Independent Bank Group, Inc.
Form 10-K
March 08, 2017

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, 2016.
¨ 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	The Nasdaq Stock Market, LLC, Global Select Market

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 Select Market on June 30, 2016 was approximately $471,064,000.

At March 6, 2017, the Company had outstanding 18,922,726 shares of common stock, par value $.01 per share.

Documents Incorporated By Reference:

Portions of the Company's Proxy Statement relating to the 2017 Annual Meeting of Shareholders, which will be filed within 120 days after December 31, 2016, 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, 2016

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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, Inc. (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 41 banking offices in the Dallas/North Texas area, the Austin/Central Texas area, and the Houston metropolitan area. As of December 31, 2016, the Company had consolidated total assets of approximately $5.9 billion, total loans of approximately $4.5 billion, total deposits of approximately $4.6 billion and total stockholders' equity of approximately $672 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 a 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 its 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	620,196

Pending Acquisition of Carlile Bancshares, Inc. On November 21, 2016, the Company entered into an Agreement and Plan of Reorganization (the "Reorganization Agreement") to acquire Carlile Bancshares, Inc. (“Carlile”), and its subsidiary, Northstar Bank, Denton, Texas, a Texas state chartered bank. Pursuant to the Reorganization Agreement, Carlile will be merged with and into the Company, with the Company continuing as the surviving company and Carlile ceasing to exist. Immediately following the Carlile acquisition, Northstar Bank will be merged with and into Independent Bank, with Independent Bank being the surviving bank. After the bank merger occurs, Northstar Bank will cease to exist and the existing locations of Northstar Bank will become banking centers of Independent Bank. Carlile, through Northstar Bank, operates 24 full service banking locations in Texas and 18 full service banking locations in Colorado. As of September 30, 2016, Carlile, on a consolidated basis, reported total assets of $2.3 billion, total deposits of $1.9 billion, and total equity capital of $385 million. Based upon its September 30, 2016 balance sheet, the Company would have total assets of approximately $8.0 billion upon completion of the transaction. The Company expects to complete the Carlile acquisition on April 1, 2017, although delays could occur.

Under the terms of the Carlile acquisition, the Company would acquire all of the outstanding shares of Carlile common stock in exchange for the Company’s issuance of shares of its common stock. The exact number of shares of Company common stock to be issued in the Carlile acquisition will be determined based upon a number of factors as set forth in the reorganization agreement. In addition, the Company will make a payment to cash out options to acquire Carlile common stock. As part of the transaction, three representatives of Carlile will join the Board of Directors of the Company. The transaction is subject to certain conditions, including the approval by shareholders of the Company and Carlile and customary regulatory approvals.

Future Opportunities. The Company plans to explore additional opportunities in the growing sub markets within the Company’s current market regions, within the attractive new Fort Worth/Tarrant County and Colorado (I-25 corridor from Denver to Colorado Springs) markets being acquired in the Carlile acquisition, and attractive new markets in Texas such as San Antonio. 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. During 2016, the Company restructured its executive leadership team and streamlined its management function. The Company continues to update its operating capabilities and create 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, including 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 47%), the Company's Houston region (approximately 28%) and the Company's Austin/Central Texas region (approximately 25%). 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

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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, 2016, the Company employed approximately 577 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

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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 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. The Company's management continues to review the provisions, implementation, and legislative status of the Dodd-Frank Act and assess its potential impact on the Company's operations.

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.
The Company became subject to the new capital rules on January 1, 2015. A number of changes in what constitutes regulatory capital compared to the rules in effect prior to January 1, 2015 are subject to transition periods. These changes include the phasing-out of certain instruments as qualifying capital. Mortgage servicing rights and deferred tax assets over designated percentages of CET1 are deducted from capital. In addition, Tier 1 capital includes accumulated other comprehensive income, which includes all unrealized gains and losses on available for sale debt and equity securities. However, because of our asset size, we were eligible for the one-time option of permanently opting out of the inclusion of unrealized gains and losses on available for sale debt and equity securities in our capital calculations. We elected this option.

For purposes of determining risk-based capital, assets and certain off-balance sheet items are risk-weighted from 0% to 1,250%, depending on the risk characteristics of the asset or item. The new regulations make certain changes in the risk-weighting of assets to better reflect credit risk and other risk exposure compared to the earlier capital rules. These include a 150% risk weight (up from 100%) for certain high volatility commercial real estate acquisition, development and construction loans and for non-residential mortgage loans that are 90 days past due or otherwise in nonaccrual status; a 20% (up from 0%) credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable; and a 250% risk weight (up from 100%) for mortgage servicing rights and deferred tax assets that are not deducted from capital.

In addition to the minimum CET1, Tier 1 and total risk-based capital ratios, the Company and the Bank must maintain a capital conservation buffer consisting of additional CET1 capital greater than 2.5% of risk-weighted assets above the required minimum levels in order to avoid limitations on paying dividends, repurchasing shares, and paying discretionary bonuses. The new capital conservation buffer requirement began on January 1, 2016 when a buffer greater than 0.625% of risk-weighted assets was required, which will increase each year until the buffer requirement is fully implemented on January 1, 2019.

Under the FRB’s prompt corrective action standards, in order to be considered well-capitalized, the Bank must have a ratio of CET1 capital to risk-weighted assets of 6.5%, a ratio of Tier 1 capital to risk-weighted assets of 8%, a ratio of total capital to risk-weighted assets of 10%, and a leverage ratio of 5%; and must not be subject to any written agreement, order, capital directive, or prompt corrective action directive to meet and maintain a specific capital level for any capital measure. In order to be considered adequately capitalized, an institution must have the minimum capital ratios described above. As of December 31, 2016, the Bank was “well-capitalized.” An institution that is not well capitalized is subject to certain restrictions on brokered deposits and interest rates on deposits.

Dodd-Frank Stress Testing. The Dodd-Frank Act and regulations issued by the Federal Reserve require that financial institutions with consolidated assets of greater than $10 billion evaluate and support their capital position under baseline, adverse, and severely adverse scenarios on an annual basis. These scenarios are created by banking regulatory agencies and include a wide array of macro-economic conditions. The goal of stress testing is to provide bank regulatory agencies with forward looking information to assist in the supervision and planning process regarding a bank’s risk profile and capital adequacy.

Dodd-Frank Stress Testing requires a significant amount of data gathering and analysis and development of financial forecasting models. The Company has initiated a planning process to prepare for the Dodd-Frank Stress Testing requirements in anticipation of crossing the $10 billion threshold.

Interchange Fees. The Durbin Amendment to the Dodd-Frank Act limits the amount of interchange fees that banks with assets of $10 billion or more may charge to process electronic debit transactions. The Company is monitoring developments with respect to the Durbin Amendment and is otherwise analyzing its potential impact on operations in anticipation of crossing the $10 billion threshold.

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

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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

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's ability to attract and retain key employees is dependent upon its compensation and benefits programs, continued growth and profitability, and reputation for rewarding and promoting qualified employees. The cost of employee compensation constitutes a significant portion of the Company's non-interest expense and can materially impact results of operations. The Company could have difficulty replacing departed 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. The Company's continued success is dependent upon the ability of its executive management and the development of an appropriate succession plan for key officers.

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. While the Texas economy is more diversified than in the past, the energy sector 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 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 also 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, 2016, approximately 86% 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.

Adverse developments in the energy industry could have a negative effect on the Company's asset quality.

As of December 31, 2016, approximately 2.7% of the Company's loan portfolio was composed of loans made to companies engaged in oil production and oilfield services. The significant decline in oil prices during 2015 adversely effected some of these borrowers' ability to repay these loans and impaired the value of collateral securing some of these loans. The Company experienced an increase in non-performing assets and loan loss provisions in 2015 and early 2016 primarily due to energy 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 could be adversely affected. The Company's asset quality and results of operations could be adversely impacted by the direct and indirect effects of current and future conditions in

the Texas energy industry.
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, 2016, the Company's allowance for loan losses as a percentage of total loans was 0.69% and as a percentage of total nonperforming loans was 177.06%. 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. In addition, the Company announced the acquisition of Carlile Bancshares, Inc. ("Carlile") on November 21, 2016 and, absent delays, expects to close the Carlile acquisition on April 1, 2017. The Company intends to continue its acquisition 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's proposed acquisition of Carlile may not be completed.

Completion of the acquisition of Carlile is subject to a number of conditions precedent, including shareholder and regulatory approval, as well as satisfaction of certain financial requirements applicable to Carlile. If the conditions precedent are not satisfied, or waived, the transaction would not be consummated.
Integrating Northstar Bank into Independent Bank's operations may be more difficult, costly or time-consuming than the Company expects.
Independent Bank and Northstar Bank have operated and, until the merger is completed, will continue to operate, independently. Accordingly, the process of integrating Northstar Bank's operations into Independent Bank's operations could result in the disruption of operations, the loss of Northstar Bank customers and employees and make it more difficult to achieve the intended benefits of the merger. Inconsistencies between the standards, controls, procedures and policies of Independent Bank and those of Northstar Bank could adversely affect Independent Bank's ability to maintain relationships with current customers and employees of Northstar Bank if and when the merger is completed. As with any merger of banking institutions, business disruptions may occur that may cause Independent Bank to lose customers or may cause Northstar Bank's customers to withdraw their deposits from Northstar Bank prior to the merger's consummation and from Independent Bank thereafter. The realization of the anticipated benefits of the merger may depend in large part on Independent's ability to integrate Northstar Bank's operations into Independent Bank's operations, and to address differences in business models and cultures. If the Company is unable to integrate the operations of Carlile and Northstar Bank into the Company's and Independent Bank's operations successfully and on a timely basis, some or all of the expected benefits of the merger may not be realized. Difficulties encountered with respect to such matters could result in an adverse effect on the financial condition, results of operations, capital, liquidity or cash flows of Independent Bank and the Company.
The Company is entering the Fort Worth/Tarrant County and Colorado financial markets for the first time and the Company's failure to achieve the post-merger results it desires in those markets could materially adversely affect its operations, results of operations, liquidity or cash flows.
Upon consummation of the Company's merger with Carlile and the merger of Northstar Bank into Independent Bank, the Company would be entering the Fort Worth/Tarrant County and Colorado financial markets for the first time. The Company has no experience with operations in those markets, and, as a result, would initially rely on the management team at Northstar Bank to provide guidance regarding operation in those new geographic markets. Should the Company be unable to retain the services of these employees after the mergers or should those employees be unable to

provide the necessary support and guidance to the Company necessary for it to operate successfully in the new market, the Company may not achieve the results it desires from the merger and may be unable to realize all planned operating efficiencies as a result of the merger of Independent Bank’s and Northstar Bank’s operations. Moreover, to the extent that operating in either of those markets presents difficulties that the Company has not anticipated or does not anticipate in planning for the integration of the operations of Northstar Bank into those of Independent Bank, that integration may be more difficult, costly or time-consuming than the Company anticipates the integration to be and could require that the Company devote more management time and more resources to that integration than

now expected. To the extent the Company is unable to successfully integrate the Northstar Bank operations in the Fort Worth/Tarrant County and Colorado markets into the Company's operations, the Company may be unable to retain the current customers of Northstar Bank in those new markets, their deposits and their other banking business to the degree now expected and the anticipated benefits of the acquisition of Carlile to the Company and its shareholders would not be as substantial as anticipated. Any unsuccessful or materially inadequate integration of those operations could materially adversely affect the Company's financial condition, results of operations, liquidity and cash flows.
The Company may fail to realize the cost savings anticipated from the merger.
Although the Company anticipates that it would realize certain cost savings as to the operations of Carlile and Northstar Bank and otherwise from the merger if and when the operations of Carlile and Northstar Bank are fully integrated in the Company's and Independent Bank's operations, it is possible that the Company may not realize all of the cost savings that the Company has estimated it can realize from the merger. For example, for a variety of reasons, the Company may be required to continue to operate or maintain some facilities or support functions that are currently expected to be combined or reduced as a result of the merger. The Company's realization of the estimated cost savings also will depend on the Company's ability to combine the operations of the Company and Independent Bank with the operations of Carlile and Northstar Bank in a manner that permits those costs savings to be realized. If the Company is not able to integrate the operations of Carlile and Northstar Bank into the Company's and Independent Bank's operations successfully and to reduce the combined costs of conducting the integration operations of the two banks, the anticipated cost savings may not be fully realized, if at all, or may take longer to realize than expected. The Company's failure to realize those cost savings could materially adversely affect the Company's financial condition, results of operations, capital, liquidity or cash flows.
The completion of the Company's merger with Carlile would result in the immediate dilution of the Company's existing shareholders' ownership percentages in the Company's common stock and their voting power, which could adversely affect the market for the Company's common stock.
The merger of Carlile with and into the Company would result in the issuance of a substantial number of additional shares of the Company's common stock. That issuance would result in the immediate dilution of the percentage ownership and voting power of the existing holders of the Company's common stock. Although the Company believes that the merger will be accretive to all of the Company's shareholders, factors associated with the consummation of the merger of Carlile with and into the Company, such as those discussed above, could adversely affect the market for the Company's common stock.
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, 2016, the Company's goodwill totaled $258.3 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.
Changes in interest rates 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 current interest rate environment has had, and may continue to have, an adverse effect upon the Company’s net interest income.

Interest rates, which remain largely at historically low levels, are highly sensitive to many factors that are beyond our control such as general economic conditions and policies of the federal government, in particular the Federal Open Market Committee. In an attempt to help the overall economy, the FRB has kept interest rates low through its targeted Fed Funds rate. In December 2016, the FRB increased the Fed Funds rate by 25 basis points and indicates further increases during 2017, subject to economic conditions. As the FRB increases the Fed Funds rate, overall interest rates will likely rise, which may negatively impact the U.S. economic recovery. Further, changes in monetary policy, including changes in interest rates, could influence (i) the amount of interest the Company receives on loans and securities, (ii) the amount of interest the Company pays on deposits and borrowings, (iii) the Company's ability to originate loans and obtain deposits, (iv) the fair value of the Company's assets and liabilities, and (v) the reinvestment risk associated with a reduced duration of the Company's mortgage-backed securities portfolio as borrowers refinance to reduce borrowing costs. When interest-bearing liabilities reprice or mature more quickly than interest-earning assets, an increase in interest rates generally would tend to result in a decrease in net interest income.

Although management believes it has implemented an effective asset and liability management strategy to manage the potential effects of changes in interest rates, including the use of adjustable rate and/or short-term assets, and FHLB advances, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on the Company's financial condition and results of the Company's operation and/or the Company's strategies may not always be successful in managing the risk associated with changes in interest rates.

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 99.9% as of December 31, 2016), the Company invests a percentage of its total assets (approximately 5.4% as of December 31, 2016) in investment securities as part of its overall liquidity strategy. As of December 31, 2016, the fair value of the Company's securities portfolio was approximately $316.4 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.

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.

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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 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. Customers are also subject to financial crimes, including fraud, wire fraud, and cyber-crimes, which could adversely impact their ability to pay loans or result in a fraudulent removal of funds from their deposit accounts. It is not always possible to prevent employee errors and misconduct, or fraudulent schemes impacting customers, 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.

Natural disasters, severe weather events, worldwide hostilities, including terrorist attacks, and other external events may adversely affect the general economy, the financial services industry, the industries of customers, and the Company.

Natural disasters, severe weather events, including those prominent in Texas and those prominent in the geographic areas of vendors and business partners, together with worldwide hostilities, including terrorist attacks, and other external events could have a significant impact on the Company's ability to conduct business. These events could also affect the stability of the Company's deposit base, borrowers' ability to repay loans, impair collateral, result in a loss of revenue or an increase in expenses. Although the Company has established disaster recovery and business continuity procedures and plans, the occurrence of any such event may adversely affect the Company's business, which in turn could have a material adverse effect on the Company's financial condition and results of operations.

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, 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.

In addition, although the Company's common stock is listed for trading on the NASDAQ Global Select Market, the trading volume of the Company's common stock is less than that of other, larger financial institutions. Given the lower trading volume, significant sales of Company common stock, or the expectation of such sales, could cause the stock price to fall.

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

Collectively, as of February 28, 2017, Messrs. Vincent Viola and David Brooks owned 28.6% of the Company's outstanding common stock on a fully diluted basis. Vincent Viola, the largest shareholder of the Company, currently owns 23.9% of the Company's outstanding common stock, and David Brooks, the Company's Chairman of the Board and Chief Executive Officer, currently owns 4.7% 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 5.5% 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, two 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; 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 does 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 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 any preferred stock then outstanding. The Company has a senior, revolving credit facility under which the Company may borrow up to $50 million. As of December 31, 2016, the Company currently had not drawn upon this credit facility. Further, as of December 31, 2016, the Company had outstanding

- $110.0 million of aggregate principal amount of subordinated indebtedness; and
- $18.1 million of subordinated debentures issued in connection with trust preferred securities

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.

With the Company approaching $10 billion in consolidated assets following the Carlile acquisition, management is beginning to prepare for satisfying the stress testing requirements contained in the Dodd-Frank Act (“DFAST”). DFAST stress testing is designed to evaluate the Company’s capital and liquidity planning. The Company expects to incur significant expense in analyzing its current capital planning systems, implementing new data gathering systems and expanding its regulatory compliance and financial staff to satisfy the DFAST stress testing requirements. These costs and expenses will adversely impact the Company’s earnings. Further, uncertainties regarding how the financial models created pursuant to this requirement will respond to the regulatory scenarios issued annually, and how the regulators will evaluate the Company’s report of the results obtained through the stress testing process, subject the Company to risk when and if the Company becomes subject to DFAST and as the standards for DFAST evolve. Any change to the Company’s DFAST stress testing practices or any additional capital required by regulators in connection with the

DFAST requirements may have a material adverse effect on the Company’s financial condition and results of operations.

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

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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 2018 to 2026 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, 2016:

County	Total Number of Banking Centers	Number of Leased Banking Centers
Brazoria	1	—
Collin	10	1
Dallas	5	2
Denton	2	—
Fort Bend	1	1
Grayson	6	—
Harris	8	4
McLennan	2	2
Montgomery	1	1
Travis	3	—
Williamson	2	—

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

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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

Since January 2, 2014, the Company common stock has traded on the Nasdaq Global Select Market under the symbol "IBTX". 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 March 6, 2017, there were 369 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 Select Market:

	High	Low
Quarter ending March 31, 2017 (through March 6, 2017)	$66.85	$59.60
Quarter ended March 31, 2016	$34.95	$25.74
Quarter ended June 30, 2016	43.00	25.50
Quarter ended September 30, 2016	45.00	34.00
Quarter ended December 31, 2016	65.65	43.00
Quarter ended March 31, 2015	$39.45	$29.73
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

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 March 6, 2017 and for the quarterly periods in the years ended December 31, 2016 and 2015.

	Cash Dividends Declared per Share
For the Quarter Ending March 31, 2017 (through March 6, 2017)	$ 0.10
Quarter ended December 31, 2016	0.10
Quarter ended September 30, 2016	0.08
Quarter ended June 30, 2016	0.08
Quarter ended March 31, 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

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, the Company's 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 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.
Recent Sales of Unregistered Securities
On November 21, 2016, the Company entered into securities purchase agreements, or Stock Purchase Agreements, with a limited number of institutional investors who were all accredited investors pursuant to which the Company agreed to sell in a private placement an aggregate of 400,000 shares of the Company's common stock, or the Private Placement Shares, at a purchase price of $52.50 per Private Placement Share. The gross proceeds of the sale of such Private Placement Shares was approximately $21 million, and the placement discount/commission to Stephens, Inc., as placement agent, was $1,050,000. The transaction closed on November 29, 2016. The Company used the proceeds of the offering to support the Carlile acquisition and for general corporate purposes.
The Stock Purchase Agreements contained representations and warranties, covenants and indemnification provisions that are customary for private placements of shares of common stock by companies with shares of common stock listed for trading on a national securities exchange.
The Private Placement Shares were not registered under the Securities Act of 1933, as amended, or the Securities Act, in reliance on the exemption from registration in Section 4(a)(2) of the Securities Act and Regulation D of the Commission promulgated under the Securities Act, and, as a result, the Private Placement Shares may not be offered or sold in the United States absent a registration statement or exemption from registration. As agreed in the Stock Purchase Agreements, the Company filed with the Commission a registration statement (File No. 333-215137) with respect to the resale of the Private Placement Shares purchased by the investors under the Stock Purchase Agreements and that registration statement was declared effective by the Commission on December 21, 2016.
Securities Authorized for Issuance under Equity Compensation Plans
The following table provides information as of December 31, 2016, 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	310,394
Equity compensation plans not approved by security holders	—	N/A	—

Purchases of Equity Securities by the Issuer and Affiliated Purchasers
None.

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 and the Nasdaq Global Select Market) to December 31, 2016, with the cumulative total return of the S&P 500 Total Return Index and the Nasdaq Bank Index for the same period. Dividend reinvestment has been assumed. The Performance Graph assumes $100 invested on 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.

	April 3, 2013	June 30, 2013	December 31, 2013	June 30, 2014	December 31, 2014	June 30, 2015	December 31, 2015	June 30, 2016	December 31, 2016
Independent Bank Group, Inc.	$100.00	$103.54	$ 169.65	$190.64	$ 134.10	$147.91	$ 110.76	$149.26	$ 217.82
S&P 500 Index	100.00	103.91	120.86	129.48	137.40	139.09	139.30	144.65	155.96
Nasdaq Bank Index	100.00	109.28	128.58	128.76	132.23	142.45	140.99	135.10	190.37

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ITEM 6. SELECTED 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, 2016, 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 39 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)	2016	2015	2014	2013	2012
Selected Income Statement Data					
Interest income	$210,049	$174,027	$140,132	$87,214	$71,890
Interest expense	26,243	19,929	15,987	12,281	13,337
Net interest income	183,806	154,098	124,145	74,933	58,553
Provision for loan losses	9,440	9,231	5,359	3,822	3,184
Net interest income after provision for loan losses	174,366	144,867	118,786	71,111	55,369
Noninterest income	19,555	16,128	13,624	11,021	9,168
Noninterest expense	113,790	103,198	88,512	57,671	47,160
Income tax expense	26,591	19,011	14,920	4,661	—
Net income	53,540	38,786	28,978	19,800	17,377
Preferred stock dividends	8	240	169	—	—
Net income available to common shareholders	53,532	38,546	28,809	19,800	17,377
Pro forma net income [(1)] (unaudited)	n/a	n/a	n/a	16,174	12,147
Per Share Data (Common Stock)[(2)]					
Earnings:					
Basic	$2.89	$2.23	$1.86	$1.78	$2.23
Diluted [(3)]	2.88	2.21	1.85	1.77	2.23
Pro forma earnings:[(1)] (unaudited)					
Basic	n/a	n/a	n/a	1.45	1.56
Diluted [(3)]	n/a	n/a	n/a	1.44	1.56
Dividends [(4)]	0.34	0.32	0.24	0.77	1.12
Book value [(5)]	35.63	32.79	30.35	18.96	15.06
Selected Period End Balance Sheet Data					
Total assets	$5,852,801	$5,055,000	$4,132,639	$2,163,984	$1,740,060
Cash and cash equivalents	505,027	293,279	324,047	93,054	102,290
Securities available for sale	316,435	273,463	206,062	194,038	113,355
Total loans (gross)	4,582,566	4,001,704	3,205,537	1,726,543	1,378,676
Allowance for loan losses	31,591	27,043	18,552	13,960	11,478
Goodwill and core deposit intangible	272,496	275,000	241,912	37,852	31,993
Other real estate owned	1,972	2,168	4,763	3,322	6,819
Adriatica real estate owned	—	—	—	—	9,727
Noninterest-bearing deposits	1,117,927	1,071,656	818,022	302,756	259,664
Interest-bearing deposits	3,459,182	2,956,623	2,431,576	1,407,563	1,131,076

Borrowings (other than junior subordinated debentures)	568,045	371,283	306,147	195,214	201,118
Junior subordinated debentures [6]	18,147	18,147	18,147	18,147	18,147
Series A Preferred Stock	—	23,938	23,938	—	—
Total stockholders’ equity	672,365	603,371	540,851	233,772	124,510
Selected Performance Metrics					

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Return on average assets [7]	0.98 %	0.88 %	0.87 %	1.04 %	1.17 %
Return on average equity [7]	8.42	6.83	6.65	9.90	16.54
Return on average common equity [7]	8.42	7.13	6.89	9.90	16.54
Pro forma return on average assets [1] [7] (unaudited)	n/a	n/a	n/a	0.85	0.82
Pro forma return on average equity [1] [7] (unaudited)	n/a	n/a	n/a	8.09	11.56
Net interest margin [8]	3.81	4.05	4.19	4.30	4.40
Efficiency ratio [9]	55.95	60.62	64.25	67.10	69.64
Dividend payout ratio [10]	11.76	14.35	12.90	14.20	11.89
Credit Quality Ratios					
Nonperforming assets to total assets	0.34 %	0.36 %	0.36 %	0.58 %	1.59 %
Nonperforming loans to total loans [11]	0.39	0.37	0.32	0.53	0.81
Allowance for loan losses to nonperforming loans [11]	177.06	181.99	183.43	152.39	104.02
Allowance for loan losses to total loans	0.69	0.68	0.58	0.81	0.84
Net charge-offs to average loans outstanding (unaudited)	0.12	0.02	0.03	0.09	0.06
Capital Ratios					
Common equity tier 1 capital to risk-weighted assets [12]	8.20 %	7.94 %	n/a	n/a	n/a
Tier 1 capital to average assets	7.82	8.28	8.15 %	10.71 %	6.45 %
Tier 1 capital to risk-weighted assets [12]	8.55	8.92	9.83	12.64	8.22
Total capital to risk-weighted assets [12]	11.38	11.14	12.59	13.83	10.51
Total stockholders' equity to total assets	11.49	11.94	13.09	10.80	7.16
Total common equity to total assets [13]	11.49	11.94	12.51	10.80	7.16

(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% and 30.1% for the years ended December 31, 2013 and 2012, 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, the increase in 2015 relates to shares issued in the acquisition completed in November 2015, and the increase in 2016 relates to the weighted effect of the shares issued in November 2015 along with shares issued in a private offering during 2016. 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,				
	2016	2015	2014	2013	2012
Weighted average shares outstanding-basic	18,501,663	17,321,513	15,208,544	10,921,777	7,626,205

Weighted average shares outstanding-diluted	18,588,509	17,406,108	15,306,998	10,990,245	7,649,366

(4) Dividends declared for the years ended December 31, 2013 and 2012 include quarterly cash distributions paid to the Company's shareholders as to the three months ended March 31, 2013 and the year ended December 31, 2012 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 such periods 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 $0.52 per share and$0.85 per share for the years ended December 31, 2013 and 2012, 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, 2016, 2015, 2014, 2013 and 2012 was 18,870,312 shares, 18,399,194 shares, 17,032,669 shares, 12,330,158 shares, and 8,269,707 shares, respectively.

(6) 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.

(7) 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

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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.

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

(9) 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.

(10) 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.

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

(12) 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.

(13) The Company calculates common equity as of the end of the period as total stockholders' equity less the preferred stock at period end.

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, 2016 and 2015 and for the fiscal years ended December 31, 2016, 2015 and 2014, and the accompanying notes, appearing elsewhere in this Annual Report on Form 10-K. The Company's fiscal year ends on December 31.

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Certain Events Affect Year-over-Year Comparability

Acquisitions

There were no acquisitions completed in 2016. During 2015 and 2014, the Company completed a total of four 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
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	274.4	523.7

The Company issued an aggregate 5,768,868 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, 2016, 2015 and 2014 are affected by these acquisitions.

At December 31, 2016, the Company had pending the acquisition of Carlile Bancshares, Inc., which is expected to close in the second quarter of 2017. For more information on this acquisition, see the Pending Acquisition of Carlile Bancshares, Inc. section as discussed in Part I, Item 1. Business.

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, 2016, with its results of operations for the year ended December 31, 2015, and its results of operations for the year ended December 31, 2014.

Results of Operations

The Company’s net income available to common shareholders increased by $15.0 million, or 38.9%, to $53.5 million ($2.88 per common share on a diluted basis) for the year ended December 31, 2016, from $38.5 million ($2.21 per common share on a diluted basis) for the year ended December 31, 2015. The increase resulted from a $29.7 million increase in net interest income and a $3.4 million increase in noninterest income, partially offset by a $6.3 million increase in the interest expense, a $10.6 million increase in noninterest expense and a $7.6 million increase in income tax expense. The Company’s net income for the year ended December 31, 2016, and, therefore, the Company’s return on average assets and the Company’s return on average equity, were adversely affected by $1.5 million of acquisition-related expenses and $2.5 million of senior leadership restructuring expenses. The Company posted returns on average common equity of 8.42% and 7.13%, returns on average assets of 0.98% and 0.88%, and efficiency ratios of 55.95% and 60.62% for the fiscal years ended December 31, 2016 and 2015, 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 11.76% and 14.35% and the equity to assets ratio was 11.49% and 11.94% for the years ended December 31, 2016 and 2015, respectively.

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 share 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% and 12.90% and the equity to assets ratio was 11.94% and 13.09% for the years ended December 31, 2015 and 2014, respectively.

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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 $183.8 million for the year ended December 31, 2016, an increase of $29.7 million, or 19.3%, from $154.1 million for the year ended December 31, 2015. 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 2016 decreased to 3.81% from 4.05% in 2015, and the Company’s interest rate spread for 2016 decreased to 3.66% from the 3.89% interest rate spread for 2015. The average balance of interest-earning assets for 2016 increased by $1.0 billion, or 26.6%, to $4.8 billion from an average balance of $3.8 billion for 2015. The increases in interest-earning assets during the year was primarily due to strong organic loan growth of 14.6% for the year but also due in part to assets acquired during the fourth quarter 2015. The Company’s net interest margin for the year ended December 31, 2016 was adversely affected by a 21 basis point decline in the weighted-average yield on interest-earning assets to 4.36% for the year ended December 31, 2016, from 4.57% for the year ended December 31, 2015. This decline in yield reflects an increase in the Company's variable rate loan fundings during the second half of 2016 which resulted from changes in market interest rates and the competitive lending landscape.

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.

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, 2016, 2015 and 2014. The average balances are principally daily averages and, for loans, include both performing and nonperforming balances.

	For The Years Ended December 31,											
	2016				2015				2014			
(dollars in thousands)	Average Outstanding Balance [1]	Interest	Yield/ Rate		Average Outstanding Balance [1]	Interest	Yield/ Rate		Average Outstanding Balance [1]	Interest	Yield/ Rate	
Interest-earning assets:												
Loans [1]	$4,234,368	$203,577	4.81	%	$3,456,128	$169,504	4.90	%	$2,628,667	$135,461	5.15	%
Taxable securities	221,905	2,681	1.21		139,924	2,168	1.55		174,578	2,803	1.61	%
Nontaxable securities	74,227	1,768	2.38		69,112	1,783	2.58		57,825	1,429	2.47	%
Federal funds sold and other	290,316	2,023	0.70		141,374	572	0.40		99,083	439	0.44	%
Total interest-earning assets	4,820,816	$210,049	4.36		3,806,538	$174,027	4.57		2,960,153	$140,132	4.73	%
Noninterest-earning assets	648,726				589,014				369,449			
Total assets	$5,469,542				$4,395,552				$3,329,602			
Interest-bearing liabilities:												
Checking accounts	$1,761,509	$7,770	0.44	%	$1,297,948	$5,649	0.44	%	$1,052,528	$4,797	0.46	%
Savings accounts	150,223	260	0.17		143,476	263	0.18		129,707	345	0.27	
Money market accounts	429,647	1,911	0.44		319,982	829	0.26		123,392	347	0.28	
Certificates of deposit	830,964	6,134	0.74		842,087	5,283	0.63		674,556	4,048	0.60	
Total deposits	3,172,343	16,075	0.51		2,603,493	12,024	0.46		1,980,183	9,537	0.48	
FHLB advances	465,010	4,119	0.89		225,934	3,077	1.36		242,695	3,678	1.52	
Repurchase agreements and other borrowings	87,943	5,428	6.17		78,074	4,289	5.49		40,179	2,230	5.55	
Junior subordinated debentures	18,147	621	3.42		18,147	539	2.97		18,147	542	2.99	
Total interest-bearing liabilities	3,743,443	26,243	0.70		2,925,648	19,929	0.68		2,281,204	15,987	0.70	
Noninterest-bearing checking accounts	1,076,340				895,789				601,764			
Noninterest-bearing liabilities	13,895				9,688				11,152			
Stockholders’ equity	635,864				564,427				435,482			
	$5,469,542				$4,395,552				$3,329,602			

Total liabilities and equity			
Net interest income	$183,806	$154,098	$124,145
Interest rate spread	3.66 %	3.89 %	4.03 %
Net interest margin [2]	3.81	4.05	4.19
Average interest earning assets to interest bearing liabilities	128.78	130.11	129.76

(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.

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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, 2016 vs. 2015			For the Fiscal Year Ended December 31, 2015 vs. 2014		
	Increase (Decrease) Due to		Total Increase	Increase (Decrease) Due to		Total Increase
(dollars in thousands)	Volume	Rate	(Decrease)	Volume	Rate	(Decrease)
Interest-earning assets						
Loans	$37,476	$(3,403)	$ 34,073	$40,856	$(6,813)	$ 34,043
Taxable securities	1,067	(554)	513	(540)	(95)	(635)
Nontaxable securities	127	(142)	(15)	289	65	354
Federal funds sold and other	861	590	1,451	174	(41)	133
Total interest-earning assets	$39,531	$(3,509)	$ 36,022	$40,779	$(6,884)	$ 33,895
Interest-bearing liabilities						
Checking accounts	$2,044	$77	$ 2,121	$1,076	$(224)	$ 852
Savings accounts	12	(15)	(3)	34	(116)	(82)
Limited access money market accounts	350	732	1,082	511	(29)	482
Certificates of deposit	(71)	922	851	1,044	191	1,235
Total deposits	2,335	1,716	4,051	2,665	(178)	2,487
FHLB advances	2,400	(1,358)	1,042	(244)	(357)	(601)
Notes payable, repurchase agreements and other borrowings	576	563	1,139	2,082	(23)	2,059
Junior subordinated debentures	—	82	82	—	(3)	(3)
Total interest-bearing liabilities	5,311	1,003	6,314	4,503	(561)	3,942
Net interest income	$34,220	$(4,512)	$ 29,708	$36,276	$(6,323)	$ 29,953

Interest Income. The Company's total interest income increased $36.0 million, or 20.7%, to $210.0 million for the year ended December 31, 2016, from $174.0 million for the year ended December 31, 2015. The Company's total interest income increased $33.9 million, or 24.2%, to $174.0 million for the fiscal year ended December 31, 2015 from $140.1 million for the fiscal year ended December 31, 2014. The following tables set forth the major components of the Company's interest income for the fiscal years ended December 31, 2016, 2015 and 2014 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
	2016	2015	2016 v. 2015	2015	2014	2015 v. 2014
Interest income						
Interest and fees on loans	$203,577	$169,504	$34,073	$169,504	$135,461	$34,043
Interest on taxable securities	2,681	2,168	513	2,168	2,803	(635)

Interest on nontaxable securities	1,768	1,783	(15)	1,783	1,429	354
Interest on federal funds sold and other	2,023	572	1,451	572	439	133
Total interest income	$210,049	$174,027	$36,022	$174,027	$140,132	$33,895

The 20.1% increase in the Company’s interest and fees on loans for the year ended December 31, 2016, from the year ended December 31, 2015 was primarily attributable to a $778.2 million increase in the average balance of the Company’s loans to $4.2 billion during the fiscal year ended 2016 as compared with the average balance of $3.5 billion for the fiscal year ended 2015. The increase primarily resulted from strong organic growth in the Company’s loan portfolio of 14.6% for the year but also due in part to assets acquired during the fourth quarter 2015.

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 $274.4 million of loans in the Grand Bank transaction on November 1, 2015.
The interest the Company earned on taxable securities, which consists primarily of government agency and residential pass-through securities, increased 23.7% for the year ended December 31, 2016, due primarily to a 58.6% increase in the average balance of taxable securities from $139.9 million for the year ended December 31, 2015 to $221.9 million for the year ended December 31, 2016. The interest the Company earned on taxable 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 nontaxable securities during 2016 remained fairly consistent with 2015. 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 253.7% increase in the Company's interest on federal funds sold and other for the year ended December 31, 2016, from the year ended December 31, 2015 was primarily attributable to a 105.4% increase in the average balance from $141.4 million for the year ended December 31, 2015 to $290.3 million for the year ended December 31, 2016, which the Company strategically placed into higher yielding interest-bearing accounts during 2016.

Interest Expense. Total interest expense on the Company's interest-bearing liabilities increased $6.3 million, or 31.7%, to $26.2 million for the year ended December 31, 2016, from $19.9 million in the prior year. Total interest expense on the Company's interest-bearing liabilities increased $3.9 million, or 24.7%, to $19.9 million for 2015 from $16.0 million for 2014. The following table sets forth the major components of the Company's interest expense for the fiscal years ended December 31, 2016, 2015 and 2014 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
	2016	2015	2016 v. 2015	2015	2014	2015 v. 2014
Interest Expense						
Interest on deposits	$16,075	$12,024	$4,051	$12,024	$9,537	$2,487
Interest of FHLB advances	4,119	3,077	1,042	3,077	3,678	(601)
Interest on repurchase agreements and other borrowings	5,428	4,289	1,139	4,289	2,230	2,059
Interest on junior subordinated debentures	621	539	82	539	542	(3)
Total interest expense	$26,243	$19,929	$6,314	$19,929	$15,987	$3,942

Interest expense on deposits for 2016 increased by $4.1 million, or 33.7%, primarily as a result of a 21.8% year-over-year increase in the average balance on the Company's interest-bearing deposit accounts from $2.6 billion in 2015 to $3.2 billion in 2016 resulting from organic growth as well as deposits acquired in the November 2015 acquisition. The average rate on the Company's deposits increased by 5 basis points to 0.51% on average interest-bearing deposits for the fiscal year ended 2016, from 0.46% on average interest-bearing deposits for the fiscal year ended 2015. This increase in cost of funds for this source of funding primarily resulted from higher variable interest rates on brokered money market accounts and public fund time deposits which tend to be more rate sensitive.
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 FHLB advances for 2016 increased by $1.0 million, or 33.9%, due primarily to a higher average balance of such advances over the period, from $225.9 million in 2015 to $465.0 million in 2016, resulting from the use of short term FHLB advances during the applicable period.

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 repurchase agreements and other borrowings for the fiscal year ended 2016 increased by $1.1 million, or 26.6%, 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 $9.9 million primarily as a result of an increase in the Company's subordinated debentures. The Company issued an additional $45 million of its subordinate debt in a public offering in June 2016 to provide additional capital to the Bank to support growth. Interest expense on the additional subordinate debt totaled $1.3 million for the year ended December 31, 2016. This increase in interest expense was partially offset by the effect of $12.1 million in repurchase agreements held as December 31, 2015 which were transferred to deposit accounts during 2016 and the repayment of $5.8 million in principal amounts of subordinated debt during the year ended December 31, 2016.

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.

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 $31.6 million at December 31, 2016, by making provisions for loan losses totaling $9.4 million during the year ended December 31, 2016. This is an increase of $209 thousand, or 2.3% in provision expense over the total provision expense of $9.2 million made by the Company in 2015. Provision expense is primarily reflective of organic loan growth during the year as well as increased reserve allocations related to the risks associated with the energy portfolio due to commodity price volatility during the majority of 2016. Offsetting the increase to the allowance balance were net charge-offs totaling $4.9 million for 2016, which is 0.12% of the Company's average loans outstanding during the period. The 2016 charge-offs were primarily on energy related credits which had been reserved during late 2015 and early 2016.

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 contributed 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 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 0.03% of the Company's average loans outstanding during such period.

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

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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. The Company will begin phasing the acquired portfolio into the allowance allocation as acquired loans are being renewed in 2017.

Noninterest Income

The following table sets forth the major components of noninterest income for the fiscal years ended December 31, 2016, 2015 and 2014 and the period-over-period variations in such categories of noninterest income:

	For the Year Ended December 31,		Variance	For the Year Ended December 31,		Variance
(dollars in thousands)	2016	2015	2016 v. 2015	2015	2014	2015 v. 2014
Noninterest Income						
Service charges on deposit accounts	$7,222	$6,898	$324	$6,898	$5,884	$1,014
Mortgage fee income	7,038	5,269	1,769	5,269	3,953	1,316
Gain on sale of loans	—	116	(116)	116	1,078	(962)
Loss on sale of branch	(43)	—	(43)	—	—	—
Gain on sale of other real estate	57	290	(233)	290	71	219
Gain on sale of securities available for sale	4	134	(130)	134	362	(228)
Gain (loss) on sale of premises and equipment	32	(358)	390	(358)	(22)	(336)
Increase in cash surrender value of bank owned life insurance	1,348	1,077	271	1,077	972	105
All other noninterest income	3,897	2,702	1,195	2,702	1,326	1,376
Total noninterest income	$19,555	$16,128	$3,427	$16,128	$13,624	$2,504

Noninterest income increased $3.4 million, or 21.2%, to $19.6 million for the fiscal year ended 2016 from $16.1 million for fiscal the year ended 2015. Total noninterest income increased $2.5 million, or 18.4%, for the year ended December 31, 2015, compared to the year ended December 31, 2014. Significant changes in the components of noninterest income are discussed below.

Service Charges. Service charges on deposit accounts increased $324 thousand, or 4.7%, for the year ended December 31, 2016, as compared to the same period in 2015. The increase in service charge income is due to an increase in deposit accounts due primarily to organic growth and acquisition activity in late 2015. Service charges on deposit accounts for the year ended December 31, 2015 increased $1.0 million, or 17.2%, compared to the year ended December 31, 2014. The increase during 2015 is due to an increase in deposits accounts primarily due to acquisition growth in 2014 and 2015.

Mortgage Fee Income. Mortgage fee income for the year ended December 31, 2016 increased $1.8 million, or 33.6%, over the same period in 2015. This increase is due to housing market growth and home purchase activity in our Austin and north Texas markets, along with continued refinance activity due to borrowers taking advantage of increased home values and low interest rates. Mortgage fee income for the year ended December 31, 2015 increased $1.3 million, or 33.3%, compared to the comparable period in 2014. This increase is due to housing activity noted above as well as added commissioned mortgage producers.

Gain on Sale of Loans. No loan sales occurred in 2016. 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.

Gain (Loss) on Sale of Premises and Equipment. Gain (loss) on sale of premises and equipment totaled $32 thousand, $(358) thousand and $(22) thousand for the years ended December 31, 2016, 2015 and 2014, respectively. The majority of the loss recognized in 2015 was due to a loss on the sale of the Company's aircraft.

Increase in Cash Surrender Value of Bank Owned Life Insurance. The cash surrender value of bank owned life insurance increased $271 thousand, or 25.2% from $1.1 million in 2015 to $1.3 million in 2016. The increase is a result of $15 million in policies purchased in June 2016. The 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.

Other Noninterest Income. Other noninterest income increased $1.2 million, or 44.2%, for the year ended December 31, 2016 compared to the same period in 2015. The increase is primarily related to increased earning credits on correspondent accounts, increased wealth management income and increased bank card merchant income. Other noninterest income for the year ended December 31, 2015, increased $1.4 million, or 103.8%, 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 which were recognized for a full year compared to the prior year.
Noninterest Expense
Noninterest expense increased $10.6 million, or 10.3%, to $113.8 million for the year ended 2016 from $103.2 million for the year ended 2015. The increase from 2015 to 2016 is primarily due to increases in salaries and benefits expenses, data processing expenses, FDIC assessment and other noninterest expenses due to organic growth within the Company but also due to a full year of expenses from the acquisition in November 2015.
Noninterest expense increased $14.7 million, or 16.6%, for the year ended December 31, 2015, compared to the same period in 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 of 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.
The following table sets forth the major components of the Company’s noninterest expense for the years ended December 31, 2016, 2015 and 2014, 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)	2016	2015	2016 v. 2015	2015	2014	2015 v. 2014
Noninterest Expense						
Salaries and employee benefits	$66,762	$60,541	$6,221	$60,541	$52,337	$8,204
Occupancy	16,101	16,058	43	16,058	13,250	2,808
Data processing	4,752	3,384	1,368	3,384	2,080	1,304
FDIC assessment	3,889	2,259	1,630	2,259	1,797	462
Advertising and public relations	1,107	1,038	69	1,038	835	203
Communications	2,116	2,219	(103)	2,219	1,787	432
Other real estate owned expense, net	205	169	36	169	232	(63)
Impairment of other real estate	106	35	71	35	22	13
Core deposit intangible amortization	1,964	1,555	409	1,555	1,281	274
Professional fees	3,212	3,191	21	3,191	2,567	624
Acquisition expense, including legal	1,517	1,420	97	1,420	3,626	(2,206)
Other	12,059	11,329	730	11,329	8,698	2,631
Total noninterest expense	$113,790	$103,198	$10,592	$103,198	$88,512	$14,686

Salaries and Employee Benefits. Salaries and employee benefits expense, which historically has been the largest component of the Company’s noninterest expense, increased $6.2 million, or 10.3%, for the year ended December 31, 2016, compared to the year ended December 31, 2015. The increase is primarily due to approximately $2.6 million in compensation costs recognized during the second quarter of 2016 relating to the Company's senior leadership restructure of which $2 million related to the former Houston Region CEO's Separation Agreement, increased bonuses related to mortgage production, and a full year of Grand Bank employees' salaries.
Salaries and employee benefits expense increased $8.2 million, or 15.7%, for the year ended December 31, 2015, compared to the same period in 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.

Occupancy Expense. Occupancy expense remained consistent for the year ended December 31, 2016 compared to the same period in 2015 and increased $2.8 million, or 21.2%, for the year ended December 31, 2015 compared to the same period in

2014. The increase in 2015 from 2014 resulted from higher maintenance contract expenses, building lease expenses and property taxes, attributable primarily to the four acquisitions completed in 2014 and 2015. Two branches were added in late 2015 and eleven branches were added in 2014 as a result of the acquisitions during those years.

Data Processing. Data processing fees increased $1.4 million, or 40.4%, for the year ended December 31, 2016, compared to the same period in 2015 and increased $1.3 million, or 62.7% for the year ended December 31, 2015 compared to the same period in 2014. 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 $1.6 million, or 72.2%, for the year ended December 31, 2016, compared to the same period in 2015 and increased $462 thousand, or 25.7% for the year ended December 31, 2015 compared to the same period in 2014 . The increase is due to a higher assessment associated with an increase in deposit accounts, both due to organic growth and growth through acquisitions.

Professional Fees. Professional fees increased $21 thousand, or 0.7%, for the year ended December 31, 2016, over the same period in 2015 and increased $624 thousand, or 24.3% for the year ended December 31, 2015 compared to the same period in 2014. The increase in 2015 and 2016 is primarily due to increased legal fees on existing litigation inherited in the BOH transaction as well as increased legal fees related to energy loan workouts during 2016.

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, 2016, increased $97 thousand, or 6.8% over the same period in 2015. The total acquisition expense in 2015 decreased $2.2 million, or 30.6% over the same period in 2014. The change in the respective period is directly related to the acquisition activity in those periods. The Company incurred expenses related to the announced acquisition of Carlile Bancshares, Inc. in late 2016 and closed one acquisition in 2015 along with three acquisitions in 2014.

Other. Other noninterest expense for the year ended December 31, 2016 increased by $730 thousand, or 6.4%, compared to the same period in 2015. Other noninterest expense increased by $2.6 million, or 30.2%, for the year ended December 31, 2015, compared to the same period in 2014. 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, and January 2014.

Income Tax Expense

Income tax expense was $26.6 million for the year ended December 31, 2016, which is an effective tax rate of 33.2%. 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.

No valuation allowance for deferred tax assets was recorded at December 31, 2016, 2015 or 2014, 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, 2016 and 2015. This information should be read in conjunction with the Company's consolidated financial statements as of and for the fiscal years ended December 31, 2016 and December 31, 2015 appearing elsewhere in this Annual Report on Form 10-K.

	Quarter Ended 2016			
	December 31	September 30	June 30	March 31
(dollars in thousands, except per share data)	(unaudited)			
Interest Income	$53,904	$ 52,740	$51,941	$51,464
Interest Expense	7,378	7,003	6,058	5,804
Net Interest Income	46,526	45,737	45,883	45,660
Provision for loan losses	2,197	2,123	2,123	2,997
Net interest income after provision for loan losses	44,329	43,614	43,760	42,663
Noninterest income	5,224	4,932	4,929	4,470
Noninterest expense	27,361	26,887	31,023	28,519
Income before income taxes	22,192	21,659	17,666	18,614
Provision for income taxes	7,417	7,155	5,857	6,162
Net income	14,775	14,504	11,809	12,452
Preferred stock dividends	—	—	—	8
Net income available to common shareholders	$14,775	$ 14,504	$11,809	$12,444
Comprehensive income	$10,076	$ 14,026	$12,721	$13,235
Basic earnings per share	$0.79	$ 0.78	$0.64	$0.67
Diluted earnings per share	0.79	0.78	0.64	0.67

	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

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, 2016 and 2015 and certain changes in that financial condition from December 31, 2015, to December 31, 2016, and from December 31, 2014, to December 31, 2015.

Assets

The Company's total assets increased by $797.8 million, or 15.8%, to $5.9 billion as of December 31, 2016 from $5.1 billion at December 31, 2015 due to organic growth during the period. 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 this period was due to both organic growth and growth through the acquisition of Grand Bank in November 2015.

Loan Portfolio

The Company's loan portfolio is the largest category of the Company's earning assets. The following table presents the balance and associated percentage of each major category in the Company's loan portfolio as of December 31, 2016, 2015, 2014, 2013 and 2012:

	2016		2015		2014		2013		2012	
(dollars in thousands)	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Commercial	$630,805	13.7 %	$731,818	18.3 %	$672,052	21.0 %	$241,178	14.0 %	$169,882	12.3 %
Real estate:										
Commercial	2,459,221	53.7	1,949,734	48.7	1,450,434	45.2	843,436	48.9	648,494	47.0
Commercial construction, land and land development	531,481	11.6	419,611	10.5	334,964	10.5	130,320	7.5	97,329	7.1
Residential [(1)]	644,340	14.1	620,289	15.5	518,478	16.2	342,037	19.8	315,349	22.9
Single family interim construction	235,475	5.1	187,984	4.7	138,278	4.3	83,144	4.8	67,920	4.9
Agricultural	53,548	1.2	50,178	1.3	38,822	1.2	40,558	2.3	40,127	2.9
Consumer	27,530	0.6	41,966	1.0	52,267	1.6	45,762	2.7	39,502	2.9
Other	166	—	124	—	242	—	108	—	73	—
	4,582,566	100.0%	4,001,704	100.0%	3,205,537	100.0%	1,726,543	100.0%	1,378,676	100.0%
Deferred loan fees	(2,117)		(1,553)		(487)		—		—	
Allowance for loan losses	(31,591)		(27,043)		(18,552)		(13,960)		(11,478)	
Total loans, net	$4,548,858		$3,973,108		$3,186,498		$1,712,583		$1,367,198	

(1) Includes mortgage loans held for sale as of December 31, 2016, 2015, 2014, 2013 and 2012 of $9.8 million, $12.3 million, $4.5 million, $3.4 million and $9.2 million, respectively.

As of December 31, 2016, the Company's loan portfolio, net of the allowance for loan losses and deferred fees, totaled $4.5 billion, which is an increase of 14.5% over total net loans at December 31, 2015 and for which increase was due to organic loan growth during the year. As of December 31, 2015, the Company's loan portfolio, net of the allowance for loan losses and deferred fees, totaled $4.0 billion, which is an increase of 24.7% over total net loans at December 31, 2014. The increase was primarily due to organic growth, but also due in part to approximately $274.4 million acquired in the Company's acquisition of Grand Bank in November 2015.

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 decreased $101.0 million, or 13.8%, to $630.8 million as of December 31, 2016, from $731.8 million as of December 31, 2015 and from $672.1 million at December 31, 2014. The decrease in this portfolio type is primarily due to a decrease in the energy portfolio during 2016. The energy exploration and production (E&P) portfolio totaled $115.3 million, or approximately 2.5% of the total loans portfolio as of December 31, 2016, down 36.8% from $182.5 million, or approximately 4.6% as of December 31, 2015 and $231.7 million, or approximately 7.2% of the total portfolio at December 31, 2014.

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 35%, 40% and 48% of the Company's commercial real estate loans as of December 31, 2016, 2015, and 2014, 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 $509.5 million, or 26.1%, to $2.5 billion as of December 31, 2016 from $2.0 billion as of December 31, 2015. The increase was due to organic loan growth in this loan type during the year across all of our markets. Commercial real estate loans increased $499.3 million, or 34.4%, to $2.0 billion as of December 31, 2015 from $1.5 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.

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 $111.9 million, or 26.7% to $531.5 million at December 31, 2016 from $419.6 million at December 31, 2015, due to organic loan growth in this type of loan. The Company's loans in this segment 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.

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 $24.1 million, or 3.9%, to a balance of $644.3 million as of December 31, 2016 from $620.3 million as of December 31, 2015. This 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.
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 $47.5 million, or 25.3%, to $235.5 million as of December 31, 2016 from the balance of $188.0 million as of December 31, 2015. The increase during

the year was due to continuing new home activity as a result of continued low mortgage rates. Single family interim construction loans 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.
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 2% of the Company’s total loan portfolio as of December 31, 2016, 2015, or 2014 and such categories continue to decline as a % of the Company's total loan portfolio.

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, 2016:

As of December 31, 2016	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	$69,793	$197,914	$145,926	$162,361	$20,571	$34,240	$236,290	$394,515
Real estate:								
Commercial real estate	76,918	64,595	925,260	423,934	195,818	772,696	1,197,996	1,261,225
Commercial construction, land and land development	69,949	69,914	178,982	118,748	18,727	75,161	267,658	263,823
Residential real estate	72,043	21,995	203,916	16,040	197,699	132,647	473,658	170,682
Single family interim construction	87,702	94,253	8,093	7,332	32,436	5,659	128,231	107,244
Agricultural	12,693	7,269	11,774	14,626	493	6,693	24,960	28,588
Consumer	6,877	5,720	13,685	351	735	162	21,297	6,233
Other	166	—	—	—	—	—	166	—
Total loans	$396,141	$461,660	$1,487,636	$743,392	$466,479	$1,027,258	$2,350,256	$2,232,310

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. 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. The Company

did not make any changes in the Company's nonaccrual policy during the fiscal years of 2016, 2015 or 2014.
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 owned 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.

	As of December 31,				
(dollars in thousands)	2016	2015	2014	2013	2012
Nonaccrual loans					
Commercial	$7,718	$7,366	$1,449	$357	$218
Real estate:					
Commercial real estate, construction, land and land development	5,885	591	70	253	4,857
Residential real estate	866	552	2,117	1,852	894
Single-family interim construction	884	—	—	170	560
Agricultural	—	170	—	—	—
Consumer	273	111	67	43	70
Total nonaccrual loans [1]	15,626	8,790	3,703	2,675	6,599
Loans delinquent 90 days or more and still accruing					
Commercial	—	—	157	—	—
Real estate:					
Residential real estate	—	—	288	—	—
Consumer	—	—	6	—	2
Total loans delinquent 90 days or more and still accruing	—	—	451	—	2
Troubled debt restructurings, not included in nonaccrual loans					
Commercial	1	16	30	107	481
Real estate:					
Commercial real estate, construction, land and land development	1,204	3,480	4,668	5,090	1,778
Residential real estate	1,011	2,574	1,254	1,288	2,165
Consumer	—	—	8	1	9
Total troubled debt restructurings, not included in nonaccrual loans	2,216	6,070	5,960	6,486	4,433
Total nonperforming loans	17,842	14,860	10,114	9,161	11,034
Other real estate owned and other repossessed assets (Bank only):					
Commercial real estate, construction, land and land development	783	2,168	4,763	3,322	6,166
Commercial	—	1,050	—	—	—
Consumer	4	14	—	—	—
Residential real estate	1,189	—	—	—	653
Total other real estate owned and other repossessed assets	1,976	3,232	4,763	3,322	6,819
Adriatica real estate owned	—	—	—	—	9,727
Total nonperforming assets	$19,818	$18,092	$14,877	$12,483	$27,580
Ratio of nonperforming loans to total loans	0.39 %	0.37 %	0.32 %	0.53 %	0.81 %
Ratio of nonperforming assets to total assets	0.34	0.36	0.36	0.58	1.59

[1] Nonaccrual loans include troubled debt restructurings of $209 thousand, $621 thousand, $1.3 million, $1.5 million and $3.1 million as of December 31, 2016, 2015, 2014, 2013 and 2012, respectively.

The Company had $15.6 million, $8.8 million and $3.7 million in loans on nonaccrual status as of December 31, 2016, 2015, and 2014, respectively. The increase from December 31, 2015 to December 31, 2016 was due to $10.8 million in loans being placed on nonaccrual during the year offset by a $3 million partial chargeoff on an energy loan and other reductions in other real estate and repossessed assets during the period. The increase from December 31, 2014 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.

Troubled debt restructurings that were also on nonaccrual status totaled $209 thousand, $621 thousand and $1.3 million at December 31, 2016, 2015 and 2014, 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 2016, 2015 or 2014 while the loans were in nonaccrual status. The amount of interest the Company included in the Company’s net interest income for fiscal year 2016, 2015 and 2014 with respect to nonperforming loans was $207 thousand, $638 thousand and $433 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 $623 thousand, $329 thousand and $203 thousand, respectively, during fiscal year 2016, 2015 and 2014, respectively.

As of December 31, 2016, the Company had a total of 55 loans with an aggregate principal balance of $21.0 million that were not currently impaired loans, 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, 2016, the Company had other real estate owned of $2.0 million, which is a slight decrease from the balance of $2.2 million for prior year. This was due to decreased foreclosure and disposition activity during 2016. 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. 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 aircraft was sold during 2016.

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 Special Mention. Pass/watch loans have a potential weakness that requires more frequent monitoring. Special Mention 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,									
	2016		2015		2014		2013		2012	
(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	$8,593	13.7 %	$10,573	18.3 %	$5,051	21.0 %	$2,401	14.0 %	$2,377	12.3 %
Real estate:										
Commercial real estate, construction, land and land development	18,399	65.3	13,007	59.2	10,110	55.7	7,872	56.4	4,924	54.1
Residential real estate	2,760	14.1	2,339	15.5	2,205	16.2	2,440	19.8	2,965	22.9
Single family interim construction	1,301	5.1	769	4.7	669	4.3	577	4.8	523	4.9
Agricultural	207	1.2	215	1.3	246	1.2	238	2.3	159	2.9
Consumer	242	0.6	164	1.0	146	1.6	365	2.7	278	2.9
Other	29	—	8	—	—	—	2	—	5	—
Unallocated	60	—	(32)	—	125	—	65	—	247	—
Total allowance for loan losses	$31,591	100.0 %	$27,043	100.0 %	$18,552	100.0 %	$13,960	100.0 %	$11,478	100.0 %

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

As of December 31, 2016, the allowance for loan losses amounted to $31.6 million, or 0.69%, of total loans held for investment, compared with $27.0 million, or 0.68%, as of December 31, 2015 and $18.6 million, or 0.58%, as of December 31, 2014. The increase in the allowance during 2016 was primarily due to an increase in general reserves for organic growth and for risks within our energy portfolio during the first half of the year, primarily related to lower oil prices. Higher chargeoffs during the period offset the overall increase and mostly relate to chargeoffs of energy loans. 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 during that time and increased specific reserves, primarily on two of the Company's energy loans.

The allowance for loan losses as a percentage of nonperforming loans decreased slightly from 181.99% at December 31, 2015, to 177.06% at December 31, 2016, due to a combination of increases in both the allowance and nonperforming loan balances. As of December 31, 2016, the Company had made a specific allowance for loan losses of $185 thousand for impaired loans totaling $17.9 million, compared with a specific allowance of $3.2 million for impaired loans totaling $15.5 million as of December 31, 2015. This decrease in specific reserves was due primarily to

chargeoffs on energy loans during the year as discussed above.

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.

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, 2016, 2015, 2014, 2013 and 2012 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)	2016	2015	2014	2013	2012
Allowance for loan losses-balance at beginning of year	$27,043	$18,552	$13,960	$11,478	$9,060
Charge-offs					
Commercial	(4,384)	(606)	(368)	(612)	(169)
Real estate:					
Commercial real estate, construction, land and land development	(54)	(69)	(371)	(634)	(484)
Residential real estate	(401)	(9)	(32)	(130)	(178)
Consumer	(27)	(52)	(63)	(10)	(40)
Other	(104)	(124)	(80)	(54)	(46)
Total charge-offs	(4,970)	(860)	(914)	(1,440)	(917)
Recoveries					
Commercial	13	28	19	20	26
Real estate:					
Commercial real estate, construction, land and land development	10	42	79	28	68
Residential real estate	12	5	8	10	3
Single-family interim construction	—	—	11	—	—
Consumer	8	14	6	17	27
Other	35	31	24	25	27
Total recoveries	78	120	147	100	151
Net charge-offs	(4,892)	(740)	(767)	(1,340)	(766)
Provision for loan losses	9,440	9,231	5,359	3,822	3,184
Allowance for loan losses-balance at end of year	$31,591	$27,043	$18,552	$13,960	$11,478
Ratios					
Net charge-offs to average loan outstanding	0.12%	0.02%	0.03%	0.09%	0.06%
Allowance for loan losses to nonperforming loans at end of year	177.06	181.99	183.43	152.39	104.02
Allowance for loan losses to total loans at end of year [1]	0.69	0.68	0.58	0.81	0.84

[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, 2016 was 0.69%, up slightly from 0.68% at December 31, 2015. The slight increase is due to provisions for organic growth during the period. Due to the stabilization of oil prices during the second half of 2016 and reductions in the energy portfolio, no additional provisions for the energy portfolio were necessary during the second half of the year. The ratio of net charge-offs to average loans outstanding during the fiscal year ended December 31, 2016 increased to 0.12% from 0.02% for the year ended December 31, 2015. The increase in chargeoffs during 2016 is primarily related to energy-related chargeoffs, which were mostly reserved at December 31, 2015.

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.

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, 2016, 2015 and 2014:

	As of December 31,					
	2016		2015		2014	
(dollars in thousands)	Book Value	% of Total	Book Value	% of Total	Book Value	% of Total
Securities available for sale						
U.S. Treasury securities	$3,147	0.99 %	$1,002	0.37 %	$1,006	0.49 %
Government agency securities	122,267	38.64	135,300	49.48	58,023	28.16
Obligations of state and municipal subdivisions	87,256	27.58	85,416	31.23	76,899	37.32
Residential pass-through securities	103,765	32.79	51,745	18.92	69,053	33.51
Corporate bonds	—	—	—	—	1,081	0.52
Total securities available for sale	$316,435	100.00 %	$273,463	100.00 %	$206,062	100.00 %

The Company recognized gains on the sale of securities of $4 thousand, $134 thousand and $362 thousand for the years ended December 31, 2016, 2015 and 2014, respectively. Securities represented 5.4%, 5.4% and 5.0% of the Company's total assets at December 31, 2016, 2015 and 2014, 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, 2016 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, 2016, 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, 2016:

(dollars in thousands)	Book Value	% of Total Investment Securities	Weighted Average Yield
U.S. Treasury securities			
Maturing within one year	$—	— %	— %
Maturing in one to five years	3,147	1.00	1.48
Maturing in five to ten years	—	—	—
Maturing after ten years	—	—	—
Total U.S. Treasury securities	3,147	1.00	1.48
Government agency securities			
Maturing within one year	26,762	8.46	0.73
Maturing in one to five years	82,825	26.17	1.27
Maturing in five to ten years	10,357	3.27	2.07
Maturing after ten years	2,323	0.73	2.13
Total government agency securities	122,267	38.63	1.24
Obligations of state and municipal subdivisions			
Maturing within one year	5,811	1.84	1.24
Maturing in one to five years	12,807	4.05	1.67
Maturing in five to ten years	19,092	6.03	2.59
Maturing after ten years	49,546	15.66	2.87
Total obligations of state and municipal subdivisions	87,256	27.58	2.53
Residential pass through securities			
Maturing within one year	275	0.09	3.18
Maturing in one to five years	101,303	32.01	1.96
Maturing in five to ten years	1,395	0.44	1.55
Maturing after ten years	792	0.25	2.93
Total residential pass through securities	103,765	32.79	1.97
Total investment securities	$316,435	100.00 %	1.83 %

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, 2016				
U.S. treasuries	$3,208	$ —	$ (61)	$3,147
Government agency securities	123,605	141	(1,479)	122,267
Obligations of state and municipal subdivisions	88,358	920	(2,022)	87,256
Residential pass through securities guaranteed by FNMA, GNMA and FHLMC	103,869	928	(1,032)	103,765
	$319,040	$ 1,989	$ (4,594)	$316,435
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

The Company’s securities available for sale, carried at fair value, increased $43.0 million, or 15.7%, during 2016 and increased $67.4 million, or 32.7% during 2015. The increase in 2016 is due to excess liquidity attributed to organic asset growth in addition to maintaining the portfolio at targeted percent of total assets. The increase in 2015 was due to securities acquired in the Grand Bank transaction in November 2015.

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 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 increased by $211.7 million, or 72.2% to $505.0 million at December 31, 2016 from $293.3 million at December 31, 2015. The increase in cash and cash equivalents is primarily due to the bank maintaining additional cash in 2016 due to cash needs and volatility of several large title company accounts acquired

in the Grand acquisition. 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.

Certificates of Deposit Held in Other Banks
The Company owned certificates of deposit held in other banks in the amount of $2.7 million and $61.7 million as of December 31, 2016 and 2015, respectively. All of the certificates held at December 31, 2015 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.
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 $258.3 million at December 31, 2016, $258.6 million as of December 31, 2015 and $229.5 million as of December 31, 2014. The slight decrease in the goodwill balance from December 31, 2015 to December 31, 2016 was due to small measurement period adjustments related to the Grand Bank acquisition.
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.

Liabilities

Total liabilities increased $752.7 million, or 17.0%, to $5.2 billion as of December 31, 2016, from $4.4 billion as of December 31, 2015, primarily due to organic deposit growth and increases of $172.4 million in FHLB advances and $45.0 million in other borrowings (subordinated debentures), respectively.

Total liabilities increased $835.9 million, or 23.3%, to $4.4 billion as of December 31, 2015, from $3.6 billion 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.

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 $548.8 million, or 13.6%, to $4.6 billion as of December 31, 2016 from $4.0 billion as of December 31, 2015. The increase was due to organic deposit growth as well as an increase in use of brokered funds. Brokered deposits totaled $497.4 million and $476.6 million at December 31, 2016 and 2015, respectively. As of December 31, 2016 and 2015, noninterest-bearing demand, interest-bearing checking, savings deposits and limited access money market accounts accounted for 81.3% and 79.0%, respectively, of the Company's total deposits, while individual retirement accounts and certificates of deposit made up 18.7% and 21.0%, respectively, of total deposits. Noninterest-bearing demand deposits totaled $1.1 billion, or 24.4% of total deposits, as of December 31, 2016, compared with $1.1 billion, or 26.6% of total deposits, as of December 31, 2015.The total cost of deposits increased four basis points from 0.34% at December 31, 2015 to 0.38% at December 31, 2016. The average cost of interest-bearing deposits was 0.51% per annum for 2016 compared with 0.46% for 2015. The increase in cost of funds was primarily due to increased rates on public fund accounts.
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. 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, 2016			For the Year Ended December 31, 2015			For the Year Ended December 31, 2014		
	Balance	Weighted Average Rate		Balance	Weighted Average Rate		Balance	Weighted Average Rate	
Deposit Type									
Noninterest-bearing demand accounts	$1,076,340	—	%	$895,789	—	%	$601,764	—	%
Interest-bearing checking accounts	1,761,509	0.44		1,297,948	0.44		1,052,528	0.46	
Savings accounts	150,223	0.17		143,476	0.18		129,707	0.27	
Limited access money market accounts	429,647	0.44		319,982	0.26		123,392	0.28	
Certificates of deposit, including individual retirement accounts (IRA)	830,964	0.74		842,087	0.63		674,556	0.60	
Total deposits	$4,248,683	0.38	%	$3,499,282	0.34	%	$2,581,947	0.37	%

The following table sets forth the maturity of time deposits (including IRA deposits) of $100,000 or more as of December 31, 2016:

(dollars in thousands)	Maturity within:				
	Three Months	Three to Six Months	Six to Twelve Months	After Twelve Months	Total
Individual retirement accounts	$3,375	$2,422	$6,146	$7,000	$18,943
Certificates of deposit (excluding CDARS)	116,612	123,689	177,644	216,698	634,643
CDARS	43,336	24,071	19,653	2,048	89,108
Total	$163,323	$150,182	$203,443	$225,746	$742,694

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. The Company had no short-term borrowings at December 31, 2016. At December 31, 2015 and 2014 , the Company had $70.0 million and $55.0 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 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 $460.7 million as of December 31, 2016, compared with $288.3 million as of December 31, 2015, and $229.4 million as of December 31, 2014. The increase for FHLB borrowings during 2016 is primarily to manage liquidity needs related to the Grand acquisition, primarily due to volatility from the title company accounts and increased wire volume as well as organic loan growth. The increase for each respective years 2015 and 2014 is primarily to provide additional short-term liquidity due to loan growth. As of December 31, 2016, 2015 and 2014, the Company had $830.8 million, $817.0 million and $727.3 million, respectively, in unused and available advances from the FHLB. At December 31, 2016, the Company's FHLB advances are collateralized by assets, including a blanket pledge of certain loans with a carrying value of $2.0 billion and FHLB stock. As of December 31, 2016, 2015 and 2014, the Company had $691.7 million, $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 December 31, 2016, 2015 or 2014.

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

	As of December 31,		
	2016	2015	2014
Fixed-rate, fixed term, at rates from 0.46% to 5.57%, with a weighted-average of 0.98% (maturing October 2017 through January 2026)	$460,746	—	—
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

As of December 31, 2016, 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, 2016
First Year	$30,000
Second Year	340,000
Third Year	65,037
Fourth Year	—
Fifth Year	25,000
Thereafter	709
	$460,746

Other Long-Term Indebtedness

As of December 31, 2016, 2015 and 2014, the Company had $107.3 million, $70.8 million and $72.7 million, respectively, of long-term indebtedness (other than FHLB advances and junior subordinated debentures) outstanding, which included subordinated debentures. The increase from December 31, 2015 to December 31, 2016 was due to the issuance of $45.0 million in the Company's subordinated notes, net of discount and offering costs offset by the repayments totaling $5.8 million of other subordinated debentures. The slight decrease in borrowings from December

31, 2014 to December 31, 2015 was due to principal paydowns of $1.9 million during the year.
As of December 31, 2016, the Company's long-term indebtedness will mature on August 1, 2024.

Junior Subordinated Debentures

As of December 31, 2016, 2015 and 2014, 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 2.56% to 4.17%, with a weighted average spread of 3.59%. As of December 31, 2016, the interest rate on the various series of debentures was 4.14%, 3.73%, 3.32%, 4.17% and 2.56%, respectively, while 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. 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 $672.4 million at December 31, 2016, compared with $603.4 million at December 31, 2015, an increase of approximately $69.0 million. The increase was due primarily to the net income earned for the year totaling $53.5 million and the issuance of common stock, net of offering costs totaling $19.9 million. In addition, there was stock awards amortization of $5.4 million offset by dividends paid of $6.3 million and a decrease in the unrealized gain (loss) on securities totaling $3.5 million.

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.

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,

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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, 2016 and 2015, the Company had established federal funds lines of credit with nine unaffiliated banks totaling $225 million and $200 million, respectively. As of December 31, 2014, the Company had established federal funds lines of credit totaling $125.0 million with five unaffiliated banks. Based on the values of stock, securities, and loans pledged as collateral, as of December 31, 2016, 2015 and 2014, the Company had additional borrowing capacity with the FHLB of $830.8 million, $817.0 million and $727.3 million, respectively.

The Company also maintains a secured line of credit with the Federal Reserve Bank with an availability to borrow approximately $384,168 and $484,659 at December 31, 2016 and 2015, respectively. Approximately $515,194 and $661,849 of commercial loans were pledged as collateral at December 31, 2016 and 2015, respectively. There were no borrowings against this line as of December 31, 2016 or 2015.

Also in 2015, the Company began participation with an exchange that provides direct overnight borrowings with other financial institutions. The funds are provided on an unsecured basis. Borrowing availability totaled $75 million and $8 million at December 31, 2016 and 2015, respectively. There were no borrowings as of December 31, 2016 or 2015.

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 17, 2017. As of December 31, 2016, 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 $5.0 million 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 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. Starting in January 2016, the implementation of the capital conservation buffer became 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 requires increased capital levels for the purpose of capital distributions and other payments. Failure to meet the full amount of the buffer will result in restrictions on the Company's ability to make capital distributions, including dividend payments and stock repurchases and to pay discretionary bonuses to executive officers.

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

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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, 2016, 2015, and 2014, 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, 2016			
	Actual		Required to be considered well capitalized	Required to be considered adequately capitalized
	Ratio		Ratio	Ratio
Tier 1 capital to average assets ratio	7.82	%	≥5.00%	4.00-5.00%
Common equity tier 1 to risk-weighted assets ratio	8.20		≥6.50	4.50-6.50
Tier 1 capital to risk-weighted assets ratio	8.55		≥8.00	6.00-8.00
Total capital to risk-weighted assets ratio	11.38		≥10.00	8.00-10.00
	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

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, 2016, the Company announced the renewal of its repurchase program, which was authorized to

continue through December 31, 2016. The repurchase program was not subsequently renewed. No shares have been repurchased by the Company under this program.

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.
As noted earlier, the Company issued $45.0 million in subordinated debentures during 2016. Other than these subordinated debentures 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, 2015.
The following table contains supplemental information regarding the Company's total contractual obligations as of December 31, 2016:

(dollars in thousands)	Payments Due				
	Within One Year	One to Three Years	Three to Five Years	After Five Years	Total
Deposits without a stated maturity	$3,720,589	$—	$—	$—	$3,720,589
Time deposits	597,601	214,778	44,141	—	856,520
FHLB advances	30,000	405,037	25,000	709	460,746
Subordinated debt	—	—	—	107,299	107,299
Junior subordinated debentures	—	—	—	18,147	18,147
Operating leases	2,049	3,849	3,496	2,412	11,806
Total contractual obligations	$4,350,239	$623,664	$72,637	$128,567	$5,175,107

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 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 were $865.7 million, $838.3 million and $565.9 million, as of December 31, 2016, 2015 and 2014, respectively. Outstanding standby letters of credit were $10.6 million, $10.4 million and $8.6 million, as of December 31, 2016, 2015 and 2014, respectively. 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 Treasurer. The Treasurer meets with the Company's Chief Financial Officer and senior executive 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 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 rate sensitive position in terms of interest rate sensitivity as of December 31, 2016. 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, 2016:

Hypothetical Shift in Interest Rates (in bps)	% Change in Projected Net Interest Income
200	(1.52)%
100	(0.78)
(100)	2.91

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 81.3%, 79.0% and 74.7% of total deposits as of December 31, 2016, 2015 and 2014, respectively. The Company had brokered deposits, including CDARS totaling $497.4 million, $476.6 million and $355.1 million, at December 31, 2016, 2015 and 2014, 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

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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

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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 75 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, 2016, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

As of December 31, 2016, 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, or 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 FDICIA. Based on the assessment management determined that the Company maintained effective internal control over financial reporting as of December 31, 2016.

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 SEC for an "emerging growth company" as defined in the JOBS Act.

ITEM 9B. OTHER INFORMATION

None.

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 2017 Annual Meeting of Shareholders (the "2017 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 2017 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 2017 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 2017 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 2017 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 78 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, 2016 and 2015
Consolidated Statements of Income for the Years Ended December 31, 2016, 2015 and 2014
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2016, 2015, 2014
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2016, 2015 and 2014
Consolidated Statements of Cash Flows for the Years Ended December 31, 2016, 2015 and 2014
Notes to Consolidated Financial Statements

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

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

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

EXHIBIT LIST

Exhibit Number	Description
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
10.10.5	First Amendment to Credit Agreement, dated July 18, 2016, among Independent Bank Group, Inc., U.S. Bank National Association and Frost Bank*
10.11	Employment Agreement, dated March 25, 2016, between Independent Bank and James C. White and joined in by the Registrant, which is incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2016
10.12	Separation Agreement, dated April 21, 2016, between Independent Bank and James D. Stein and joined in by the Registrant, which is incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2016
10.13(a)	Form of Change in Control Agreement, dated July 26, 2016, between Independent Bank Group, Inc. and certain Executive Officers, which is incorporated herein by reference to Exhibit 10.1(a) to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2016
10.13(b)	Schedule of Executive Officers who have Executed a Change in Control Agreement, which is incorporated herein by reference to Exhibit 10.1(b) to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2016
10.14	Employment Agreement, dated July 26, 2016, between Independent Bank Group, Inc. and Torry Berntsen, which is incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2016
10.15	Agreement and Plan of Reorganization, dated as of November 21, 2016, by and among the Registrant and Carlile Bancshares, Inc. (incorporated herein by reference to Appendix A to the joint proxy statement/prospectus, which forms a part of the Registrant's Registration Statement on Form S-4 (Registration No. 333-215644)).
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.

We have audited the accompanying consolidated balance sheets of Independent Bank Group, Inc. and subsidiaries as of December 31, 2016 and 2015, 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, 2016. 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, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

/s/ RSM US LLP

Dallas, Texas
March 8, 2017

Independent Bank Group, Inc. and Subsidiaries

Consolidated Balance Sheets
December 31, 2016 and 2015
(Dollars in thousands, except share information)

	December 31,	
Assets	2016	2015
Cash and due from banks	$158,686	$129,096
Interest-bearing deposits in other banks	336,341	164,183
Federal funds sold	10,000	—
Cash and cash equivalents	505,027	293,279
Certificates of deposit held in other banks	2,707	61,746
Securities available for sale, at fair value	316,435	273,463
Loans held for sale	9,795	12,299
Loans, net	4,539,063	3,960,809
Premises and equipment, net	89,898	93,015
Other real estate owned	1,972	2,168
Federal Home Loan Bank (FHLB) of Dallas stock and other restricted stock	26,536	14,256
Bank-owned life insurance (BOLI)	57,209	40,861
Deferred tax asset	9,631	5,892
Goodwill	258,319	258,643
Core deposit intangible, net	14,177	16,357
Other assets	22,032	22,212
Total assets	$5,852,801	$5,055,000
Liabilities, Temporary Equity and Stockholders’ Equity		
Deposits:		
Noninterest-bearing	$1,117,927	$1,071,656
Interest-bearing	3,459,182	2,956,623
Total deposits	4,577,109	4,028,279
FHLB advances	460,746	288,325
Repurchase agreements	—	12,160
Other borrowings	107,249	68,295
Other borrowings, related parties	50	2,503
Junior subordinated debentures	18,147	18,147
Other liabilities	17,135	9,982
Total liabilities	5,180,436	4,427,691
Commitments and contingencies		
Temporary equity: Series A preferred stock (0 and 23,938.35 shares issued and outstanding, respectively)	—	23,938
Stockholders’ equity:		
Common stock (18,870,312 and 18,399,194 shares outstanding, respectively)	189	184
Additional paid-in capital	555,325	530,107
Retained earnings	117,951	70,698
Accumulated other comprehensive income (loss)	(1,100)	2,382

Total stockholders’ equity	672,365	603,371
Total liabilities, temporary equity and stockholders’ equity	$5,852,801	$5,055,000

See Notes to Consolidated Financial Statements

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Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Income
Years Ended December 31, 2016, 2015 and 2014
(Dollars in thousands, except per share information)

	Years ended December 31,		
	2016	2015	2014
Interest income:			
Interest and fees on loans	$203,577	$169,504	$135,461
Interest on taxable securities	2,681	2,168	2,803
Interest on nontaxable securities	1,768	1,783	1,429
Interest on federal funds sold and other	2,023	572	439
Total interest income	210,049	174,027	140,132
Interest expense:			
Interest on deposits	16,075	12,024	9,537
Interest on FHLB advances	4,119	3,077	3,678
Interest on repurchase agreements and other borrowings	5,428	4,289	2,230
Interest on junior subordinated debentures	621	539	542
Total interest expense	26,243	19,929	15,987
Net interest income	183,806	154,098	124,145
Provision for loan losses	9,440	9,231	5,359
Net interest income after provision for loan losses	174,366	144,867	118,786
Noninterest income:			
Service charges on deposit accounts	7,222	6,898	5,884
Mortgage fee income	7,038	5,269	3,953
Gain on sale of loans	—	116	1,078
Loss on sale of branch	(43)	—	—
Gain on sale of other real estate	57	290	71
Gain on sale of securities available for sale	4	134	362
Gain (loss) on sale of premises and equipment	32	(358)	(22)
Increase in cash surrender value of BOLI	1,348	1,077	972
Other	3,897	2,702	1,326
Total noninterest income	19,555	16,128	13,624
Noninterest expense:			
Salaries and employee benefits	66,762	60,541	52,337
Occupancy	16,101	16,058	13,250
Data processing	4,752	3,384	2,080
FDIC assessment	3,889	2,259	1,797
Advertising and public relations	1,107	1,038	835
Communications	2,116	2,219	1,787
Net other real estate owned expenses (including taxes)	205	169	232
Other real estate impairment	106	35	22
Core deposit intangible amortization	1,964	1,555	1,281
Professional fees	3,212	3,191	2,567
Acquisition expense, including legal	1,517	1,420	3,626
Other	12,059	11,329	8,698
Total noninterest expense	113,790	103,198	88,512
Income before taxes	80,131	57,797	43,898

Income tax expense	26,591	19,011	14,920
Net income	$53,540	$38,786	$28,978
Basic earnings per share	$2.89	$2.23	$1.86
Diluted earnings per share	$2.88	$2.21	$1.85

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2016, 2015 and 2014
(Dollars in thousands)

	Years ended December 31,		
	2016	2015	2014
Net income	$53,540	$38,786	$28,978
Other comprehensive income (loss) before tax:			
Change in net unrealized gains (losses) on available for sale securities during the year	(5,353)	101	5,798
Reclassification adjustment for gain on sale of securities available for sale included in net income	(4)	(134)	(362)
Other comprehensive income (loss) before tax	(5,357)	(33)	5,436
Income tax expense (benefit)	(1,875)	(12)	1,903
Other comprehensive income (loss), net of tax	(3,482)	(21)	3,533
Comprehensive income	$50,058	$38,765	$32,511

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2016, 2015 and 2014
(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		Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
		Shares	Amount				
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
Net income	—	—	—	—	53,540	—	53,540
Other comprehensive loss, net of tax	—	—	—	—	—	(3,482)	(3,482)
Common stock issued, net of offering costs	—	400,000	4	19,925	—	—	19,929
Restricted stock forfeited	—	(25,102)	—	—	—	—	—

Restricted stock granted	—	96,220	1	(1)	—	—	—
Income tax deficiency on restricted stock vested	—	—	—	(137)	—	—	(137)
Stock based compensation expense	—	—	—	5,431	—	—	5,431
Preferred stock dividends	—	—	—	—	(8)	—	(8)
Dividends ($0.34 per share)	—	—	—	—	(6,279)	—	(6,279)
Balance, December 31, 2016	$ —	18,870,312	$ 189	$ 555,325	$ 117,951	$ (1,100)	$ 672,365

See Notes to Consolidated Financial Statements

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Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2016, 2015 and 2014
(Dollars in thousands)

	Years ended December 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net income	$53,540	$38,786	$28,978
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	6,763	6,270	5,285
Accretion related to acquired loans	(4,482)	(2,774)	(5,084)
Amortization of core deposit intangibles	1,964	1,555	1,281
Amortization of premium on securities, net	2,230	1,558	2,002
Amortization of discount and origination costs on other borrowings	241	194	77
Stock grants amortized	5,431	4,314	2,914
FHLB stock dividends	(261)	(43)	(47)
Net (gain) loss on sale of premises and equipment	(32)	358	22
Gain on sale of loans	—	(116)	(1,078)
Loss on sale of branch	43	—	—
Gain on sale of securities available for sale	(4)	(134)	(362)
Gain on sale of other real estate owned	(57)	(290)	(71)
Impairment of other real estate	106	35	22
Deferred tax (benefit) expense	(1,849)	(3,935)	71
Provision for loan losses	9,440	9,231	5,359
Increase in cash surrender value of life insurance	(1,348)	(1,077)	(972)
Mortgage loans originated for sale	(276,679)	(215,404)	(148,910)
Proceeds from sale of mortgage loans	279,183	208,129	147,840
Net change in other assets	(978)	5,893	(4,846)
Net change in other liabilities	7,026	(9,032)	3,107
Net cash provided by operating activities	80,277	43,518	35,588
Cash flows from investing activities:			
Proceeds from maturities and paydowns of securities available for sale	1,569,462	535,141	1,483,062
Proceeds from sale of securities available for sale	5,399	14,915	19,260
Purchases of securities available for sale	(1,625,416)	(546,294)	(1,430,794)
Purchases of certificates of deposits held in other banks	(2,707)	—	—
Proceeds from maturities of certificates of deposits held in other banks	61,746	22,781	—
Purchase of bank owned life insurance contracts	(15,000)	—	—
Net (purchases) redemptions of FHLB stock	(12,019)	(1,552)	4,033
Proceeds from sale of loans	—	4,765	12,147
Net loans originated	(584,316)	(517,846)	(434,282)
Additions to premises and equipment	(6,139)	(13,781)	(4,854)
Proceeds from sale of premises and equipment	332	4,254	18
Proceeds from sale of other real estate owned	1,860	2,460	3,415
Capitalized additions to other real estate	—	(10)	(28)
Cash received from acquired banks	—	152,913	286,596
Cash paid in connection with acquisitions	—	(24,103)	(60,812)
Cash paid in connection with branch sale	(107)	—	—
Net cash transferred in branch sale	(2,399)	—	—

Net cash used in investing activities	(609,304)	(366,357)	(122,239)
Cash flows from financing activities:			
Net increase in demand deposits, NOW and savings accounts	521,100	245,831	230,070
Net increase in time deposits	11,670	6,128	79,850
Repayments of FHLB advances	(402,579)	(293,916)	(517,079)
Proceeds from FHLB advances	575,000	350,000	464,000
Net change in repurchase agreements	8,528	(7,653)	279
Repayments of notes payable and other borrowings	(5,798)	(1,932)	—
Proceeds from other borrowings, net of issuance costs	43,150	—	65,000
Offering costs paid in connection with acquired banks	—	(568)	(566)
Net proceeds from sale of common stock	19,929	—	—
Redemption of preferred stock	(23,938)	—	—
Dividends paid	(6,287)	(5,819)	(3,910)
Net cash provided by financing activities	740,775	292,071	317,644
Net change in cash and cash equivalents	211,748	(30,768)	230,993
Cash and cash equivalents at beginning of year	293,279	324,047	93,054
Cash and cash equivalents at end of year	$505,027	$293,279	$324,047

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 north, central and southeast Texas 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, Preston Grand, Inc. and McKinney Avenue Holdings, Inc. and its wholly owned subsidiary, McKinney Avenue SPE 1, Inc. McKinney Avenue Holdings, Inc. and its subsidiary were formed in 2016 for the purpose of possible future asset holdings but are currently not active entities. 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.
Reclassifications: Certain prior period financial statement amounts have been reclassified to conform to current period presentation. The reclassifications have no effect on net income or stockholders' equity as previously reported.

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.

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 to unaffiliated 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 collectability 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

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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, 2016 or 2015.

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.

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.

The following table presents a reconciliation of net income available to common shareholders and the number of shares used in the calculation of basic and diluted earnings per common share.

	Years ended December 31,		
	2016	2015	2014
Basic earnings per share:			
Net income	$53,540	$ 38,786	$ 28,978
Less: Preferred stock dividends	8	240	169
Net income after preferred stock dividends	53,532	38,546	28,809
Less:			
Undistributed earnings allocated to participating securities	774	661	406
Dividends paid on participating securities	103	111	60
Net income available to common shareholders	$52,655	$ 37,774	$ 28,343
Weighted-average basic shares outstanding	18,198,578	16,974,484	15,208,544
Basic earnings per share	$2.89	$ 2.23	$ 1.86
Diluted earnings per share:			
Net income available to common shareholders	$52,655	$ 37,774	$ 28,343
Total weighted-average basic shares outstanding	18,198,578	16,974,484	15,208,544
Add dilutive stock warrants	86,646	84,595	98,454
Total weighted-average diluted shares outstanding	18,285,224	17,059,079	15,306,998
Diluted earnings per share	$2.88	$ 2.21	$ 1.85
Anti-dilutive participating securities	92,196	58,726	96,840

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 was effective for the Company on January 1, 2016 and the Company changed the presentation of debt issuance costs from an asset to a direct reduction of the related debt liability on the accompanying consolidated 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 was also effective on January 1, 2016 and did not have an impact on the Company's consolidated financial statements.

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 was effective for the Company on January 1, 2016 and did not have a significant impact on the Company's consolidated operating results or financial condition.

ASU 2014-09, Revenue from Contracts with Customers (Topic 606), ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, ASU 2016-11, Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of

Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting, and ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. The amendments in these updates amends existing guidance related to revenue from contracts with customers. The amendments supersede and replace nearly all existing revenue recognition guidance, including industry-specific guidance, establish a new control-based revenue

recognition model, change the basis for deciding when revenue is recognized over a time or point in time, provide new and more detailed guidance on specific topics and expand and improve disclosures about revenue. In addition, these amendments specify the accounting for some costs to obtain or fulfill a contract with a customer. These updates will be effective for the Company on January 1, 2018. The majority of the Company's income consists of net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of the amendments. The Company continues to evaluate the impact of the amendments on the components of noninterest income that have recurring revenue streams; however, the Company does not expect any recognition changes to have a significant impact to the Company's consolidated 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 consolidated financial statements.

ASU 2016-02, Leases (Topic 842). The amendments in ASU 2016-02, among other things, amended existing guidance that requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: i) A lease liability, which is a lessee‘s obligation to make lease payments arising from a lease, measured on a discounted basis; and ii) A right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. The amendments will be effective for the Company on January 1, 2019. The Company is currently evaluating the impact of the amendments on its consolidated financial statements.

ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments in ASU 20106-09 amend existing guidance to simplify several aspects of the accounting for share-based payment award transactions, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. The amendments will be effective for the Company on January 1, 2017 and are not expected to have a significant impact to the Company's consolidated financial statements.

ASU 2016-13, Financial Instruments —Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments in this update replace the incurred loss model with the expected loss model. Among other things, these amendments require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the

accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. This update will be effective for the Company on January 1, 2020. The Company is currently evaluating the impact of the amendments on its consolidated financial statements.

Note 3. Restrictions on Cash and Due From Banks

At December 31, 2016 and 2015, the Company had a reserve requirement of $0 and $22,513, 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,		
	2016	2015	2014
Cash transactions:			
Interest expense paid	$25,015	$20,056	$14,016
Income taxes paid	$26,485	$24,450	$7,730
Noncash transactions:			
Transfers of loans to other real estate owned	$1,713	$221	$1,203
Loans to facilitate the sale of other real estate owned	$—	$248	$48
Transfers of loans to other assets	$124	$1,064	$—
Security purchased, not yet settled	$—	$—	$327
Excess tax benefit (tax deficiency) on restricted stock vested	$(137)	$(72)	$1,409
Transfer of bank premises to other real estate	$—	$—	$2,400
Transfer of repurchase accounts to deposits	$20,688	$3,072	$—

Supplemental schedule of noncash investing activities from branch sale is as follows:

	Years ended December 31,		
	2016	2015	2014
Noncash assets transferred:			
Loans	$2	$ —	$ —
Premises and equipment	2,193	—	—
Total assets	$2,195	$ —	$ —
Noncash liabilities transferred:			
Deposits	$4,628	$ —	$ —
Other liabilities	30	—	—
Total liabilities	$4,658	$ —	$ —
Cash and cash equivalents transferred in branch sale	$208	$ —	$ —
Deposit premium received	$64	$ —	$ —
Cash paid to buyer, net of deposit premium	$2,191	$ —	$ —

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

	Years Ended December 31,		
	2016	2015	2014
Noncash assets acquired			
Certificates of deposit held in other banks	$—	$84,527	$—
Securities available for sale	—	72,619	79,429
Restricted stock	—	340	6,813
Loans	—	273,632	1,051,390
Premises and equipment	—	1,214	19,038
Other real estate owned	—	—	1,224
Goodwill	—	28,825	194,179
Core deposit intangibles	—	5,457	10,606
Bank owned life insurance	—	—	17,540
Other assets	—	649	3,650
Total assets	$—	$467,263	$1,383,869
Noncash liabilities assumed:			
Deposits	$—	$523,650	$1,228,854
Repurchase agreements	—	18,873	3,733
FHLB advances	—	2,836	95,000
Other liabilities	—	876	7,345
Total liabilities	$—	$546,235	$1,334,932
Cash and cash equivalents acquired from acquisitions	$—	$152,913	$286,596
Cash paid to shareholders of acquired banks	$—	$24,103	$60,812
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

In addition, the following measurement-period adjustments were made during the years ended December 31, 2016, 2015 and 2014 relating to Company acquisition activity:

	Year Ended December 31,		
	2016	2015	2014
Noncash assets acquired:			
Loans	$735	$—	$(328)
Goodwill	(324)	361	574
Core deposit intangibles	(216)	—	(18)
Other assets	(175)	(180)	297
Total assets	$20	$181	$525
Noncash liabilities assumed:			
Deposits	$—	$—	$505
Other liabilities	20	181	20
Total liabilities	$20	$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, 2016 and 2015, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
December 31, 2016:				
U.S. treasuries	$ 3,208	$ —	$ (61)	$ 3,147
Government agency securities	123,605	141	(1,479)	122,267
Obligations of state and municipal subdivisions	88,358	920	(2,022)	87,256
Residential pass-through securities guaranteed by FNMA, GNMA and FHLMC	103,869	928	(1,032)	103,765
	$ 319,040	$ 1,989	$ (4,594)	$ 316,435
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

Securities with a carrying amount of approximately $176,457 and $195,479 at December 31, 2016 and 2015, 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, 2016, 2015 and 2014 were as follows:

	Years ended December 31,		
	2016	2015	2014
Proceeds from sale	$ 5,399	$ 14,915	$ 19,260
Gross gains	$ 4	$ 136	$ 362
Gross losses	$ —	$ 2	$ —

The amortized cost and estimated fair value of securities available for sale at December 31, 2016, 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, 2016 Securities Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 32,583	$ 32,574
Due from one year to five years	99,620	98,779
Due from five to ten years		