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

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

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

For The Fiscal Year Ended December 31, 2015.

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .
Commission file number 001-35854
Independent Bank Group, Inc.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No ý
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained to the best of registrant's knowledge, in definitive proxy or

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

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

Signatures

PART I

ITEM 1. BUSINESS

The disclosures set forth in this item are qualified by Item 1A. Risk Factors, and the section captioned "Forward-Looking Statements" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this report and other cautionary statements set forth elsewhere in this report.

General

Independent Bank Group (the "Company") is a registered bank holding company headquartered in McKinney, Texas, which is located in the northern portion of the Dallas-Fort Worth metropolitan area. The Company was organized as a Texas corporation on September 20, 2002. Through the Company's wholly owned subsidiary, Independent Bank, a Texas state chartered bank, the Company provides a wide range of relationship-driven commercial banking products and services tailored to meet the needs of businesses, professionals and individuals. The Company operates 42 banking offices in the Dallas-Fort Worth metropolitan area, the Austin/Central Texas area, and the Houston metropolitan area. As of December 31, 2015, the Company had consolidated total assets of approximately $5.0 billion, total loans of approximately $3.9 billion, total deposits of approximately $4.0 billion and total stockholders' equity of approximately $603 million.

The Company's primary function is to own all of the stock of Independent Bank. Independent Bank is a locally managed community bank that seeks to provide personal attention and professional assistance to its customer base, which consists principally of small to medium sized businesses, professionals and individuals. Independent Bank's philosophy includes offering direct access to its officers and personnel, providing friendly, informed and courteous service, local and timely decision making, flexible and reasonable operating procedures, and consistently applied credit policies.

The Company consummated the underwritten initial public offering of its common stock in April 2013. The Company's common stock is traded on the NASDAQ Global Select Market.

Business Strategy

The Company operates based upon the following core strategies, which the Company designed to enhance shareholder value by growing strategically while preserving asset quality, improving efficiency and increasing profitability:

Grow Organically. The Company focuses on continued organic growth through the Company's existing footprint and business lines. The Company plans to follow the Company's community-focused, relationship-driven customer strategy to increase loans and deposits through the Company's existing locations. Preserving the safety and soundness of the Company's loan portfolio is a fundamental element of the Company's organic growth strategy. The Company has a strong and conservative credit culture, which allows the Company to maintain the Company's asset quality as the Company grows.

Grow Through Acquisitions. The Company plans to continue to take advantage of opportunities to acquire other banking franchises both within and outside the Company's current footprint. Since mid-2010, the Company has completed nine acquisitions that the Company believes have enhanced shareholder value and the Company's market presence. The following table summarizes each of the nine acquisitions completed since 2010.

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

* Estimated values subject to change pending final acquisition accounting adjustments

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

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

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

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

Independent's Community Banking Services

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

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

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

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

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

Competition

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

Employees
As of December 31, 2015, the Company employed approximately 587 persons. The Company provides extensive training to the Company's employees in an effort to ensure that the Company's customers receive superior customer service. None of the Company's employees are represented by any collective bargaining unit or are parties to a collective bargaining agreement. The Company believes that the Company's relations with the Company's employees are good.
Available Information
The Company files reports, proxy statements and other information with the Securities and Exchange Commission, or SEC, under the Securities Exchange Act of 1934, as amended. You may read and copy this information at the SEC's Public Reference Room, 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements and other information about issuers, like the Company, who file electronically with the SEC. The address of that site is http://www.sec.gov.
Documents filed by the Company with the SEC are available from the Company without charge (except for exhibits to the documents). You may obtain documents filed by the Company with the SEC by requesting them in writing or by telephone from the Company at the following address:
Independent Bank Group, Inc.
1600 Redbud Boulevard, Suite 400
McKinney, Texas 75069-3257
Attention: Michelle S. Hickox
Executive Vice President and Chief Financial Officer
Telephone: (972) 562-9004
Documents filed by the Company with the SEC are also available on the Company's website, www.ibtx.com. Information furnished by the Company and information on, or accessible through, the SEC's or the Company's website is not part of this Annual Report on Form 10-K.

Supervision and Regulation
General. The U.S. banking industry is highly regulated under federal and state law. Consequently, the growth and earnings performance of the Company and its subsidiaries will be affected not only by management decisions and general and local economic conditions, but also by the statutes administered by, and the regulations and policies of, various governmental regulatory authorities. These authorities include the Board of Governors of the Federal Reserve System, or Federal Reserve, the Federal Deposit Insurance Corporation, or the FDIC, the Office of the Comptroller of the Currency, or the OCC, the Texas Department of Banking, or TDB, the Internal Revenue Service and state taxing authorities. The effect of these statutes, regulations and policies, and any changes to such statutes, regulations and policies, can be significant and cannot be predicted.
The primary goals of the bank regulatory scheme are to maintain a safe and sound banking system and to facilitate the conduct of sound monetary policy. The system of supervision and regulation applicable to the Company and its subsidiaries establishes a comprehensive framework for their respective operations and is intended primarily for the protection of the FDIC's deposit insurance fund, the banks' depositors and the public, rather than the Company's shareholders or creditors. The description below summarizes certain elements of the applicable bank regulatory framework. This description is not intended to describe all laws and regulations applicable to the Company and its subsidiaries, and the description is qualified in its entirety by reference to the full text of the statutes, regulations, policies, interpretive letters and other written guidance that are described herein.
The Dodd-Frank Act. The Dodd-Frank Wall Street Reform and Consumer Protection Act, known as the Dodd-Frank Act, was signed into law on July 21, 2010. The Dodd-Frank Act has had a broad impact on the regulation and operation of financial institutions. The Dodd-Frank Act codified the "source of strength" doctrine, authorized the Consumer Financial Protection Bureau and implemented new mortgage lending rules, established a risk retention rule, imposed limitations on trading activities, made permanent the deposit insurance limit of $250,000 and increased the

minimum Deposit Insurance Fund reserve ratio, enhanced the restrictions on transactions with affiliates, and expanded corporate governance requirements and executive compensation limitations for U.S. public companies. Many of the requirements have recently been implemented, or are in the

4

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

Independent Bank Group as a Bank Holding Company

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The new capital rule, when fully phased in, requires, among other things, a new common equity Tier 1 risk-based ratio with a minimum required ratio of 4.5% of total assets and an increase in the minimum required amount of Tier 1 capital from the current level of 4% of total assets to 6% of total risk weighted assets and the continuation of the requirement to maintain total capital of 8% of total risk-weighted assets. Moreover, the new rule requires banks to hold additional capital equal to 2.5% of

total assets as a “capital conservation buffer” in order to avoid restrictions on certain activities, including the payment of dividends and certain bonuses. The new rule also provides for a “countercyclical capital buffer” that would be added to the capital conservation buffer generally to be imposed when national regulators determine that excess aggregate credit growth becomes associated with a buildup of systemic risk.
The Company became subject to the new capital rules on January 1, 2015. The Company believes that it will be in compliance with the new capital rules going forward and that the new capital rules will not have a material impact on the Company.

Proposed Liquidity Requirements. Historically, regulation and monitoring of bank and bank holding company liquidity has been addressed as a supervisory matter, without required formulaic measures. The Basel III final framework requires banks and bank holding companies to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, going forward will be required by regulation. One test, referred to as the liquidity coverage ratio, or LCR, is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity’s expected net cash outflow for a 30-day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute liquidity stress scenario. The other, referred to as the net stable funding ratio, or NSFR, is designed to promote more medium- and long-term funding of the assets and activities of banking entities over a one-year time horizon. These requirements will incentivize banking entities to increase their holdings of U.S. Treasury securities and other sovereign debt as a component of assets and increase the use of long-term debt as a funding source. The LCR was introduced as a requirement on January 1, 2015, but the NSFR will not be introduced as a requirement until January 1, 2018. These new standards are subject to further rulemaking and their terms could change before implementation.
Imposition of Liability for Undercapitalized Subsidiaries. Bank regulators are required to take prompt corrective action to resolve problems associated with insured depository institutions whose capital declines below certain levels. In the event an institution becomes undercapitalized, it must submit a capital restoration plan. The capital restoration plan will not be accepted by the regulators unless each company having control of the undercapitalized institution guarantees the subsidiary’s compliance with the capital restoration plan up to a certain specified amount. Any such guarantee from a depository institution’s holding company is entitled to a priority of payment in bankruptcy.
The aggregate liability of the holding company of an undercapitalized bank is limited to the lesser of 5.0% of the institution’s assets at the time it became undercapitalized or the amount necessary to cause the institution to be adequately capitalized. The bank regulators have greater power in situations where an institution becomes significantly or critically undercapitalized or fails to submit a capital restoration plan. For example, a bank holding company controlling such an institution can be required to obtain prior Federal Reserve approval of proposed dividends, or might be required to consent to a consolidation or to divest the troubled institution or other affiliates.
Acquisitions by Bank Holding Companies. The BHC Act requires every bank holding company to obtain the prior approval of the Federal Reserve before it acquires all or substantially all of the assets of any bank, or ownership or control of any voting shares of any bank if after such acquisition it would own or control, directly or indirectly, more than 5% of the voting shares of such bank. In approving bank acquisitions by bank holding companies, the Federal Reserve is required to consider, among other things, the effect of the acquisition on competition, the financial condition, managerial resources and future prospects of the bank holding company and the banks concerned, the convenience and needs of the communities to be served (including the record of performance under the Community Reinvestment Act, or CRA), the effectiveness of the applicant in combating money laundering activities and the extent to which the proposed acquisition would result in greater or more concentrated risks to the stability of the U.S. banking or financial system. The Company’s ability to make future acquisitions will depend on its ability to obtain approval for such acquisitions from the Federal Reserve. The Federal Reserve could deny the Company’s application based on the above criteria or other considerations. For example, the Company could be required to sell banking centers as a condition to receiving regulatory approval, which condition may not be acceptable to the Company or, if acceptable, may reduce the benefit of a proposed acquisition.

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

Regulation of Independent Bank

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Changes in Laws, Regulations or Policies

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

Enforcement Powers of Federal and State Banking Agencies

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

Effect on Economic Environment

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

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

Item 1A. RISK FACTORS
Item 1A. Risk Factors
An investment in the Company's common stock involves risks. The following is a description of the material risks and uncertainties that the Company believes affect its business and an investment in the common stock. Additional risks and uncertainties that the Company is unaware of, or that it currently deems immaterial, also may become important factors that affect the Company and its business. If any of the risks described in this Annual Report on Form 10-K were to occur, the Company's financial condition, results of operations and cash flows could be materially and adversely affected. If this were to happen, the value of the common stock could decline significantly and you could lose all or part of your investment.
Risks Related to the Company's Business
The Company's success depends significantly on the Company's management team, and the loss of the Company's senior executive officers or other key employees and the Company's inability to recruit or retain suitable replacements could adversely affect the Company's business, results of operations and growth prospects.
The Company's success depends significantly on the continued service and skills of the Company's existing executive management team. The implementation of the Company's business and growth strategies also depends significantly on the Company's ability to retain officers and employees with experience and business relationships within their respective market areas. The Company could have difficulty replacing officers and employees with persons who are experienced in the specialized aspects of the Company's business or who have ties to the communities within the Company's market areas. The unexpected loss of any of the Company's key personnel could therefore have an adverse impact on the Company's business and growth.
Volatile market conditions and economic trends could adversely affect the Company's business, financial condition and results of operations.
The Company is operating in a dynamic and challenging economic environment, including uncertain global, national and local market conditions. In particular, Texas based financial institutions are affected by volatility in the energy markets and the potential impact of that volatility on real estate and other markets. The Company is also subject to uncertain interest rate conditions. These volatile economic conditions could adversely affect borrowers and their businesses as well as the value of collateral (particularly real estate collateral) securing loans, which could adversely affect the Company's business, financial condition and results of operation.
The Company's business concentration in Texas imposes risks and may magnify the adverse effects and consequences to the Company resulting from any regional or local economic downturn affecting Texas.
The Company conducts its operations almost exclusively in Texas. This geographic concentration imposes risks from lack of geographic diversification. The economic conditions in Texas affect the Company's business, financial condition, results of operations, and future prospects, where adverse economic developments, among other things, could affect the volume of loan originations, increase the level of nonperforming assets, increase the rate of foreclosure losses on loans and reduce the value of the Company's loans and loan servicing portfolio. Moreover, if the population or income growth in the Company's market areas is slower than projected, income levels, deposits and housing starts could be adversely affected and could result in a reduction of the Company's expansion, growth and profitability. The decline in oil prices in 2015 and the current volatility in oil prices has had, and is expected to continue to have, a significant impact on the overall Texas economy. Any regional or local economic downturn that affects Texas or existing or prospective borrowers or property values in such areas may affect the Company and the Company's profitability more significantly and more adversely than the Company's competitors whose operations are less geographically concentrated.
If the Company does not effectively manage the Company's asset quality and credit risk, the Company would experience loan losses, which could have a material adverse effect on the Company's financial condition and results of operation.
Making any loan involves risk, including risks inherent in dealing with individual borrowers, risks of nonpayment, risks resulting from uncertainties as to the future value of collateral and cash flows available to service debt, and risks resulting from changes in economic and market conditions. The Company's credit risk approval and monitoring procedures may fail to identify or reduce these credit risks, and they cannot completely eliminate all credit risks

related to the Company’s loan

13

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

New lines of business or new products and services may subject the Company to additional risks.
From time to time, the Company may implement or may acquire new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services, the Company may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of the Company's system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on the Company's business, financial condition and results of operations.
Legal and regulatory proceedings could adversely affect the Company's business, financial condition, and results of operation.
The Company, like all financial institutions, has been and may in the future become involved in legal and regulatory proceedings. The Company considers most of these proceedings to be in the normal course of business or typical for the industry. However, it is inherently difficult to assess the outcome of these matters. Any material legal or regulatory proceeding could impose substantial cost and cause management to divert its attention from the Company's business and operations. Any adverse determination in a legal or regulatory proceeding could have a material adverse effect on the Company's business, financial condition and results of operations.
The Company is subject to claims and litigation pertaining to intellectual property from time to time.
Banking and other financial services companies, such as the Company, rely on technology companies to provide information technology products and services necessary to support the Company's day-to-day operations. Technology companies frequently enter into litigation based on allegations of patent infringement or other violations of intellectual property rights. In addition, patent holding companies seek to monetize patents they have purchased or otherwise obtained. Competitors of the Company's vendors, or other individuals or companies, have from time to time claimed to hold intellectual property sold to the Company by its vendors. Such claims may increase in the future as the financial services sector becomes more reliant on information technology vendors. The plaintiffs in these actions frequently seek injunctions and substantial damages.
Regardless of the scope or validity of such patents or other intellectual property rights, or the merits of any claims by potential or actual litigants, the Company may have to engage in protracted litigation. Such litigation is often expensive, time-consuming, disruptive to the Company's operations and distracting to management. If the Company is found to infringe one or more patents or other intellectual property rights, it may be required to pay substantial damages or royalties to a third-party. In certain cases, the Company may consider entering into licensing agreements for disputed intellectual property, although no assurance can be given that such licenses can be obtained on acceptable terms or that litigation will not occur. These licenses may also significantly increase the Company's operating expenses. If legal matters related to intellectual property claims were resolved against the Company or settled, the Company could be required to make payments in amounts that could have a material adverse effect on its business, financial condition and results of operations.
The Company could experience claims and litigation pertaining to fiduciary responsibility.
From time to time, customers make claims and take legal action pertaining to the Company's performance of its fiduciary responsibilities. Whether customer claims and legal action related to the Company's performance of its fiduciary responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to the Company, they may result in significant financial liability, adversely affect the market perception of the Company and its products and services and/or impact customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on the Company's business, financial condition and results of operations.
The Company could be subject to environmental risks and associated costs on the Company's foreclosed real estate assets, which could materially and adversely affect the Company.

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

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

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

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

The Company's stock can be volatile.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- staggered terms for directors;

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

23

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS
None.

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

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

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

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

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

On May 1, 2015, the plaintiffs filed a motion requesting permission to file a Second Amended Class Action Complaint in this case, which motion was subsequently granted. The Second Amended Class Action Complaint asserts previously unasserted claims, including aiding and abetting or participation in a fraudulent scheme based upon the large amount of deposits that the Stanford Entities held at BOH and the alleged knowledge of certain BOH officers. Given the new allegations, Independent Bank notified its insurance carriers of the claims made in the Second Amended Class Action Complaint. The insurance carriers have initially indicated that a “loss” has not yet occurred or that the claims are not covered by the policies. However, Independent Bank is continuing to pursue insurance coverage for these claims, as well as for the reimbursement of defense costs, through the initiation of litigation and other means.

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Common Stock Market Prices

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

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

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

Dividends

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

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

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

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

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

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

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

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

Recent Sales of Unregistered Securities

None.

Securities Authorized for Issuance under Equity Compensation Plans

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

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

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

31

Performance Graph

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

Comparison of Cumulative Total Return*

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

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

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

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Cautionary Note Regarding Forward Looking Statements

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

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

- fluctuations in the market value and liquidity of the securities that we hold for sale;
- effects of competition from a wide variety of local, regional, national and other providers of financial, investment and insurance services;
- changes in economic and market conditions that affect the amount of assets that we have under administration;
- the institution and outcome of litigation and other legal proceeding against us or to which we become subject;
- worsening market conditions affecting the financial industry generally;
- the impact of recent and future legislative and regulatory changes, including changes in banking, securities and tax laws and regulations and their application by our regulators, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act;

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

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

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

Overview

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

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

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

Certain Events Affect Year-over-Year Comparability

Acquisitions

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

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

* Estimated values subject to change pending final acquisition accounting adjustments

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

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

The Company’s Initial Public Offering

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

S Corporation Status

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

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

38

Discussion and Analysis of Results of Operations

The following discussion and analysis of the Company’s results of operations compares its results of operations for the year ended December 31, 2015, with its results of operations for the year ended December 31, 2014, and its results of operations for the year ended December 31, 2013.

Results of Operations

The Company’s net income available to common shareholders increased by $9.7 million, or 33.8%, to $38.5 million ($2.21 per common shares on a diluted basis) for the year ended December 31, 2015, from $28.8 million ($1.85 per common share on a diluted basis) for the year ended December 31, 2014. The increase resulted from a $30.0 million increase in net interest income and a $2.5 million increase in noninterest income, partially offset by a $3.9 million increase in the provision for loan losses, a $14.7 million increase in noninterest expense and a $4.1 million increase in income tax expense. The Company’s net income for the year ended December 31, 2015, and, therefore, the Company’s return on average assets and the Company’s return on average equity, were adversely affected by $1.4 million of acquisition-related expenses. The Company posted returns on average common equity of 7.13% and 6.89%, returns on average assets of 0.88% and 0.87%, and efficiency ratios of 60.62% and 64.25% for the fiscal years ended December 31, 2015, and 2014, respectively. The efficiency ratio is calculated by dividing total noninterest expense (which does not include the provision for loan losses) by net interest income plus noninterest income. The Company’s dividend payout ratio was 14.35% and12.90% and the equity to assets ratio was 12.41% and 13.09% for the years ended December 31, 2015 and 2014, respectively.

The Company’s net income available to common shareholders increased by $9.0 million, or 45.5%, to $28.8 million ($1.85 per common shares on a diluted basis) for the year ended December 31, 2014, from $19.8 million ($1.77 per common share on a diluted basis) for the year ended December 31, 2013. The increase resulted from a $49.2 million increase in net interest income and a $2.6 million increase in noninterest income, partially offset by a $1.5 million increase in the provision for loan losses and a $30.8 million increase in noninterest expense. The Company’s net income for the year ended December 31, 2014, and, therefore, the Company’s return on average assets and the Company’s return on average equity, were adversely affected by $3.6 million of acquisition-related expenses. The Company posted returns on average common equity of 6.89% and 9.90%, returns on average assets of 0.87% and 1.04%, and efficiency ratios of 64.25% and 67.10% for the fiscal years ended December 31, 2014, and 2013, respectively. The efficiency ratio is calculated by dividing total noninterest expense (which does not include the provision for loan losses) by net interest income plus noninterest income. The Company’s dividend payout ratio was 12.90% and 14.20% and the equity to assets ratio was 13.09% and 10.80% for the years ended December 31, 2014 and 2013, respectively.

Net Interest Income

The Company’s net interest income is its interest income, net of interest expenses. Changes in the balances of the Company’s earning assets and its deposits, FHLB advances and other borrowings, as well as changes in the market interest rates, affect the Company’s net interest income. The difference between the Company’s average yield on earning assets and its average rate paid for interest-bearing liabilities is its net interest spread. Noninterest-bearing sources of funds, such as demand deposits and stockholders’ equity, also support the Company’s earning assets. The impact of the noninterest-bearing sources of funds is reflected in the Company’s net interest margin, which is calculated as annualized net interest income divided by average earning assets.

The Company earned net interest income of $154.1 million for the year ended December 31, 2015, an increase of $30.0 million, or 24.1%, from $124.1 million for the year ended December 31, 2014. The increase in net interest income was primarily due to growth of the Company’s average interest-earning assets during the year. The Company’s net interest margin for 2015 decreased to 4.05% from 4.19% in 2014, and the Company’s interest rate spread for 2015 decreased to 3.89% from the 4.03% interest rate spread for 2014. The average balance of interest-earning assets for 2015 increased by $846.4 million, or 28.6%, to $3.8 billion from an average balance of $3.0 billion for 2014. The increases in interest-earning assets during the year was primarily due to organic loan growth but also in part due to the acquisition that the Company completed in November 2015. The Company’s net interest margin for the year ended December 31, 2015 was adversely affected by a 16 basis point decline in the weighted-average yield on

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

39

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

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

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

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

(1) Average loan balances include nonaccrual loans.

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

41

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Provision for Loan Losses

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

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

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

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

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

Noninterest Income

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

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

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

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

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

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

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

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

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

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

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

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

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

Salaries and Employee Benefits. Salaries and employee benefits expense, which historically has been the largest component of the Company’s noninterest expense, increased $8.2 million, or 15.7%, for the year ended December 31, 2015, compared to the year ended December 31, 2014. The increase was primarily attributable to an increase in the number of the Company’s full-time equivalent employees from 511 to 587, which resulted primarily from organic growth within the Company during the year but also in part due to employees acquired in the Grand Bank transaction. Salaries and employee benefits expense increased $20.5 million, or 64.4%, for the year ended December 31, 2014, compared to the same period in 2013. The increase was primarily attributable to an increase in the number of the Company’s full-time equivalent employees from 340 to 511, which primarily resulted from the three acquisitions the Company completed in January 2014, April 2014 and October 2014, as well as the addition of new lending personnel. In addition, there was approximately $4.0 million in compensation paid to certain Bank of Houston officers that entered into employment agreements with the Company during the second quarter of 2014.
Occupancy Expense. Occupancy expense increased $2.8 million, or 21.2%, for the year ended December 31, 2015 compared to the same period in 2014 and increased $4.2 million, or 46.5%, for the year ended December 31, 2014 compared to the same period in 2013. The increases resulted from higher maintenance contract expenses, building lease expenses and property taxes, attributable primarily to the five acquisitions completed in the three year period. Two branches were added in late 2015, eleven branches were added in 2014 and one branch was added in 2013 as a result of the acquisitions during those years. In addition, the increase in 2014 was due to the Company's new Austin building in May 2013 as there were occupancy expenses for a full year in 2014 compared to half a year in 2013.
Data Processing. Data processing fees increased $1.3 million, or 62.7%, for the year ended December 31, 2015, compared to the same period in 2014 and increased $733 thousand, or 54.4% for the year ended December 31, 2014 compared to the same period in 2013. The change is due to increased online banking fees and other costs related directly to an increase in accounts as well as added employees and locations over the same period prior year, related both to organic growth and growth through acquisitions.
FDIC Assessment. FDIC assessment expense increased $462 thousand, or 25.7%, for the year ended December 31, 2015, compared to the same period in 2014 and increased $1.3 million, or 259.4% for the year ended December 31, 2014 compared to the same period in 2013 . The increase is due to a higher assessment associated with an increase in deposit accounts, both due to organic growth and growth through acquisitions. In addition, the increase from 2013 to 2014 is due to a non-recurring refund of $504 thousand of the Company's prepaid assessment during the second quarter of 2013.
Professional Fees. Professional fees increased $624 thousand, or 24.3%, for the year ended December 31, 2015, over the same period in 2014 and increased $1.3 million, or 97.8% for the year ended December 31, 2014 compared to the same period in 2013. The increase in 2015 is primarily due to increased legal fees on existing litigation inherited in the BOH transaction. The increase in 2014 over 2013 is due to an increase in attorney and accountants fees related to more SEC filings in 2014 including, the Company's annual report, proxy, shelf and other registration statements.
Acquisition Expense. Acquisition expense is primarily legal, advisory and accounting fees associated with services to facilitate the acquisition of other banks. Acquisition expenses also include data processing conversion costs. Total acquisition expenses for the year ended December 31, 2015, decreased $2.2 million, or 30.6% over the same period in 2014. The total acquisition expense in 2014 increased $1.7 million, or 85.4% over the same period in 2013. The change in the respective period is directly related to the acquisition activity in those periods. The Company closed one acquisition in 2015, three acquisitions in 2014 and one in 2013.
Other. Other noninterest expense for the year ended December 31, 2015 increased by $2.7 million, or 30.6%, compared to the same period in 2014. Other noninterest expense increased by $1.6 million, or 22.5%, for the year ended December 31, 2014, compared to the same period in 2013. The majority of the increase for each period relates to general increases in operations due to organic growth within the Company as well as acquisition activity occurring in November 2015, October 2014, April 2014, January 2014 and November 2013.

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

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

47

corporation as discussed above, the Company had no federal tax expense for the quarters ended on or prior to March 31, 2013. The Company was not subject to income tax expense until April 1, 2013, the date which it became a taxable entity. The Company has determined that had it been taxed as a C corporation and paid federal income taxes in the periods ended prior to April 1, 2013, its federal tax rate would have been 33.9% for the year ended December 31, 2013. On a pro forma basis, the Company's federal income tax expense would have been $8.3 million for the year ended December 31, 2013, resulting in pro forma net income, after federal taxes, for that period of $16.2 million.

No valuation allowance for deferred tax assets was recorded at December 31, 2015, 2014 or 2013, as management believes it is more likely than not that all of the deferred tax assets will be realized.

Quarterly Financial Information

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

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

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

Discussion and Analysis of Financial Condition

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

Assets

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

Loan Portfolio

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

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

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

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

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

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

December 31, 2015:

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

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

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

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

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

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

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

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

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

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

Asset Quality

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

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

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

(dollars in thousands)	As of December 31, 2015	2014	2013	2012	2011
Nonaccrual loans					
Commercial	$7,366	$1,449	$357	$218	$131
Real estate:					
Commercial real estate, construction, land and land development	591	70	253	4,857	1,291
Residential real estate	552	2,117			