(525)	$971
Savings accounts	34	(116)	(82)	45	(73)	(28)
Limited access money market accounts	511	(29)	482	204	8	212
Certificates of deposit	1,044	191	1,235	2,165	(757)	1,408
Total deposits	2,665	(178)	2,487	3,910	(1,347)	2,563
FHLB advances	(244)	(357)	(601)	1,299	(924)	375
Notes payable, repurchase agreements and other borrowings	2,082	(23)	2,059	1,410	(641)	769
Junior subordinated debentures	—	(3)	(3)	—	(1)	(1)
Total interest-bearing liabilities	4,503	(561)	3,942	6,619	(2,913)	3,706
Net interest income	$36,276	$(6,323)	$29,953	$53,843	$(4,631)	$49,212

As a result of the current interest rate environment and competitive pressure in the market, yields on the loans the Company makes may decline in future periods. The Company intends to mitigate the effect of any such decreases on the Company’s results of operations by growing the Company’s loan portfolio and managing the liability side of the Company’s balance sheet.

Interest Income. The Company’s total interest income increased $33.9 million, or 24.2%, to $174.0 million for the year ended December 31, 2015, from $140.1 million for the year ended December 31, 2014. The Company’s total interest income increased $52.9 million, or 60.7%, to $140.1 million for the fiscal year ended December 31, 2014 from $87.2 million for the fiscal year ended December 31, 2013. The following tables set forth the major components of the Company’s interest income for the fiscal years ended December 31, 2015, 2014 and 2013 and the period-over-period variations in such categories of interest income:

(dollars in thousands)	For the Fiscal Year Ended December 31,		Variance	For the Fiscal Year Ended December 31,		Variance
	2015	2014	2015 v. 2014	2014	2013	2014 v. 2013

Interest income						
Interest and fees on loans	$169,504	$135,461	$34,043	$135,461	$84,350	$51,111
Interest on taxable securities	2,168	2,803	(635)	2,803	1,516	1,287
Interest on nontaxable securities	1,783	1,429	354	1,429	1,024	405
Interest on federal funds sold and other	572	439	133	439	324	115
Total interest income	$174,027	$140,132	$33,895	$140,132	$87,214	$52,918

The 25.1% increase in the Company’s interest and fees on loans for the year ended December 31, 2015, from the year ended December 31, 2014 was primarily attributable to a $827.5 million increase in the average balance of the Company’s loans to $3.5 billion during the fiscal year ended 2015 as compared with the average balance of $2.6 billion for the fiscal year ended

2014. The increase primarily resulted from organic growth in the Company's loan portfolio but also in part from the Company's acquisition of $273.6 million of loans in the Grand Bank transaction on November 1, 2015.
The 60.6% increase in the Company's interest and fees on loans for the year ended December 31, 2014, from the year ended December 31, 2013 was primarily attributable to a $1.1 billion increase in the average balance of the Company's loans to $2.6 billion during the fiscal year ended 2014 as compared with the average balance of $1.5 billion for the fiscal year ended 2013. The increase resulted from the Company's acquisition of an aggregate of $1.1 billion of loans in the Live Oak Financial Corp. transaction in January 2014, the BOH Holdings transaction in April 2014 and the Houston City Bancshares transaction in October 2014 and the organic growth of the Company's loan portfolio.
The interest the Company earned on taxable securities, which consists primarily of government agency and residential pass-through securities, decreased by 22.7% during 2015 as a result of a decrease in the average portfolio balance from $174.6 million during 2014 to $139.9 million during 2015 due to paydowns and maturities of securities, along with several sales of securities during the year. The interest the Company earned on taxable securities increased 84.9% for the year ended December 31, 2014, due primarily to an 83.3% increase in the average balance of taxable securities from $95.3 million for the year ended December 31, 2013 to $174.6 million for the year ended December 31, 2014.
The interest the Company earned on nontaxable securities during 2015 increased by 24.8% from 2014 primarily as a result of an increase in the average portfolio balance from $57.8 million for the year ended December 31, 2014 to $69.1 million for the year ended December 31, 2015. The interest the Company earned on nontaxable securities during the fiscal year ended 2014 increased by 39.6% from 2013 primarily as a result of an increase in the average portfolio balance from $31.2 million for the year ended December 31, 2013 to $57.8 million for the year ended December 31, 2014.

Interest Expense. Total interest expense on the Company's interest-bearing liabilities increased $3.9 million, or 24.7%, to $19.9 million for the year ended December 31, 2015, from $16.0 million in the prior year. Total interest expense on the Company's interest-bearing liabilities increased $3.7 million, or 30.2%, to $16.0 million for 2014 from $12.3 million for 2013. The following table sets forth the major components of the Company's interest expense for the fiscal years ended December 31, 2015, 2014 and 2013 and the period-over-period variations in such categories of interest expense:

(dollars in thousands)	For the Fiscal Year Ended December 31,		Variance	For the Fiscal Year Ended December 31,		Variance
	2015	2014	2015 v. 2014	2014	2013	2014 v. 2013
Interest Expense						
Interest on deposits	$12,024	$9,537	$2,487	$9,537	$6,974	$2,563
Interest of FHLB advances	3,077	3,678	$(601)	3,678	3,303	375
Interest on notes payable, repurchase agreements and other borrowings	4,289	2,230	$2,059	2,230	1,461	769
Interest on junior subordinated debentures	539	542	$(3)	542	543	(1)
Total interest expense	$19,929	$15,987	$3,942	$15,987	$12,281	$3,706

Interest expense on deposits for 2015 increased by $2.5 million, or 26.1%, primarily as a result of a 31.5% increase in the average balance on the Company's interest-bearing deposit accounts from $2.0 billion in 2014 to $2.6 billion in 2015. The increase in average balances during this time was both due to organic growth and growth through accounts acquired in the Grand Bank transaction. This increase was partially offset by a two basis point decrease in the weighted-average rate of interest the Company paid on the Company's deposits during the year from 0.48% to 0.46%. This decrease in cost of funds for this source of funding primarily resulted from lower market interest rates and the 34.9% increase in the portion of deposits represented by average balance of interest-bearing checking, savings and limited access money market accounts, on which the Company typically pays lower rates than those the Company pays on its certificates of deposit.
Interest expense on deposits for 2014 increased by $2.6 million, or 36.8%, primarily as a result of a 60.5% year-over-year increase in the Company's average balance on the Company's interest-bearing deposit accounts

attributable to the Company’s three acquisitions in 2014 and organic deposit growth. This increase was partially offset by a nine basis point decrease in the weighted-average rate of interest the Company paid on the Company’s deposits. The average rate on the Company’s deposits decreased by 9 basis points to 0.48% on average interest-bearing deposits of $2.0 billion for the fiscal year ended 2014, from 0.57% on average interest-bearing deposits of $1.2 billion for the fiscal year ended 2013. This decrease in cost of funds for this source of funding primarily resulted from lower market interest rates and the 45.1% increase in the portion of deposits represented by average balance of interest-bearing checking, savings and limited access money market accounts, on which the Company typically pays lower rates than those the Company pays on its certificates of deposit.

Interest expense on FHLB advances for 2015 decreased by $601 thousand, or 16.3%, due primarily to a lower average balance of such advances over the period, from $242.7 million in 2014 to $225.9 million in 2015.

Interest expense on FHLB advances for 2014 increased by $375 thousand, or 11.4%, due primarily to a higher average balance of such advances. The average balance of the Company's FHLB advances increased by $77.3 million primarily as a result of the assumption of $95.0 million of FHLB advances in the Company's acquisition of BOH Holdings in April 2014.

Interest expense on repurchase agreements and other borrowings for 2015 increased by $2.1 million, or 92.3%, primarily as a result of a higher average balance of such borrowings. This is due to an increase in the average balance of the Company's subordinated debentures which were outstanding the whole year. The Company issued $65 million of subordinate debt in a public offering in July 2014 so the 2015 average balance and interest paid included a full year compared to half of the year in 2014. Interest expense on this subordinate debt totaled $3.8 million in 2015 compared to $1.9 million in 2014. This increase in interest expense was partially offset by the effect of the repayment of $1.9 million in principal amounts of subordinated debt due to individuals.

Interest expense on repurchase agreements and other borrowings for the fiscal year ended 2014 increased by $769 thousand, or 52.6%, primarily as a result of a higher average balance of such borrowings. The average balance of the Company's notes payable and other borrowings increased by $22.9 million primarily as a result of an increase in the Company's subordinated debentures. The Company issued $65 million of subordinate debt in a public offering in July 2014 to fund the cash portion of the acquisition of Houston City Bancshares and to provide additional capital to the Bank to support growth. Interest expense on this subordinate debt totaled $1.9 million for the year ended December 31, 2014. This increase in interest expense was partially offset by the effect of the repayment of $15.7 million in principal amount of notes payable and $13.1 million in principal amount of subordinated debt during the year ended December 31, 2013.

Provision for Loan Losses

Management actively monitors the Company's asset quality and provides specific loss provisions when necessary. Provisions for loan losses are charged to income to bring the total allowance for loan losses to a level deemed appropriate by management based on such factors as historical loss experience, trends in classified loans and past dues, the volume and growth in the loan portfolio, current economic conditions and the value of collateral.

Loans are charged off against the allowance for loan losses when appropriate. Although management believes it uses the best information available to make determinations with respect to the provision for loan losses, future adjustments may be necessary if economic conditions differ from the assumptions used in making the determination.

The Company increased its allowance for loan losses to $27.0 million at December 31, 2015, by making provisions for loan losses totaling $9.2 million during the year ended December 31, 2015. This is an increase of $3.9 million, or 72.3% in provision expense over the total provision expense of $5.4 million made by the Company in 2014. The increase in provision expense is primarily due to organic growth during the year as well as an increase in general reserves for the energy portfolio in recognition of continued declines and uncertainties in commodity prices. Increased specific reserves of $2.7 million on certain energy loans in the portfolio also contributes to the overall increase in provision expense during the year. Offsetting the increase to the allowance balance were charge-offs totaling $740 thousand for 2015, which is 0.02% of the Company's average loans outstanding during the period.

The Company increased the Company's allowance for loan losses to $18.6 million as of December 31, 2014, by making provisions for loan losses totaling $5.4 million in the fiscal year ended December 31, 2014, which was a $1.5 million, or 40.2%, increase over the provision for loan losses of $3.8 million the Company made in the fiscal year ended December 31, 2013. The increase in the Company's allowance for loan losses was made as a result organic growth in the Company's loan portfolio during the year. The effect of the provision for loan losses in the fiscal year ended December 31, 2014, on the Company's allowance for loan losses was partially offset by net charge-offs for that period of $767 thousand, which net charge-offs were .03% of the Company's average loans outstanding during such period. The effect of the provision for loan losses in fiscal year ended December 31, 2013, had been partially offset by net charge-offs of $1.3 million during that period. The Company's net charge-offs were lower in the fiscal year ended December 31, 2014, as a result of improvement in the quality of the Company's loan portfolio.

The balance of the provision for loan losses was made based on the Company’s assessment of the credit quality of the Company’s loan portfolio and in view of the amount of the Company’s net charge-offs in that period. The Company did not make any provision for loan losses with respect to the loans acquired in the Company’s acquisition completed in 2015 because, in accordance with acquisition accounting standards, the Company recorded the loans acquired in those acquisitions at fair value and determined that the Company's fair value adjustments appropriately reflected the probability of losses on those loans as of the acquisition date. The Company does not believe there has been any deterioration of credit of these acquired loans since these acquisitions and has not recorded a subsequent provision. For the three acquisitions completed in 2014, the Company has begun phasing the acquired portfolios into the allowance allocation as acquired loans are being renewed.

Noninterest Income

The following table sets forth the major components of noninterest income for the fiscal years ended December 31, 2015, 2014 and 2013 and the period-over-period variations in such categories of noninterest income:

	For the Fiscal Year Ended December 31,		Variance	For the Fiscal Year Ended December 31,		Variance
(dollars in thousands)	2015	2014	2015 v. 2014	2014	2013	2014 v. 2013
Noninterest Income						
Service charges on deposit accounts	$7,982	$6,009	$1,973	$6,009	$4,841	$1,168
Mortgage fee income	5,269	3,953	1,316	3,953	3,743	210
Gain on sale of loans	116	1,078	(962)	1,078	—	1,078
Gain on sale of other real estate	290	71	219	71	1,507	(1,436)
Gain on sale of securities available for sale	134	362	(228)	362	—	362
Loss on sale of premises and equipment	(358)	(22)	(336)	(22)	(18)	(4)
Increase in cash surrender value of bank owned life insurance	1,077	972	105	972	348	624
All other noninterest income	1,618	1,201	417	1,201	600	601
Total noninterest income	$16,128	$13,624	$2,504	$13,624	$11,021	$2,603

Noninterest income increased $2.5 million, or 18.4%, to $16.1 million for the fiscal year ended 2015 from $13.6 million for fiscal the year ended 2014. Total noninterest income increased $2.6 million, or 23.6%, for the year ended December 31, 2014, compared to the year ended December 31, 2013. Significant changes in the components of noninterest income are discussed below.

Service Charges. Service charges on deposit accounts increased $2.0 million, or 32.8%, for the year ended December 31, 2015, as compared to the same period in 2014. The increase in service charge income is due to an increase in deposit accounts due primarily to acquisition growth in 2014 and 2015. Service charges on deposit accounts for the year ended December 31, 2014 increased $1.2 million, or 24.1%, compared to the year ended December 31, 2013. The increase during 2014 is due to an increase in deposits accounts primarily due to acquisition activity in late 2013 and 2014.

Mortgage Fee Income. Mortgage fee income for the year ended December 31, 2015 increased $1.3 million, or 33.3%, over the same period in 2014. This increase is due to increased home purchase activity in our Austin and north Texas markets, as well as added commissioned producers in our mortgage group. Mortgage fee income for the year ended December 31, 2014 increased $210 thousand, or 5.6%, compared to the comparable period in 2013. This slight increase from 2013 is due to increased mortgage activity during the second half of 2014 due to stabilized mortgage rates and introduction of the mortgage product in our Houston branches.

Gain on Sale of Loans. Gain on sale of loans for the year ended December 31, 2015 and 2014 totaled $116 thousand and $1.1 million, respectively. During 2015, the Company sold its indirect lending portfolio, which resulted in the $116 thousand gain while in 2014, the SBA loan portfolio totaling $12.0 million that the Company acquired in the BOH Holdings acquisition was sold resulting in the $1.1 million gain. No such sales occurred in 2013.

Gain on Sale of Other Real Estate. Gains on sale of other real estate were $290 thousand, $71 thousand and $1.5 million for the years ended December 31, 2015, 2014 and 2013, respectively. The large gain in 2013 relates to several sales of property including the remaining Adriatica property, on which the Company recognized a $1.3 million gain.

Gain on Sale of Securities Available for Sale. The gain on sale of securities available for sale totaled $134 thousand and $362 thousand for the years ended December 31, 2015 and 2014, respectively, due the Company's decision to sell a portion of their pass-through securities to take advantage of a favorable position in the market and position the portfolio for reduced interest rate risk. There were no sales during 2013.

Loss on Sale of Premises and Equipment. Loss on sale of premises and equipment totaling $358 thousand for the year ended December 31, 2015 was primarily due to a loss recognized on the sale of the Company's aircraft. Loss on sale of premises and equipment was minimal for 2014 and 2013.
Increase in Cash Surrender Value of Bank Owned Life Insurance. The increase in cash surrender value of bank owned life insurance increased $105 thousand, or 10.8% from $972 thousand in 2014 to $1.1 million in 2015. The increase is due to insurance contracts acquired in the BOH transaction in April 2014 earning interest for a full year in 2015 compared to just since the acquisition date as was the case in the prior year. Increase in earnings on bank owned life insurance increased $624 thousand, or 179.3%, for the year ended December 31, 2014, compared to the same period in 2013. The increase in earnings is due to insurance policies acquired in the BOH Holdings acquisition in April 2014.

Other Noninterest Income. Other noninterest income for the year ended December 31, 2015, increased $417 thousand, or 34.7%, compared to the same period in 2014. The increase is primarily due to increased earning credits on correspondent accounts and an increase in wealth management fees over the prior year. Other noninterest income increased $601 thousand, or 100.2%, for the year ended December 31, 2014 compared to the same period in 2013. The increase is directly related to the addition of the wealth management group in 2014 as well as increased fee income related to the four acquisitions by the Company completed in November 2013, January 2014, April 2014 and October 2014.

Noninterest Expense
Noninterest expense increased $14.7 million, or 16.6%, to $103.2 million for the year ended 2015 from $88.5 million for the year ended 2014. The increase from 2014 to 2015 is primarily due to increases in salaries and benefits expenses, occupancy expenses, data processing expenses and other noninterest expenses due to organic growth within the Company but also due to a full year or expenses from prior acquisitions and also in part due to the acquisition of Grand Bank in November 2015. Offsetting the overall increase is a decrease to acquisition expenses of $2.2 million. The lower amount in 2015 is due to less acquisition activity. with only one acquisition in 2015 compared to three acquisitions in 2014.
Noninterest expense increased $30.8 million, or 53.5%, for the year ended December 31, 2014, compared to the comparable period in 2013. The increase from 2013 to 2014 is primarily due to increases in salaries and benefits expenses, occupancy expenses, professional fees expenses, acquisition expenses and other noninterest expenses related to completed acquisitions in November 2013, January 2014, April 2014 and October 2014.
The following table sets forth the major components of the Company’s noninterest expense for the years ended December 31, 2015, 2014 and 2013, and the period-over-period variations in such categories of noninterest expense:

	For the Year Ended December 31,		Variance	For the Year Ended December 31,		Variance
(dollars in thousands)	2015	2014	2015 v. 2014	2014	2013	2014 v. 2013
Noninterest Expense						
Salaries and employee benefits	$60,541	$52,337	$8,204	$52,337	$31,836	$20,501
Occupancy	16,058	13,250	2,808	13,250	9,042	4,208
Data processing	3,384	2,080	1,304	2,080	1,347	733
FDIC assessment	2,259	1,797	462	1,797	500	1,297
Advertising and public relations	1,038	835	203	835	684	151
Communications	2,219	1,787	432	1,787	1,385	402
Other real estate owned expense, net	169	232	(63)	232	485	(253)
Net expenses of operations of IBG Adriatica	—	23	(23)	23	806	(783)
Impairment of other real estate	35	22	13	22	549	(527)
Core deposit intangible amortization	1,555	1,281	274	1,281	703	578
Professional fees	3,191	2,567	624	2,567	1,298	1,269

Acquisition expense, including legal	1,420	3,626	(2,206)	3,626	1,956	1,670
Other	11,329	8,675	2,654	8,675	7,080	1,595
Total noninterest expense	$103,198	$88,512	$14,686	$88,512	$57,671	$30,841

Salaries and Employee Benefits. Salaries and employee benefits expense, which historically has been the largest component of the Company's noninterest expense, increased $8.2 million, or 15.7%, for the year ended December 31, 2015, compared to the year ended December 31, 2014. The increase was primarily attributable to an increase in the number of the Company's full-time equivalent employees from 511 to 587, which resulted primarily from organic growth within the Company during the year but also in part due to employees acquired in the Grand Bank transaction. Salaries and employee benefits expense increased $20.5 million, or 64.4%, for the year ended December 31, 2014, compared to the same period in 2013. The increase was primarily attributable to an increase in the number of the Company's full-time equivalent employees from 340 to 511, which primarily resulted from the three acquisitions the Company completed in January 2014, April 2014 and October 2014, as well as the addition of new lending personnel. In addition, there was approximately $4.0 million in compensation paid to certain Bank of Houston officers that entered into employment agreements with the Company during the second quarter of 2014.

Occupancy Expense. Occupancy expense increased $2.8 million, or 21.2%, for the year ended December 31, 2015 compared to the same period in 2014 and increased $4.2 million, or 46.5%, for the year ended December 31, 2014 compared to the same period in 2013. The increases resulted from higher maintenance contract expenses, building lease expenses and property taxes, attributable primarily to the five acquisitions completed in the three year period. Two branches were added in late 2015, eleven branches were added in 2014 and one branch was added in 2013 as a result of the acquisitions during those years. In addition, the increase in 2014 was due to the Company's new Austin building in May 2013 as there were occupancy expenses for a full year in 2014 compared to half a year in 2013.

Data Processing. Data processing fees increased $1.3 million, or 62.7%, for the year ended December 31, 2015, compared to the same period in 2014 and increased $733 thousand, or 54.4% for the year ended December 31, 2014 compared to the same period in 2013. The change is due to increased online banking fees and other costs related directly to an increase in accounts as well as added employees and locations over the same period prior year, related both to organic growth and growth through acquisitions.

FDIC Assessment. FDIC assessment expense increased $462 thousand, or 25.7%, for the year ended December 31, 2015, compared to the same period in 2014 and increased $1.3 million, or 259.4% for the year ended December 31, 2014 compared to the same period in 2013 . The increase is due to a higher assessment associated with an increase in deposit accounts, both due to organic growth and growth through acquisitions. In addition, the increase from 2013 to 2014 is due to a non-recurring refund of $504 thousand of the Company's prepaid assessment during the second quarter of 2013.

Professional Fees. Professional fees increased $624 thousand, or 24.3%, for the year ended December 31, 2015, over the same period in 2014 and increased $1.3 million, or 97.8% for the year ended December 31, 2014 compared to the same period in 2013. The increase in 2015 is primarily due to increased legal fees on existing litigation inherited in the BOH transaction. The increase in 2014 over 2013 is due to an increase in attorney and accountants fees related to more SEC filings in 2014 including, the Company's annual report, proxy, shelf and other registration statements.

Acquisition Expense. Acquisition expense is primarily legal, advisory and accounting fees associated with services to facilitate the acquisition of other banks. Acquisition expenses also include data processing conversion costs. Total acquisition expenses for the year ended December 31, 2015, decreased $2.2 million, or 30.6% over the same period in 2014. The total acquisition expense in 2014 increased $1.7 million, or 85.4% over the same period in 2013. The change in the respective period is directly related to the acquisition activity in those periods. The Company closed one acquisition in 2015, three acquisitions in 2014 and one in 2013.

Other. Other noninterest expense for the year ended December 31, 2015 increased by $2.7 million, or 30.6%, compared to the same period in 2014. Other noninterest expense increased by $1.6 million, or 22.5%, for the year ended December 31, 2014, compared to the same period in 2013. The majority of the increase for each period relates to general increases in operations due to organic growth within the Company as well as acquisition activity occurring in November 2015, October 2014, April 2014, January 2014 and November 2013.

Income Tax Expense

Income tax expense was $19.1 million for the year ended December 31, 2015, which is an effective tax rate of 32.9%. Income tax expense was $14.9 million for the year ended December 31, 2014, which is an effective tax rate of 34.0%.

The increased rate for 2014 was due to the effect of certain non-deductible acquisition expenses during the year due to increased acquisition activity. Income tax expense was $4.7 million for the year ended December 31, 2013 and includes the initial deferred tax asset recorded on April 1, 2013, that resulted in a credit to income tax expense of $1.8 million. As a result of its prior status as an S

corporation as discussed above, the Company had no federal tax expense for the quarters ended on or prior to March 31, 2013. The Company was not subject to income tax expense until April 1, 2013, the date which it became a taxable entity. The Company has determined that had it been taxed as a C corporation and paid federal income taxes in the periods ended prior to April 1, 2013, its federal tax rate would have been 33.9% for the year ended December 31, 2013. On a pro forma basis, the Company’s federal income tax expense would have been $8.3 million for the year ended December 31, 2013, resulting in pro forma net income, after federal taxes, for that period of $16.2 million.
No valuation allowance for deferred tax assets was recorded at December 31, 2015, 2014 or 2013, as management believes it is more likely than not that all of the deferred tax assets will be realized.

Quarterly Financial Information

The following table presents certain unaudited consolidated quarterly financial information regarding the Company's results of operations for the quarters ended December 31, September 30, June 30 and March 31 in the years ended December 31, 2015 and 2014. This information should be read in conjunction with the Company's consolidated financial statements as of and for the fiscal years ended December 31, 2015 and December 31, 2014 appearing elsewhere in this Annual Report on Form 10-K.

	Quarter Ended 2015			
	December 31	September 30	June 30	March 31
(dollars in thousands, except per share data)	(unaudited)			
Interest Income	$47,414	$43,130	$42,747	$40,736
Interest Expense	5,263	5,041	4,967	4,658
Net Interest Income	42,151	38,089	37,780	36,078
Provision for loan losses	1,970	3,932	1,659	1,670
Net interest income after provision for loan losses	40,181	34,157	36,121	34,408
Noninterest income	4,254	3,799	4,109	3,966
Noninterest expense	28,527	25,830	24,455	24,386
Income before income taxes	$15,908	$12,126	$15,775	$13,988
Provision for income taxes	5,347	3,924	5,204	4,536
Net income	$10,561	$8,202	$10,571	$9,452
Preferred stock dividends	60	60	60	60
Net income available to common shareholders	$10,501	$8,142	$10,511	$9,392
Comprehensive income	$10,080	$9,120	$9,215	$10,350
Basic earnings per share	$0.58	$0.48	$0.61	$0.55
Diluted earnings per share	0.58	0.47	0.61	0.55

	Quarter Ended 2014			
	December 31	September 30	June 30	March 31
(dollars in thousands, except per share data)	(unaudited)			
Interest income	$42,952	$36,940	$35,078	$25,162
Interest expense	4,777	4,509	3,674	3,027
Net interest income	38,175	32,431	31,404	22,135
Provision for loan losses	1,751	976	1,379	1,253
Net interest income after provision for loan losses	36,424	31,455	30,025	20,882
Noninterest income	3,961	4,210	3,119	2,334
Noninterest expense	24,931	22,162	25,343	16,076
Income before income taxes	$15,454	$13,503	$7,801	$7,140
Provision for income taxes	5,356	4,543	2,682	2,339
Net income	$10,098	$8,960	$5,119	$4,801
Preferred stock dividends	60	60	49	—
Net income available to common shareholders	$10,038	$8,900	$5,070	$4,801
Comprehensive income	$10,385	$9,225	$6,521	$6,380
Basic earnings per share	$0.59	$0.54	$0.32	$0.38
Diluted earnings per share	0.59	0.54	0.32	0.38

Discussion and Analysis of Financial Condition

The following discussion and analysis of the Company’s financial condition discusses and analyzes the financial condition of the Company as of December 31, 2015 and 2014 and certain changes in that financial condition from December 31, 2014, to December 31, 2015, and from December 31, 2013, to December 31, 2014.

Assets

The Company's total assets increased by $922.4 million, or 22.3%, to $5.1 billion as of December 31, 2015 from $4.1 billion at December 31, 2014. The growth during the year was due to both organic growth and growth through the acquisition of Grand Bank in November 2015. The Company’s total assets increased by $2.0 billion, or 91.0%, to $4.1 billion as of December 31, 2014, from $2.2 billion as of December 31, 2013, primarily due to the acquisition of $1.7 billion of total assets from the Company’s three acquisitions in 2014 and organic growth.

Loan Portfolio

The Company’s loan portfolio is the largest category of the Company’s earning assets. As of December 31, 2015, the Company's loan portfolio, net of the allowance for loan losses, totaled $4.0 billion, which is an increase of 24.7% over total loans, net of the allowance for loan losses at December 31, 2014. The increase is primarily due to organic growth, but also due to $273.6 million acquired in the Grand Bank acquisition in November 2015. As of December 31, 2014, loans, net of the allowance for loan losses, totaled $3.2 billion, which is an increase of 86.1% over the total at December 31, 2013. The increase is due to both organic growth and approximately $1.05 billion due to loans acquired in the Company's three acquisitions during 2014.

The following table presents the balance and associated percentage of each major category in the Company’s loan portfolio as of December 31, 2015, 2014, 2013, 2012 and 2011:

	2015		2014		2013		2012		2011	
(dollars in thousands)	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Commercial	$731,818	18.3 %	$672,052	21.0 %	$241,178	14.0 %	$169,882	12.3 %	$127,827	12.9 %
Real estate:										
Commercial	1,949,734	48.7	1,450,434	45.2	843,436	48.9	648,494	47.0 %	470,820	47.6
Commercial construction, land and land development	419,611	10.5	334,964	10.5	130,320	7.5	97,329	7.1 %	79,063	8.0
Residential [1]	620,289	15.5	518,478	16.2	342,037	19.8	315,349	22.9 %	222,929	22.6
Single family interim construction	187,984	4.7	138,278	4.3	83,144	4.8	67,920	4.9 %	24,592	2.5
Agricultural	50,178	1.3	38,822	1.2	40,558	2.3	40,127	2.9 %	34,923	3.5
Consumer	41,966	1.0	52,267	1.6	45,762	2.7	39,502	2.9 %	28,437	2.9
Other	124	—	242	—	108	—	73	—	80	—
	4,001,704	100.0%	3,205,537	100.0%	1,726,543	100.0%	1,378,676	100.0%	988,671	100.0%
Deferred loan fees	(1,553)		(487)		—		—		—	
Allowance for loan losses	(27,043)		(18,552)		(13,960)		(11,478)		(9,060)	
Total loans, net	$3,973,108		$3,186,498		$1,712,583		$1,367,198		$979,611	

[1] Includes mortgage loans held for sale as of December 31, 2015, 2014, 2013, 2012 and 2011 of $12.3 million, $4.5 million, $3.4 million, $9.2 million and$3.0 million, respectively.

Gross loans increased $796.2 million, or 24.8%, to $4.0 billion at December 31, 2015 from $3.2 billion at December 31, 2014. Gross loans increased $1.5 billion, or 85.7%, to $3.2 billion at December 31, 2014, from $1.7 billion at December 31, 2013. The loan growth is as a result of the organic growth of the Company’s loan portfolio and the Company’s acquisition activity, one in 2015 and three in 2014.

The following table sets forth the contractual maturities, including scheduled principal repayments, of the Company’s loan portfolio (which includes balloon notes) and the distribution between fixed and adjustable interest rate loans as of

December 31, 2015:

As of December 31, 2015	Within One Year		One Year to Five Years		After Five Years		Total	
(dollars in thousands)	Fixed Rate	Adjustable Rate	Fixed Rate	Adjustable Rate	Fixed Rate	Adjustable Rate	Fixed Rate	Adjustable Rate
Commercial	$66,747	$248,057	$159,315	$189,182	$31,592	$36,925	$257,654	$474,164
Real estate:								
Commercial real estate	69,710	22,207	702,773	282,557	229,634	642,853	1,002,117	947,617
Commercial construction, land and land development	60,506	36,842	114,483	115,514	31,672	60,594	206,661	212,950
Residential real estate	69,800	14,185	216,092	16,168	178,501	125,543	464,393	155,896
Single family interim construction	72,666	84,234	3,918	9,695	13,381	4,090	89,965	98,019
Agricultural	7,100	5,321	18,198	3,237	1,574	14,748	26,872	23,306
Consumer	16,572	3,901	17,705	2,629	978	181	35,255	6,711
Other	124	—	—	—	—	—	124	—
Total loans	$363,225	$414,747	$1,232,484	$618,982	$487,332	$884,934	$2,083,041	$1,918,663

The principal categories of the Company’s loan portfolio are discussed below:
Commercial loans. The Company provides a mix of variable and fixed rate commercial loans. The loans are typically made to small-and medium-sized manufacturing, wholesale, retail, energy related service businesses and medical practices for working capital needs and business expansions. Commercial loans generally include lines of credit and loans with maturities of five years or less. The loans are generally made with operating cash flows as the primary source of repayment, but may also include collateralization by inventory, accounts receivable, equipment and/or personal guarantees. Additionally, our commercial loan portfolio includes loans made to customers in the energy industry, which is a complex, technical and cyclical industry. Experienced bankers with specialized energy lending experience originate our energy loans. Companies in this industry produce, extract, develop, exploit and explore for oil and natural gas. Loans are primarily collateralized with proven producing oil and gas reserves based on a technical evaluation of these reserves.
The Company’s commercial loan portfolio increased $59.8 million, or 8.9%, to $731.8 million as of December 31, 2015, from $672.1 million as of December 31, 2014. The Company’s commercial loan portfolio increased $430.9 million, or 178.65%, to $672.1 million as of December 31, 2014, from $241.2 million as of December 31, 2013, with the increase primarily attributable to the commercial loans acquired in the Company’s acquisitions in 2014 and growth in the Bank's energy portfolio. The energy exploration and production (E&P) portfolio totaled $182.5 million, or approximately 4.6% as of December 31, 2015, which is a decrease of 21.2% from $231.7 million, or approximately 7.2% of the total portfolio at December 31, 2014. The E&P energy portfolio totaled $68.3 million, or 4.0% of the total portfolio at December 31, 2013.

Commercial real estate loans. The Company’s commercial real estate loans generally are used by customers to finance their purchase of office buildings, retail centers, medical facilities and mixed-use buildings. Approximately 40%, 48% and 43% of the Company’s commercial real estate loans as of December 31, 2015, 2014, and 2013, respectively, were owner-occupied. Such loans generally involve less risk than loans on investment property. The Company expects that commercial real estate loans will continue to be a significant portion of the Company’s total loan portfolio and an area of emphasis in the Company’s lending operations.
Commercial real estate loans increased $499.3 million, or 34.4%, to $1.95 billion as of December 31, 2015 from $1.45 billion as of December 31, 2014. The increase was primarily due to organic loan growth in this loan type during the year primarily related to the Austin and north Texas markets. The Company’s commercial real estate loans increased $607.0 million, or 72.0%, to $1.45 billion as of December 31, 2014 from $843.4 million as of December 31, 2013, as a result of the Company’s three acquisitions in 2014 and increased lending activity.

Commercial construction, land and land development loans. The Company’s commercial construction, land and land development loans comprise loans to fund commercial construction, land acquisition and real estate development construction. Although the Company continues to make commercial construction loans, land acquisition and land development loans on a selective basis, the Company does not expect the Company’s lending in this area to result in this category of loans being a significantly greater portion of the Company’s total loan portfolio.
Commercial construction, land and land development loans increased $84.6 million, or 25.3% to $419.6 million at December 31, 2015 from $335.0 million at December 31, 2014, both due to organic loan growth in this type of loan and also due in part to loans acquired in the Grand Bank transaction in November 2015. The Company’s loans in this segment increased $204.6

million, or 157.0%, to $335.0 million as of December 31, 2014 from $130.3 million as of December 31, 2013. The increase in such loans from December 31, 2013, to December 31, 2014, resulted primarily from the Company's three acquisitions in 2014.

Residential Real Estate Loans. The Company's residential real estate loans are primarily made with respect to and secured by single-family homes, which are both owner-occupied and investor owned and include a limited amount of home equity loans, with a relatively small average loan balance spread across many individual borrowers. The Company offers a variety of mortgage loan portfolio products which generally are amortized over five to 30 years. Loans collateralized by 1-4 family residential real estate generally have been originated in amounts of no more than 80% of appraised value. The Company requires mortgage title insurance and hazard insurance. The Company retains these portfolio loans for its own account rather than selling them into the secondary market. By doing so, the Company incurs interest rate risk as well as the risks associated with nonpayments on such loans. The Company's loan portfolio also includes a number of multi-family housing real estate loans. The Company expects that the Company will continue to make residential real estate loans, with an emphasis on single-family housing loans, so long as housing values in the Company's markets do not deteriorate from current prevailing levels and the Company is able to make such loans consistent with the Company's current credit and underwriting standards.

The Company's residential real estate loan portfolio grew by $101.8 million, or 19.6%, to a balance of $620.3 million as of December 31, 2015 from $518.5 million as of December 31, 2014. The increase in this category was due to both organic loan growth and loans acquired in the Grand Bank transaction. Residential real estate loans increased $176.4 million, or 51.6%, to $518.5 million at December 31, 2014 from $342.0 million as of December 31, 2013. The increase in loans in this category from December 31, 2013 to December 31, 2014, resulted from the Company's three acquisitions and increased lending activity.

Single-Family Interim Construction Loans. The Company makes single-family interim construction loans to home builders and individuals to fund the construction of single-family residences with the understanding that such loans will be repaid from the proceeds of the sale of the homes by builders or, in the case of individuals building their own homes, with the proceeds of a permanent mortgage loan. Such loans are secured by the real property being built and are made based on the Company's assessment of the value of the property on an as-completed basis. The Company expects to continue to make single-family interim construction loans so long as demand for such loans continues and the market for single-family housing and the values of such properties remain stable or continue to improve in the Company's markets.

The balance of single-family interim construction loans in the Company's loan portfolio increased by $49.7 million, or 35.9%, to $188.0 million as of December 31, 2015 from the balance of $138.3 million as of December 31, 2014, which resulted primarily from these types of loans being acquired in the Grand Bank transaction. Single family interim construction loans increased $55.1 million, or 66.3%, to $138.3 million at December 31, 2014 from $83.1 million as of December 31, 2013, as a result of the acquisition of these types of loans in the Company's three acquisitions in 2014.

Other Categories of Loans. Other categories of loans included in the Company's loan portfolio include agricultural loans made to farmers and ranchers relating to their operations, consumer loans made to individuals for personal purposes, including automobile purchase loans and personal loans. None of these categories of loans represents more than 3% of the Company's total loan portfolio as of December 31, 2015, 2014, or 2013 and such categories continue to decline as a % of the Company's total loan portfolio.

Asset Quality

Nonperforming Assets. The Company has established procedures to assist the Company in maintaining the overall quality of the Company's loan portfolio. In addition, the Company has adopted underwriting guidelines to be followed by the Company's lending officers and require significant senior management review of proposed extensions of credit exceeding certain thresholds. When delinquencies exist, the Company rigorously monitors the levels of such delinquencies for any negative or adverse trends. The Company’s loan review procedures include approval of lending policies and underwriting guidelines by Independent Bank’s board of directors, an annual independent loan review, approval of large credit relationships by Independent Bank’s Executive Loan Committee and loan quality documentation procedures. The Company, like other financial institutions, is subject to the risk that its loan portfolio will be subject to increasing pressures from deteriorating borrower credit due to general economic conditions.

The Company discontinues accruing interest on a loan when management of the Company believes, after considering the Company’s collection efforts and other factors, that the borrower’s financial condition is such that collection of interest of that loan is doubtful. Loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans, including troubled debt restructurings, that are placed on nonaccrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-

basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. The Company did not make any changes in the Company's nonaccrual policy during the fiscal years of 2015, 2014 or 2013.
Placing a loan on nonaccrual status has a two-fold impact on net interest earnings. First, it may cause a charge against earnings for the interest which had been accrued in the current year but not yet collected on the loan. Second, it eliminates future interest income with respect to that particular loan from the Company's revenues. Interest on such loans is not recognized until the entire principal is collected or until the loan is returned to performing status.
Real estate the Company has acquired as a result of foreclosure or by deed-in-lieu of foreclosure is classified as other real estate owned until sold. The Company's policy is to initially record other real estate at fair value less estimated costs to sell at the date of foreclosure. After foreclosure, other real estate is carried at the lower of the initial carrying amount (fair value less estimated costs to sell or lease), or at the value determined by subsequent appraisals or internal valuations of the other real estate.
The Company obtains appraisals of real property that secure loans and may update such appraisals of real property securing loans categorized as nonperforming loans and potential problem loans, in each case as required by regulatory guidelines. In instances where updated appraisals reflect reduced collateral values, an evaluation of the borrower's overall financial condition is made to determine the need, if any, for possible write-downs or appropriate additions to the allowance for loan losses.
The Company periodically modifies loans to extend the term or make other concessions to help a borrower with a deteriorating financial condition stay current on their loan and to avoid foreclosure. The Company generally does not forgive principal or interest on loans or modify the interest rates on loans to rates that are below market rates. Under applicable accounting standards, such loan modifications are generally classified as troubled debt restructurings.
The following table sets forth the allocation of the Company's nonperforming assets among the Company's different asset categories as of the dates indicated. The Company classifies nonperforming loans as nonaccrual loans, loans past due 90 days or more and still accruing interest or loans modified under restructurings as a result of the borrower experiencing financial difficulties. The balances of nonperforming loans reflect the net investment in these assets, including deductions for purchase discounts.

(dollars in thousands)	As of December 31, 2015	2014	2013	2012	2011
Nonaccrual loans					
Commercial	$7,366	$1,449	$357	$218	$131
Real estate:					
Commercial real estate, construction, land and land development	591	70	253	4,857	1,291
Residential real estate	552	2,117	1,852	894	2,864
Single-family interim construction	—	—	170	560	91
Agricultural	170	—	—	—	—
Consumer	111	67	43	70	54
Total nonaccrual loans [1]	8,790	3,703	2,675	6,599	4,431
Loans delinquent 90 days or more and still accruing					
Commercial	—	157	—	—	31
Real estate:					
Residential real estate	—	288	—	—	—
Consumer	—	6	—	2	24
Total loans delinquent 90 days or more and still accruing	—	451	—	2	55
Troubled debt restructurings, not included in nonaccrual loans					
Commercial	16	30	107	481	552
Real estate:					
Commercial real estate, construction, land and land development	3,480	4,668	5,090	1,778	6,094
Residential real estate	2,574	1,254	1,288	2,165	136
Consumer	—	8	1	9	12
Total troubled debt restructurings, not included in nonaccrual loans	6,070	5,960	6,486	4,433	6,794
Total nonperforming loans	14,860	10,114	9,161	11,034	11,280
Other real estate owned and other repossessed assets (Bank only):					
Commercial real estate, construction, land and land development	2,168	4,763	3,322	6,166	7,835
Commercial	1,050	—	—	—	—
Consumer	14	—	—	—	—
Agricultural real estate	—	—	—	—	457
Residential real estate	—	—	—	653	100
Total other real estate owned and other repossessed assets	3,232	4,763	3,322	6,819	8,392
Adriatica real estate owned	—	—	—	9,727	16,065
Total nonperforming assets	$18,092	$14,877	$12,483	$27,580	$35,737
Ratio of nonperforming loans to total loans	0.37 %	0.32 %	0.53 %	0.81 %	1.14 %
Ratio of nonperforming assets to total assets	0.36	0.36	0.58	1.59	2.85

[1] Nonaccrual loans include troubled debt restructurings of $621 thousand, $1.3 million, $1.5 million, $3.1 million and $305 thousand as of December 31, 2015, 2014, 2013, 201 and, 2011, respectively.

The Company had $8.8 million, $3.7 million and $2.7 million in loans on nonaccrual status as of December 31, 2015, 2014, and 2013, respectively. The increase from December 21, 2015 to December 31, 2015 was primarily due to two energy loans totaling $7.1 million being placed on nonaccrual during 2015 and offset by a $1.4 million commercial loan being removed from nonaccrual status during the year due to the repossession of collateral. The Company had an increase in loans on nonaccrual status from December 31, 2013 to December 31, 2014 primarily from one commercial loan totaling $1.4 million that was placed on nonaccrual status in the fourth quarter of 2014.

Troubled debt restructurings that were also on nonaccrual status totaled $621 thousand, $1.3 million and $1.5 million at December 31, 2015, 2014 and 2013, respectively. Loans past due 90 days and still accruing totaled $451 thousand as of

December 31, 2014. The largest portion of this balance was a $288 thousand commercial real estate construction loan that was pending a renewal at December 31, 2014. The loan was subsequently renewed and returned to performing status.

The Company did not recognize any interest income on nonaccrual loans during fiscal 2015, 2014 or 2013 while the loans were in nonaccrual status. The amount of interest the Company included in the Company's net interest income for fiscal year 2015, 2014 and 2013 with respect to nonperforming loans was $638 thousand, $433 thousand and $257 thousand, respectively. Additional interest income that the Company would have recognized on these nonperforming loans had they been current in accordance with their original terms was $329 thousand, $203 thousand and $158 thousand, respectively, during fiscal year 2015, 2014 and 2013, respectively.

As of December 31, 2015, the Company had a total of 51 loans with an aggregate principal balance of $21.0 million that were not currently nonaccrual loans, 90 days past due loans or troubled debt restructurings, but where the Company had information about possible credit problems of the borrowers that caused the Company's management to have serious concerns as to the ability of the borrowers to comply with present loan repayment terms and that could result in those loans becoming nonaccrual loans, 90 days past due loans or troubled debt restructurings in the future.

The Company generally continues to use the classification of acquired loans classified nonaccrual or 90 days and accruing as of the acquisition date. The Company does not classify acquired loans as troubled debt restructurings, or TDRs, unless the Company modifies an acquired loan subsequent to acquisition that meets the TDR criteria. Reported delinquency of the Company's purchased loan portfolio is based upon the contractual terms of the loans.

As of December 31, 2015, the Company had other real estate owned of $2.2 million, which is a decrease of 54.5% from the balance of $4.8 million for prior year. This was due to numerous sales of other real estate properties during 2015 and with minimal foreclosures during the year. As of December 31, 2014, the Company had other real estate with a carrying value of $4.8 million, up slightly from the $3.3 million balance as of December 31, 2013. The increase is due primarily to three branches totaling $2.4 million that were closed during 2014 and transferred to other real estate owned. In addition, at December 31, 2015, the Company had total repossessed assets totaling $1.1 million, which is primarily comprised of one commercial aircraft that the Company repossessed during the year.

The Company utilizes an asset risk classification system in compliance with guidelines established by the state and federal banking regulatory agencies as part of the Company's efforts to improve asset quality. In connection with examinations of insured institutions, examiners have the authority to identify problem assets and, if appropriate, classify them. There are three classifications for problem assets: "substandard," "doubtful," and "loss." Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full questionable and there is a high probability of loss based on currently existing facts, conditions and values. An asset classified as loss is not considered collectible and is of such little value that continuance as an asset is not warranted. The Company produces a problem asset report that is reviewed by Independent Bank's board of directors monthly. That report also includes "pass/watch" loans and other assets especially mentioned or OAEM. Pass/watch loans have a potential weakness that requires more frequent monitoring. OAEM credits have weaknesses that require attention. Officers and senior management review these loans monthly to determine if a more severe rating is warranted.

Allowance for Loan Losses. The allowance for loan losses is established through charges to earnings in the form of a provision for loan losses. The Company's allowance for loan losses represents the Company's estimate of probable and reasonably estimable loan losses inherent in loans held for investment as of the respective balance sheet date. The Company's methodology for assessing the adequacy of the allowance for loan losses includes a general allowance for performing loans, which are grouped based on similar characteristics, and an allocated allowance for individual impaired loans. Actual credit losses or recoveries are charged or credited directly to the allowance.

The Company establishes a general allowance for loan losses that the Company believes to be adequate for the losses the Company estimates to be inherent in the Company’s loan portfolio. In making the Company’s evaluation of the credit risk of the loan portfolio, the Company considers factors such as the volume, growth and composition of the loan portfolio, the effect of changes in the local real estate market on collateral values, trends in past dues, the experience of the lender, changes in lending policy, the effects on the loan portfolio of current economic indicators and their probable impact on borrowers, historical loan loss experience, the amount of nonperforming loans and related collateral and the evaluation of the Company’s loan portfolio by the loan review function.
The Company may assign a specific allowance to individual loans based on an impairment analysis. Loans are considered impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of

the loan agreement. The amount of impairment is based on an analysis of the most probable source of repayment, including the present value of the loan's expected future cash flows, the estimated market value or the fair value of the underlying collateral. Loans evaluated for impairment include all commercial, real estate, agricultural loans and TDRs.

The Company follows a loan review program to evaluate the credit risk in the loan portfolio. Throughout the loan review process, the Company maintains an internally classified loan watch list, which, along with a delinquency list of loans, helps management assess the overall quality of the Company's loan portfolio and the adequacy of the allowance for loan losses. Charge-offs occur when the Company deems a loan to be uncollectible.

Analysis of the Allowance for Loan Losses. The following table sets forth the allowance for loan losses by category of loan:

	As of December 31,									
	2015		2014		2013		2012		2011	
(dollars in thousands)	Amount	% of Total Loans[(1)]	Amount	% of Total Loans[(1)]	Amount	% of Total Loans[(1)]	Amount	% of Total Loans[(1)]	Amount	% of Total Loans[(1)]
Commercial loans	$10,573	18.3 %	$5,051	21.0 %	$2,401	14 %	$2,377	12.3 %	$1,259	12.9 %
Real estate:										
Commercial real estate, construction, land and land development	13,007	59.2	10,110	55.7	7,872	56.4	4,924	54.1	5,051	55.6
Residential real estate	2,339	15.5	2,205	16.2	2,440	19.8	2,965	22.9	1,964	22.6
Single family interim construction	769	4.7	669	4.3	577	4.8	523	4.9	317	2.5
Agricultural	215	1.3	246	1.2	238	2.3	159	2.9	209	3.5
Consumer	164	1.0	146	1.6	363	2.7	278	2.9	235	2.9
Unallocated	(24)	—	125	—	69	—	252	—	25	—
Total allowance for loan losses	$27,043	100.0 %	$18,552	100.0 %	$13,960	100.0 %	$11,478	100.0 %	$9,060	100.0 %

(1) Represents the percentage of Independent's total loans included in each loan category.

As of December 31, 2015, the allowance for loan losses amounted to $27.0 million, or 0.68%, of total loans held for investment, compared with $18.6 million, or 0.58%, as of December 31, 2014 and $14.0 million, or 0.81%, as of December 31, 2013. The increase in the allowance balance and allowance to total loans ratio for 2015 is due to increased provisions due to organic loan growth, increased general reserves on acquired loans renewed since acquisition date and increased general allocations due to prolonged declines in commodity prices and increased specific reserves, primarily on two of the Company's energy loans. The decrease in the December 31, 2014 to December 31, 2013, ratio is attributable to loans acquired in the Live Oak Financial Corp., BOH Holdings and Houston City Bancshares acquisitions that are recorded at fair value and do not have an allowance as of December 31, 2014. The increase in the allowance of $2.5 million for fiscal year 2013 was primarily in response to the organic growth in its total loans during the fiscal year in addition to loans acquired in the two acquisitions in 2012. The loans acquired in the November 2013 Collin Bank acquisition did not affect the allowance balance at December 31, 2013. The problem assets in that acquisition that might have required an allowance for loan loss if the Company had originated those loans were instead appropriately recorded at their fair value determined in accordance with business combination accounting guidance, as were other loans acquired in the acquisition.

The allowance for loan losses as a percentage of nonperforming loans decreased slightly from 183.43% at December 31, 2014, to 181.99% at December 31, 2015, due to a combination of increases in both the allowance and nonperforming loan balances. As of December 31, 2015, the Company had made a specific allowance for loan losses of $3.2 million for impaired loans totaling $15.5 million, compared with a specific allowance of $475 thousand for impaired loans totaling $11.7 million as of December 31, 2014. This increase in impaired loans and related specific reserves was due primarily to the addition of two impaired energy loans during 2015 with balances and specific reserves totaling $7.1 million and $3.0 million, respectively.

The allowance for loans losses as a percentage of nonperforming loans increased to 183.43% at December 31, 2014 compared to 152.93% at December 31, 2013. The increase is due primarily to the increase in the recorded allowance to account for the Company's organic growth in loan portfolio during this time. As of December 31, 2014, the Company recorded a specific allowance for loan losses of $475 thousand for impaired loans totaling $3.6 million, compared to a specific allowance of $855 thousand on impaired loans totaling $5.4 million as of December 31, 2013. Although the allowance for loan losses to nonperforming loans has increased significantly over the periods presented in the Company’s consolidated financial statements appearing in this Annual Report on Form 10-K, the Company does not expect to decrease the Company’s allowance as a percentage of total loans. The allowance is primarily related to loans evaluated

collectively and will continue to increase as the Company’s loan portfolio grows. Additional provision expense will vary depending on future credit quality trends within the portfolio.
The following table provides an analysis of the provisions for loan losses, net charge-offs and recoveries for the years ended December 31, 2015, 2014, 2013, 2012 and 2011 and the effects of those items on the Company’s allowance for loan losses:

	As of and for the Year Ended December 31,				
(dollars in thousands)	2015	2014	2013	2012	2011
Allowance for loan losses-balance at beginning of year	$18,552	$13,960	$11,478	$9,060	$8,403
Charge-offs					
Commercial	(606)	(368)	(612)	(169)	(23)
Real estate:					
Commercial real estate, construction, land and land development	(69)	(371)	(634)	(484)	(694)
Residential real estate	(9)	(32)	(130)	(178)	(316)
Single-family interim construction	—	—	—	—	(20)
Consumer	(176)	(143)	(64)	(86)	(94)
Total charge-offs	(860)	(914)	(1,440)	(917)	(1,147)
Recoveries					
Commercial	28	19	20	26	17
Real estate:					
Commercial real estate, construction, land and land development	42	79	28	68	35
Residential real estate	5	8	10	3	—
Single-family interim construction	—	11	—	—	49
Consumer	45	30	42	54	53
Total recoveries	120	147	100	151	154
Net charge-offs	(740)	(767)	(1,340)	(766)	(993)
Provision for loan losses	9,231	5,359	3,822	3,184	1,650
Allowance for loan losses-balance at end of year	$27,043	$18,552	$13,960	$11,478	$9,060
Ratios					
Net charge-offs to average loan outstanding	0.02%	0.03%	0.09%	0.06%	0.11%
Allowance for loan losses to nonperforming loans at end of year	181.99	183.43	152.39	104.02	80.32
Allowance for loan losses to total loans at end of year (1)	0.68	0.58	0.81	0.84	0.92

(1) Calculation excludes loans held for sale from total loans.

The Company’s ratio of allowance to loan losses to total loans as of December 31, 2015 was 0.68%, up from 0.58% at December 31, 2014. The increased ratio for 2015 is due to increased provisions due to organic loan growth, increased general allocations due to prolonged declines in commodity prices and increased specific reserves, primarily on two of the Company's energy loans as discussed above. Furthermore, as loans acquired in the 2014 acquisitions are being renewed, they are being included back in the general allocation of the allowance. The ratio of net charge-offs to average loans outstanding during the fiscal year ended December 31, 2015 improved slightly to 0.02% from 0.03% for the year ended December 31, 2014.

The ratio of the Company’s allowance for loan losses to total loans was 0.58% as of December 31, 2014, compared to 0.81% as of December 31, 2013, which primarily resulted from $1.1 billion of acquired loans being recorded at fair value at acquisition date. Such remaining loans having no allowance allocated at December 31, 2014 as their has been no evidence of deterioration of credit post acquisition. The ratio of net charge-offs to average loans outstanding decreased to 0.03% for the year ended December 31, 2014, from 0.09% for the year ended December 31, 2013, as a result of improvement in the financial condition of the Company’s borrowers and the value of the collateral securing the Company’s loans as well as the continued conservative underwriting of the portfolio.

Securities Available for Sale

The Company's investment strategy aims to maximize earnings while maintaining liquidity in securities with minimal credit, interest rate and duration risk. The types and maturities of securities purchased are primarily based on the Company's current and projected liquidity and interest rate sensitivity positions. The following table sets forth the book value, which is equal to fair market value because all investment securities the Company held were classified as available for sale as of the applicable date, and the percentage of each category of securities as of December 31, 2015, 2014 and 2013:

	As of December 31,						
	2015		2014		2013		
(dollars in thousands)	Book Value	% of Total	Book Value	% of Total	Book Value	% of Total	
Securities available for sale							
U.S. Treasury securities	$1,002	0.37 %	$1,006	0.37 %	$3,513	1.70	%
Government agency securities	135,300	49.48	58,023	21.22	94,415	45.82	
Obligations of state and municipal subdivisions	85,416	31.23	76,899	28.12	36,615	17.77	
Residential pass-through securities	51,745	18.92	69,053	25.25	57,443	27.88	
Corporate bonds	—	—	1,081	0.40	2,052	1.00	
Total securities available for sale	$273,463	100.00 %	$206,062	75.36 %	$194,038	94.17	%

The Company recognized gains on the sale of securities of $134 thousand and $362 thousand for the years ended December 31, 2015 and 2014, respectively. The Company had no gain or loss on sales of securities in the fiscal year ended December 31, 2013. Securities represented 5.4%, 5.0% and 9.0% of the Company's total assets at December 31, 2015, 2014 and 2013, respectively.

Certain investment securities are valued at less than their historical cost. Management evaluates securities for other-than-temporary impairment (OTTI) on at least a quarterly basis and more frequently when economic of market conditions warrant such an evaluation. Management does not intend to sell any debt securities it holds and believes the Company more likely than not will not be required to sell any debt securities it holds before their anticipated recovery, at which time the Company will receive full value for the securities. Management has the ability and intent to hold the securities classified as available for sale that were in a loss position as of December 31, 2015 for a period of time sufficient for an entire recovery of the cost basis of the securities. For those securities that are impaired, the unrealized losses are largely due to interest rate changes. The fair value is expected to recover as the securities approach their maturity date. Management believes any impairment in the Company's securities at December 31, 2015, is temporary and no impairment has been realized in the Company's consolidated financial statements.

The following table sets forth the book value, scheduled maturities and weighted average yields for the Company’s investment portfolio as of December 31, 2015:

(dollars in thousands)	Book Value	% of Total Investment Securities	Weighted Average Yield
U.S. Treasury securities			
Maturing within one year	$1,002	0.37 %	1.06 %
Maturing in one to five years	—	—	—
Maturing in five to ten years	—	—	—
Maturing after ten years	—	—	—
Total U.S. Treasury securities	1,002	0.37	1.06
Government agency securities			
Maturing within one year	7,509	2.75	1.04
Maturing in one to five years	119,870	43.83	1.14
Maturing in five to ten years	7,921	2.90	1.70
Maturing after ten years	—	—	—
Total government agency securities	135,300	49.48	1.17
Obligations of state and municipal subdivisions			
Maturing within one year	8,896	3.25	0.69
Maturing in one to five years	17,321	6.33	1.42
Maturing in five to ten years	22,503	8.23	2.25
Maturing after ten years	36,696	13.42	3.53
Total obligations of state and municipal subdivisions	85,416	31.23	2.35
Residential pass through securities			
Maturing within one year	—	—	—
Maturing in one to five years	50,728	18.55	2.10
Maturing in five to ten years	—	—	—
Maturing after ten years	1,017	0.37	2.93
Total residential pass through securities	51,745	18.92	2.12
Total investment securities	$273,463	100.00 %	1.70 %

The following table summarizes the amortized cost of securities classified as available for sale and their approximate fair values as of the dates shown:

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale				
As of December 31, 2015				
U.S. treasuries	$999	$ 3	$ —	$ 1,002
Government agency securities	135,630	237	(567)	135,300
Obligations of state and municipal subdivisions	83,442	2,222	(248)	85,416
Residential pass through securities guaranteed by FNMA, GNMA and FHLMC	50,640	1,202	(97)	51,745
	$270,711	$ 3,664	$ (912)	$273,463
As of December 31, 2014				
U.S. treasuries	$999	$ 7	$ —	$ 1,006
Government agency securities	58,174	199	(350)	58,023
Obligations of state and municipal subdivisions	75,599	1,837	(537)	76,899
Corporate bonds	1,068	13	—	1,081
Residential pass through securities guaranteed by FNMA, GNMA, FHLMC and FHR	67,437	1,616	—	69,053
	$203,277	$ 3,672	$ (887)	$206,062
As of December 31, 2013				
U.S. treasuries	$3,498	$ 15	$ —	$3,513
Government agency securities	95,407	84	(1,076)	94,415
Obligations of state and municipal subdivisions	37,861	541	(1,787)	36,615
Corporate bonds	2,079	—	(27)	2,052
Residential pass through securities guaranteed by FNMA, GNMA, FHLMC, FHLB, FFCB and FHR	57,844	67	(468)	57,443
	$196,689	$ 707	$ (3,358)	$194,038

The Company’s securities available for sale, carried at fair value, increased $67.4 million, or 32.7%, during 2015 and increased $12.0 million, or 6.2% during 2014. The increase in 2015 was due to securities acquired in the Grand Bank transaction in November 2015. Securities held for sale remained fairly stable in 2014, due to liquidity needs for loan growth.

Residential pass-through securities (mortgage backed securities) are securities that have been developed by pooling a number of real estate mortgages that are principally issued by federal agencies. These securities are deemed to have high credit ratings, and minimum regular minimum monthly cash flows of principal and interest are guaranteed by the issuing agencies.

Unlike U.S. Treasury and U.S. government agency securities, which have a lump sum payment at maturity, mortgage-backed securities provide cash flows from regular principal and interest payments and principal prepayments throughout the lives of the securities. Premiums and discounts on mortgage-backed securities are amortized over the expected life of the security and may be impacted by prepayments. As such, mortgage-backed securities which are purchased at a premium will generally suffer decreasing net yields as interest rates drop because home owners tend to refinance their mortgages resulting in prepayments and an acceleration of premium amortization, Securities purchased at a discount will generally obtain higher net yields in a decreasing interest rate environment as prepayments result in acceleration of discount accretion.

Cash and Cash Equivalents

Cash and cash equivalents decreased by $30.8 million, or 9.5% to $293.3 million at December 31, 2015 from $324.0 million at December 31, 2014. Cash and cash equivalents increased $231.0 million, or 248.2%, to $324.0 million as of December 31, 2014, from $93.1 million as of December 31, 2013. Such increase in 2014 was necessary to maintain compliance with the Company's liquidity policy of holding cash and investment securities held for sale in an amount equal to at least 10% of the Company's total assets.

Certificates of Deposit Held in Other Banks

The Company owned certificates of deposit held in other banks in the amount of $61.7 million as of December 31, 2015, all of which were acquired in the Grand Bank transaction in November 2015. There were no certificates of deposit held in other banks as of December 31, 2014 and 2013.

Goodwill and Core Deposit Intangible, Net

Goodwill represents the excess of the consideration paid over the fair value of the net assets acquired. The Company's total goodwill was $258.6 million at December 31, 2015, $229.5 million as of December 31, 2014 and $34.7 million as of December 31, 2013. The increase in the goodwill balance from December 31, 2014 to December 31, 2015 was due primarily to $28,825 in goodwill recognized from the Grand Bank transaction with the remainder of the change being from measurement period adjustments from prior acquisitions. During the year ended December 31, 2014, goodwill increased by $7.0 million, $165.9 million and $21.2 million relating to the acquisitions of Live Oak Financial Corp., BOH Holdings, Inc. and Houston City Bancshares, respectively and increased by $574 thousand relating to final acquisition accounting adjustments made to Collin Bank during 2014.

The Company's core deposit intangible, net, was $16.4 million as of December 31, 2015, $12.5 million as of December 31, 2014 and $3.1 million as of December 31, 2013. The Company's core deposit intangible is amortized on a straight-line basis over its estimated life of 10 years. The increase in core deposit intangibles from 2014 to 2015 was due to $5.5 million in core deposit intangibles acquired in the Grand Bank transaction offset partially by the amortization expense during the year. The increase in core deposit intangibles from December 31, 2013 to December 31, 2014 was due to $882 thousand, $7.3 million and $2.5 million in core deposit intangibles acquired in the Live Oak Financial Corp, BOH Holdings, Inc. and Houston City Bancshares transactions, respectively during 2014 and offset partially by the amortization expense on core intangibles for the year.

Liabilities

Total liabilities increased $835.9 million, or 23.3%, to $4.4 million as of December 31, 2015, from $3.6 million as of December 31, 2014, primarily due to the assumption of deposit liabilities of $523.7 million from the Grand Bank transaction. The remainder of the increase is due to organic deposit growth and an increase of $58.9 million in FHLB advances.

The Company's total liabilities increased $1.7 billion, or 86.1%, to $3.6 billion as of December 31, 2014, from $1.9 billion as of December 31, 2013, primarily due to the assumption of deposit liabilities of $1.2 billion in the three acquisitions completed in 2014. The balance of the increase is accounted for by organic growth in the Company's deposit base, an increase in FHLB advances of $41.9 million and an increase in the Company's subordinated debentures of $65.0 million.

Deposits

Deposits represent Independent Bank's primary source of funds. The Company continues to focus on growing core deposits through the Company's relationship driven banking philosophy and community-focused marketing programs. Total deposits increased $778.7 million, or 24.0%, to $4.0 billion as of December 31, 2015 from $3.2 billion as of December 31, 2014. The increase was primarily due to $523.7 million in deposit accounts acquired in the Grand Bank transaction, but also in part due to organic deposit growth as well as an increase in use of brokered funds. Brokered deposits totaled $476.6 million and $355.1 million at December 31, 2015 and 2014, respectively. As of December 31, 2015 and 2014, noninterest-bearing demand, interest-bearing checking, savings deposits and limited access money market accounts accounted for 79% and 75%, respectively, of the Company's total deposits, while individual retirement accounts and certificates of deposit made up 21% and 25%, respectively, of total deposits. Noninterest-bearing demand deposits totaled $1.1 billion, or 26.6% of total deposits, as of December 31, 2015, compared with $818.0 million, or 25.2% of total deposits, as of December 31, 2014 , which slightly decreases the total cost of deposits three basis points from 0.37% at December 31, 2014 to 0.34% at December 31, 2015. The average cost of interest-bearing deposits was 0.46% per annum for 2015 compared with 0.48% for 2014.

Total deposits of $3.2 billion as of December 31, 2014, compared with total deposits of $1.7 billion as of December 31, 2013, reflecting a $1.5 billion, or 90.0%, increase from December 31, 2013. The increase was primarily due to $1.2 billion in deposits acquired in the Company's three acquisitions during 2014, but also in part due to organic deposit growth, including an increase in brokered deposits during the period. Brokered deposits totaled $355.1 million and $62.4 million at December 31, 2014 and 2013, respectively. As of December 31, 2014 and 2013, noninterest-bearing demand, interest-bearing checking, savings deposits and limited access money market accounts accounted for 75% of the Company's total deposits, while individual retirement accounts and certificates of deposit made up 25% of total deposits. Noninterest-bearing demand deposits totaled $818.0 million, or 25.2% of total deposits, as of December 31, 2014, compared with $302.8 million, or 17.7% of total deposits, as of December 31, 2013 , which drives down the total cost of deposits 10 basis points from 0.47% at December 31, 2013 to 0.37% at December 31, 2014. The average cost of interest-bearing deposits was 0.48% per annum for 2014 compared with 0.57% for 2013.

The decrease in the average cost of deposits during the comparable periods was primarily the result of decreases in interest rates offered on certain deposit products due to decreases in average market interest rates and decreases in renewal interest rates on maturing certificates of deposit given the current low interest rate environment.

The following table summarizes the Company's average deposit balances and weighted average rates for the periods presented:

(dollars in thousands)	For the Year Ended December 31, 2015 Balance	Weighted Average Rate		For the Year Ended December 31, 2014 Balance	Weighted Average Rate		For the Year Ended December 31, 2013 Balance	Weighted Average Rate	
Deposit Type									
Noninterest-bearing demand accounts	$895,789	—	%	$601,764	—	%	$259,432	—	%
Interest-bearing checking accounts	1,297,948	0.44		1,052,528	0.46		734,475	0.52	
Savings accounts	143,476	0.18		129,707	0.27		114,699	0.33	
Limited access money market accounts	319,982	0.26		123,392	0.28		50,661	0.27	
Certificates of deposit, including individual retirement accounts (IRA)	842,087	0.63		674,556	0.60		334,269	0.79	
Total deposits	$3,499,282	0.34	%	$2,581,947	0.37	%	$1,493,536	0.47	%

The following table sets forth the maturity of time deposits (including IRA deposits) of $100,000 or more as of December 31, 2015:

(dollars in thousands)	Maturity within: Three Months	Three to Six Months	Six to Twelve Months	After Twelve Months	Total
Individual retirement accounts	$2,726	$2,823	$5,756	$5,910	$17,215
Certificates of deposit (excluding CDARS)	163,791	120,655	157,070	119,569	561,085
CDARS	86,479	18,988	33,520	257	139,244
Total	$252,996	$142,466	$196,346	$125,736	$717,544

Short-Term Borrowings

The Company's deposits have historically provided the Company with a major source of funds to meet the daily liquidity needs of the Company's customers and fund growth in earning assets. However, from time to time the Company may also engage in short-term borrowings. At December 31, 2015, 2014 and 2013, the Company had $70.0 million, $55.0 million and $13.0 million, respectively, in short-term borrowings outstanding, all of which were short-term FHLB advances. These were recorded on the balance sheet under FHLB advances and are included in the total advances outstanding as discussed in the section below. The Company had no other short-term borrowings outstanding at December 31, 2015, 2014 and 2013. The Company has not historically needed to engage in significant short-term borrowing through sources such as federal funds purchased, securities sold under agreements to repurchase or Federal Reserve Discount Window advances to meet the daily liquidity needs of the Company's customers or fund growth in earning assets.

FHLB Advances

In addition to deposits, the Company utilizes FHLB advances either as a short-term funding source or a longer-term funding source and to manage the Company's interest rate risk on the Company's loan portfolio. FHLB advances can be particularly attractive as a longer-term funding source to balance interest rate sensitivity and reduce interest rate risk. The Company's FHLB borrowings totaled $288.3 million as of December 31, 2015, compared with $229.4 million as of December 31, 2014, and $187.5 million as of December 31, 2013. The increase for each respective year is primarily to provide additional short-term liquidity due to loan growth. As of December 31, 2015, 2014 and 2013, the Company had $817.0 million, $727.3 million and $218.0 million, respectively, in unused and available advances from the FHLB. At December 31, 2015, the Company's FHLB advances are collateralized by assets, including a blanket pledge of certain loans with a carrying value of $1.6 billion and FHLB stock. As of December 31, 2015 and 2014, the Company had $461.5 million and $354.2 million, respectively, in undisbursed advance commitments (letters of credit) with the FHLB. The FHLB letters of credit were obtained in lieu of pledging securities to secure public fund deposits that are over the FDIC insurance limit. There were no disbursements against the advance commitments as of either December 31, 2015 or 2014.

The following table provides a summary of the Company's FHLB advances at the dates indicated:

	As of December 31,		
	2015	2014	2013
Fixed-rate, fixed term, at rates from 0.31% to 6.26%, with a weighted-average of 1.21% (maturing January 2016 through January 2026)	$288,325	—	—
Fixed-rate, fixed term, at rates from 0.18% to 6.26%, with a weighted-average of 1.48% (maturing January 2015 through January 2026)	—	$229,405	—
Fixed-rate, fixed term, at rates from 0.14% to 6.26%, with a weighted-average of 1.83% (maturing January 2014 through January 2026)	—	—	$187,484

As of December 31, 2015, the scheduled maturities of the Company's FHLB advances were as follows (dollars in thousands):

Maturing Within	Principal Amount to Mature As of December 31, 2015
First Year	$152,504
Second Year	30,000
Third Year	65,000
Fourth Year	40,054
Fifth Year	—
Thereafter	767
	$288,325

Other Long-Term Indebtedness

As of December 31, 2015, 2014 and 2013, the Company had $70.8 million, 72.7 million and $7.7 million, respectively, of long-term indebtedness (other than FHLB advances and junior subordinated debentures) outstanding, which included subordinated debentures. The slight decrease in borrowings from December 31, 2014 to December 31, 2014 was due to principal paydowns of $1.9 million during the year. The increase in the Company's long-term indebtedness from December 31, 2013, to December 31, 2014, resulted from the issuance of $65.0 million of the Company's subordinated notes to provide a portion of the funds to complete the Houston City Bancshares acquisition in 2014.

As of December 31, 2015, the scheduled principal maturities of the Company’s other long-term indebtedness are as follows (dollars in thousands):

Maturing Within	Principal Amount to Mature As of December 31, 2015
First Year	$1,933
Second Year	1,933
Third Year	1,932
Fourth Year	—
Fifth Year	—
Thereafter	65,000
	$70,798

In January 2016, the Company redeemed two of the subordinated debenture issuances in full with principal payments totaling $5,798 plus all interest accrued at time of redemption.

Junior Subordinated Debentures

As of December 31, 2015, 2014 and 2013, the Company had outstanding an aggregate of $18.1 million principal amount of five series of junior subordinated securities issued to five unconsolidated subsidiary trusts. Each series of debentures was purchased by one of the trusts with the net proceeds of the issuance by such trust of floating rate trust preferred securities. These junior subordinated debentures are unsecured and will mature between March 2033 and June 2037. Each of the series of debentures bears interest at a per annum rate equal to three-month LIBOR plus a spread that ranges from 1.60% to 3.25%, with a weighted average spread of 2.68%. As of December 31, 2015, the interest rate on the various series of debentures was 3.58%, 3.17%, 2.78%, 3.63% and 2.11%, respectively, while as of December 31, 2014, the interest rate on the various series of debentures was 3.48%, 3.08%, 2.63%, 3.48% and 1.84%, respectively. Interest on each series of these debentures is payable quarterly, although the Company may, from time to time defer the payment of interest on any series of these debentures. A deferral of interest payments would, however, restrict the Company’s right to declare and pay cash distributions, including dividends on the Company’s common stock, or making distributions with respect to any of the Company’s future debt instruments that rank equally or are junior to such debentures. The Company may redeem the debentures, which are intended to qualify as Tier 1 capital, at the Company’s option, subject to approval of the Federal Reserve.

Capital Resources and Liquidity Management

Capital Resources

The Company’s stockholders’ equity is influenced by the Company’s earnings, the sales and redemptions of common stock that the Company makes, the dividends the Company pays on its common stock, and, to a lesser extent, any changes in unrealized holding gains or losses occurring with respect to the Company’s securities available for sale. Total stockholder’s equity was $603.4 million at December 31, 2015, compared with $540.9 million at December 31, 2014, an increase of approximately $62.5 million. The increase was due primarily to the issuance of common stock totaling $49.3 million in connection with the Company's acquisition of Grand Bank. In addition, there was stock awards amortization of $4.3 million and net income of $38.8 million earned by the Company for the year ended December 31, 2015, offset by dividends paid of $5.8 million and the transfer of $23.9 million of Series A preferred stock to temporary equity due to the notice given to the US Treasury of the intent to redeem it shortly after December 31, 2015.

Total stockholder’s equity was $540.9 million at December 31, 2014, compared with $233.8 million at December 31, 2013, an increase of approximately $307.1 million. The increase was due primarily to the issuance of common stock totaling $250.2 million in connection with the Company's acquisition of Live Oak Financial Corp., BOH Holdings and Houston City Bancshares and the issuance of Series A preferred stock of $23.9 million in connection with the BOH

Holdings acquisition. In addition, there was stock awards amortization of $2.9 million, $1.4 million in excess tax benefits on vested restricted stock, an increase of $3.5 million in unrealized gain (loss) on available for sale securities and net income of $29.0 million earned by the Company for the year ended December 31, 2014, offset by dividends paid of $3.9 million.

Liquidity Management

Liquidity refers to the measure of the Company's ability to meet the cash flow requirements of depositors and borrowers, while at the same time meeting the Company's operating, capital and strategic cash flow needs, all at a reasonable cost. The Company's asset and liability management policy is intended to maintain adequate liquidity and, therefore, enhance the Company's ability to raise funds to support asset growth, meet deposit withdrawals and lending needs, maintain reserve requirements, and otherwise sustain operations. The Company accomplishes this through management of the maturities of the Company's interest-earning assets and interest-bearing liabilities. The Company believes that the Company's present position is adequate to meet the Company's current and future liquidity needs.

The Company continuously monitors the Company's liquidity position to ensure that assets and liabilities are managed in a manner that will meet all of the Company's short-term and long-term cash requirements. The Company manages the Company's liquidity position to meet the daily cash flow needs of customers, while maintaining an appropriate balance between assets and liabilities to meet the return on investment objectives of the Company's shareholders. The Company also monitors its liquidity requirements in light of interest rate trends, changes in the economy, and the scheduled maturity and interest rate sensitivity of the investment and loan portfolios and deposits.

Liquidity risk management is an important element in the Company's asset/liability management process. The Company's short-term and long-term liquidity requirements are primarily to fund on-going operations, including payment of interest on deposits and debt, extensions of credit to borrowers, capital expenditures and shareholder dividends. These liquidity requirements are met primarily through cash flow from operations, redeployment of pre-paid and maturing balances in the Company's loan and investment portfolios, debt financing and increases in customer deposits. The Company's liquidity position is supported by management of liquid assets and liabilities and access to alternative sources of funds. Liquid assets include cash, interest-bearing deposits in banks, federal funds sold, securities available for sale and maturing or prepaying balances in the Company's investment and loan portfolios. Liquid liabilities include core deposits, federal funds purchased, securities sold under repurchase agreements and other borrowings. Other sources of liquidity include the sale of loans, the ability to acquire additional national market noncore deposits, the issuance of additional collateralized borrowings such as FHLB advances, the issuance of debt securities, borrowings through the Federal Reserve's discount window and the issuance of equity securities. For additional information regarding the Company's operating, investing and financing cash flows, see the Consolidated Statements of Cash Flows provided in the Company's consolidated financial statements.

In addition to the liquidity provided by the sources described above, the Company maintains correspondent relationships with other banks in order to sell loans or purchase overnight funds should additional liquidity be needed. As of December 31, 2015, the Company had established federal funds lines of credit with nine unaffiliated banks totaling $200 million. As of December 31, 2014, the Company had established federal funds lines of credit totaling $125.0 million with five unaffiliated banks. At December 31, 2013, the Company had established a federal funds line of credit with one unaffiliated bank totaling $40.0 million, with no amounts advanced against the line. Based on the values of stock, securities, and loans pledged as collateral, as of December 31, 2015, 2014 and 2013, the Company had additional borrowing capacity with the FHLB of $817.0 million, $727.3 million and $218.0 million, respectively. During 2014, the Company entered into a $35 million unsecured revolving line of credit with an unrelated bank. During 2015, the Company renewed the unsecured line of credit with two unrelated commercial banks and increased the line from $35 million to $50 million. The line bears interest at LIBOR plus 2.50% and matures July 19, 2016. As of December 31, 2015 and 2014, there was no outstanding balance on the line. The Company is required to meet certain financial covenants on a quarterly basis, which includes maintaining $5,000 in cash at Independent Bank Group.

The Company is a corporation separate and apart from Independent Bank and, therefore, the Company must provide for the Company's own liquidity. The Company's main source of funding is dividends declared and paid to the Company by Independent Bank. Statutory and regulatory limitations exist that affect the ability of Independent Bank to pay dividends to the Company. Management believes that these limitations will not impact the Company's ability to meet the Company's ongoing short-term cash obligations. For additional information regarding dividend restrictions,

see “Risk Factors-Risks Related to the Company’s Business” in Part I, Item 1A, and “Supervision and Regulation” under Part I, Item 1, “Business.”
Regulatory Capital Requirements
The Company’s capital management consists of providing equity to support the Company’s current and future operations. The Company is subject to various regulatory capital requirements administered by state and federal banking agencies, including

65

the TDB, Federal Reserve and the FDIC. Failure to meet minimum capital requirements may prompt certain actions by regulators that, if undertaken, could have a direct material adverse effect on the Company's financial condition and results of operations. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.
The Basel III Capital Rules became effective for the Company on January 1, 2015 (subject to a phase-in period for certain provisions). In connection with the adoption of the Basel III Capital Rules, we elected to opt-out of the requirement to include most components of accumulated other comprehensive income in regulatory capital. Accordingly, amounts reported as accumulated other comprehensive income/loss related to securities available for sale do not increase or reduce regulatory capital and are not included in the calculation of risk-based capital and leverage ratios. Regulatory agencies for banks and bank holding companies utilize capital guidelines designed to measure capital and take into consideration the risk inherent in both on-balance sheet and off-balance sheet items. Please refer to Note 20 - Regulatory Matters in the accompanying notes to consolidated financial statements included elsewhere in this report.

The FDIC has promulgated regulations setting the levels at which an insured institution such as Independent Bank would be considered well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Independent Bank is considered well-capitalized for purposes of the applicable prompt corrective action regulations.

As of December 31, 2015, 2014, and 2013, the Company exceeded all capital ratio requirements under prompt corrective action and other regulatory requirements, as detailed in the table below:

	As of December 31, 2015			
	Actual		Required to be considered well capitalized	Required to be considered adequately capitalized
	Ratio		Ratio	Ratio
Tier 1 capital to average assets ratio	8.28	%	≥5.00%	4.00-5.00%
Common equity tier 1 to risk-weighted assets ratio	7.94		≥6.50	4.50-6.50
Tier 1 capital to risk-weighted assets ratio	8.92		≥8.00	6.00-8.00
Total capital to risk-weighted assets ratio	11.14		≥10.00	8.00-10.00

	As of December 31, 2014			
	Actual		Required to be considered well capitalized	Required to be considered adequately capitalized
	Ratio		Ratio	Ratio
Tier 1 capital to average assets ratio	8.15	%	≥5.00%	4.00-5.00%
Tier 1 capital to risk-weighted assets ratio	9.83		≥6.00	4.00-6.00
Total capital to risk-weighted assets ratio	12.59		≥10.00	8.00-10.00

	As of December 31, 2013		
	Actual	Required to be considered well capitalized	Required to be considered adequately capitalized

	Ratio	Ratio	Ratio
Tier 1 capital to average assets ratio	10.71 %	≥5.00%	4.00-5.00%
Tier 1 capital to risk-weighted assets ratio	12.64	≥6.00	4.00-6.00
Total capital to risk-weighted assets ratio	13.83	≥10.00	8.00-10.00

Share Repurchase Program

On January 23, 2015, the Company announced the approval of a Share Repurchase Program. Under this program, the Board of Directors has authorized the repurchase by the Company of up to $30 million of the Company's common stock. On January 28,

66

2016, the Company announced the renewal of its repurchase program, which is authorized to continue through December 31, 2016. No shares have been repurchased by the Company under this program through the date of this report.

Contractual Obligations

In the ordinary course of the Company's operations, the Company enters into certain contractual obligations, such as obligations for operating leases and other arrangements with respect to deposit liabilities, FHLB advances and other borrowed funds. The Company believes that it will be able to meet its contractual obligations as they come due through the maintenance of adequate cash levels. The Company expects to maintain adequate cash levels through profitability, loan and securities repayment and maturity activity and continued deposit gathering activities. The Company has in place various borrowing mechanisms for both short-term and long-term liquidity needs.

During the fiscal year ended December 31, 2015, the Company acquired deposit accounts and repurchase agreements in the Grand Bank transaction. In addition, the Company assumed an operating lease for one of the branches acquired. Other than acquired accounts and normal changes in the ordinary course of business, there have been no significant changes in the types of contractual obligations or amounts due since December 31, 2014.

The following table contains supplemental information regarding the Company's total contractual obligations as of December 31, 2015:

	Payments Due				
(dollars in thousands)	Within One Year	One to Three Years	Three to Five Years	After Five Years	Total
Deposits without a stated maturity	$3,183,018	$—	$—	$—	$3,183,018
Time deposits	688,500	127,023	29,670	68	845,261
FHLB advances	152,504	95,000	40,054	767	288,325
Subordinated debt	1,933	3,865	—	65,000	70,798
Junior subordinated debentures	—	—	—	18,147	18,147
Operating leases	2,047	2,756	1,873	1,946	8,622
Total contractual obligations	$4,028,002	$228,644	$71,597	$85,928	$4,414,171

The Company believes that it will be able to meet its contractual obligations as they come due through the maintenance of adequate cash levels. The Company expects to maintain adequate cash levels through profitability, loan and securities repayment and maturity activity and continued deposit gathering activities. The Company has in place various borrowing mechanisms for both short-term and long-term liquidity needs.

Off-Balance Sheet Arrangements

In the normal course of business, the Company enters into various transactions, which, in accordance with accounting principles generally accepted in the United States, are not included in the Company's consolidated balance sheets. However, the Company has only limited off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Company's financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources. Independent Bank enters into these transactions to meet the financing needs of the Company's customers. These transactions include commitments to extend credit and issue standby letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in the consolidated balance sheets.

Commitments to Extend Credit. Independent Bank enters into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Substantially all of Independent Bank's commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of loan funding. Independent Bank minimizes its exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures.

Standby Letters of Credit. Standby letters of credit are written conditional commitments that Independent Bank issues 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, Independent Bank would be required to fund the commitment. The maximum potential amount of future payments Independent Bank could be required to make is represented by the contractual amount of

67

the commitment. If the commitment is funded, the customer is obligated to reimburse Independent Bank for the amount paid under this standby letter of credit.

Commitments to extend credit and outstanding standby letters of credit were $838.3 million and $10.4 million, respectively, as of December 31, 2015. Commitments to extend credit and outstanding standby letters of credit were $565.9 million and $8.6 million, respectively, as of December 31, 2014. Commitments to extend credit and outstanding standby letters of credit were $365.6 million and $2.1 million, respectively, as of December 31, 2013. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements. The Company manages the Company's liquidity in light of the aggregate amounts of commitments to extend credit and outstanding standby letters of credit in effect from time to time to ensure that the Company will have adequate sources of liquidity to fund such commitments and honor drafts under such letters of credit.

The Company guarantees the distributions and payments for redemption or liquidation of the trust preferred securities issued by the Company's wholly owned subsidiary trusts to the extent of funds held by the trusts. Although this guarantee is not separately recorded, the obligation underlying the guarantee is fully reflected on the Company's consolidated balance sheets as junior subordinated debentures, which debentures are held by the Company's subsidiary trusts. The junior subordinated debentures currently qualify as Tier 1 capital under the Federal Reserve capital adequacy guidelines. For additional information regarding the subordinated debentures, see Note 13 to the Company's consolidated financial statements.

Asset/Liability Management and Interest Rate Risk

The principal objective of the Company's asset and liability management function is to evaluate the interest rate risk within the balance sheet and pursue a controlled assumption of interest rate risk while maximizing net income and preserving adequate levels of liquidity and capital. The Investment Committee of Independent Bank's board of directors has oversight of Independent Bank's asset and liability management function, which is managed by the Company's Chief Financial Officer. The Company's Chief Financial Officer meets with the Company's senior executive management team regularly to review, among other things, the sensitivity of the Company's assets and liabilities to market interest rate changes, local and national market conditions and market interest rates. That group also reviews the liquidity, capital, deposit mix, loan mix and investment positions of the Company.

The Company's management and the Company's board of directors are responsible for managing interest rate risk and employing risk management policies that monitor and limit the Company's exposure to interest rate risk. Interest rate risk is measured using net interest income simulations and market value of portfolio equity analyses. These analyses use various assumptions, including the nature and timing of interest rate changes, yield curve shape, prepayments on loans, securities and deposits, deposit decay rates, pricing decisions on loans and deposits, reinvestment/ replacement of asset and liability cash flows.

Instantaneous parallel rate shift scenarios are modeled and utilized to evaluate risk and establish exposure limits for acceptable changes in net interest margin. These scenarios, known as rate shocks, simulate an instantaneous change in interest rates and use various assumptions, including, but not limited to, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, reinvestment and replacement of asset and liability cash flows.

The Company also analyzes the economic value of equity as a secondary measure of interest rate risk. This is a complementary measure to net interest income where the calculated value is the result of the market value of assets less the market value of liabilities. The economic value of equity is a longer term view of interest rate risk because it measures the present value of the future cash flows. The impact of changes in interest rates on this calculation is analyzed for the risk to the Company's future earnings and is used in conjunction with the analyses on net interest income.

The Company conducts periodic analyses of our sensitivity to interest rate risks through the use of a third-party proprietary interest-rate sensitivity model. That model has been customized to our specifications. The analyses conducted by use of that model are based on current information regarding our actual interest-earnings assets, interest-bearing liabilities, capital and other financial information that we supply. The third party uses that information in the model to estimate our sensitivity to interest rate risk.

The Company’s interest rate risk model indicated that it was in a balanced position in terms of interest rate sensitivity as of December 31, 2015. The table below illustrates the impact of an immediate and sustained 200 and 100 basis point increase and a 100 basis point decrease in interest rates on net interest income based on the interest rate risk model as of December 31, 2015:

Hypothetical Shift in Interest Rates (in bps)	% Change in Projected Net Interest Income
200	0.21%
100	(0.05)
(100)	(4.58)

These are good faith estimates and assume that the composition of the Company’s interest sensitive assets and liabilities existing at each year-end will remain constant over the relevant twelve-month measurement period and that changes in market interest rates are instantaneous and sustained across the yield curve regardless of duration of pricing characteristics of specific assets or liabilities. Also, this analysis does not contemplate any actions that the Company might undertake in response to changes in market interest rates. The Company believes these estimates are not necessarily indicative of what actually could occur in the event of immediate interest rate increases or decreases of this magnitude. As interest-bearing assets and liabilities re-price in different time frames and proportions to market interest rate movements, various assumptions must be made based on historical relationships of these variables in reaching any conclusion. Since these correlations are based on competitive and market conditions, the Company anticipates that its future results will likely be different from the foregoing estimates, and such differences could be material.

Many assumptions are used to calculate the impact of interest rate fluctuations. Actual results may be significantly different than the Company’s projections due to several factors, including the timing and frequency of rate changes, market conditions and the shape of the yield curve. The computations of interest rate risk shown above do not include actions that the Company’s management may undertake to manage the risks in response to anticipated changes in interest rates and actual results may also differ due to any actions taken in response to the changing rates.

As part of the Company’s asset/liability management strategy, the Company’s management has emphasized the origination of shorter duration loans as well as variable rate loans to limit the negative exposure to a rate increase, as well as obtaining funding with FHLB advances to manage interest rate risks on funding of loan commitments. Additionally, a significant portion of the loans in the Company’s loan portfolio typically have short-term maturities. The Company’s strategy with respect to liabilities has been to emphasize transaction accounts, particularly noninterest or low interest-bearing nonmaturing deposit accounts, which are less sensitive to changes in interest rates. In response to this strategy, nonmaturing deposit accounts have been a large portion of total deposits and totaled 79.0% of total deposits as of December 31, 2015, 74.7% of total deposits as of December 31, 2014 and 75.1% of total deposits as of December 31, 2013. The Company had brokered deposits, including CDARS totaling $476.6 million, $355.1 million and $62.4 million, at December 31, 2015, 2014 and 2013, respectively. The Company intends to focus on the Company’s strategy of increasing noninterest or low interest-bearing nonmaturing deposit accounts, but may consider the use brokered deposits as a stable source of lower cost funding.

Inflation and Changing Prices

The largest component of earnings for the Company is net interest income, which is affected by changes in interest rates. Changes in interest rates are also influenced by changes in the rate of inflation, although not necessarily at the same rate or in the same magnitude. In management's opinion, changes in interest rates have a more significant impact to the Company's operations than do changes in inflation. However, inflation, does impact the operating costs of the Company, primarily employment costs and other services.

Critical Accounting Policies and Estimates

The preparation of the Company’s consolidated financial statements in accordance with U.S. generally accepted accounting principles, or GAAP, requires the Company to make estimates and judgments that affect the Company’s reported amounts of assets, liabilities, income and expenses and related disclosure of contingent assets and liabilities. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under current circumstances, results of which form the basis for making judgments about the carrying value of certain assets and liabilities that are not readily available from other sources. The Company evaluates the Company’s estimates on an ongoing basis. Actual results may differ from these estimates under different assumptions or conditions.

Accounting policies, as described in detail in the notes to the Company's consolidated financial statements are an integral part of the Company's financial statements. A thorough understanding of these accounting policies is essential when reviewing the Company's reported results of operations and the Company's financial position. The Company believes that the critical accounting policies and estimates discussed below require the Company to make difficult, subjective or complex judgments about matters that are inherently uncertain. Changes in these estimates, that are likely to occur from period to period, or the use of different estimates that the Company could have reasonably used in the current period, would have a material impact on the Company’s financial position, results of operations or liquidity.

Acquired Loans. The Company’s accounting policies require that the Company evaluates all acquired loans for evidence of deterioration in credit quality since origination and to evaluate whether it is probable that the Company will collect all contractually required payments from the borrower.

Acquired loans from the transactions accounted for as a business combination include both nonperforming loans with evidence of credit deterioration since their origination date and performing loans. The Company accounts for performing loans under ASC Paragraph 310-20, Nonrefundable Fees and Other Costs, with the related discount being adjusted for over the life of the loan and recognized as interest income. The Company accounts for the nonperforming loans acquired in accordance with ASC Paragraph 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. At the date of the acquisition, acquired loans are recorded at their fair value.

The Company recognizes the difference between the undiscounted cash flows the Company expects (at the time the Company acquires the loan) to be collected and the investment in the loan, or the “accretable yield,” as interest income using the interest method over the life of the loan. The Company does not recognize contractually required payments for interest and principal that exceed undiscounted cash flows expected at acquisition, or the “nonaccretable difference,” as a yield adjustment, loss accrual or valuation allowance. Increases in the expected cash flows subsequent to the initial investment are recognized prospectively through adjustment of the yield on the loan over the loan’s remaining life, while decreases in expected cash flows are recognized as impairment. Valuation allowances on these impaired loans reflect only losses incurred after the acquisition.

Upon an acquisition, the Company generally continues to use the classification of acquired loans classified nonaccrual or 90 days and accruing. The Company does not classify acquired loans as TDRs unless the Company modifies an acquired loan subsequent to acquisition that meets the TDR criteria. Reported delinquency of the Company’s purchased loan portfolio is based upon the contractual terms of the loans.

Allowance for Loan Losses. The allowance for loan losses represents management’s estimate of probable and reasonably estimable credit losses inherent in the loan portfolio. In determining the allowance, the Company estimates losses on individual impaired loans, or groups of loans which are not impaired, where the probable loss can be identified and reasonably estimated. On a quarterly basis, the Company assesses the risk inherent in the Company’s loan portfolio based on qualitative and quantitative trends in the portfolio, including the internal risk classification of loans, historical loss rates, changes in the nature and volume of the loan portfolio, industry or borrower concentrations, delinquency trends, detailed reviews of significant loans with identified weaknesses and the impacts of local, regional and national economic factors on the quality of the loan portfolio. Based on this analysis, the Company records a provision for loan losses in order to maintain the allowance at appropriate levels.

Determining the amount of the allowance is considered a critical accounting estimate, as it requires significant judgment and the use of subjective measurements, including management’s assessment of overall portfolio quality. The Company maintains the allowance at an amount the Company believes is sufficient to provide for estimated losses inherent in the Company’s loan portfolio at each balance sheet date, and fluctuations in the provision for loan losses may result from management’s assessment of the adequacy of the allowance. Changes in these estimates and assumptions are possible and may have a material impact on the Company’s allowance, and therefore the Company’s financial position, liquidity or results of operations.

Goodwill and Core Deposit Intangible. The excess purchase price over the fair value of net assets from acquisitions, or goodwill, is evaluated for impairment at least annually and on an interim basis if an event or circumstance indicates that it is likely an impairment has occurred. The Company first assesses qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, the Company determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing a two step impairment test is unnecessary. If the Company concludes otherwise, then it is required to perform a first step of the two step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. In testing for impairment in the past, the fair value of net assets is estimated based on an analysis of the Company’s market value.

Determining the fair value of goodwill is considered a critical accounting estimate because the allocation of the fair value of goodwill to assets and liabilities requires significant management judgment and the use of subjective measurements. Variability in the market and changes in assumptions or subjective measurements used to allocate fair value are reasonably possible and may have a material impact on the Company’s financial position, liquidity or results of operations.

Core deposit intangibles are acquired customer relationships that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset, or liability. Core deposit intangibles are being amortized on a straight-line basis over their estimated useful lives of ten years. Core deposit intangibles are tested for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Emerging Growth Company. The JOBS Act permits the Company, as an "emerging growth company," to take advantage of an extended transition period to comply with new or revised accounting standards and not commence complying with new or revised accounting standards until private companies must do so. Under the JOBS Act, the Company may make an irrevocable election to "opt out" of that extended transition period and comply with new or revised accounting standards when public companies that are not emerging growth companies must commence complying with those standards. The Company has elected not to "opt out" of the extended transition period at this time. Consequently, when a new or revised accounting standard has application dates that are different for public companies and private companies, the Company will commence complying with the new or revised standard only when private companies must do so. The Company will continue to commence complying with new or revised accounting standards in this manner until the Company ceases to be an emerging growth company unless the Company previously elects to opt out of the extended transition period, as the Company may do under the JOBS Act. Any such future election by the Company will be irrevocable and will apply to all accounting standards issued or revised after such election.

As a consequence of the Company's determination to take advantage of the extended transition period, the Company's consolidated financial statements as of a particular date and for a particular period in the future may not be comparable to the financial statements as of such date and for such period of a public company situated similarly to the Company that is neither an emerging growth company nor an emerging growth company that has opted out of the extended transition period. Such financial statements of the other company may be prepared in conformity with new or revised accounting standards then applicable to public companies, but not to private companies, while, if the Company is then in the extended transition period, the Company's consolidated financial standards would not be prepared in conformity with such new or revised accounting standards.

Recently Issued Accounting Pronouncements

The Company has evaluated new accounting pronouncements that have recently been issued and have determined that there are no new accounting pronouncements that should be described in this section that will impact the Company's operations, financial condition or liquidity in future periods. Refer to Note 2 of the Company's audited consolidated financial statements for a discussion of recent accounting pronouncements that have been adopted by the Company or that will require enhanced disclosures in the Company's financial statements in future periods.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements, the reports thereon, the notes thereto and supplementary data commence at page 74 of this Annual Report on Form 10-K.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. As of the end of the period covered by this Annual Report on Form 10-K, the Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply judgment in evaluating its controls and procedures. Based on this evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, were effective as of the end of the period covered by this report.

Changes in internal control over financial reporting. There were no changes in the Company’s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended December 31, 2015, that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

As of December 31, 2015, management assessed the effectiveness of the Company’s internal control over financial reporting based on the criteria for effective internal control over financial reporting established in “Internal Control-Integrated Framework,” issued by the Committee of Sponsoring Organizations (“COSO”) of the Treadway Commission in 1992. This assessment included controls over the preparation of the schedules equivalent to the basic financial statements in accordance with the instructions for the Consolidated Financial Statements for Bank Holding Companies (Form FR Y 9C) to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act. Based on the assessment management determined that the Company maintained effective internal control over financial reporting as of December 31, 2015.

RSM US LLP, the independent registered public accounting firm, audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K. Their report is included in Part IV, Item 15. Exhibits and Financial Statements under the heading "Report of Independent Registered Public Accounting Firm." This Annual Report on Form 10-K does not include an attestation report of the Company's registered public accounting firm due to a transition period established by rules of the Securities and Exchange Commission for an Emerging Growth Company.

ITEM 9B. OTHER INFORMATION

None.

72

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item 10 is incorporated herein by reference to the information under the captions “Election of Directors,” “Current Executive Officers and Directors,” “Beneficial Ownership of the Company’s Common Stock by Management and Principal Shareholders of the Company-Section 16(a) Beneficial Ownership Reporting Compliance,” “Board and Committee Matters-Audit Committee,” “Board and Committee Matters-Director Nominations” and “Board and Committee Matters-Code of Conduct: Code of Ethics for Chief Executive Officer and Senior Financial Officers” in the Company’s definitive Proxy Statement for its 2016 Annual Meeting of Shareholders (the “2016 Proxy Statement”) to be filed with the Commission pursuant to Regulation 14A under the Exchange Act within 120 days of the Company’s fiscal year end.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is incorporated herein by reference to the information under the captions “Executive Compensation and Other Matters” in the 2016 Proxy Statement.

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

Certain information required by this Item 12 is included under “Securities Authorized for Issuance under Equity Compensation Plans” in Part II, Item 5 of this Annual Report on Form 10-K. The other information required by this Item is incorporated herein by reference to the information under the caption “Beneficial Ownership of Common Stock by Management and Principal Shareholders of the Company” and "Securities Authorized for Issuance Under Equity Compensation Plans" in the 2016 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this Item 13 is incorporated herein by reference to the information under the captions “Board and Committee Matters-Director Independence” and “Certain Relationships and Related Person Transactions” in the 2016 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item 14 is incorporated herein by reference to the information under the caption “Board and Committee Matters-Fees paid to Independent Registered Public Accounting Firm” and “Board and Committee Matters-Audit Committee Pre-Approval Policy” in the 2016 Proxy Statement.

PART IV
ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES
(a) The following documents are filed as part of this Annual Report on Form 10-K:
1. Consolidated Financial Statements. Reference is made to the Consolidated Financial Statements, the report thereon and the notes thereto commencing at page 77 of this Annual Report on Form 10-K. Set forth below is a list of such Consolidated Financial Statements:
Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets as of December 31, 2015 and 2014
Consolidated Statements of Income for the Years Ended December 31, 2015, 2014 and 2013
Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2015, 2014 and 2013
Consolidated Statements of Cash Flows for the Years Ended December 31, 2015, 2014 and 2013
Notes to Consolidated Financial Statements
2. Financial Statement Schedules. All supplemental schedules are omitted as inapplicable or because the required information is included in the Consolidated Financial Statements or notes thereto.
3. The exhibits to this Annual Report on Form 10-K listed below have been included only with the copy of this report filed with the Securities and Exchange Commission. The Company will furnish a copy of any exhibit to shareholders upon written request to the Company and payment of a reasonable fee not to exceed the Company's reasonable expense.
Each exhibit marked with an asterisk is filed or furnished with this Annual Report on Form 10-K as noted below.

EXHIBIT LIST

Exhibit Number	Description
2.1	Agreement and Plan of Reorganization, dated as of June 2, 2014, by and among the Registrant and Houston City Bancshares (incorporated herein by reference to Appendix A to the Registrant's Registration Statement on Form S-4 (Registration No. 333-197556))
3.1	Amended and Restated Certificate of Formation of the Registrant (incorporated herein by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-186912) (the "Form S-1 Registration Statement"))
3.2	Certificate of Amendment to Amended and Restated Certificate of Formation of the Registrant (incorporated herein by reference to Exhibit 3.3 to the Form S-1 Registration Statement)
3.3	Third Amended and Restated Bylaws of the Registrant (incorporated herein by reference to Exhibit 3.2 to the Form S-1 Registration Statement)
3.4	Certificate of Merger, dated January 2, 2014, of Live Oak Financial Corp. with and into Independent Bank Group, Inc. (incorporated herein by reference to Exhibit 3.5 to the Registrant's Registration Statement on Form S-3 (Registration No. 333-196627 (the "Form S-3 Registration Statement"))
3.5	Certificate of Merger, dated April 15, 2014, of BOH Holdings, Inc. with and into Independent Bank Group, Inc., which is incorporated herein by reference to Exhibit 3.6 to the Form S-3 Registration Statement
3.6	Certificate of Merger, dated September 30, 2014, of Houston City Bancshares, Inc. with and into Independent Bank Group, Inc., which are incorporated by reference to Exhibit 3.7 to the Registrant's Quarterly Report on Form 10-Q, dated July 31, 2015
4.1	Form of certificate representing shares of the Registrant's common stock (incorporated herein by reference to Exhibit 4.1 to the Form S-1 Registration Statement)
4.2	Form of Common Stock Purchase Warrant, with schedules of differences (incorporated herein by reference to Exhibit 4.2 to the Form S-1 Registration Statement)
4.3	Statement of Designations of Senior Non-Cumulative Perpetual Preferred Stock, Series A of the Registrant, as filed with the Office of the Secretary of State of the State of Texas on April 15, 2014 (incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed with the SEC on April 17, 2014)
4.4	Form of certificate representing shares of the Registrant's Series A preferred stock (incorporated herein by reference to Exhibit 4.3 to the Form S-3 Registration Statement)
	The other instruments defining the rights of holders of the long-term debt securities of the Registrant and its subsidiaries are omitted pursuant to section (b)(4)(iii)(A) of Item 601 of Regulation S-K. The Registrant hereby agrees to furnish copies of these instruments to the Securities and Exchange Commission upon request.
10.1	Form of Indemnification Agreement for directors and officers (incorporated herein by reference to Exhibit 10.16 to the Form S-1 Registration Statement)
10.2	Form of S-Corporation Revocation, Tax Allocation and Indemnification Agreement (incorporated herein by reference to Exhibit 10.17 to the Form S-1 Registration Statement)
10.3	2015 Performance Award Plan, which is incorporated by reference to Annex A of the Company's definitive Proxy Statement for its 2015 Annual Meeting of Shareholders, dated April 13,2015
10.4	2005 Stock Grant Plan, with form of Notice of Grant Letter Agreement, as amended, and related Form of Notice of Grant Letter Agreement relating to the written compensation contracts (incorporated herein by reference to Exhibit 10.18 to the Form S-1 Registration Statement)
10.5	2012 Stock Grant Plan, with form of Notice of Grant Letter Agreement (incorporated herein by reference to Exhibit 10.19 to the Form S-1 Registration Statement)
10.6	

	2013 Equity Incentive Plan, with form of Restricted Stock Award Agreement (incorporated herein by reference to Exhibit 10.20 to the Form S-1 Registration Statement)
10.7	Employment Agreement, dated November 21, 2013, between Independent Bank Group, Inc. and James D. Stein, including related Restricted Stock Grant (incorporated herein by reference to Exhibit 10.28 to the Registration Statement on Form S-4 (Registration No. 333-193373)
10.8	Subordinated Debt Indenture, dated as of June 25, 2014, between Independent Bank Group, Inc. and Wells Fargo Bank Shareowner Services, in its capacity as Indenture Trustee (incorporated herein by reference to Exhibit 4.6 to the Registrant's Amendment No. 1 to the Form S-3 Registration Statement)

10.9	First Supplemental Indenture, dated as of July 17, 2014, between Independent Bank Group, Inc. and Wells Fargo Bank Shareowner Services, in its capacity as Indenture Trustee (incorporated herein by reference to Exhibit 4.2 to the Registrant’s Current Report on Form 8-K, dated July 17, 2014)
10.10.1	Credit Agreement, dated as of July 22, 2015, between Independent Bank Group, Inc., U.S. Bank National Association and Frost Bank, which is incorporated by reference to Exhibit 10.29.1 to the Registrant’s Registration Statement on Form S-4 (Registration No. 333-206747) filed with the SEC on September 24, 2015 (the “Grand Bank Registration Statement”)
10.10.2	Revolving Credit Note, dated July 22, 2015, by Independent Bank Group, Inc., in favor of U.S. Bank National Association, which is incorporated by reference to Exhibit 10.29.2 to the Grand Bank Registration Statement filed with the SEC on September 24, 2015
10.10.3	Revolving Credit Note, dated July 22, 2015, by Independent Bank Group, Inc., in favor of Frost Bank, which is incorporated by reference to Exhibit 10.29.3 to the Grand Bank Registration Statement filed with the SEC on September 24, 2015
10.10.4	Negative Pledge Agreement, dated as of July 22, 2015, by Independent Bank Group, Inc., in favor of U.S. Bank National Association, which is incorporated by reference to Exhibit 10.29.4 to the Grand Bank Registration Statement filed with the SEC on September 24, 2015
12.1	Statement regarding computation of Earnings to Fixed Charges and Preferred Share Dividends Ratios*
21.1	Subsidiaries of Independent Bank Group, Inc.*
23.1	Consent of RSM US LLP, Independent Registered Public Accounting Firm of Independent Bank Group, Inc.*
31.1	Chief Executive Officer Section 302 Certification*
31.2	Chief Financial Officer Section 302 Certification*
32.1	Chief Executive Officer Section 906 Certification**
32.2	Chief Financial Officer Section 906 Certification**
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*

*Filed herewith as an Exhibit
**Furnished herewith as an Exhibit

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Independent Bank Group, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Independent Bank Group, Inc. and subsidiaries (the Company) as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Independent Bank Group, Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

/s/ RSM US LLP

Dallas, Texas
February 25, 2016

Independent Bank Group, Inc. and Subsidiaries

Consolidated Balance Sheets
December 31, 2015 and 2014
(Dollars in thousands, except share information)

	December 31,	
Assets	2015	2014
Cash and due from banks	$151,285	$153,158
Interest-bearing deposits in other banks	141,994	170,889
Cash and cash equivalents	293,279	324,047
Certificates of deposit held in other banks	61,746	—
Securities available for sale (amortized cost of $270,711 and $203,277, respectively)	273,463	206,062
Loans held for sale	12,299	4,453
Loans, net of allowance for loan losses of $27,043 and $18,552, respectively	3,960,809	3,182,045
Premises and equipment, net	93,015	88,902
Other real estate owned	2,168	4,763
Federal Home Loan Bank (FHLB) of Dallas stock and other restricted stock	14,256	12,321
Bank-owned life insurance (BOLI)	40,861	39,784
Deferred tax asset	5,892	2,235
Goodwill	258,643	229,457
Core deposit intangible, net	16,357	12,455
Other assets	22,212	26,115
Total assets	$5,055,000	$4,132,639
Liabilities, Temporary Equity and Stockholders' Equity		
Deposits:		
Noninterest-bearing	$1,071,656	$818,022
Interest-bearing	2,956,623	2,431,576
Total deposits	4,028,279	3,249,598
FHLB advances	288,325	229,405
Repurchase agreements	12,160	4,012
Other borrowings	68,295	69,410
Other borrowings, related parties	2,503	3,320
Junior subordinated debentures	18,147	18,147
Other liabilities	9,982	17,896
Total liabilities	4,427,691	3,591,788
Commitments and contingencies		
Temporary equity: Series A preferred stock (28,938.35 shares issued and outstanding)	23,938	—
Stockholders' equity:		
Series A preferred stock (23,938.35 shares issued and outstanding)	—	23,938
Common stock (18,399,194 and 17,032,669 shares outstanding, respectively)	184	170
Additional paid-in capital	530,107	476,609
Retained earnings	70,698	37,731
Accumulated other comprehensive income	2,382	2,403

Total stockholders' equity	603,371	540,851
Total liabilities, temporary equity and stockholders' equity	$5,055,000	$4,132,639

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Income
Years Ended December 31, 2015, 2014 and 2013
(Dollars in thousands, except per share information)

	Years ended December 31,		
	2015	2014	2013
Interest income:			
Interest and fees on loans	$169,504	$135,461	$84,350
Interest on taxable securities	2,168	2,803	1,516
Interest on nontaxable securities	1,783	1,429	1,024
Interest on federal funds sold and other	572	439	324
Total interest income	174,027	140,132	87,214
Interest expense:			
Interest on deposits	12,024	9,537	6,974
Interest on FHLB advances	3,077	3,678	3,303
Interest on repurchase agreements, notes payable and other borrowings	4,289	2,230	1,461
Interest on junior subordinated debentures	539	542	543
Total interest expense	19,929	15,987	12,281
Net interest income	154,098	124,145	74,933
Provision for loan losses	9,231	5,359	3,822
Net interest income after provision for loan losses	144,867	118,786	71,111
Noninterest income:			
Service charges on deposit accounts	7,982	6,009	4,841
Mortgage fee income	5,269	3,953	3,743
Gain on sale of loans	116	1,078	—
Gain on sale of other real estate	290	71	1,507
Gain on sale of securities available for sale	134	362	—
Loss on sale of premises and equipment	(358)	(22)	(18)
Increase in cash surrender value of BOLI	1,077	972	348
Other	1,618	1,201	600
Total noninterest income	16,128	13,624	11,021
Noninterest expense:			
Salaries and employee benefits	60,541	52,337	31,836
Occupancy	16,058	13,250	9,042
Data processing	3,384	2,080	1,347
FDIC assessment	2,259	1,797	500
Advertising and public relations	1,038	835	684
Communications	2,219	1,787	1,385
Net other real estate owned expenses (including taxes)	169	232	485
Operations of IBG Adriatica, net	—	23	806
Other real estate impairment	35	22	549
Core deposit intangible amortization	1,555	1,281	703
Professional fees	3,191	2,567	1,298
Acquisition expense, including legal	1,420	3,626	1,956
Other	11,329	8,675	7,080
Total noninterest expense	103,198	88,512	57,671

Income before taxes	57,797	43,898	24,461
Income tax expense	19,011	14,920	4,661
Net income	$38,786	$28,978	$19,800
Basic earnings per share	$2.23	$1.86	$1.78
Diluted earnings per share	$2.21	$1.85	$1.77
Pro Forma:			
Income tax expense	n/a	n/a	8,287
Net income	n/a	n/a	$16,174
Basic earnings per share	n/a	n/a	$1.45
Diluted earnings per share	n/a	n/a	$1.44

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2015, 2014 and 2013
(Dollars in thousands)

	Years ended December 31,		
	2015	2014	2013
Net income	$38,786	$28,978	$19,800
Other comprehensive income (loss) before tax:			
Change in net unrealized gains (losses) on available for sale securities during the year	101	5,798	(5,229)
Reclassification adjustment for gain on sale of securities available for sale included in net income	(134)	(362)	—
Other comprehensive income (loss) before tax	(33)	5,436	(5,229)
Income tax expense (benefit)	(12)	1,903	(1,521)
Other comprehensive income (loss), net of tax	(21)	3,533	(3,708)
Comprehensive income	$38,765	$32,511	$16,092

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2015, 2014 and 2013
(Dollars in thousands, except for par value, share and per share information)

	Series A Preferred Stock $.01 Par Value 10 million shares authorized	Common Stock $.01 Par Value 100 million shares authorized Shares	Amount	Additional Paid in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2012	$—	8,278,354	$83	$88,791	$33,290	$(232)	$ 2,578	$124,510
Net income	—	—	—	—	19,800	—	—	19,800
Other comprehensive loss, net of tax	—	—	—	—	—	—	(3,708)	(3,708)
Treasury stock retired	—	(8,647)	—	(232)	—	232	—	—
Common stock issued, net of offering costs	—	3,680,000	37	86,534	—	—	—	86,571
Reclassification adjustment for change in taxable status	—	—	—	33,624	(33,624)	—	—	—
Stock issued for acquisition of bank	—	247,731	2	11,859	—	—	—	11,861
Restricted stock granted	—	132,720	1	(1)	—	—	—	—
Excess tax benefit on restricted stock vested	—	—	—	72	—	—	—	72
Stock based compensation expense	—	—	—	1,469	—	—	—	1,469
Dividends ($0.77 per share)	—	—	—	—	(6,803)	—	—	(6,803)
Balance, December 31, 2013	$—	12,330,158	$123	$222,116	$12,663	$—	$ (1,130)	$233,772
Net income	—	—	—	—	28,978	—	—	28,978
Other comprehensive income, net of tax	—	—	—	—	—	—	3,533	3,533
Series A preferred stock issued	23,938	—	—	—	—	—	—	23,938
Stock issued for acquisition of banks, net of offering costs of $566	—	4,489,336	45	250,172	—	—	—	250,217
Restricted stock forfeited	—	(394)	—	—	—	—	—	—
Restricted stock granted	—	213,569	2	(2)	—	—	—	—
Excess tax benefit on restricted stock vested	—	—	—	1,409	—	—	—	1,409
Stock based compensation expense	—	—	—	2,914	—	—	—	2,914

Preferred stock dividends	—	—	—	—	(169)	—	—	(169)
Dividends ($0.24 per share)	—	—	—	—	(3,741)	—	—	(3,741)
Balance, December 31, 2014	$23,938	17,032,669	$170	$476,609	$37,731	$—	$ 2,403	$540,851
Net income	—	—	—	—	38,786	—	—	38,786
Other comprehensive loss, net of tax	—	—	—	—	—	—	(21)	(21)
Stock issued for acquisition of bank, net of offering costs of $568	—	1,279,532	13	49,257	—	—	—	49,270
Restricted stock forfeited	—	(19,131)	—	—	—	—	—	—
Restricted stock granted	—	106,124	1	(1)	—	—	—	—
Income tax deficiency on restricted stock vested	—	—	—	(72)	—	—	—	(72)
Reclassification to temporary equity	(23,938)	—	—	—	—	—	—	(23,938)
Stock based compensation expense	—	—	—	4,314	—	—	—	4,314
Preferred stock dividends	—	—	—	—	(240)	—	—	(240)
Dividends ($0.32 per share)	—	—	—	—	(5,579)	—	—	(5,579)
Balance, December 31, 2015	$—	18,399,194	$184	$530,107	$70,698	$—	$ 2,382	$603,371

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2015, 2014 and 2013
(Dollars in thousands)

	Years ended December 31, 2015	2014	2013
Cash flows from operating activities:			
Net income	$38,786	$28,978	$19,800
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	6,270	5,285	4,322
Amortization of core deposit intangibles	1,555	1,281	703
Amortization of premium on securities, net	1,558	2,002	145
Stock grants amortized	4,314	2,914	1,469
FHLB stock dividends	(43)	(47)	(27)
Net loss on sale of premises and equipment	358	22	18
Gain on sale of loans	(116)	(1,078)	—
Gain on sale of securities available for sale	(134)	(362)	—
Gain on sale of other real estate owned	(290)	(71)	(1,507)
Impairment of other real estate	35	22	549
Deferred tax (benefit) expense	(3,935)	71	(2,083)
Provision for loan losses	9,231	5,359	3,822
Increase in cash surrender value of life insurance	(1,077)	(972)	(348)
Mortgage loans originated for sale	(215,404)	(148,910)	(161,160)
Proceeds from sale of mortgage loans	208,129	147,840	166,939
Net change in other assets	6,087	(4,769)	(2,582)
Net change in other liabilities	(9,032)	3,107	701
Net cash provided by operating activities	46,292	40,672	30,761
Cash flows from investing activities:			
Proceeds from maturities and paydowns of securities available for sale	535,141	1,483,062	282,102
Proceeds from sale of securities available for sale	14,915	19,260	4,067
Purchases of securities available for sale	(546,294)	(1,430,794)	(309,853)
Proceeds from maturities of certificates of deposits held in other banks	22,781	—	7,720
Purchase of bank owned life insurance contracts	—	—	(10,000)
Net (purchases) redemptions of FHLB stock	(1,552)	4,033	(146)
Proceeds from sale of loans	4,765	12,147	—
Net loans originated	(520,620)	(439,366)	(285,181)
Additions to premises and equipment	(13,781)	(4,854)	(6,795)
Proceeds from sale of premises and equipment	4,254	18	442
Proceeds from sale of other real estate owned	2,460	3,415	17,081
Capitalized additions to other real estate	(10)	(28)	(93)
Cash received from acquired banks	152,913	286,596	22,792
Cash paid in connection with acquisitions	(24,103)	(60,812)	(18,412)
Net cash used in investing activities	(369,131)	(127,323)	(296,276)
Cash flows from financing activities:			
Net increase in demand deposits, NOW and savings accounts	245,831	230,070	145,085
Net increase in time deposits	6,128	79,850	63,330

Repayments of FHLB advances	(293,916)	(517,079)	(3,117)
Proceeds from FHLB advances	350,000	464,000	—
Net change in repurchase agreements	(7,653)	279	—
Repayments of notes payable and other borrowings	(1,932)	—	(28,787)
Proceeds from other borrowings	—	65,000	—
Offering costs paid in connection with acquired banks	(568)	(566)	—
Proceeds from sale of common stock	—	—	86,571
Dividends paid	(5,819)	(3,910)	(6,803)
Net cash provided by financing activities	292,071	317,644	256,279
Net change in cash and cash equivalents	(30,768)	230,993	(9,236)
Cash and cash equivalents at beginning of year	324,047	93,054	102,290
Cash and cash equivalents at end of year	$293,279	$324,047	$93,054

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
(Dollars in thousands, except for share and per share information)

Note 1. Summary of Significant Accounting Policies
Nature of Operations: Independent Bank Group, Inc. (IBG) through its subsidiary, Independent Bank, a Texas state banking corporation (Bank) (collectively known as the Company), provides a full range of banking services to individual and corporate customers in the north, central and southeast Texas areas through its various branch locations in those areas. The Company is engaged in traditional community banking activities, which include commercial and retail lending, deposit gathering, investment and liquidity management activities. The Company's primary deposit products are demand deposits, money market accounts and certificates of deposit, and its primary lending products are commercial business and real estate, real estate mortgage and consumer loans.
Basis of Presentation: The accompanying consolidated financial statements include the accounts of IBG, its wholly-owned subsidiaries, the Bank and IBG Adriatica Holdings, Inc. (Adriatica) and the Bank's wholly-owned subsidiaries, IBG Real Estate Holdings, Inc., IBG Aircraft Acquisition, Inc., IBG Aircraft Company III and Preston Grand, Inc. IBG Aircraft Company III was formed in 2015 to hold the Company's new aircraft and Preston Grand, Inc. was acquired in the Grand Bank acquisition (see Note 22) and holds the Bank building and land for that acquired branch. Adriatica became inactive in 2014 and IBG Aircraft Acquisition, Inc. was dissolved during 2015. All material intercompany transactions and balances have been eliminated in consolidation. In addition, the Company wholly-owns IB Trust I (Trust I), IB Trust II (Trust II), IB Trust III (Trust III), IB Centex Trust I (Centex Trust I) and Community Group Statutory Trust I (CGI Trust I). The Trusts were formed to issue trust preferred securities and do not meet the criteria for consolidation (see Note 13).

Accounting standards codification: The Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) is the officially recognized source of authoritative U.S. generally accepted accounting principles (GAAP) applicable to all public and non-public non-governmental entities. Rules and interpretive releases of the SEC under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered non-authoritative. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure.
Segment Reporting: The Company has one reportable segment. The Company's chief operating decision-maker uses consolidated results to make operating and strategic decisions.
Initial Public Offering (IPO): IBG qualifies as an "emerging growth company" as defined by the Jumpstart Our Business Startups Act (JOBS Act). On February 27, 2013, the Company filed a Registration Statement on Form S-1 with the SEC. That Registration Statement was declared effective by the SEC on April 2, 2013. The Company sold and issued 3,680,000 shares of common stock at $26 per share in reliance on that Registration Statement. Total proceeds received by the Company, net of offering costs were approximately $87 million.
In connection with the initial public offering, the Company terminated its S-Corporation status and became a taxable corporate entity (C Corporation) on April 1, 2013. The consolidated statement of changes in stockholders' equity presents a constructive distribution to the owners followed by a contribution to the capital of the corporate entity. The transfer did not affect total stockholders' equity.

Use of estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates. The material estimates included in the financial statements relate to the allowance for loan losses, the valuation of goodwill and valuation of assets and liabilities acquired in business combinations.

Cash and cash equivalents: For the purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold. All highly liquid investments with an initial maturity of less than ninety days are considered to be cash equivalents. The Company maintains deposits with other financial institutions in amounts that exceed FDIC insurance coverage. The Company's management monitors the balance in these accounts and periodically assesses the financial condition of the other financial institutions. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks on cash or cash equivalents.

Cash and cash equivalents include interest-bearing funds of $141,994 and $170,889 at December 31, 2015 and 2014, respectively.

Certificates of deposit: Certificates of deposit are FDIC insured deposits in other financial institutions that mature within one year and are carried at cost.

Securities: Securities classified as available for sale are those debt securities that the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors.

Securities available for sale are reported at fair value with unrealized gains or losses reported as a separate component of other comprehensive income, net of tax. The amortization of premiums and accretion of discounts, computed by the interest method over their contractual lives, are recognized in interest income.

Realized gains or losses, determined on the basis of the cost of specific securities sold, are included in earnings on the trade date.

In estimating other than temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent of the Company to retain its investment and whether it is more likely than not the Company will be required to sell its investment before its anticipated recovery in fair value. When the Company does not intend to sell the security, and it is more likely than not that it will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other than temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income.

Loans held for sale: The Company originates residential mortgage loans that may subsequently be sold tounaffiliated third parties. The loans are not securitized and if sold, are sold without recourse. Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by aggregate outstanding commitments from investors. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Gains and losses on sales of loans are recognized in noninterest income at settlement dates and are determined by the difference between the sales proceeds and the carrying value of the loans.

Acquired loans: Acquired loans from the transactions accounted for as a business combination include both non-performing loans with evidence of credit deterioration since their origination date and performing loans. The Company is accounting for the non-performing loans acquired in accordance with ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. At the date of the acquisition, the acquired loans are recorded at their fair value and there is no carryover of the seller's allowance for loan losses.

Purchased credit impaired loans are accounted for individually. The Company estimates the amount and timing of undiscounted expected cash flows for each loan, and the expected cash flows in excess of fair value is recorded as interest income over the remaining life of the loan (accretable yield). The excess of the loan's contractual principal and interest over expected cash flows is not recorded (nonaccretable difference).

Over the life of the loan, expected cash flows continue to be estimated. If the expected cash flows decrease, an impairment loss is recorded. If the expected cash flows increase, it is recognized as part of future interest income.

The performing loans are being accounted for under ASC 310-20, Nonrefundable Fees and Other Costs, with the related discount being adjusted for over the life of the loan and recognized as interest income.

Loans, net: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balance adjusted for the allowance for loan losses and deferred loan fees.

Fees and costs associated with originating loans are generally recognized in the period they are incurred, except in the Houston market and former Grand Bank branches, which fees are deferred. The provisions of ASC 310, Receivables, generally provide that such fees and related costs be deferred and recognized over the life of the loan as an adjustment of yield. Management believes that not deferring such amounts and amortizing them over the life of the related loans does not materially affect the financial position or results of operations of the Company.

Allowance for loan losses: The allowance for loan losses is maintained at a level considered adequate by management to provide for probable loan losses. The allowance is increased by provisions charged to expense. Loans are charged against the allowance for loan losses when management believes that collectibility of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance. The provision for loan losses is the amount, which, in the judgment of management, is necessary to establish the allowance for loan losses at a level that is adequate to absorb known and inherent risks in the loan portfolio. See Note 6 for further information on the Company's policies and methodology used to estimate the allowance for loan losses.

Premises and equipment, net: Land is carried at cost. Bank premises, furniture and equipment and aircraft are carried at cost, less accumulated depreciation computed principally by the straight-line method over the estimated useful lives of the assets, which range from three to thirty years.

Leasehold improvements are carried at cost and are depreciated over the shorter of the estimated useful life or the lease period.

Long-term assets: Premises and equipment and other long-term assets are reviewed for impairment when events indicate that their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Other real estate owned: Real estate properties acquired through, or in lieu of, loan foreclosure are initially recorded at fair value less estimated selling costs at the date of foreclosure, establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less cost to sell.

Revenue and expenses from operations of other real estate owned and Adriatica real estate and impairment charges on other real estate are included in noninterest expense. Gains and losses on sale of other real estate are included in noninterest income.

Goodwill and core deposit intangible, net: Goodwill represents the excess of costs over fair value of net assets of businesses acquired. Goodwill is tested for impairment annually on December 31 or on an interim basis if an event triggering impairment may have occurred.

Core deposit intangibles are acquired customer relationships arising from bank acquisitions and are being amortized on a straight-line basis over their estimated useful lives of ten years. Core deposit intangibles are tested for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable from future undiscounted cash flows.

Restricted stock: The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB of Dallas and Independent Bankers Financial Corporation stock do not have readily determinable fair values as ownership is restricted and they lack a ready market. As a result, these stocks are carried at cost and evaluated periodically by management for impairment. Both cash and stock dividends are reported as income.

Bank-owned life insurance: Bank-owned life insurance is recorded at the amount that can be realized under the insurance contracts at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. Changes in the net cash surrender value of the policies, as well as insurance proceeds received are reflected in noninterest income.

Income taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities (excluding deferred tax assets and liabilities related to business combinations or components of other comprehensive income). Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. The effect of a change in tax rates on deferred assets and liabilities is recognized in income taxes during the period that includes the enactment date. A valuation allowance, if needed, reduces deferred tax assets to the expected amount more likely than not to be realized. Realization of deferred tax assets is dependent upon the level of historical income, prudent and feasible tax planning strategies, reversals of deferred tax liabilities and estimates of future taxable income.

The Company evaluates uncertain tax positions at the end of each reporting period. The Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefit recognized in the financial statements from any such position is measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. Any interest and/or penalties related to income taxes are reported as a component of income tax expense.

Loan commitments and related financial instruments: In the ordinary course of business, the Company has entered into certain off-balance-sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Management estimates losses on off-balance-sheet financial instruments using the same methodology as for portfolio loans. Estimated losses on off-balance-sheet financial instruments are recorded by charges to the provision for losses and credits to other liabilities in the Company's consolidated balance sheet. There were no estimated losses on off-balance sheet financial instruments as of December 31, 2015 or 2014.

Stock based compensation: Compensation cost is recognized for restricted stock awards issued to employees based on the market price of the Company's common stock on the grant date. Stock-based compensation expense is generally recognized using the straight-line method over the requisite service period for all awards.

Transfers of financial assets: Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.
Advertising costs: Advertising costs are expensed as incurred.

Business combinations: The Company applies the acquisition method of accounting for business combinations. Under the acquisition method, the acquiring entity in a business combination recognizes 100% of the assets acquired and liabilities assumed at their acquisition date fair values. Management utilizes valuation techniques appropriate for the asset or liability being measured in determining these fair values. Any excess of the purchase price over amounts allocated to assets acquired, including identifiable intangible assets, and liabilities assumed is recorded as goodwill. Where amounts allocated to assets acquired and liabilities assumed is greater than the purchase price, a bargain purchase gain is recognized. Acquisition-related costs are expensed as incurred.

Comprehensive income: Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income. Gains and losses on available for sale securities are reclassified to net income as the gains or losses are realized upon sale of the securities. Other than temporary impairment charges are reclassified to net income at the time of the charge.
Pro forma statements: Because the Company was not a taxable entity prior to April 1, 2013, pro forma amounts for income tax expense and basic and diluted earnings per share have been presented assuming the Company’s effective tax rate of 33.9% for the year ended December 31, 2013 as if it had been a C Corporation during the entire period. The difference in the statutory rate of 35% and the Company’s effective rate is primarily due to nontaxable income earned on municipal securities and bank owned life insurance. In addition, the pro forma results for the year ended December 31, 2013 excludes the initial deferred tax credit recorded as a result of the change in tax status.

Fair values of financial instruments: Accounting standards define fair value, establish a framework for measuring fair value in U.S. generally accepted accounting principles, and require certain disclosures about fair value measurements (see Note 18, Fair Value Measurements). In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

Subsequent events: Companies are required to evaluate events and transactions that occur after the balance sheet date but before the date the financial statements are issued. They must recognize in the financial statements the effect of all events or transactions that provide additional evidence of conditions that existed at the balance sheet date, including the estimates inherent in the financial statement preparation process. Entities shall not recognize the impact of events or transactions that provide evidence about conditions that did not exist at the balance sheet date but arose after that date. The Company has evaluated subsequent events through the date of filing these financial statements with the SEC and noted no subsequent events requiring financial statement recognition or disclosure, except as disclosed in Note 24.
Earnings per share: Basic earnings per common share are net income divided by the weighted average number of common shares outstanding during the period. The unvested share-based payment awards that contain rights to non forfeitable dividends are considered participating securities for this calculation. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under stock warrants. The dilutive effect of participating non vested common stock was not included as it was anti-dilutive. Proceeds from the assumed exercise of dilutive stock warrants are assumed to be used to repurchase common stock at the average market price.

	Years ended December 31,		
	2015	2014	2013
Basic earnings per share:			
Net income	$38,786	$28,978	$19,800
Less: Preferred stock dividends	(240)	(169)	—
Net income after preferred stock dividends	38,546	28,809	19,800
Less:			
Undistributed earnings allocated to participating securities	661	406	259
Dividends paid on participating securities	111	60	135
Net income available to common shareholders	$37,774	$28,343	$19,406
Weighted-average basic shares outstanding	16,974,484	15,208,544	10,921,777
Basic earnings per share	$2.23	$1.86	$1.78
Diluted earnings per share:			
Net income available to common shareholders	$37,774	$28,343	$19,406
Total weighted-average basic shares outstanding	16,974,484	15,208,544	10,921,777
Add dilutive stock warrants	84,595	98,454	68,468
Total weighted-average diluted shares outstanding	17,059,079	15,306,998	10,990,245
Diluted earnings per share	$2.21	$1.85	$1.77
Pro forma earnings per share:			
Pro forma net income	n/a	n/a	$16,174
Less undistributed earnings allocated to participating securities	n/a	n/a	187
Less dividends paid on participating securities	n/a	n/a	135
Pro forma net income available to common shareholders after tax	n/a	n/a	$15,852
Pro forma basic earnings per share	n/a	n/a	$1.45
Pro forma diluted earnings per share	n/a	n/a	$1.44
Anti-dilutive participating securities	58,726	96,840	159,485

Note 2. Recent Accounting Pronouncements

ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for the Company on January 1, 2016 and will change the presentation of debt issuance costs from an asset to a direct reduction of the related debt liability on the balance sheet. ASU 2015-15, Interest—Imputation of Interest (Subtopic 835-30) - Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, further addresses the presentation and subsequent measurement of debt issuance costs related to line-of-credit arrangements. This update is also effective on January 1, 2016 and is not expected to have a significant impact to the Company.

ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. The amendments in ASU 2015-16 require that an acquirer recognize adjustments to estimated amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the estimated amounts, calculated as if the accounting had been completed at the acquisition date. This update will be effective for the Company on January 1, 2016 and is not expected to have a significant impact to the Company's financial statements.

ASU 2016-01, Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this Update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01, among other things, i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (viii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. This update will be effective for the Company on January 1, 2018 and is not expected to have a significant impact to the Company's financial statements.

Note 3. Restrictions on Cash and Due From Banks

At December 31, 2015 and 2014, the Company had a deposit reserve requirement of $22,513 and $5,025, respectively, with the Federal Reserve Bank.

Note 4. Statement of Cash Flows

The Company has chosen to report on a net basis its cash receipts and cash payments for time deposits accepted and repayments of those deposits, and loans made to customers and principal collections on those loans. The Company uses the indirect method to present cash flows from operating activities. Other supplemental cash flow information is presented below:

	Years ended December 31,		
	2015	2014	2013
Cash transactions:			
Interest expense paid	$20,056	$14,016	$12,095
Income taxes paid	$24,450	$7,730	$5,910
Noncash transactions:			
Transfers of loans to other real estate owned	$221	$1,203	$2,919
Loans to facilitate the sale of other real estate owned	$248	$48	$113
Transfers of loans to other assets	$1,064	$—	$—
Writeoff of debt origination costs related to warrants	$—	$—	$223
Security purchased, not yet settled	$—	$327	$—
Excess tax benefit (tax deficiency) on restricted stock vested	$(72)	$1,409	$72
Transfer of bank premises to other real estate	$—	$2,400	$—
Transfer of repurchase accounts to deposits	$3,072	$—	$—

89

Supplemental schedule of noncash investing activities from acquisitions is as follows:

	Years Ended December 31,		
	2015	2014	2013
Noncash assets acquired			
Certificates of deposit held in other banks	$84,527	$—	$—
Securities available for sale	72,619	79,429	62,373
Restricted stock	340	6,813	1,156
Loans	273,632	1,051,390	72,611
Premises and equipment	1,214	19,038	141
Other real estate owned	—	1,224	—
Goodwill	28,825	194,179	5,962
Core deposit intangibles	5,457	10,606	600
Bank owned life insurance	—	17,540	—
Other assets	649	3,650	2,160
Total assets	$467,263	$1,383,869	$145,003
Noncash liabilities assumed:			
Deposits	$523,650	$1,228,854	$111,164
Repurchase agreements	18,873	3,733	—
FHLB advances	2,836	95,000	26,000
Other liabilities	876	7,345	358
Total liabilities	$546,235	$1,334,932	$137,522
Cash and cash equivalents acquired from acquisitions	$152,913	$286,596	$22,792
Cash paid to shareholders of acquired banks	$24,103	$60,812	$18,412
Series A preferred stock exchanged in connection with acquired banks	$—	$23,938	$—
Fair value of common stock issued to shareholders of acquired bank	$49,838	$250,783	$11,861

In addition, the following measurement-period adjustments were made during the years ended December 31, 2015, 2014 and 2013 relating to Company acquisition activity:

	Year Ended December 31, 2015	2014	2013
Noncash assets acquired:			
Loans	$—	$(328)	$—
Goodwill	361	574	—
Core deposit intangibles	—	(18)	—
Other assets	(180)	297	—
Total assets	$181	$525	$—
Noncash liabilities assumed:			
Deposits	$—	$505	$—
Other liabilities	181	20	—
Total liabilities	$181	$525	$—

Note 5. Securities Available for Sale

Securities available for sale have been classified in the consolidated balance sheets according to management’s intent. The amortized cost of securities and their approximate fair values at December 31, 2015 and 2014, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
December 31, 2015:				
U.S. treasuries	$999	$3	$—	$1,002
Government agency securities	135,630	237	(567)	135,300
Obligations of state and municipal subdivisions	83,442	2,222	(248)	85,416
Residential pass-through securities guaranteed by FNMA, GNMA and FHLMC	50,640	1,202	(97)	51,745
	$270,711	$3,664	$(912)	$273,463
December 31, 2014:				
U.S. treasuries	$999	$7	$—	$1,006
Government agency securities	58,174	199	(350)	58,023
Obligations of state and municipal subdivisions	75,599	1,837	(537)	76,899
Corporate bonds	1,068	13	—	1,081
Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC and FHR	67,437	1,616	—	69,053
	$203,277	$3,672	$(887)	$206,062

Securities with a carrying amount of approximately $195,479 and $174,741 at December 31, 2015 and 2014, respectively, were pledged to secure public fund deposits.

Proceeds from sale of securities available for sale and gross gains and losses for the years ended December 31, 2015, 2014 and 2013 were as follows:

	Years ended December 31,		
	2015	2014	2013
Proceeds from sale	$14,915	$19,260	$4,067
Gross gains	$136	$362	$—
Gross losses	$2	$—	$—

The amortized cost and estimated fair value of securities available for sale at December 31, 2015, by contractual maturity, are shown below. Maturities of pass-through certificates will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2015	
	Securities Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$17,387	$17,407
Due from one year to five years	137,589	137,191
Due from five to ten years	29,986	30,424
Thereafter	35,109	36,696
	220,071	221,718
Residential pass-through securities guaranteed by FNMA, GNMA and FHLMC	50,640	51,745
	$270,711	$273,463

The number of securities, unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2015 and 2014, are summarized as follows:

	Less Than 12 Months			Greater Than 12 Months			Total	
Description of Securities	Number of Securities	Estimated Fair Value	Unrealized Losses	Number of Securities	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Securities Available for Sale								
December 31, 2015								
Government agency securities	25	$84,798	$(531)	4	$4,964	$(36)	$89,762	$(567)
Obligations of state and municipal subdivisions	32	16,202	(88)	19	8,662	(160)	24,864	(248)
Residential pass-through securities guaranteed by FNMA, GNMA and FHLMC	6	10,765	(97)	—	—	—	10,765	(97)
	63	$111,765	$(716)	23	$13,626	$(196)	$125,391	$(912)
December 31, 2014								
Government agency securities	6	$6,396	$(24)	14	$22,671	$(326)	$29,067	$(350)
Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC and	44	16,636	(197)	13	8,541	(340)	25,177	(537)

FHR

	50	$23,032	$(221)	27	$31,212	$(666)	$54,244	$(887)

Unrealized losses are generally due to changes in interest rates. The Company has the intent to hold these securities until maturity or a forecasted recovery and it is more likely than not that the Company will not have to sell the securities before the recovery of their cost basis. As such, the losses are deemed to be temporary.

92

Note 6. Loans, Net and Allowance for Loan Losses

Loans, net at December 31, 2015 and 2014, consisted of the following:

	December 31, 2015	2014
Commercial	$731,818	$672,052
Real estate:		
Commercial	1,949,734	1,450,434
Commercial construction, land and land development	419,611	334,964
Residential	607,990	514,025
Single family interim construction	187,984	138,278
Agricultural	50,178	38,822
Consumer	41,966	52,267
Other	124	242
	3,989,405	3,201,084
Deferred loan fees	(1,553)	(487)
Allowance for loan losses	(27,043)	(18,552)
	$3,960,809	$3,182,045

The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans.

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. The Company's 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 identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. These cash flows, however, may not be as expected and the value of collateral securing the loans may fluctuate. 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; however, some short term loans may be made on an unsecured basis. Additionally, our commercial loan portfolio includes loans made to customers in the energy industry, which is a complex, technical and cyclical industry. Experienced bankers with specialized energy lending experience originate our energy loans. Companies in this industry produce, extract, develop, exploit and explore for oil and natural gas. Loans are primarily collateralized with proven producing oil and gas reserves based on a technical evaluation of these reserves. At December 31, 2015 and 2014, there was approximately $182.5 million and $231.7 million, respectively, of exploration and production (E&P) energy loans outstanding.

Commercial real estate loans are subject to underwriting standards and processes similar to commercial loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. 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 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. The properties securing the Company's commercial real estate portfolio are diverse in terms of type and geographic location. Management monitors the diversification of the portfolio on a quarterly basis by type and geographic location. Management also tracks the level of owner occupied property versus non owner occupied property.

Land and commercial land development loans are underwritten using feasibility studies, independent appraisal reviews and financial analysis of the developers or property owners. Generally, borrowers must have a proven track record of success. Commercial construction loans are generally based upon estimates of cost and value of the completed project. These estimates may not be accurate. Commercial construction loans often involve the disbursement of substantial funds with the repayment dependent on the success of the ultimate project. Sources of repayment for these loans may be pre-committed permanent financing or sale of the developed property. Management believes the loans in this portfolio are geographically diverse and due to the increased risk are monitored closely by management and the board of directors on a quarterly basis.

Residential real estate and single family interim construction loans are underwritten primarily based on borrowers' credit scores, documented income and minimum collateral values. Relatively small loan amounts are spread across many individual borrowers which minimizes risk in the residential portfolio. In addition, management evaluates trends in past dues and current economic factors on a regular basis.

Agricultural loans are collateralized by real estate and/or agricultural-related assets. Agricultural real estate loans are primarily comprised of loans for the purchase of farmland. Loan-to-value ratios on loans secured by farmland generally do not exceed 80% and have amortization periods limited to twenty years. Agricultural non-real estate loans are generally comprised of term loans to fund the purchase of equipment, livestock and seasonal operating lines to cash grain farmers to plant and harvest corn and soybeans. Specific underwriting standards have been established for agricultural-related loans including the establishment of projections for each operating year based on industry developed estimates of farm input costs and expected commodity yields and prices. Operating lines are typically written for one year and secured by the crop and other farm assets as considered necessary.

Agricultural loans carry significant credit risks as they involve larger balances concentrated with single borrowers or groups of related borrowers. In addition, repayment of such loans depends on the successful operation or management of the farm property securing the loan or for which an operating loan is utilized. Farming operations may be affected by adverse weather conditions such as drought, hail or floods that can severely limit crop yields.

Consumer loans represent less than 2% of the outstanding total loan portfolio. Collateral consists primarily of automobiles and other personal assets. Credit score analysis is used to supplement the underwriting process.

Most of the Company’s lending activity occurs within the State of Texas, primarily in the north, central and southeast Texas regions. The majority of the Company’s portfolio consists of commercial and residential real estate loans. As of December 31, 2015 and 2014, there were no concentrations of loans related to a single industry in excess of 10% of total loans.

The allowance for loan losses is an amount that management believes will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio. The allowance is derived from the following two components: 1) allowances established on individual impaired loans, which are based on a review of the individual characteristics of each loan, including the customer’s ability to repay the loan, the underlying collateral values, and the industry the customer operates, and 2) allowances based on actual historical loss experience for the last three years for similar types of loans in the Company’s loan portfolio adjusted for primarily changes in the lending policies and procedures; collection, charge-off and recovery practices; nature and volume of the loan portfolio; change in value of underlying collateral; volume and severity of nonperforming loans; existence and effect of any concentrations of credit and the level of such concentrations and current, national and local economic and business conditions. This second component also includes an unallocated allowance to cover uncertainties that could affect management’s estimate of probable losses. The unallocated allowance reflects the imprecision inherent in the underlying assumptions used in the methodologies for estimating this component.

The Company’s management continually evaluates the allowance for loan losses determined from the allowances established on individual loans and the amounts determined from historical loss percentages adjusted for the qualitative factors above. Should any of the factors considered by management change, the Company’s estimate of loan losses could also change and would affect the level of future provision expense. While the calculation of the allowance for loan losses utilizes management’s best judgment and all the information available, the adequacy of the allowance for loan losses is dependent on a variety of factors beyond the Company’s control, including, among other things, the performance of the entire loan portfolio, the economy, changes in interest rates and the view of regulatory authorities towards loan classifications.

In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank’s allowance for loan losses, and may require the Bank to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

Loans requiring an allocated loan loss provision are generally identified at the servicing officer level based on review of weekly past due reports and/or the loan officer’s communication with borrowers. In addition, past due loans are discussed at weekly officer loan committee meetings to determine if classification is warranted. The Company’s credit department has implemented an internal risk based loan review process to identity potential internally classified loans that supplements the annual independent external loan review. The external review generally covers all loans greater than $2.4 million annually. These reviews include analysis of borrower’s financial condition, payment histories and collateral values to determine if a loan should be internally classified. Generally, once classified, an impaired loan analysis is completed by the credit department to determine if the loan is impaired and the amount of allocated allowance required.

The Texas economy has been affected by the continued decline in oil prices over the past year, however, the north and central Texas areas that the Company lends in have continued to experience economic growth. The southeast area of Texas has been the most impacted by commodity prices. These prolonged declines in oil prices have the potential to further negatively impact the Texas economy and increase the risk of loss for all segments of the portfolio. The Company increased its allowance for loan losses during the year ended December 31, 2015 in consideration of this risk to the energy portfolio.

The economy and other risk factors are minimized by the Company's underwriting standards which include the following principles: 1) financial strength of the borrower including strong earnings, high net worth, significant liquidity and acceptable debt to worth ratio, 2) managerial business competence, 3) ability to repay, 4) loan to value, 5) projected cash flow and 6) guarantor financial statements as applicable. The following is a summary of the activity in the allowance for loan losses by loan class for the years ended December 31, 2015, 2014 and 2013:

	Commercial	Commercial Real Estate, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Unallocated	Total
Year ended December 31, 2015									
Balance at the beginning of year	$ 5,051	$ 10,110	$ 2,205	$ 669	$ 246	$ 146	$ —	$ 125	$ 18,552
Provision for loan losses	6,100	2,924	138	100	(31)	149	—	(149)	9,231
Charge-offs	(606)	(69)	(9)	—	—	(176)	—	—	(860)
Recoveries	28	42	5	—	—	45	—	—	120
Balance at end of year	$ 10,573	$ 13,007	$ 2,339	$ 769	$ 215	$ 164	$ —	$ (24)	$ 27,043
Year ended December 31, 2014									
Balance at the beginning of year	$ 2,401	$ 7,872	$ 2,440	$ 577	$ 238	$ 363	$ —	$ 69	$ 13,960
Provision for loan losses	2,999	2,530	(211)	81	8	(104)	—	56	5,359
Charge-offs	(368)	(371)	(32)	—	—	(143)	—	—	(914)
Recoveries	19	79	8	11	—	30	—	—	147
Balance at end of year	$ 5,051	$ 10,110	$ 2,205	$ 669	$ 246	$ 146	$ —	$ 125	$ 18,552
Year ended December 31, 2013									
Balance at the beginning of year	$ 2,377	$ 4,924	$ 2,965	$ 523	$ 159	$ 278	$ —	$ 252	$ 11,478
Provision for loan losses	616	3,554	(405)	54	79	107	—	(183)	3,822
Charge-offs	(612)	(634)	(130)	—	—	(64)	—	—	(1,440)
Recoveries	20	28	10	—	—	42	—	—	100
Balance at end of year	$ 2,401	$ 7,872	$ 2,440	$ 577	$ 238	$ 363	$ —	$ 69	$ 13,960

The following table details the amount of the allowance for loan losses and recorded investment in loans by class as of December 31, 2015 and 2014:

	Commercial	Commercial Real Estate, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Unallocated	Total
December 31, 2015									
Allowance for losses:									
Individually evaluated for impairment	$ 3,085	$ 116	$—	$ —	$ —	$ 2	$—	$ —	$ 3,203
Collectively evaluated for impairment	7,488	12,891	2,339	769	215	162	—	(24)	23,840
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—
Ending balance	$ 10,573	$ 13,007	$ 2,339	$ 769	$ 215	$ 164	$—	$ (24)	$ 27,043
Loans:									
Individually evaluated for impairment	$ 7,382	$ 4,671	$ 3,136	$ —	$ 170	$ 111	$—	$ —	$ 15,470
Collectively evaluated for impairment	720,732	2,321,209	602,206	187,984	50,008	41,835	124	—	3,924,098
Acquired with deteriorated credit quality	3,704	43,465	2,648	—	—	20	—	—	49,837
Ending balance	$ 731,818	$ 2,369,345	$ 607,990	$ 187,984	$ 50,178	$ 41,966	$ 124	$ —	$ 3,989,405
December 31, 2014									
Allowance for losses:									
Individually evaluated for impairment	$ 339	$ 124	$ 8	$ —	$ —	$ 4	$—	$ —	$ 475
Collectively evaluated for impairment	4,712	9,986	2,197	669	246	142	—	125	18,077
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—
Ending balance	$ 5,051	$ 10,110	$ 2,205	$ 669	$ 246	$ 146	$—	$ 125	$ 18,552
Loans:									
	$ 1,479	$ 6,768	$ 3,387	$ —	$ —	$ 75	$—	$ —	$ 11,709

Individually evaluated for impairment									
Collectively evaluated for impairment	666,830	1,724,514	508,833	138,278	38,822	52,159	242	—	3,129,678
Acquired with deteriorated credit quality	3,743	54,116	1,805	—	—	33	—	—	59,697
Ending balance	$ 672,052	$ 1,785,398	$ 514,025	$ 138,278	$ 38,822	$ 52,267	$ 242	$ —	$ 3,201,084

Nonperforming loans by loan class at December 31, 2015 and 2014, are summarized as follows:

	Commercial	Commercial Real Estate, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Total
December 31, 2015:								
Nonaccrual loans	$ 7,366	$ 591	$ 552	$ —	$ 170	$ 111	$—	$ 8,790
Loans past due 90 days and still accruing	—	—	—	—	—	—	—	—
Troubled debt restructurings (not included in nonaccrual or loans past due and still accruing)	16	3,480	2,574	—	—	—	—	6,070
	$ 7,382	$ 4,071	$ 3,126	$ —	$ 170	$ 111	$—	$ 14,860
December 31, 2014:								
Nonaccrual loans	$ 1,449	$ 70	$ 2,117	$ —	$ —	$ 67	$—	$ 3,703
Loans past due 90 days and still accruing	157	288	—	—	—	6	—	451
Troubled debt restructurings (not included in nonaccrual or loans past due and still accruing)	30	4,668	1,254	—	—	8	—	5,960
	$ 1,636	$ 5,026	$ 3,371	$ —	$ —	$ 81	$—	$ 10,114

The accrual of interest is discontinued on a loan when management believes after considering collection efforts and other factors that the borrower's financial condition is such that collection of interest is doubtful. All interest accrued but not collected for loans that are placed on nonaccrual status or charged-off is reversed against interest income. Cash collections on nonaccrual loans are generally credited to the loan receivable balance, and no interest income is recognized on those loans until the principal balance has been collected. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.
Impaired loans are those loans where it is probable that all amounts due according to contractual terms of the loan agreement will not be collected. The Company has identified these loans through its normal loan review procedures. Impaired loans are measured based on 1) the present value of expected future cash flows discounted at the loans effective interest rate; 2) the loan's observable market price; or 3) the fair value of collateral if the loan is collateral dependent. Substantially all of the Company’s impaired loans are measured at the fair value of the collateral. In limited cases, the Company may use other methods to determine the level of impairment of a loan if such loan is not collateral dependent.
All commercial, real estate, agricultural loans and troubled debt restructurings are considered for individual impairment analysis. Smaller balance consumer loans are collectively evaluated for impairment.

Impaired loans by loan class at December 31, 2015 and 2014, are summarized as follows:

	Commercial	Commercial Real Estate, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Total
December 31, 2015:								
Recorded investment in impaired loans:								
Impaired loans with an allowance for loan losses	$ 7,221	$ 1,930	$ —	$ —	$ —	$ 5	$—	$ 9,156
Impaired loans with no allowance for loan losses	161	2,741	3,136	—	170	106	—	6,314
Total	$ 7,382	$ 4,671	$ 3,136	$ —	$ 170	$ 111	$—	$ 15,470
Unpaid principal balance of impaired loans	$ 7,520	$ 4,936	$ 3,204	$ —	$ 172	$ 133	$—	$ 15,965
Allowance for loan losses on impaired loans	$ 3,085	$ 116	$ —	$ —	$ —	$ 2	$—	$ 3,203
December 31, 2014:								
Recorded investment in impaired loans:								
Impaired loans with an allowance for loan losses	$ 1,475	$ 2,056	$ 13	$ —	$ —	$ 7	$—	$ 3,551
Impaired loans with no allowance for loan losses	4	4,712	3,374	—	—	68	—	8,158
Total	$ 1,479	$ 6,768	$ 3,387	$ —	$ —	$ 75	$—	$ 11,709
Unpaid principal balance of impaired loans	$ 1,482	$ 7,274	$ 3,605	$ —	$ —	$ 93	$—	$ 12,454
Allowance for loan losses on impaired loans	$ 339	$ 124	$ 8	$ —	$ —	$ 4	$—	$ 475
For the year ended December 31, 2015:								
Average recorded investment in impaired loans	$ 4,951	$ 5,904	$ 3,220	$ —	$ 34	$ 93	$—	$ 14,202
Interest income recognized on impaired loans	$ 189	$ 286	$ 181	$ —	$ 10	$ 24	$—	$ 690
For the year ended December 31, 2014:								
Average recorded investment in impaired loans	$ 502	$ 7,484	$ 3,253	$ 34	$ —	$ 69	$—	$ 11,342
Interest income recognized on impaired loans	$ 64	$ 400	$ 83	$ —	$ —	$ 3	$—	$ 550
For the year ended December 31, 2013:								
Average recorded investment in impaired loans	$ 649	$ 8,669	$ 3,384	$ 34	$ —	$ 80	$—	$ 12,816
Interest income recognized on impaired loans	$ 28	$ 517	$ 148	$ 6	$ —	$ 6	$—	$ 705

Certain impaired loans have adequate collateral and do not require a related allowance for loan loss.

The Company will charge off that portion of any loan which management considers a loss. Commercial and real estate loans are generally considered for charge-off when exposure beyond collateral coverage is apparent and when no further collection of the loss portion is anticipated based on the borrower’s financial condition.

The restructuring of a loan is considered a “troubled debt restructuring” if both 1) the borrower is experiencing financial difficulties and 2) the creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, extending amortization and other actions intended to minimize potential losses.

A "troubled debt restructured" loan is identified as impaired and measured for credit impairment as of each reporting period in accordance with the guidance in ASC 310-10-35. The recorded investment in troubled debt restructurings, including those on nonaccrual, was $6,691 and $7,302 as of December 31, 2015 and 2014.
Following is a summary of loans modified under troubled debt restructurings during the years ended December 31, 2015 and 2014:
.

	Commercial	Commercial Real Estate, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Total
Troubled debt restructurings during the year ended December 31, 2015								
Number of contracts	1	1	—	—	—	—	—	2
Pre-restructuring outstanding recorded investment	$90	$776	$—	$ —	$—	$—	$—	$866
Post-restructuring outstanding recorded investment	$90	$776	$—	$ —	$—	$—	$—	$866
Troubled debt restructurings during the year ended December 31, 2014								
Number of contracts	—	2	—	—	—	1	—	3
Pre-restructuring outstanding recorded investment	$—	$1,108	$—	$ —	$—	$9	$—	$1,117
Post-restructuring outstanding recorded investment	$—	$1,108	$—	$ —	$—	$9	$—	$1,117

At December 31, 2015 and 2014, there were no loans modified under troubled debt restructurings during the previous twelve month period that subsequently defaulted during the years ended December 31, 2015 and 2014. At December, 31, 2015 and 2014, the Company had no commitments to lend additional funds to any borrowers with loans whose terms have been modified under troubled debt restructurings.
Modifications primarily relate to extending the amortization periods of the loans and interest rate concessions. The majority of these loans were identified as impaired prior to restructuring; therefore, the modifications did not materially impact the Company's determination of the allowance for loan losses.

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. The following table presents information regarding the aging of past due loans by loan class as of December 31, 2015 and 2014:

	Loans 30-89 Days Past Due	Loans 90 or More Past Due	Total Past Due Loans	Current Loans	Total Loans
December 31, 2015					
Commercial	$2,740	$7,220	$9,960	$721,858	$731,818
Commercial real estate, land and land development	2,059	—	2,059	2,367,286	2,369,345
Residential real estate	1,456	330	1,786	606,204	607,990
Single-family interim construction	503	—	503	187,481	187,984
Agricultural	89	170	259	49,919	50,178
Consumer	290	26	316	41,650	41,966
Other	—	—	—	124	124
	$7,137	$7,746	$14,883	$3,974,522	$3,989,405
December 31, 2014					
Commercial	$6,006	$157	$6,163	$665,889	$672,052
Commercial real estate, land and land development	973	288	1,261	1,784,137	1,785,398
Residential real estate	1,258	554	1,812	512,213	514,025
Single-family interim construction	410	—	410	137,868	138,278
Agricultural	—	—	—	38,822	38,822
Consumer	1,899	8	1,907	50,360	52,267
Other	—	—	—	242	242
	$10,546	$1,007	$11,553	$3,189,531	$3,201,084

The Company’s internal classified report is segregated into the following categories: 1) Pass/Watch, 2) Other Assets Especially Mentioned (OAEM), 3) Substandard and 4) Doubtful. The loans placed in the Pass/Watch category reflect the Company’s opinion that the loans reflect potential weakness which requires monitoring on a more frequent basis. The loans in the OAEM category reflect the Company’s opinion that the credit contains weaknesses which represent a greater degree of risk and warrant extra attention. These loans are reviewed monthly by officers and senior management to determine if a change in category is warranted. The loans placed in the Substandard category are considered to be potentially inadequately protected by the current debt service capacity of the borrower and/or the pledged collateral. These credits, even if apparently protected by collateral value, have shown weakness related to adverse financial, managerial, economic, market or political conditions which may jeopardize repayment of principal and interest. There is possibility that some future loss could be sustained by the Company if such weakness is not corrected. The Doubtful category includes loans that are in default or principal exposure is probable. Substandard and Doubtful loans are individually evaluated to determine if they should be classified as impaired and an allowance is allocated if deemed necessary under ASC 310-10.

The loans that are not impaired are included with the remaining “pass” credits in determining the portion of the allowance for loan loss based on historical loss experience and other qualitative factors. The portfolio is segmented into categories including: commercial loans, consumer loans, commercial real estate loans, residential real estate loans and agricultural loans. The adjusted historical loss percentage is applied to each category. Each category is then added together to determine the allowance allocated under ASC 450-20.

A summary of loans by credit quality indicator by class as of December 31, 2015 and 2014, is as follows:

	Pass	Pass/ Watch	OAEM	Substandard	Doubtful	Total
December 31, 2015						
Commercial	$616,149	$46,607	$44,469	$24,593	$—	$731,818
Commercial real estate, construction, land and land development	2,343,883	18,463	3,341	3,658	—	2,369,345
Residential real estate	599,937	2,150	982	4,921	—	607,990
Single-family interim construction	187,984	—	—	—	—	187,984
Agricultural	48,185	66	1,757	170	—	50,178
Consumer	41,601	57	32	276	—	41,966
Other	124	—	—	—	—	124
	$3,837,863	$67,343	$50,581	$33,618	$—	$3,989,405
December 31, 2014						
Commercial	$647,894	$16,919	$977	$6,262	$—	$672,052
Commercial real estate, construction, land and land development	1,759,533	8,667	6,008	11,190	—	1,785,398
Residential real estate	505,920	2,188	325	5,592	—	514,025
Single-family interim construction	138,278	—	—	—	—	138,278
Agricultural	38,422	57	—	343	—	38,822
Consumer	52,055	39	50	123	—	52,267
Other	242	—	—	—	—	242
	$3,142,344	$27,870	$7,360	$23,510	$—	$3,201,084

The Company has acquired certain loans which experienced credit deterioration since origination (purchased credit impaired (PCI) loans). Accretion on PCI loans is based on estimated future cash flows, regardless of contractual maturity. There are no PCI loans outstanding for acquisitions prior to 2012.

The following table summarizes the outstanding balance and related carrying amount of purchased credit impaired loans by acquired bank as of the respective acquisition date for the acquisitions occurring in 2015 and 2014:

	Acquisition Date			
	November 1, 2015	October 1, 2014	April 15, 2014	January 1, 2014
	Grand Bank *	Houston City Bancshares	BOH Holdings	Live Oak Financial Corp.
Outstanding balance	$3,548	$12,021	$53,316	$3,583
Nonaccretable difference	(660)	(1,240)	(3,717)	(519)
Accretable yield	—	(561)	(3,511)	(182)
Carrying amount	$2,888	$10,220	$46,088	$2,882

* Amounts represent provisional estimates and are subject to final acquisition accounting adjustments.

The changes in accretable yield during the years ended December 31, 2015 and 2014 in regard to loans transferred at acquisition for which it was probable that all contractually required payments would not be collected are presented in the table below.

101

	2015	2014
Balance at January 1	$2,546	$408
Additions	—	4,254
Accretion	(1,048)	(2,116)
Net transfers to/from nonaccretable	882	—
Balance at December 31	$2,380	$2,546

The carrying amount of acquired PCI loans included in the consolidated balance sheet and the related outstanding balance at December 31, 2015 and 2014, were as follows:

	December 31, 2015	2014
Outstanding balance	$57,178	$69,371
Carrying amount	49,837	59,697

At December 31, 2015 and 2014, there was no allocation established in the allowance for loan losses related to purchased credit impaired loans.

Note 7. Premises and Equipment, Net

Premises and equipment, net at December 31, 2015 and 2014 consisted of the following:

	December 31, 2015	2014
Land	$20,081	$19,421
Building	71,448	69,243
Furniture, fixtures and equipment	23,629	21,356
Aircraft	8,807	5,298
Leasehold and tenant improvements	1,714	1,416
Construction in progress	642	25
	126,321	116,759
Less accumulated depreciation	(33,306)	(27,857)
	$93,015	$88,902

Depreciation expense amounted to $6,270, $5,285 and $4,322 for the years ended December 31, 2015, 2014 and 2013, respectively.

The Company leases offices in the corporate location and other buildings to other unaffiliated tenants. Rental income of $277, $399 and $726 was recognized during the years ended December 31, 2015, 2014 and 2013, respectively. This rental income is recorded in the statements of income as an offset to occupancy expense.

At December 31, 2015, minimum future rental payments receivable from these tenants were as follows:

First year	$176
Second year	116
Third year	43
Fourth year	—
Fifth year	—
	$335

Note 8. Other Real Estate Owned

Other real estate owned at December 31, 2015 and 2014 consisted of the following:

	December 31,	
	2015	2014
Construction, land and land development	$1,198	$1,761
Commercial real estate	970	3,002
	$2,168	$4,763

Note 9. Goodwill and Core Deposit Intangible, Net

At December 31, 2015 and 2014, goodwill totaled $258,643 and $229,457, respectively. In 2015, the Company made measurement-period adjustments of $118 and $243 relating to the BOH Holdings and Houston City Bancshares acquisitions, respectively, and recorded goodwill of $28,825 relating to the acquisition of Grand Bank in November 2015 (Note 22).

The gross carrying value and accumulated amortization of core deposit intangible is as follows:

	December 31,	
	2015	2014
Core deposit intangible	$23,019	$17,562
Less accumulated amortization	(6,662)	(5,107)
	$16,357	$12,455

Amortization of the core deposit intangible amounted to $1,555, $1,281 and $703 for the years ended December 31, 2015, 2014 and 2013, respectively.

The future amortization expense related to core deposit intangible remaining at December 31, 2015 is as follows:

First year	$1,989
Second year	1,989
Third year	1,967
Fourth year	1,921
Fifth year	1,891
Thereafter	6,600
	$16,357

Note 10. Deposits

Deposits at December 31, 2015 and 2014 consisted of the following:

	December 31,					
	2015			2014		
	Amount	Percent		Amount	Percent	
Noninterest-bearing demand accounts	$1,071,656	26.6	%	$818,022	25.2	%
Interest-bearing checking accounts	1,401,078	34.8		1,213,937	37.4	
Savings accounts	141,792	3.5		142,989	4.4	
Limited access money market accounts	568,492	14.1		251,790	7.7	
Certificates of deposit and individual retirement accounts (IRA), less than $250,000	470,336	11.7		509,072	15.7	
Certificates of deposit and individual retirement accounts (IRA), $250,000 and greater	374,925	9.3		313,788	9.6	
	$4,028,279	100.0	%	$3,249,598	100.0	%

At December 31, 2015, the scheduled maturities of certificates of deposit, including IRAs, were as follows:

First year	$688,500
Second year	83,074
Third year	43,949
Fourth year	10,956
Fifth year	18,714
Thereafter	68
	$845,261

Brokered deposits at December 31, 2015 and 2014 totaled $476,558 and $355,112, respectively.

Note 11. Federal Home Loan Bank Advances

At December 31, 2015, the Company has advances from the FHLB of Dallas under note payable arrangements with maturities which range from January 15, 2016 to January 1, 2026. Interest payments on these notes are made monthly. The weighted average interest rate of all notes was 1.21% and 1.48% at December 31, 2015 and 2014, respectively. The balances outstanding on these advances were $288,325 and $229,405 at December 31, 2015 and 2014, respectively.

Contractual maturities of FHLB advances at December 31, 2015 were as follows:

First year	$152,504
Second year	30,000
Third year	65,000
Fourth year	40,054
Fifth year	—
Thereafter	767
	$288,325

The advances are secured by FHLB stock owned by the Company and a blanket lien on certain loans with an aggregate available carrying value of $1,566,180 at December 31, 2015. The Company had remaining credit available under the FHLB advance program of $817,049 at December 31, 2015.

At December 31, 2015, the Company had $461,455 in undisbursed advance commitments (letters of credit) with the FHLB. As of December 31, 2015, these commitments mature on various dates from January 2016 through October 2017. The FHLB letters of credit were obtained in lieu of pledging securities to secure public fund deposits that are over the FDIC insurance limit. At December 31, 2015, there were no disbursements against the advance commitments.

Note 12. Repurchase Agreements and Other Borrowings

At December 31, 2015 and 2014, repurchase accounts totaled $12,160 and $4,012, respectively. At December 31, 2015, securities held in safekeeping totaling $24,916 were pledged as security on these repurchase agreement accounts.

Other borrowings at December 31, 2015 and 2014 consisted of the following:

	December 31,	
	2015	2014
Unsecured subordinated debentures (notes) in the amount of $65,000. Interest payments of 5.875% are made semiannually on February 1 and August 1 of each year beginning February 1, 2015. The maturity date is August 1, 2024. The notes may not be redeemed prior to maturity and meet the criteria to be recognized as Tier 2 capital for regulatory purposes.	$65,000	$65,000
Unsecured subordinated debentures in the original amount of $5,000. Interest payments at 7.00% are made quarterly with semiannual principal payments of $625. The remaining principal and accrued interest is due on July 15, 2018. The debentures may be redeemed prior to maturity and meet the criteria to be recognized as Tier 2 capital for regulatory purposes.	3,750	5,000
Unsecured subordinated debentures in the original amount of $2,730. Interest payments at 7.00% are made quarterly with semiannual principal payments of $341. The remaining principal and accrued interest is due on October 15, 2018. The debentures may be redeemed prior to maturity and meet the criteria to be recognized as Tier 2 capital for regulatory purposes.	2,048	2,730
	$70,798	$72,730

At December 31, 2015 and 2014, other borrowings included amounts owed to related parties of $2,503 and $3,320, respectively.

At December 31, 2015, the scheduled principal maturities of the Company's other borrowings were as follows:

First year	$1,933
Second year	1,933
Third year	1,932
Fourth year	—
Fifth year	—
Thereafter	65,000
	$70,798

In January 2016, the Company redeemed the two small subordinated debenture issuances in full with principal payments totaling $5,798 plus all interest accrued at time of redemption.

In 2014, the Company entered into a $35 million unsecured revolving line of credit with an unrelated bank. During 2015, the Company renewed the unsecured line of credit with two unrelated commercial banks and increased the line from $35 million to $50 million. The line bears interest at LIBOR plus 2.50% and matures July 19, 2016. As of December 31, 2015 and 2014, there was no outstanding balance on the line. The Company is required to meet certain financial covenants on a quarterly basis, which includes maintaining $5,000 in cash at Independent Bank Group.

In addition, the Company has established federal funds lines of credit notes with nine unaffiliated banks totaling $200 million of borrowing capacity at December 31, 2015. The Company had federal funds lines with five unaffiliated banks totaling $125 million of borrowing capacity at December 31, 2014. The lines have no stated maturity date and the lenders may terminate the lines at any time without notice. The lines are provided on an unsecured basis and must be repaid the following business day from when the funds were borrowed. There were no borrowings against the lines at December 31, 2015 or 2014.

Note 13. Junior Subordinated Debentures

In March 2003, IB Trust I, an unconsolidated subsidiary of the Company, issued 5,000 shares of floating rate trust preferred securities at $1,000 per share for an aggregate price of $5,000, all of which was outstanding at December 31, 2015 and 2014. These securities bear an interest rate of 3.25% over the three-month LIBOR (3.58% and 3.48% at December 31, 2015 and 2014, respectively). The trust preferred securities will mature in March 2033. The proceeds from the sale of the trust preferred securities and the issuance of $155 in common securities to the Company were used by Trust I to purchase approximately $5,155 of floating rate junior subordinated debentures of the Company which have the same payment terms as the trust preferred securities. Distributions on the trust preferred securities and on the common securities issued to the Company are payable quarterly.

In March 2004, IB Trust II, an unconsolidated subsidiary of the Company, issued 3,000 shares of floating rate trust preferred securities at $1,000 per share for an aggregate price of $3,000, all of which was outstanding at December 31, 2015 and 2014. These securities bear an interest rate of 2.85% over the three-month LIBOR (3.17% and 3.08% at December 31, 2015 and 2014, respectively). The trust preferred securities will mature in March 2034. The proceeds from the sale of the trust preferred securities and the issuance of $93 in common securities to the Company were used by Trust II to purchase approximately $3,093 of floating rate junior subordinated debentures of the Company which have the same payment terms as the trust preferred securities. Distributions on the trust preferred securities and on the common securities issued to the Company are payable quarterly.

In December 2004, IB Trust III, an unconsolidated subsidiary of the Company, issued 3,600 shares of floating rate trust preferred securities at $1,000 per share for an aggregate price of $3,600, all of which was outstanding at December 31, 2015 and 2014. These securities bear an interest rate of 2.40% over the three-month LIBOR (2.78% and 2.63% at December 31, 2015 and 2014, respectively). The trust preferred securities will mature in December 2035. The proceeds from the sale of the trust preferred securities and the issuance of $112 in common securities to the Company were used by Trust I to purchase approximately $3,712 of floating rate junior subordinated debentures of the Company which have the same payment terms as the trust preferred securities. Distributions on the trust preferred securities and on the common securities issued to the Company are payable quarterly.

In February 2005, IB Centex Trust I, an unconsolidated subsidiary of the Company, issued 2,500 shares of floating rate trust preferred securities at $1,000 per share for an aggregate price of $2,500, all of which was outstanding at December 31, 2015 and 2014. These securities bear an interest rate of 3.25% over the three-month LIBOR (3.63% and 3.48% at December 31, 2015 and 2014, respectively). The trust preferred securities will mature in February 2035. The proceeds from the sale of the trust preferred securities and the issuance of $78 in common securities to the Company were used by Centex Trust I to purchase approximately $2,578 of floating rate junior subordinated debentures of the Company which have the same payment terms as the trust preferred securities. Distributions on the trust preferred securities and on the common securities issued to the Company are payable quarterly.

In connection with the acquisition of Community Group Inc. in 2012, the Company, assumed $3,500 (3,500 shares with a liquidation amount of $1,000 per security) of Floating Rate Cumulative Trust Preferred Securities (TPS) which were issued through a wholly-owned subsidiary, Community Group Statutory Trust I (CGI Trust I) and all of which were outstanding at December 31, 2015 and 2014. CGI Trust I invested the total proceeds from the sale of TPS and the $109 proceeds from the sale of common stock to CGI in floating rate Junior Subordinated Debentures (Debentures) issued by CGI. Interest on the TPS is payable quarterly at a rate equal to the three-month LIBOR rate plus 1.60% (2.11% and 1.84% at December 31, 2015 and 2014). Principal payments are due at maturity on June 21, 2037. The Company may redeem the Debentures, in whole or in part, on any interest payment date at an amount equal to the principal amount of the Debentures being redeemed plus accrued and unpaid interest.

Except under certain circumstances, the common securities issued to the Company by the trusts possess sole voting rights with respect to matters involving those entities. Under certain circumstances, the Company may, from time to time, defer the debentures' interest payments, which would result in a deferral of distribution payments on the related trust preferred securities and, with certain exceptions, prevent the Company from declaring or paying cash distributions on the Company's common stock and any other future debt ranking equally with or junior to the debentures. The trust preferred securities are guaranteed by the Company.

Note 14. Income Taxes

Income tax expense for the years ended December 31, 2015, 2014 and 2013 was as follows:

	Years Ended December 31,		
	2015	2014	2013
Current income tax expense	$22,946	$14,849	$6,744
Deferred income tax expense (benefit)	(3,935)	71	(2,083)
Income tax expense, as reported	$19,011	$14,920	$4,661

In connection with the initial public offering, the Company terminated its S-Corporation status and became a taxable entity (C Corporation) on April 1, 2013. The reported income tax expense for the year ended December 31, 2013 reflects the initial recording of the deferred tax net asset of $1,760, which is the result of timing differences in the recognition of income/deductions for generally accepted accounting principles (GAAP) and tax purposes.

Reported income tax expense differed from the amounts computed by applying the U.S. federal statutory income tax rate of 35% to income before income taxes for the years ended December 31, 2015, 2014 and 2013 as follows:

	Years Ended December 31,		
	2015	2014	2013
Income tax expense computed at the statutory rate	$20,229	$15,364	$6,571
Initial recording of deferred tax asset	—	—	(1,760)
Tax-exempt interest income from municipal securities	(624)	(500)	(259)
Tax-exempt loan income	(398)	(174)	(86)
Bank owned life insurance income	(377)	(340)	(93)
Non-deductible acquisition expenses	108	486	279
Other	73	84	9
	$19,011	$14,920	$4,661

Components of deferred tax assets and liabilities are as follows:

	December 31, 2015	2014
Deferred tax assets:		
Allowance for loan losses	$9,428	$6,420
NOL carryforwards from acquisitions	571	793
Acquired loan fair market value adjustments	4,540	4,310
Restricted stock	1,422	1,121
Reserve for bonuses	1,045	138
Deferred loan fees	424	170
Acquisition costs	—	41
Start up costs	294	344
Other real estate owned	80	284
Unearned rent income	91	48
Nonaccrual loans	45	32
Other	235	147
	18,175	13,848
Deferred tax liabilities:		
Premises and equipment	(4,900)	(5,776)
Net unrealized gain on available for sale securities	(963)	(975)
Core deposit intangibles	(5,715)	(4,348)
Securities	(330)	(332)
FHLB stock	(66)	(52)
Acquired tax accounting method changes	(255)	—
Other	(54)	(130)
	(12,283)	(11,613)
Net deferred tax asset	$5,892	$2,235

At December 31, 2015, the Company had federal net operating loss carryforwards of approximately $1,630 which expire in 2028 and 2029. Deferred tax assets are recognized for net operating losses because the benefit is more likely than not to be realized. No valuation allowance for deferred tax assets was recorded at December 31, 2015 or 2014 as management believes it is more likely than not that all of the deferred tax assets will be realized.

The Company does not have any uncertain tax positions and does not have any interest and penalties recorded in the income statement for the years ended December 31, 2015, 2014 and 2013. The Company files a consolidated income tax return in the US federal tax jurisdiction. The Company is no longer subject to examination by the US federal tax jurisdiction for years prior to 2012.

Note 15. Commitments and Contingencies

Financial Instruments with Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. The commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of this instrument. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

At December 31, 2015 and 2014, the approximate amounts of these financial instruments were as follows:

	December 31,	
	2015	2014
Commitments to extend credit	$838,341	$565,881
Standby letters of credit	10,361	8,571
	$848,702	$574,452

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 credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, farm crops, property, plant and equipment and income-producing commercial properties.

Letters of credit are written conditional commitments used by the Company to guarantee the performance of a customer to a third party. The Company's policies generally require that letter of credit arrangements contain security and debt covenants similar to those contained in loan arrangements. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount shown in the table above. If the commitment is funded, the Company would be entitled to seek recovery from the customer. As of December 31, 2015 and 2014, no amounts have been recorded as liabilities for the Company's potential obligations under these guarantees.

Litigation

The Company is involved in certain legal actions arising from normal business activities. Management believes that the outcome of such proceedings will not materially affect the financial position, results of operations or cash flows of the Company. A legal proceeding that the Company believes could become material is described below.

Independent Bank is a party to a legal proceeding inherited by Independent Bank in connection with its acquisition of BOH Holdings, Inc. and its subsidiary, Bank of Houston (BOH). The plaintiffs in the case are alleging that Independent Bank aided and abetted or participated in a fraudulent scheme. Independent Bank is pursuing insurance coverage for these claims, including reimbursement for defense costs. The Company believes the claims made in this lawsuit are without merit and is vigorously defending the lawsuit. The Company is unable to predict when the matter will be resolved, the ultimate outcome or potential costs or damages to be incurred. Please see Part I, Item 3. for more details on this lawsuit.

Lease Commitments

The Company leases certain branch facilities and other facilities. Rent expense related to these leases amounted to $2,182, $1,410 and $716 for the years ended December 31, 2015, 2014 and 2013, respectively.

At December 31, 2015, minimum future rental payments due under noncancelable lease commitments were as follows:

109

First year	$2,047
Second year	1,652
Third year	1,104
Fourth year	933
Fifth year	940
Thereafter	1,946
	$8,622

Note 16. Related Party Transactions

In the ordinary course of business, the Company has and expects to continue to have transactions, including loans to its officers, directors and their affiliates. In the opinion of management, such transactions are on the same terms as those prevailing at the time for comparable transactions with unaffiliated persons. Loan activity for officers, directors and their affiliates for the year ended December 31, 2015 is as follows:

Balance at beginning of year	$36,208
New loans	29,101
Repayments	(8,403)
Changes in affiliated persons	(227)
Balance at end of year	$56,679

See also Note 12 for related party borrowings.

Note 17. Employee Benefit Plans

The Company has a 401(k) profit sharing plan (Plan) which covers employees over the age of eighteen who have completed ninety days of credited service, as defined by the Plan. The Plan provides for “before tax” employee contributions through salary reduction contributions under Section 401(k) of the Internal Revenue Code. A participant may choose a salary reduction not to exceed the dollar limit set by law each year ($18 in 2015). Contributions by the Company and by participants are immediately fully vested. The Plan provides for the Company to make 401(k) matching contributions ranging from 50% to 100% depending upon the employee's years of service, but limited to 6% of the participant's eligible salary. The Plan also provides for the Company to make additional discretionary contributions to the Plan. The Company made contributions of approximately $1,208, $894 and $524 for the years ended December 31, 2015, 2014 and 2013, respectively.

Note 18. Fair Value Measurements

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. ASC Topic 820, Fair Value Measurements and Disclosures, establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 Inputs – Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity’s own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

The following table represents assets and liabilities reported on the consolidated balance sheets at their fair value on a recurring basis as of December 31, 2015 and 2014 by level within the ASC Topic 820 fair value measurement hierarchy:

		Fair Value Measurements at Reporting Date Using		
	Assets/ Liabilities Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2015				
Measured on a recurring basis:				
Assets:				
Investment securities available for sale:				
U.S. treasuries	$1,002	$—	$1,002	$—
Government agency securities	135,300	—	135,300	—
Obligations of state and municipal subdivisions	85,416	—	85,416	—
Residential pass-through securities guaranteed by FNMA, GNMA and FHLMC	51,745	—	51,745	—
December 31, 2014				
Measured on a recurring basis:				
Assets:				
Investment securities available for sale:				
U.S. treasuries	$1,006	$—	$1,006	$—
Government agency securities	58,023	—	58,023	—
Obligations of state and municipal subdivisions	76,899	—	76,899	—
Corporate bonds	1,081	—	1,081	—
Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC and FHR	69,053	—	69,053	—

There were no transfers between level categorizations and no changes in valuation methodologies for the years presented.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury and other yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security's terms and conditions, among other things.

In accordance with ASC Topic 820, certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets carried on the consolidated balance sheet by caption and by level in the fair value hierarchy at December 31, 2015 and 2014, for which a nonrecurring change in fair value has been recorded:

		Fair Value Measurements at Reporting Date Using			
	Assets/ Liabilities Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Period Ended Total Losses
December 31, 2015					
Measured on a nonrecurring basis:					
Assets:					
Impaired loans	$4,827	$—	$—	$4,827	$3,029
Other real estate	577	—	—	577	35
December 31, 2014					
Measured on a nonrecurring basis:					
Assets:					
Impaired loans	$4,943	$—	$—	$4,943	$188
Other real estate	138	—	—	138	22

Impaired loans (loans which are not expected to repay all principal and interest amounts due in accordance with the original contractual terms) are measured at an observable market price (if available) or at the fair value of the loan’s collateral (if collateral dependent). Fair value of the loan’s collateral is determined by appraisals or independent valuation which is then adjusted for the estimated costs related to liquidation of the collateral. Management’s ongoing review of appraisal information may result in additional discounts or adjustments to valuation based upon more recent market sales activity or more current appraisal information derived from properties of similar type and/or locale. Therefore, the Company has categorized its impaired loans as Level 3. Impaired loans are evaluated for additional impairment on a quarterly basis and adjusted as necessary.

The Company has no nonfinancial assets or nonfinancial liabilities measured at fair value on a recurring basis. Other real estate is measured at fair value on a nonrecurring basis (upon initial recognition or subsequent impairment). Other real estate is classified within Level 3 of the valuation hierarchy. When transferred from the loan portfolio, other real estate is adjusted to fair value less estimated selling costs and is subsequently carried at the lower of carrying value or fair value less estimated selling costs. The fair value is determined using an external appraisal process, discounted based on internal criteria.

In addition, mortgage loans held for sale are required to be measured at the lower of cost or fair value. The fair value of mortgage loans held for sale is based upon binding quotes or bids from third party investors. As of December 31, 2015 and 2014, all mortgage loans held for sale were recorded at cost.

The methods and assumptions used by the Company in estimating fair values of financial instruments as disclosed herein in accordance with ASC Topic 825, Financial Instruments, other than for those measured at fair value on a recurring and nonrecurring basis discussed above, are as follows:

Cash and cash equivalents: The carrying amounts of cash and cash equivalents approximate their fair value.

Certificates of deposit held in other banks: The fair value of certificates of deposit held in other banks is based upon current rates in the market.

Loans and loans held for sale: For variable-rate loans that reprice frequently and have no significant changes in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (for example, one-to-four family residential), commercial real estate and commercial loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Federal Home Loan Bank of Dallas and other restricted stock: The carrying value of restricted securities such as stock in the Federal Home Loan Bank of Dallas and Independent Bankers Financial Corporation approximates fair value.

Deposits: The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is their carrying amounts). The carrying amounts of variable-rate certificates of deposit (CDs) approximate their fair values at the reporting date. Fair values for fixed-rate CDs are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Federal Home Loan Bank advances, line of credit and federal funds purchased: The fair value of advances maturing within 90 days approximates carrying value. Fair value of other advances is based on the Company’s current borrowing rate for similar arrangements.

Repurchase agreements and other borrowings: The carrying value of repurchase agreements approximates fair value due to the short term nature. The fair values of privately issued subordinated debentures are based upon prevailing rates on similar debt in the market place. The subordinated debentures that are publicly traded are valued based on indicative bid prices based upon market pricing observations in the current market.

Junior subordinated debentures: The fair value of junior subordinated debentures is estimated using discounted cash flow analyses based on the Company’s current incremental borrowing rates for similar types of borrowing arrangements.

Accrued interest: The carrying amounts of accrued interest approximate their fair values.

Off-balance sheet instruments: Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not material.

The carrying amount, estimated fair value and the level of the fair value hierarchy of the Company’s financial instruments were as follows at December 31, 2015 and 2014:

			Fair Value Measurements at Reporting Date Using		
	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2015					
Financial assets:					
Cash and cash equivalents	$293,279	$293,279	$293,279	$—	$—
Certificates of deposit held in other banks	61,746	61,873	—	61,873	—
Securities available for sale	273,463	273,463	—	273,463	—
Loans held for sale	12,299	12,299	—	12,299	—
Loans, net	3,960,809	3,966,199	—	3,960,246	5,953
FHLB of Dallas stock and other restricted stock	14,256	14,256	—	14,256	—
Accrued interest receivable	10,991	10,991	—	10,991	—
Financial liabilities:					
Deposits	4,028,279	4,031,365	—	4,031,365	—
Accrued interest payable	2,792	2,792	—	2,792	—
FHLB advances	288,325	295,345	—	295,345	—
Repurchase agreements	12,160	12,160	—	12,160	—
Other borrowings	70,798	70,935	—	70,935	—
Junior subordinated debentures	18,147	18,128	—	18,128	—
Off-balance sheet assets (liabilities):					
Commitments to extend credit	—	—	—	—	—
Standby letters of credit	—	—	—	—	—
December 31, 2014					
Financial assets:					
Cash and cash equivalents	$324,047	$324,047	$324,047	$—	$—
Securities available for sale	206,062	206,062	—	206,062	—
Loans held for sale	4,453	4,453	—	4,453	—
Loans, net	3,182,045	3,203,337	—	3,200,261	3,076
FHLB of Dallas stock and other restricted stock	12,321	12,321	—	12,321	—
Accrued interest receivable	9,655	9,655	—	9,655	—
Financial liabilities:					
Deposits	3,249,598	3,252,114	—	3,252,114	—
Accrued interest payable	2,919	2,919	—	2,919	—
FHLB advances	229,405	228,607	—	228,607	—
Repurchase agreements	4,012	4,012	—	4,012	—
Other borrowings	72,730	75,164	—	75,164	—
Junior subordinated debentures	18,147	18,134	—	18,134	—
Off-balance sheet assets (liabilities):					
Commitments to extend credit	—	—	—	—	—

Standby letters of credit	—	—	—	—	—

115

Note 19. Stock Awards and Stock Warrants
The Company grants common stock awards to certain employees of the Company. The common stock issued prior to 2013 vests five years from the date the award is granted and the related compensation expense is recognized over the vesting period. In connection with the initial public offering in April 2013, the Board of Directors adopted a new 2013 Equity Incentive Plan. Under this plan, the Compensation Committee may grant awards in the form of restricted stock, restricted stock rights, restricted stock units, qualified and nonqualified stock options, performance-based share awards and other equity-based awards. The Plan reserved 800,000 shares of common stock to be awarded by the Company's compensation committee. The shares issued under the 2013 Plan are restricted and will generally vest evenly over the employment period, ranging from three to five years. Shares granted under a previous plan prior to 2012 and those in and subsequent to 2013 under the 2013 Equity Incentive Plan were issued at the date of grant and receive dividends. Shares issued under a revised plan in 2012 are not outstanding shares of the Company until they vest and do not receive dividends.
The following table summarizes the activity in nonvested shares for the years ended December 31, 2015 and 2014:

	Number of Shares		Weighted Average Grant Date Fair Value
Nonvested shares, December 31, 2014	373,886		$41.58
Granted during the period	106,124		32.91
Vested during the period	(84,107	)	42.32
Forfeited during the period	(22,331	)	33.64
Nonvested shares, December 31, 2015	373,572		$40.29
Nonvested shares, December 31, 2013	306,524		$22.75
Granted during the period	201,570		56.07
Vested during the period	(133,014	)	20.27
Forfeited during the period	(1,194	)	30.37
Nonvested shares, December 31, 2014	373,886		$41.58

Compensation expense related to these awards is recorded based on the fair value of the award at the date of grant and totaled $4,314, $2,914 and $1,469 for the years ended December 31, 2015, 2014 and 2013, respectively. Compensation expense is recorded in salaries and employee benefits in the accompanying consolidated statements of income. At December 31, 2015, future compensation expense is estimated to be $10,856 and will be recognized over a remaining weighted average period of 3.02 years.
The fair value of common stock awards that vested during the years ended December 31, 2015, 2014 and 2013 was $3,300, $6,608 and $855, respectively. The Company has recorded $(72), $1,409 and $72 to additional paid in capital, which represents the income tax deficiency and excess tax benefit, respectively, recognized on the vested shares for the years ended December 31, 2015, 2014 and 2013, respectively.
There were no significant modifications of stock agreements during 2015. In 2014, the restricted stock agreement of one employee was modified resulting in an additional 3,000 net shares issued and incremental compensation costs totaling $140.
At December 31, 2015, the future vesting schedule of the nonvested shares is as follows:

First year	123,522
Second year	126,628
Third year	83,222
Fourth year	36,800
Fifth year	3,400
Total nonvested shares	373,572

The Company has issued warrants representing the right to purchase 150,544 shares of Company stock at $17.19 per share to certain Company directors and shareholders. The warrants were issued in return for the shareholders' agreement to repurchase the subordinated debt outstanding to an unaffiliated bank in the event of Company default. The warrants were recorded as equity awards at fair value and were being amortized over the term of the debt. The Company paid off the related subordinated debt in 2013. The warrants expire in December 2018.

Note 20. Regulatory Matters

Under banking law, there are legal restrictions limiting the amount of dividends the Bank can declare. Approval of the regulatory authorities is required if the effect of dividends declared would cause the regulatory capital of the Bank to fall below specified minimum levels. For state banks, subject to regulatory capital requirements, payment of dividends is generally allowed to the extent of net profits.

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

In July 2013, the Federal Reserve published final rules for the adoption of the Basel III regulatory capital framework (the "Basel III Capital Rules"). The Basel III Capital Rules, among other things, (i) introduce a new capital measure called "Common Equity Tier 1" ("CET1"), (ii) specify that Tier 1 capital consist of Common Equity Tier 1 and "Additional Tier 1 Capital" instruments meeting specified requirements, (iii) define Common Equity Tier 1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to Common Equity Tier 1 and not to the other components of capital and (iv) expand the scope of the deductions/adjustments as compared to existing regulations. The Basel III Capital Rules became effective for the Company on January 1, 2015 with certain transition provisions fully phased in on January 1, 2019.

Starting in January 2016, the implementation of the capital conservation buffer will be effective for the Company starting at the 0.625% level and increasing 0.625% each year thereafter, until it reaches 2.5% on January 1, 2019. The capital conservation buffer is designed to absorb losses during periods of economic stress and effectively increases the minimum required risk-weighted capital ratios.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total, CET1 and Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2015 and 2014, the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2015 and 2014, the Bank's capital ratios exceeded those levels necessary to be categorized as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Bank must maintain minimum total risk based, CET1, Tier 1 risk based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The actual capital amounts and ratios of the Company and Bank as of December 31, 2015 and 2014, are presented in the following table:

	Actual			Minimum for Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
December 31, 2015									
Total capital to risk weighted assets:									
Consolidated	$473,993	11.14	%	$340,533	8.00	%	N/A	N/A	
Bank	470,495	11.06		340,259	8.00		$425,323	10.00	%
Tier 1 capital to risk weighted assets:									
Consolidated	379,631	8.92		255,400	6.00		N/A	N/A	
Bank	443,452	10.43		255,194	6.00		340,259	8.00	
Common equity tier 1 to risk weighted assets:									
Consolidated	338,093	7.94		191,550	4.50		N/A	N/A	
Bank	443,452	10.43		191,396	4.50		276,460	6.50	
Tier 1 capital to average assets:									
Consolidated	379,631	8.28		183,379	4.00		N/A	N/A	
Bank	443,452	9.72		182,421	4.00		228,026	5.00	
December 31, 2014									
Total capital to risk weighted assets:									
Consolidated	$402,326	12.59	%	$255,633	8.00	%	N/A	N/A	
Bank	397,512	12.46		255,219	8.00		$319,024	10.00	%
Tier 1 capital to risk weighted assets:									
Consolidated	314,136	9.83		127,817	4.00		N/A	N/A	
Bank	378,960	11.88		127,609	4.00		191,414	6.00	
Tier 1 capital to average assets:									
Consolidated	314,136	8.15		154,270	4.00		N/A	N/A	
Bank	378,960	9.93		152,598	4.00		190,747	5.00	

Note 21. Small Business Lending Fund Preferred Stock

In connection with the acquisition of BOH Holdings on April 15, 2014, the Company entered into an Assignment and Assumption Agreement with BOH Holdings to acquire all assets and assume all liabilities of BOH Holdings. BOH Holdings participated in the US Treasury's Small Business Lending Fund (SBLF) program. The SBLF is a U.S. Department of the Treasury lending program that encourages qualified community banks to partner with small businesses and entrepreneurs to create jobs and promote economic development in local communities. As a result of continued participation in the program, the Company issued 23,938.35 shares of Senior Non-Cumulative Perpetual SBLF Preferred Stock, Series A at $1,000 par value to the US Treasury Department in exchange for the 23,938.35 shares of BOH Series C SBLF Preferred Stock.

The SBLF Preferred Stock qualifies as Tier 1 capital. The holders of SBLF Preferred Stock are entitled to receive non-cumulative dividends, payable quarterly. The dividend rate was determined based on the level of Qualified Small Business Lending at BOH Holdings and was set at 1.00% at time of acquisition. The Company qualified for the 1.00%

rate continuing through January 2016, at which time the dividend rate will increase to 9.00%. During the years ended December 31, 2015 and 2014, the Company recorded preferred stock dividends of $240 and $169, respectively.

The Series A Preferred Stock is non-voting, except in limited circumstances. The Company may redeem the shares of Series A Preferred Stock, in whole or in part, at any time at a redemption price equal to the sum of the Liquidation Amount of $1,000 per share and the per share amount of any unpaid dividends for the then-current period, subject to any required prior approval by the Company’s primary federal banking regulator.

In December 2015, the Board of Directors approved the redemption of the SBLF Series A Preferred Stock and the redemption was approved by both the Federal Reserve and U.S. Department of Treasury. Upon such approval, the shares became redeemable at a determinable price and date; therefore, the Company reclassified the preferred stock to temporary equity on its balance sheet. On January 14, 2016, the Company redeemed all 23,938.35 outstanding shares of its Senior Non-Cumulative Perpetual Small Business Lending Fund Series A Preferred Stock and related accrued dividends for a total redemption price of $23,947.

Note 22. Business Combinations

Grand Bank

On November 1, 2015, the Company acquired 100% of the outstanding stock of Grand Bank with two branches located in Dallas, TX. The Company issued 1,279,532 shares of Company stock and paid $24,103 in cash for the outstanding shares of Grand Bank common stock.

The Company recognized a provisional amount of goodwill of $28,825, which is calculated as the excess of both the consideration exchanged and liabilities assumed compared to the fair value of identifiable assets acquired. The goodwill in this acquisition resulted from a combination of expected synergies and the intent to expand our presence in the Dallas market. None of the goodwill recognized is expected to be deductible for income tax purposes.

Provisional estimates for loans, goodwill, core deposit intangible and deposits have been recorded for the acquisition as independent valuations have not been finalized. The Company does not not expect any significant differences from estimated values upon completion of the valuations.

Non-credit impaired loans had an estimated fair value of $270,744 at the date of acquisition and contractual balances of $273,680. The difference of $2,936 will be recognized into interest income as an adjustment to yield over the life of the loans.

The Company has incurred expenses related to the acquisition of approximately $902 during the year ended December 31, 2015, which is included in acquisition expenses in the consolidated statements of income. In addition, for the year ended December 31, 2015, the Company paid offering costs totaling $424 which were recorded as a reduction to stock issuance proceeds through additional paid in capital. The acquisition is not considered significant to the Company’s financial statements and therefore, pro forma financial data is not included.

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:	
Cash and cash equivalents	$152,913
Time deposits with other banks	84,527
Securities available for sale	72,619
Loans	273,632
Premises and equipment	1,214
Goodwill	28,825
Core deposit intangible	5,457
Other assets	989
Total assets	$620,176

Liabilities of acquired bank:

Deposits	$523,650
Repurchase accounts	18,873
FHLB advances	2,836
Other liabilities	876
Total liabilities	$546,235
Common stock issued in the Grand Bank transaction	$49,838
Cash paid for the Grand Bank transaction	$24,103

Houston City Bancshares

On October 1, 2014, the Company acquired 100% of the outstanding stock of Houston City Bancshares, Inc. and its wholly owned subsidiary, Houston Community Bank, Houston, TX (HCB) with branches located in the Houston area. The Company issued 637,856 shares of Company stock and paid $16,804 in cash for the outstanding shares of HCB common stock.

The Company has recognized total goodwill of $21,444, which is calculated as the excess of both the consideration exchanged and liabilities assumed compared to the fair value of identifiable assets acquired. The goodwill in this acquisition resulted from a combination of expected synergies and the intent to expand our presence in the Houston market. None of the goodwill recognized is deductible for income tax purposes.

Non-credit impaired loans had an estimated fair value of $184,650 at the date of acquisition and contractual balances of $186,953. The difference of $2,303 will be recognized into interest income as an adjustment to yield over the life of the loans.

The Company has incurred expenses related to the acquisition of approximately $422 and $1,126 during the years ended December 31, 2015 and 2014, which is included in acquisition expenses in the consolidated statements of income. In addition, for the years ended December 31, 2015 and 2014, the Company paid offering costs totaling $144 and $16, respectively, which were recorded as a reduction to stock issuance proceeds through additional paid in capital. The acquisition is not considered significant to the Company's financial statements and therefore, pro forma financial data is not included.

The following table summarizes the previously reported estimates and the measurement-period adjustments made during 2015 to asset and liability accounts to derive at the final acquisition accounting allocations for HCB:

Assets of acquired bank:	As reported at December 31, 2014	Measurement period adjustments	Final recorded value
Cash and cash equivalents	$118,825	$—	$118,825
Securities available for sale	3,548	—	3,548
Loans	194,870	—	194,870
Premises and equipment	9,227	—	9,227
Goodwill	21,201	243	21,444
Core deposit intangible	2,459	—	2,459
Other assets	617	(243)	374
Total assets	$350,747	$—	$350,747
Liabilities of acquired bank:			
Deposits	$303,092	$—	303,092
Other liabilities	585	—	585
Total liabilities	$303,677	—	303,677
Common stock issued in the HCB transaction	$30,266	—	30,266
Cash paid for the HCB transaction	$16,804	—	16,804

BOH Holdings

On April 15, 2014, the Company acquired 100% of the outstanding stock of BOH Holdings, Inc. and its subsidiary, Bank of Houston (BOH), Houston, Texas. This transaction gives the Company branches in the greater Houston area. The Company issued 3,615,886 shares of Company stock and paid $34,010 in cash for the outstanding shares of BOH common stock. In addition, the Company issued 23,938.35 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series A to the US Treasury Department in exchange for the 23,938.35 shares of BOH Series C Preferred Stock. The preferred stock is senior to the Company's common stock with respect to dividend rights and liquidation.

The Company has recognized goodwill of $166,050 which is calculated as the excess of both the consideration exchanged and liabilities assumed compared to the fair value of identifiable assets acquired. The goodwill in this acquisition resulted from a combination of expected synergies and entrance into a desirable Texas market. None of the goodwill recognized is deductible for income tax purposes.

The Company has incurred expenses related to the acquisition of approximately $1,911 and $592 for the years ended December 31, 2014 and 2013 which is included in acquisition expenses in the consolidated statements of income. In addition, for the year ended December 31, 2014, the Company paid offering costs totaling $550 which were recorded as a reduction to stock issuance proceeds through additional paid in capital.

The following table summarizes the previously reported estimates and the measurement period adjustments made to asset and liability accounts to derive at the final acquisition accounting allocations for BOH:

	Reported Estimates at December 31, 2014	Measurement Period Adjustments	Final Recorded Values
Assets of acquired bank:			
Cash and cash equivalents	$135,525	$—	$135,525
Securities available for sale	59,141	—	59,141
Loans	785,216	—	785,216
Premises and equipment	7,211	—	7,211
Other real estate	1,224	—	1,224
Goodwill	165,932	118	166,050
Core deposit intangible	7,265	—	7,265
Other assets	27,198	63	27,261
Total assets acquired	$1,188,712	$181	$1,188,893
Liabilities of acquired bank:			
Deposits	$820,752	$—	$820,752
FHLB Advances	95,000	—	95,000
Other liabilities	6,195	181	6,376
Total liabilities assumed	$921,947	$181	$922,128
Common stock issued	$208,817	$—	$208,817
Series A Preferred Stock Exchanged in connection with acquired bank	$23,938	$—	$23,938
Cash paid	$34,010	$—	$34,010

Non-credit impaired loans had an estimated fair value of $739,128 at the date of acquisition and contractual balances of $739,247. 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 $119 will be recognized into interest income as an adjustment to yield over the life of the loans.

Pro forma net income for the year ended December 31, 2014 was $29,617 and pro forma revenue was $166,223 had the transaction occurred as of January 1, 2013. Pro forma after tax net income for the year ended December 31, 2013 was $26,959 and pro forma revenue was $139,164 had the transaction occurred on January 1, 2013.

Live Oak Financial Corp.

On January 1, 2014, the Company acquired 100% of the outstanding stock of Live Oak Financial Corp. and its wholly owned subsidiary, Live Oak State Bank, Dallas, TX (Live Oak) with one branch located east of downtown Dallas. The Company issued 235,594 shares of Company stock and paid $10,000 in cash for the outstanding shares of Live Oak common stock.

The following table summarizes the final fair values of the assets acquired and liabilities assumed in the transaction:

Assets of acquired bank:	
Cash and cash equivalents	$32,246
Securities available for sale	16,740
Loans	71,304
Premises and equipment	2,600
Goodwill	7,046
Core deposit intangible	882
Other assets	190
Total assets	$131,008
Liabilities of acquired bank:	
Deposits	$105,010
Repurchase agreements	3,733
Other liabilities	565
Total liabilities	$109,308
Common stock issued in the Live Oak transaction	$11,700
Cash paid in the Live Oak transaction	$10,000

The Company recognized goodwill of $7,046 which is calculated as the excess of both the consideration exchanged and liabilities assumed compared to the fair value of identifiable assets acquired. The goodwill in this acquisition resulted from a combination of expected synergies and a desirable branch location. None of the goodwill recognized is expected to be deductible for income tax purposes.

Non-credit impaired loans had a fair value of $68,422 at the date of acquisition and contractual balances of $68,532. The difference of $95 will be recognized into interest income as an adjustment to yield over the life of the loans.

The Company has incurred expenses related to the acquisition of approximately $354 and $357 for the years ended December 31, 2014 and 2013, which is included in acquisition expenses in the consolidated statements of income. The acquisition is not considered significant to the Company’s financial statements and therefore, pro forma financial data is not included.

Note 23. Parent Company Only Financial Statements

The following balance sheets, statements of income and statements of cash flows for Independent Bank Group, Inc. should be read in conjunction with the consolidated financial statements and the notes thereto.

Balance Sheets

	December 31,	
Assets	2015	2014
Cash and cash equivalents	$6,624	$5,773
Investment in subsidiaries	708,730	623,275
Investment in Trusts	547	547
Other assets	2,856	4,627
Total assets	$718,757	$634,222
Liabilities, Temporary Equity and Stockholders' Equity		
Other borrowings	$70,798	$72,730
Junior subordinated debentures	18,147	18,147
Other liabilities	2,503	2,494
Total liabilities	91,448	93,371
Temporary equity: Preferred stock	23,938	—
Stockholders' equity:		
Preferred stock	—	23,938
Common stock	184	170
Additional paid-in capital	530,107	476,609
Retained earnings	70,698	37,731
Accumulated other comprehensive income	2,382	2,403
Total stockholders' equity	603,371	540,851
Total liabilities, temporary equity and stockholders' equity	$718,757	$634,222

Statements of Income

	Years Ended December 31,		
	2015	2014	2013
Interest expense:			