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Independent Bank Group, Inc.
Form 10-K
February 28, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For The Fiscal Year Ended December 31, 2018.

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

75069-3257

McKinney, Texas

(Address of principal executive offices)

(Zip Code)

(972) 562-9004

(Registrant's telephone number, including area code)

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

Title of Each Class

Name of Each Exchange on which Registered

Common Stock, par value \$0.01 per share The Nasdaq Stock Market, LLC, Global Select Market

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically 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 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 Non-accelerated filer Smaller reporting company Emerging growth company

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

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

The aggregate market value of the shares of common stock held by non-affiliates based on the closing price of the common stock on the Nasdaq Global Select Market on June 30, 2018 was approximately \$1,433,997,070.

At February 26, 2019, the Company had outstanding 43,769,689 shares of common stock, par value \$.01 per share.

Documents Incorporated By Reference:

Portions of the Company's Proxy Statement relating to the 2019 Annual Meeting of Shareholders, which will be filed within 120 days after December 31, 2018, 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, 2018

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PART I

ITEM 1. BUSINESS

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

General

Independent Bank Group, Inc. (the “Company”) is a registered bank holding company headquartered in McKinney, Texas, which is located in the northern portion of the Dallas-Fort Worth metropolitan area. The Company was organized as a Texas corporation on September 20, 2002. Through the Company’s wholly owned subsidiary, Independent Bank, a Texas state chartered bank, the Company provides a wide range of relationship-driven commercial banking products and services tailored to meet the needs of businesses, professionals and individuals. The Company operates through its branch banking offices in the Dallas/North Texas area, including McKinney, Dallas, Fort Worth, and Sherman/Denison, the Austin/Central Texas area, including Austin and Waco, the Houston Texas metropolitan area and along the Colorado Front Range area, including Denver, Colorado Springs and Fort Collins. As of December 31, 2018, the Company had consolidated total assets of approximately \$9.8 billion, total loans of approximately \$7.8 billion, total deposits of approximately \$7.7 billion and total stockholders’ equity of approximately \$1.6 billion.

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’s common stock is traded on the Nasdaq Global Select Market under the symbol "IBTX".

Business Strategy

The Company operates based upon the following core strategies, which the Company designed to enhance shareholder value by growing strategically while preserving asset quality, improving efficiency and increasing profitability: Grow Organically. The Company focuses on continued organic growth through the Company’s existing footprint and business lines. The Company plans to follow a community-focused, relationship-driven customer strategy to increase loans and deposits through the Company’s existing locations. Preserving the safety and soundness of the Company’s loan portfolio is a fundamental element of the Company’s organic growth strategy. The Company has a strong and conservative credit culture, which allows the Company to maintain its asset quality as the Company grows. In addition, the Company has established an enterprise risk management function to identify and mitigate risk on a Company wide basis to support continued growth.

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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 eleven acquisitions that the Company believes have enhanced shareholder value and the Company's market presence. The following table summarizes each of the eleven acquisitions completed since 2010.

Acquired Institution/Market	Date of Acquisition	Fair Value of Total Assets Acquired (dollars in thousands)
Town Center Bank Dallas/North Texas	July 31, 2010	\$37,451
Farmersville Bancshares, Inc. Dallas/North Texas	September 30, 2010	99,420
I Bank Holding Company, Inc. Austin/Central Texas	April 1, 2012	172,587
The Community Group, Inc. Dallas/North Texas	October 1, 2012	110,967
Collin Bank Dallas/North Texas	November 30, 2013	168,320
Live Oak Financial Corp. Dallas/North Texas	January 1, 2014	131,008
BOH Holdings, Inc. Houston, Texas	April 15, 2014	1,188,893
Houston City Bancshares, Inc. Houston, Texas	October 1, 2014	350,747
Grand Bank Dallas, Texas	November 1, 2015	620,196
Carlile Bancshares, Inc. Dallas/North Texas, Central Texas, Colorado Front Range	April 1, 2017	2,444,155
Integrity Bancshares, Inc. Houston, Texas	June 1, 2018	851,875

The acquisition of Carlile Bancshares, Inc. (Carlile), and its wholly owned subsidiary, Northstar Bank (Northstar), represented the Company's expansion in the Dallas/North Texas and Central Texas areas as well as its entry into the Fort Worth, Texas and Colorado Front Range markets. The Company acquired 42 new locations as part of the transaction. The assets acquired in this acquisition represented 82.2% of the Company's asset growth in 2017. The Integrity Bancshares, Inc. acquisition represented the Company's continued expansion in the Houston metropolitan area. Through this acquisition, the Company added four locations in attractive sub markets in the Houston area and added approximately \$852 million in assets. The assets acquired in this acquisition represented 73% of the Company's asset growth in 2018.

Subsequent Acquisition of Guaranty Bancorp On January 1, 2019, the Company completed the acquisition of Guaranty Bancorp (Guaranty), and its subsidiary, Guaranty Bank and Trust Company (Guaranty Bank). As a result of the acquisition, the Company added 32 full service banking locations along the Colorado Front Range including locations throughout the Denver metropolitan area and along I-25 to Fort Collins, expanding the Company's footprint in Colorado. The Company's estimated fair value of assets acquired as of January 1, 2019 is approximately \$3.9 billion.

Subsequent Alignment of Retail Footprint. On February 21, 2019, Independent Bank announced plans to rebalance its retail footprint by consolidating locations in Colorado and Texas. Independent Bank will consolidate eight branches in Colorado and four branches in Texas as part of this plan. As a result of the planned branch consolidation, Independent Bank will have a total of 93 banking locations, with 61 Texas locations and 32 Colorado locations. These changes will reduce overlapping locations and improve efficiency, while keeping Independent Bank well-positioned to support

existing customers and future growth.

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

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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 continues to update its operating capabilities and create synergies within the Company in the areas of technology, data processing, finance, compliance and human resources. The Company believes that the Company's scalable infrastructure provides the Company with an efficient operating platform from which to grow in the near term without incurring significant incremental noninterest expenses, which will enhance the Company's returns.

Independent's Community Banking Services

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

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

The Company's strategy is to maintain a broadly diversified loan portfolio by type and location. The Company's loan portfolio consists of real estate loans, commercial and industrial loans, residential mortgage loans, residential construction loans, agricultural loans and consumer loans. Real estate secured loans are 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%), the Company's Austin/Central Texas region (approximately 18%) and the Company's Colorado Front Range region (approximately 6%). 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. The Company also utilizes an experienced Treasury Management team to solicit and manage large deposit relationships.

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 supports residential mortgage operations through a mortgage warehouse program. The Company provides wealth management services to its customers through Private Capital Management, LLC, a registered investment advisory firm, which became a wholly owned subsidiary of Independent Bank as part of the Guaranty acquisition.

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

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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, its market presence, and its emphasis on building long-lasting relationships distinguishes Independent Bank from its competitors.

According to S&P Global Market Intelligence, as of June 30, 2018, the Company had the 13th largest deposit market share in Texas and the 37th largest deposit market share in Colorado. With the acquisition of Guaranty, the Company's proforma market share is the 8th largest deposit market in Colorado. We believe that our strong market share is a reflection of the Company's ability to compete with more prominent banking franchises in our markets.

Employees

As of December 31, 2018, the Company employed approximately 1087 persons. The Company provides extensive training to its 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

www.ibtx.com

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 Consumer Financial Protection Bureau, or the CFPB, the SEC, 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

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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 CFPB 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. The changes resulting from the Dodd-Frank Act 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.

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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 capital regulations and Regulation Y, for example, generally requires a bank holding company to receive prior approval of and/or provide the Federal Reserve with prior notice of any redemption or repurchase of its own equity securities. 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. Historically, the guidelines required a minimum ratio of total capital to total risk-weighted assets of 8.0% (of which at least 4.0% was 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. In general, bank holding companies were 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, which became fully phased-in on January 1, 2019, requires bank holding companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity.

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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 the prior regulations.

As now fully phased-in the new capital rule 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 and a leverage ratio of 4%.

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

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

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

Under the FRB’s prompt corrective action standards, in order to be considered well-capitalized, Independent Bank must have a ratio of CET1 capital to risk-weighted assets of 6.5%, a ratio of Tier 1 capital to risk-weighted assets of 8%, a ratio of total capital to risk-weighted assets of 10%, and a leverage ratio of 5%; and must not be subject to any written agreement, order, capital directive, or prompt corrective action directive to meet and maintain a specific capital level for any capital measure. In order to be considered adequately capitalized, an institution must have the minimum capital ratios described above. As of December 31, 2018, Independent Bank was “well-capitalized.” An institution that is not well capitalized is subject to certain restrictions on brokered deposits and interest rates on deposits.

The Federal Reserve’s capital regulations and Regulation Y generally require a bank holding company to receive the prior approval of and/or provide the Federal Reserve with prior notice of any redemption or repurchase of its own equity securities.

Interchange Fees. The Durbin Amendment to the Dodd-Frank Act limits the amount of interchange fees that banks with assets of \$10 billion or more may charge to process electronic debit transactions. An issuer must begin complying with the Durbin Amendment no later than July 1 of the next calendar year after the issuer crosses the \$10 billion threshold. The Company and Independent Bank exceeded \$10 billion in total consolidated assets upon consummation of the merger of the Company with Guaranty Bancorp and the merger of Independent Bank with

Guaranty Bank and Trust Company, both on January 1, 2019. Thus, Independent Bank will become subject to the rule on July 1, 2020, Under the Durbin Amendment and the Federal Reserve's implementing regulations, bank issuers who are not exempt may only receive an interchange fee from merchants that is reasonable and proportional to the cost of clearing the transaction. The maximum permissible interchange fee is equal to no more than \$0.21 plus 5 basis points of the transaction value for many types of debit interchange transactions. A debit card issuer may also recover \$0.01 per transaction for fraud prevention purposes if the issuer complies with certain fraud-related requirements required by the Federal Reserve. In addition, the Federal Reserve has rules governing routing and exclusivity that require issuers to offer two unaffiliated networks for routing transactions on each debit or prepaid product.

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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.

Volcker Rule. Section 619 of the Dodd-Frank Act, known as the Volcker Rule, prohibits any bank, bank holding company, or affiliate (referred to collectively as "banking entities") from engaging in two types of activities: "proprietary trading" and the ownership or sponsorship of private equity or hedge funds that are referred to as "covered funds."

Proprietary trading is, in general, trading in securities on a short-term basis for a banking entity's own account. In December 2013, the federal banking agencies, the SEC and the Commodity Futures Trading Commission, finalized a regulation to implement the Volcker Rule. After the enactment of the Economic Growth, Regulatory Relief, and Consumer Protection Act in May 2018, Volcker Rule limitations apply to banking entities with \$10 billion or more in total consolidated assets. Under the Volcker Rule implementing regulations, banking entities have two years to conform its investments and implement the required compliance plan or in the case of the Company, January 1, 2021.

Federal Securities Laws. The common stock of the Company is registered with the SEC under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Therefore, the Company is subject to the reporting, information disclosure, proxy solicitation, insider trading limits and other requirements imposed on public companies by the SEC under the Exchange Act. This includes limits on sales of stock by certain insiders and the filing of insider ownership reports with the SEC. The SEC and Nasdaq have adopted regulations under the Sarbanes-Oxley Act of 2002 and the Dodd Frank Act that apply to the Company as a Nasdaq-traded, public company, which seek to improve corporate governance, provide enhanced penalties for financial reporting improprieties and improve the reliability of disclosures in SEC filings.

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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 or 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.

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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 Dividends. 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%.

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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.

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.

Under the Dodd-Frank Act, for institutions with \$10 billion or more in assets, the FDIC uses a performance score and a loss-severity score that are used to calculate an initial assessment rate. In calculating these scores, the FDIC uses a bank’s capital level and regulatory supervisory ratings and certain financial measures to assess an institution’s ability to

withstand asset-related stress and funding-related stress. The FDIC also has the ability to make discretionary adjustments to the total score based upon significant risk factors that are not adequately captured in the calculations. The FDIC deposit assessment will be required to use this new calculation starting in the second quarter of 2020, the fourth consecutive quarter in which the Company's total consolidated assets are expected to exceed \$10 billion.

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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, banks with assets of more than \$10 billion, such as Independent Bank, are to be examined for compliance with federal consumer protection laws by the CFPB. Starting in the second quarter of 2020, the fourth consecutive quarter in which the Company's total consolidated assets are expected to exceed \$10 billion, Independent Bank will be subject to CFPB jurisdiction. Until that time, the Company will continue to be examined for consumer compliance by the FDIC. As a relatively new agency with evolving regulations and practices, there is uncertainty as to how the CFPB's examination and regulatory authority might impact our business.

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

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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.

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

ITEM 1A. RISK FACTORS

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

Risks Related to the Company's Business

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

The Company's success depends significantly on the continued service and skills of the Company's existing executive management team. The implementation of the Company's business and growth strategies also depends significantly on the Company's ability to retain officers and employees with experience and business relationships within their respective market areas. The Company's ability to attract and retain key employees is dependent upon its compensation and benefits programs, continued growth and profitability, and reputation for rewarding and promoting qualified employees. The cost of employee compensation constitutes a significant portion of the Company's non-interest expense and can materially impact results of operations. The Company could have difficulty replacing departed officers and employees with persons who are experienced in the specialized aspects of the Company's business or who have ties to the communities within the Company's market areas. The unexpected loss of any of the Company's key personnel could therefore have an adverse impact on the Company's business and growth. The Company's continued success is dependent upon the ability of its executive management and the development of an appropriate succession plan for key officers.

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

The Company is operating in a dynamic and challenging economic environment, including uncertain global, national and local market conditions. In particular, Texas and Colorado 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 and Colorado imposes risks and may magnify the adverse effects and consequences to the Company resulting from any regional or local economic downturn affecting Texas and Colorado. The Company conducts its operations almost exclusively in Texas and Colorado. This geographic concentration imposes risks from lack of geographic diversification. The economic conditions in Texas affect the Company's business, financial condition, results of operations, and future prospects, where adverse economic developments, among other things, could affect the volume of loan originations, increase the level of nonperforming assets, increase the rate of foreclosure losses on loans and reduce the value of the Company's loans and loan servicing portfolio. Moreover, if the population or income growth in the Company's market areas is slower than projected, income levels, deposits and housing starts could be adversely affected and could result in a reduction of the Company's expansion, growth and profitability. While the Texas economy is more diversified than in the past, the energy sector has had, and is expected to continue to have, a significant impact on the overall Texas economy. Any regional or local economic

downturn that affects Texas or Colorado, or existing or prospective borrowers or property values in

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such areas, may affect the Company and the Company's profitability more significantly and more adversely than the Company's competitors whose operations are less geographically concentrated.

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

Making any loan involves risk, including risks inherent in dealing with individual borrowers, risks of nonpayment, risks resulting from uncertainties as to the future value of collateral and cash flows available to service debt, and risks resulting from changes in economic and market conditions. The Company's credit risk approval and monitoring procedures may fail to identify or reduce these credit risks, and they cannot completely eliminate all credit risks related to the Company's loan portfolio. The Company faces a variety of risk related to its types of loans. Adverse developments affecting commercial real estate values in the Company's market areas could increase the credit risk associated with commercial real estate loans, impair the value of the property pledged as collateral for these loans, and affect the Company's ability to sell the collateral upon foreclosure without a loss. Further, due to the larger average size of commercial real estate loans, the Company faces risk that losses incurred on a small number of commercial real estate loans could have a material adverse effect on the Company's financial condition and results of operations. The Company's commercial real estate loans also have the risk that repayment is subject to the ongoing business operations of the borrower. The Company's commercial loans also have the risk that repayment is subject to the ongoing business operations of the borrower. Commercial loans are often secured by personal property, such as inventory, and intangible property, such as accounts receivable, which if the business is unsuccessful, typically have values insufficient to satisfy the loan without a loss. If the overall economic climate in the United States, generally, or the Company's market areas in Texas, specifically, experiences material disruption, the Company's borrowers may experience difficulties in repaying their loans, the collateral the Company holds may decrease in value or become illiquid, and the level of nonperforming loans, charge-offs and delinquencies could rise and require additional provisions for loan losses, which would cause the Company's net income and return on equity to decrease. Negative changes in the economy affecting real estate values and liquidity, and business operating conditions generally, could impair the repayment ability of borrowers and the value of collateral securing the Company's loans which would result in loan and other losses.

As of December 31, 2018, approximately 83% of the Company's loan portfolio was comprised of loans with real estate as a primary or secondary component of collateral, excluding agricultural loans secured by real estate. As a result, adverse developments affecting real estate values in the Company's market areas could increase the credit risk associated with the Company's real estate loan portfolio. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the area in which the real estate is located. Adverse changes affecting real estate values and the liquidity of real estate in one or more of the Company's markets could increase the credit risk associated with the Company's loan portfolio, and could result in losses that would adversely affect credit quality, financial condition, and results of operation. Negative changes in the economy affecting real estate values and liquidity in the Company's market areas could significantly impair the value of property pledged as collateral on loans and affect the Company's ability to sell the collateral upon foreclosure without a loss or additional losses. Collateral may have to be sold for less than the outstanding balance of the loan, which could result in losses on such loans. Such declines and losses would have a material adverse impact on the Company's business, results of operations and growth prospects. If real estate values decline, it is also more likely that the Company would be required to increase the Company's allowance for loan losses, which could adversely affect the Company's financial condition, results of operations and cash flows.

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

As of December 31, 2018, approximately 1.7% of the Company's loan portfolio was composed of loans made to companies engaged in oil production and oilfield services. The significant decline in oil prices during 2015 adversely effected some of these borrowers' ability to repay these loans and impaired the value of collateral securing some of these loans. The Company experienced an increase in non-performing assets and loan loss provisions in 2015 and

early 2016 primarily due to energy loans. Further, because energy is a material segment of the overall Texas economy, the decline and volatility in oil prices could have an impact on other segments of the Texas economy, including real estate. The Houston market economy in particular could be adversely affected. The Company's asset quality and results of operations could be adversely impacted by the direct and indirect effects of current and future conditions in the Texas energy industry.

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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, Houston and Colorado market areas in which the Company operates or the Texas or Colorado 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, 2018, the Company's allowance for loan losses as a percentage of total loans was 0.58% and as a percentage of total nonperforming loans was 354.73%. 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.

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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 several acquisitions since 2010, most recently completing the acquisitions of Integrity Bancshares, Inc. on June 1, 2018 and Guaranty Bancorp ("Guaranty") on January 1, 2019. The Company intends to continue its acquisition strategy. Such an acquisition strategy, involves significant risks, including the following:

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

Accordingly, the Company may be unable to find suitable acquisition candidates in the future that fit its acquisition and growth strategy. In addition, the Company's previous acquisitions may make it more difficult for investors to evaluate historical trends in the Company's financial results and operating performance, as the impact of such acquisitions make it more difficult to identify organic trends that would be reflected absent such acquisitions. 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. Acquisition activities and 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.

Integrating Guaranty Bank into Independent Bank's operations may be more difficult, costly or time-consuming than the Company expects.

The process of integrating Guaranty Bank's operations into Independent Bank's operations following completion of the merger could result in the disruption of operations, the loss of former Guaranty Bank customers and employees and make it more difficult to achieve the intended benefits of the merger. Inconsistencies between the standards, controls, procedures and policies of Independent Bank and those of the former Guaranty Bank could adversely affect Independent Bank's ability to maintain relationships with former customers and employees of Guaranty Bank.

As with any merger of banking institutions, business disruptions may occur that may cause Independent Bank to lose customers or may cause Guaranty Bank's former customers to withdraw their deposits from Independent Bank. The realization of the anticipated benefits of the merger may depend in large part on Independent's ability to integrate Guaranty Banks former operations into Independent Bank's operations, and to address differences in business models

and cultures. If the Company is unable to integrate the operations of Guaranty and Guaranty Bank into the Company's and Independent Bank's operations successfully and on a timely basis, some or all of the expected benefits of the merger may not be realized. Difficulties encountered with respect to such matters could result in an adverse effect on the financial condition, results of operations, capital, liquidity or cash flows of Independent Bank and the Company.

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The Company may fail to realize the cost savings anticipated from the merger of Guaranty and Guaranty Bank with and into the Company and Independent Bank.

Although the Company continues to anticipate that it will realize cost savings as to the operations of Guaranty and Guaranty Bank and otherwise from the merger when the operations of Guaranty and Guaranty Bank are fully integrated in the Company's and Independent Bank's operations, it is possible that the Company may not realize all of the cost savings that the Company has estimated it can realize from the merger. For example, for a variety of reasons, the Company may be required to continue to operate or maintain some facilities or support functions that are currently expected to be combined or reduced as a result of the merger. The Company's realization of the estimated cost savings also will depend on the Company's ability to combine the operations of the Company and Independent Bank with the operations of Guaranty and Guaranty Bank in a manner that permits those costs savings to be realized. If the Company is not able to integrate the operations of Guaranty and Guaranty Bank into the Company's and Independent Bank's operations successfully and to reduce the combined costs of conducting the integration operations of the two banks, the anticipated cost savings may not be fully realized, if at all, or may take longer to realize than expected. The Company's failure to realize those cost savings could materially adversely affect the Company's financial condition, results of operations, capital, liquidity or cash flows.

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, 2018, the Company's goodwill totaled \$721.8 million. While the Company has not recorded any such impairment charges since the Company initially recorded the goodwill, there can be no assurance that the Company's future evaluations of goodwill will not result in findings of impairment and related write-downs, which may have a material adverse effect on the Company's financial condition and results of operations.

Changes in interest rates may reduce net interest income and otherwise negatively impact the Company's financial condition and results of operations.

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

Interest rate increases often result in larger payment requirements for the Company's borrowers, which increase the potential for default. At the same time, the marketability of the property securing a loan may be adversely affected by

any reduced demand resulting from higher interest rates. In a declining interest rate environment, there may be an increase in prepayments on loans as borrowers refinance their loans at lower rates.

Changes in interest rates also can affect the value of loans, securities and other assets. An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans may lead to an increase in nonperforming

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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 101.9% as of December 31, 2018), the Company invests a percentage of its total assets (approximately 7.0% as of December 31, 2018) in investment securities as part of its overall liquidity strategy. As of December 31, 2018, the fair value of the Company's securities portfolio was approximately \$685.4 million.

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

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

Liquidity is essential to the Company's business. The Company relies on its ability to generate deposits and effectively manage the repayment and maturity schedules of the Company's loans and investment securities, respectively, to ensure that the Company has adequate liquidity to fund the Company's operations. An inability to raise funds through deposits, borrowings, the sale of the Company's investment securities, Federal Home Loan Bank advances, the sale of loans, and other sources could have a substantial negative effect on the Company's liquidity. The Company's most important source of funds consists of deposits. Deposit balances can decrease when customers perceive alternative investments as providing a better risk/return

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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 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 and Colorado. 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. The Company's ability to successfully compete will depend on a number of factors, including its ability to maintain long-term customer relationships and customer satisfaction with the Company's products and services, the scope, relevance and pricing of the products and services the Company offers, industry and general economic trends, and the Company's ability to keep pace with technological advances and to invest in new technology. 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, or may be required to increase the rates the Company pays on deposits or lower the rates it offers on loans, which could reduce the Company's profitability, and the Company's business, financial condition and results of operations may be adversely affected.

The Company relies on customer deposits as a significant source of funding, and its deposits may decrease in the future.

The Company relies on customer deposits as a significant source of funding. Competition among U.S. banks for customer deposits is intense, and may increase the cost of deposits or prevent new deposits, and may otherwise negatively affect the Company's ability to grow its deposit base. The Company's deposit accounts may decrease in the future, and any such decrease could have an adverse impact on the Company's sources of funding, which impact could be material. Any changes the

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Company makes to the rates offered on its deposit products to remain competitive with other financial institutions may adversely affect the Company's profitability and liquidity. The demand for the deposit products the Company offers may also be reduced due to a variety of factors such as demographic patterns, changes in customer preferences, reductions in consumers' disposable income, regulatory actions that decrease customer access to particular products or the availability of competing products. In addition, a portion of the Company's deposits are brokered deposits and FDIC uninsured deposits. The levels of these types of deposits that the Company holds may be more volatile during changing economic conditions. As of December 31, 2018, approximately \$356.3 million, or 4.60%, of the Company's deposits consisted of brokered deposits.

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. In addition, the rise of "FinTech" entities presents an additional group of competitors which provide financial services through new electronic delivery systems. As a result, these competitors 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.

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

The Company depends on a number of relationships with third-party service providers. Specifically, the Company receives core systems processing, essential web hosting and other Internet systems, deposit processing and other processing services from third-party service providers. If these third-party service providers experience difficulties, or terminate their services, and the Company is unable to replace them with other service providers, particularly on a timely basis, the Company's operations could be interrupted. If an interruption were to continue for a significant period of time, the Company's business, financial condition and results of operations could be adversely affected, perhaps materially. Even if the Company is able to replace third party service providers, it may be at a higher cost to the Company, which could adversely affect the Company's business, financial condition and results of operations. The Company is subject to certain operational risks, including, but not limited to, customer or employee fraud and data processing system failures and errors.

Employee errors and employee and customer misconduct could subject the Company to financial losses or regulatory sanctions and seriously harm the Company's reputation. Misconduct by the Company's employees could include hiding unauthorized activities from the Company, improper or unauthorized activities on behalf of the Company's customers or improper use of confidential information. Customers are also subject to financial crimes, including fraud, wire fraud, and cyber-crimes, which could adversely impact their ability to pay loans or result in a fraudulent removal of funds from their deposit accounts. It is not always possible to prevent employee errors and misconduct, or fraudulent schemes impacting customers, and the precautions the Company takes to prevent and detect this activity may not be effective in all cases. Employee errors could also subject the Company to financial claims for negligence.

The Company maintains a system of internal controls and insurance coverage to mitigate against operational risks, including data processing system failures and errors and customer or employee fraud. If the Company's internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, the Company relies heavily upon information supplied by third parties, including the information contained in credit applications, property appraisals, title information, equipment pricing and valuation and employment and income documentation, in deciding which loans the Company will originate, as well as the terms of those loans. If any of the information upon which the Company relies is misrepresented, either fraudulently or inadvertently, and the misrepresentation is not detected prior to asset funding, the value of the asset may be significantly lower than expected, or the Company may fund a loan that the Company would not have funded or on terms the Company would not have extended. Whether a misrepresentation is made by the applicant or another third party, the Company generally bears the risk of loss associated with the misrepresentation. A loan subject to a material misrepresentation is typically unsellable or subject to repurchase if it is sold prior to detection of the misrepresentation. The sources of the misrepresentations are often difficult to locate, and it is often difficult to recover any of the monetary losses that the Company may suffer.

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

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

Hurricanes, tornadoes, wildfires, earthquakes and other natural disasters and severe weather events have caused, and in the future may cause, widespread property damage and significantly and negatively affect the local economies in

which the Company operates. For example, in late August 2017, Hurricane Harvey, a Category 4 hurricane, caused catastrophic flooding and unprecedented damage to residences and businesses across Southeast Texas, including Houston. The Company currently operates 10 banking centers in the greater Houston area. The effect of Hurricane Harvey, and other catastrophic weather events

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if they were to occur, could have a materially adverse impact on the Company's financial condition, results of operations and business, as well as potentially increase the Company's exposure to credit losses and liquidity risks. 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, and 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.

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

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

The Company's stock can be volatile.

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

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

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

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

The Company's primary tangible asset is Independent Bank. As such, the Company depends upon Independent Bank for cash distributions (through dividends on Independent Bank's stock) that the Company uses to pay the Company's operating expenses, satisfy the Company's obligations (including the Company's senior indebtedness, subordinated debentures, and junior subordinated indebtedness issued in connection with trust preferred securities), and to pay dividends on the Company's common stock and preferred stock. There are numerous laws and banking regulations that

limit Independent Bank's ability to pay dividends to the Company. If Independent Bank is unable to pay dividends to the Company, the Company will not be able to satisfy the Company's obligations or pay dividends on the Company's common stock and preferred stock. Federal and state statutes and regulations restrict Independent Bank's ability to make cash distributions to the Company. These statutes and

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regulations require, among other things, that Independent Bank maintain certain levels of capital in order to pay a dividend. Further, state and federal banking authorities have the ability to restrict the payment of dividends by supervisory action.

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

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

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

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

Collectively, as of February 26, 2019, Messrs. Vincent Viola and David Brooks owned 12.3% of the Company's outstanding common stock on a fully diluted basis. Vincent Viola, the largest shareholder of the Company, currently owns 10.2% of the Company's outstanding common stock, and David Brooks, the Company's Chairman of the Board and Chief Executive Officer, currently owns 2.1% of the Company's common stock, each calculated on a fully diluted basis. Further, as of the date hereof, the Company's other directors and executive officers currently own collectively approximately 5.4% of the Company's outstanding common stock. As a result, these individuals exert controlling influence in the Company's management and policies. Further, given the large ownership position of these individuals, it will be difficult for any other shareholder to elect members to the Company's board of directors or otherwise influence the Company's management or direction.

In addition, two of the Company's directors have close professional and personal ties to Vincent Viola, the Company's largest shareholder. Doug Cifu is the Chief Executive Officer of Virtu Financial, LLC, Mr. Viola's primary operating entity; and Michael Viola is the son of Vincent Viola. Further, David Brooks, the Company's Chairman and Chief Executive Officer, has a 30 year history of ownership and operation of Independent Bank with Vincent Viola; and he has joint investments with Mr. Viola outside of the Company. Given these close relationships, even though he does not serve on the Company's board, Mr. Viola has and will continue to have a large influence over the direction and operation of the Company.

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

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

include the following:

• staggered terms for directors;

• a provision that directors cannot be removed except for cause;

• a provision that any special meeting of the Company's shareholders may be called only by a majority of the Company's board of directors, the Chairman or a holder or group of holders of at least 20% of the Company's shares entitled to vote at such special meeting;

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

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

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

In the event of any winding up and termination of the Company, the Company common stock would rank below all claims of the holders of the Company's debt and any preferred stock then outstanding. The Company has a senior, revolving credit facility under which the Company may borrow up to \$50 million. As of December 31, 2018, the Company currently had not drawn upon this credit facility. Further, as of December 31, 2018, the Company had outstanding

\$140.0 million of aggregate principal amount of subordinated indebtedness; and

\$31.6 million of subordinated debentures issued in connection with trust preferred securities

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

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.

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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.

Because our total assets exceeded \$10 billion as of January 1, 2019, we will become subject to additional regulatory requirements, which could have an adverse effect on our financial condition or results of operations.

Various federal banking laws and regulations, including rules adopted by the Federal Reserve pursuant to the requirements of the Dodd-Frank Act, impose heightened requirements on certain large banks and bank holding companies. Most of these rules apply primarily to bank holding companies with at least \$50 billion in total consolidated assets, but certain rules also apply to banks and bank holding companies with at least \$10 billion in total consolidated assets.

The Company and Independent Bank exceeded \$10 billion in total consolidated assets upon consummation of the merger of the Company with Guaranty Bancorp and the merger of Independent Bank with Guaranty Bank and Trust Company, both on January 1, 2019. Thus, the Company and Independent Bank, among other requirements, starting in the second quarter of 2020, the fourth consecutive quarter in which the Company's total consolidated assets are expected to exceed \$10 billion: (a) will calculate our FDIC deposits assessment base using a performance score and loss-severity score system; and (b) may be subject to examination for compliance with federal consumer protection laws by the CFPB.

In addition, the Company and Independent Bank will be affected by the Durbin Amendment to the Dodd-Frank Act regarding limits on debit card interchange fees. The Durbin Amendment gave the Federal Reserve Board the authority to establish rules regarding interchange fees charged for electronic debit transactions by a payment card issuer that, together with its affiliates, has assets of \$10 billion or more and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer. The Federal Reserve Board has adopted rules under this provision that limit the swipe fees that a debit card issuer can charge a merchant for a transaction to the sum of 21 cents and five basis points times the value of the transaction, plus up to one cent for fraud prevention costs. Accordingly, deposit insurance assessments and expenses related to regulatory compliance may increase, and interchange fee income may decrease. The ultimate impact of the heightened scrutiny to which the Company and Independent Bank will be subject is uncertain but the Company and Independent bank may be adversely affected and may incur increased costs related to regulatory oversight.

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.

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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

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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 leases 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.

On January 17, 2018, the Company broke ground on a new corporate headquarters located on a 10.4 acre parcel of land at State Highway 121 and Grand Ranch Parkway at the entrance to the McKinney Corporate Center Craig Ranch in McKinney, Texas. The approximately 165,000 square-foot, six story facility will allow space for the Company's continued growth. The building is expected to be completed in the second quarter of 2019, although delays could occur.

As of December 31, 2018, the Company had 73 full-service branches. The Company believes that its facilities are in good condition and are adequate to meet the Company's operating needs for the foreseeable future. At December 31, 2018, the Company owns 55 of the branches, and leases the remaining facilities. The majority of our branches are located in the North Texas area, including McKinney, Dallas, Fort Worth, Denton and Sherman/Denison, the Austin/Central Texas area, including Austin and Waco, the Houston Texas metropolitan area and along the Colorado Front Range area, including Denver and Colorado Springs. The Company acquired 32 full service branches in Colorado on January 1, 2019 as part of the Guaranty acquisition. The Company owns 26 of the branches and leases the remaining facilities. The Company believes that, other than one branch which is scheduled for renovation, these additional facilities are in good condition.

For more information about our premises and equipment and our lease commitments, see Note 7 and Note 14, respectively, of the Notes to Consolidated Financial Statements in Item 15 of this report.

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.

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Independent Bank is a party to a legal proceeding inherited by Independent Bank in connection with the Company's 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, in a case styled Peggy Roif Rotstain, et al. on behalf of themselves and all others similarly situated, v. Trustmark National Bank, et al., Civil Action No. 3:09-CV-02384-N-BG. The suit alleges, among other things, that the plaintiffs were victims of fraud by SIBL and other Stanford Entities and seeks 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 asserted 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. The plaintiffs seek recovery from Independent Bank and other defendants for their losses. The case was inactive due to a court-ordered discovery stay issued March 2, 2015 pending the Court's ruling on plaintiff's motion for class certification and designation of class representatives and counsel. On November 7, 2017, the Court issued an order denying the plaintiff's motion. In addition, the Court lifted the previously ordered discovery stay. On January 11, 2018, the Court entered a scheduling order providing that the case be ready for trial on January 27, 2020. However, discovery in this case has been extended and the Company now expects that the trial will be delayed until sometime after May 2020. The Company has experienced an increase in legal fees associated with the defense of this claim and anticipates further increases in legal fees as the case proceeds to trial.

Independent Bank notified its insurance carriers of the claims made in the Second Amended Complaint. The insurance carriers have initially indicated that the claims are not covered by the policies or that a "loss" has not yet occurred. Independent Bank pursued insurance coverage as well as reimbursement of defense costs through the initiation of litigation and other means. On November 6, 2018, the Company settled claims under its Financial Institutions Select Policy pursuant to which the Company received payment of an amount which is not material to the operations of the Company. The Company did not settle any claims under its Financial Institution Bond Policy.

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

Market for Common Stock

Since January 2, 2014, the Company's common stock has traded on the Nasdaq Global Select Market under the symbol "IBTX." Quotations of the sales volume and the closing sales prices of the common stock of the Company are listed daily in the Nasdaq Global Select Market's listings. As of February 26, 2019, there were 713 holders of record for the Company's common stock.

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Recent Sales of Unregistered Securities

On November 21, 2016, the Company entered into securities purchase agreements, or Stock Purchase Agreements, with a limited number of institutional investors who were all accredited investors pursuant to which the Company agreed to sell in a private placement an aggregate of 400,000 shares of the Company's common stock, or the Private Placement Shares, at a purchase price of \$52.50 per Private Placement Share. The gross proceeds of the sale of such Private Placement Shares was approximately \$21 million, and the placement discount/commission to Stephens, Inc., as placement agent, was \$1,050,000. The transaction closed on November 29, 2016. The Company used the proceeds of the offering to support the Carlile acquisition and for general corporate purposes.

The Stock Purchase Agreements contained representations and warranties, covenants and indemnification provisions that are customary for private placements of shares of common stock by companies with shares of common stock listed for trading on a national securities exchange.

The Private Placement Shares were not registered under the Securities Act of 1933, as amended, or the Securities Act, in reliance on the exemption from registration in Section 4(a)(2) of the Securities Act and Regulation D of the Commission promulgated under the Securities Act, and, as a result, the Private Placement Shares may not be offered or sold in the United States absent a registration statement or exemption from registration. As agreed in the Stock Purchase Agreements, the Company filed with the Commission a registration statement (File No. 333-215137) with respect to the resale of the Private Placement Shares purchased by the investors under the Stock Purchase Agreements and that registration statement was declared effective by the Commission on December 21, 2016.

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information as of December 31, 2018, 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	1,581,608 ⁽¹⁾
Equity compensation plans not approved by security holders	—	N/A	—

⁽¹⁾ Constitutes shares of the Company's common stock issuable under the 2013 Equity Incentive Plan, as amended, which shares may be awarded as restricted stock grants.

Share Repurchase Program

The Company established share repurchase programs in prior years which would allow the Company to purchase its common stock in the open market or in privately negotiated transactions. In general, share repurchase programs allow the Company to proactively manage its capital position and return excess capital to shareholders. No shares were purchased under previous share repurchase programs. On October 24, 2018, the Company announced the

reestablishment of its share repurchase program. The program authorizes the purchase by the Company of up to \$75 million of its common stock. The repurchase program is authorized to continue through October 1, 2019. No shares of Company stock were repurchased by the Company under this program during 2018. The Company has repurchased a total of 68,069 shares at a total cost of \$3.9 million through February 26, 2019.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

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Performance Graph

The following Performance Graph compares the cumulative total shareholder return on the Company's common stock for the period December 31, 2013 through December 31, 2018, with the cumulative total return of the S&P 500 Total Return Index and the KBW Nasdaq Regional Banking Index for the same period. Dividend reinvestment has been assumed. The Performance Graph assumes \$100 invested on December 31, 2013, in the Company's common stock, the S&P 500 Total Return Index and KBW Nasdaq Regional Banking 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 KBW Nasdaq Regional Banking Index

	December 31, 2013	December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2017	December 31, 2018
Independent Bank Group, Inc.	\$ 100.00	\$ 79.04	\$ 65.27	\$ 128.45	\$ 140.05	\$ 95.59
S&P 500 Index	100.00	113.69	115.26	129.05	157.22	150.33
KBW Nasdaq Regional Banking Index	100.00	102.42	108.48	150.80	153.45	126.59

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ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data of the Company for, and as of, the end of each of the years in the five-year period ended December 31, 2018, 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 35 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.

(dollars in thousands except per share data)	As of and for the Year Ended December 31,				
	2018	2017	2016	2015	2014
Selected Income Statement Data					
Interest income	\$407,290	\$307,914	\$210,049	\$174,027	\$140,132
Interest expense	81,038	42,436	26,243	19,929	15,987
Net interest income	326,252	265,478	183,806	154,098	124,145
Provision for loan losses	9,860	8,265	9,440	9,231	5,359
Net interest income after provision for loan losses	316,392	257,213	174,366	144,867	118,786
Noninterest income	42,224	41,287	19,555	16,128	13,624
Noninterest expense	198,619	176,813	113,790	103,198	88,512
Income tax expense	31,738	45,175	26,591	19,011	14,920
Net income	128,259	76,512	53,540	38,786	28,978
Preferred stock dividends	—	—	8	240	169
Net income available to common shareholders	128,259	76,512	53,532	38,546	28,809
Per Share Data (Common Stock)					
Earnings:					
Basic	\$4.33	\$2.98	\$2.89	\$2.23	\$1.86
Diluted ⁽¹⁾	4.33	2.97	2.88	2.21	1.85
Dividends	0.54	0.40	0.34	0.32	0.24
Book value ⁽²⁾	52.50	47.28	35.63	32.79	30.35
Selected Period End Balance Sheet Data					
Total assets	\$9,849,965	\$8,684,463	\$5,852,801	\$5,055,000	\$4,132,639
Cash and cash equivalents	130,779	431,102	505,027	293,279	324,047
Securities available for sale	685,350	763,002	316,435	273,463	206,062
Loans, held for sale	32,727	39,202	9,795	12,299	4,453
Loans, held for investment, excluding mortgage warehouse purchase	7,717,510	6,309,549	4,572,771	3,989,405	3,201,084
Mortgage warehouse purchase loans	170,290	164,694	—	—	—
Allowance for loan losses	44,802	39,402	31,591	27,043	18,552
Goodwill and core deposit intangible	766,839	664,702	272,496	275,000	241,912
Other real estate owned	4,200	7,126	1,972	2,168	4,763
Noninterest-bearing deposits	2,145,930	1,907,770	1,117,927	1,071,656	818,022

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Interest-bearing deposits	5,591,864	4,725,052	3,459,182	2,956,623	2,431,576	
Borrowings (other than junior subordinated debentures)	427,316	667,578	568,045	371,283	306,147	
Junior subordinated debentures ⁽³⁾	27,852	27,654	18,147	18,147	18,147	
Series A Preferred Stock	—	—	—	23,938	23,938	
Total stockholders' equity	1,606,433	1,336,018	672,365	603,371	540,851	
Selected Performance Metrics						
Return on average assets ⁽⁴⁾	1.35	%0.96	%0.98	%0.88	%0.87	%
Return on average equity ⁽⁴⁾	8.69	6.71	8.42	6.83	6.65	

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	As of and for the Year Ended December 31,				
(dollars in thousands except per share data)	2018	2017	2016	2015	2014
Return on average common equity ⁽⁴⁾	8.66	7.71	8.42	7.13	6.89
Net interest margin ⁽⁵⁾	3.97	3.84	3.81	4.05	4.19
Efficiency ratio ⁽⁶⁾	52.56	53.13	54.99	59.71	63.32
Dividend payout ratio ⁽⁷⁾	12.47	13.42	11.76	14.35	12.90
Credit Quality Ratios					
Nonperforming assets to total assets	0.10	0.26	0.34	0.36	0.36
Nonperforming loans to total loans held for investment ^{(8) (9)}	0.16	0.24	0.39	0.37	0.32
Allowance for loan losses to nonperforming loans ⁽⁸⁾	354.53	453.62	177.06	181.99	183.43
Allowance for loan losses to total loans held for investment ⁽⁹⁾	0.58	0.62	0.69	0.68	0.58
Net charge-offs to average loans outstanding (unaudited)	0.06	0.01	0.12	0.02	0.03
Capital Ratios					
Common equity tier 1 capital to risk-weighted assets ⁽¹⁰⁾	10.05	11.51	8.20	7.94	n/a
Tier 1 capital to average assets	9.58	8.92	7.82	8.28	8.15
Tier 1 capital to risk-weighted assets ⁽¹⁰⁾	10.40	11.05	8.55	8.92	9.83
Total capital to risk-weighted assets ⁽¹⁰⁾	12.58	13.56	11.38	11.14	12.59
Total stockholders' equity to total assets	16.35	15.38	11.49	11.94	13.09
Total common equity to total assets ⁽¹¹⁾	16.35	15.38	11.49	11.94	12.51

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 2014 largely relates to shares issued in three acquisitions completed in 2014, the increase in 2015 relates to shares issued in the acquisition completed in November 2015, the increase in 2016 relates to the weighted effect of the shares issued in November 2015 along with shares issued in a private offering during 2016 and the increase in 2017 relates to (1) shares issued in the acquisition completed in April 2017 along with shares issued in a public offering during 2017. The increase in 2018 relates to the shares issued in the acquisition completed June 1, 2018. 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 were calculated using the following outstanding share amounts, which includes participating shares (those shares with dividend rights):

	For the Year Ended December 31,				
	2018	2017	2016	2015	2014
Weighted average shares outstanding-basic	29,599,119	25,636,292	18,501,663	17,321,513	15,208,544
Weighted average shares outstanding-diluted	29,599,119	25,742,362	18,588,309	17,406,108	15,306,998

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 (2) number of shares of its common stock outstanding as of December 31, 2018, 2017, 2016, 2015 and 2014 was 30,600,582 shares, 28,254,893 shares, 18,870,312 shares, 18,399,194 shares and 17,032,669 shares, respectively. Each of seven 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, (3) 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. During 2017 the Company assumed two trusts with the Carlile acquisition.

- 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 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
- (4) 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.
- (5) Net interest margin for a period represents net interest income for that period divided by average interest-earning assets for that period.
- (6) Efficiency ratio for a period represents noninterest expenses, excluding the amortization of core deposit intangibles, for that period divided by the sum of net interest income and noninterest income for that period. The Company calculates its dividend payout ratio for each period presented as the dividends paid per share for
- (7) such period (excluding cash distributions made to shareholders in connection with tax liabilities as described in note (3) above) divided by its basic earnings per share for such period.
- (8) Nonperforming loans include nonaccrual loans, loans past due 90 days or more and still accruing interest, and accruing loans modified under troubled debt restructurings.
- (9) Loans held for investment excludes mortgage purchase loans
- 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
- (10) 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.
- (11) The Company calculates common equity as of the end of the period as total stockholders' equity less the preferred stock at period end.

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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 (the “Act”) that are subject to risks and uncertainties and are made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended. 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 and the integration thereof, 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,” “is 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:

- our ability to sustain our current internal growth rate and total growth rate;
- changes in geopolitical, business and economic events, occurrences and conditions, including changes in rates of inflation or deflation, nationally, regionally and in our target markets, particularly in Texas and Colorado;
- worsening business and economic conditions nationally, regionally and in our target markets, particularly in Texas and Colorado, and the geographic areas in those states 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 and Colorado;
- changes in asset quality, including increases in default rates and loans and higher levels of nonperforming loans and loan charge-offs;
- concentration of the loan portfolio of Independent Bank, before and after the completion of acquisitions of financial institutions, in commercial and residential real estate loans and changes in the prices, values and sales volumes of commercial and residential real estate, values and sales volumes of commercial and residential real estate;
-

the ability of Independent Bank to make loans with acceptable net interest margins and levels of risk of repayment and to otherwise invest in assets at acceptable yields and presenting acceptable investment risks;

- inaccuracy of the assumptions and estimates that the managements of our Company and the financial institutions that we acquire make in establishing reserves for probable loan losses and other estimates;
- lack of liquidity, including as a result of a reduction in the amount of sources of liquidity we currently have;
- material increases or decreases in the amount of deposits held by Independent Bank or other financial institutions that we acquire and the cost of those deposits;
- our access to the debt and equity markets and the overall cost of funding our operations;
- regulatory requirements to maintain minimum capital levels or maintenance of capital at levels sufficient to support our anticipated growth;

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changes in market interest rates that affect the pricing of the loans and deposits of each of Independent Bank and the financial institutions that we acquire and the net interest income of each of Independent Bank and the financial institutions that we acquire;

fluctuations in the market value and liquidity of the securities we hold for sale, including as a result of changes in market interest rates;

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 and value of the assets of Independent Bank and of financial institutions that we acquire;

the institution and outcome of, and costs associated with, litigation and other legal proceedings against one of more of us, Independent Bank and financial institutions that we acquire or to which any of such entities is subject;

the occurrence of market conditions adversely 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, or the Dodd-Frank Act, and changes in federal government policies;

changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the SEC and the Public Company Accounting Oversight Board, as the case may be;

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, hurricanes and flooding, that may affect general economic conditions;

our actual cost savings resulting from previous or future acquisitions are less than expected, we are unable to realize those cost savings as soon as expected, or we incur additional or unexpected costs;

our revenues after previous or future acquisitions are less than expected;

the liquidity of, and changes in the amounts and sources of liquidity available to, us, before and after the acquisition of any financial institutions that we acquire;

deposit attrition, operating costs, customer loss and business disruption before and after our completed acquisitions, including, without limitation, difficulties in maintaining relationships with employees, may be greater than we expected;

the effects of the combination of the operations of financial institutions that we have acquired in the recent past or may acquire in the future with our operations and the operations of Independent Bank, the effects of the integration of such operations being unsuccessful, and the effects of such integration being more difficult, time-consuming or costly than expected or not yielding the cost savings that we expect;

the impact of investments that we or Independent Bank may have made or may make and the changes in the value of those investments;

the quality of the assets of financial institutions and companies that we have acquired in the recent past or may acquire in the future being different than we determined or determine in our due diligence investigation in connection with the acquisition of such financial institutions and any inadequacy of loan loss reserves relating to, and exposure to unrecoverable losses on, loans acquired;

our ability to continue to identify acquisition targets and successfully acquire desirable financial institutions to sustain our growth, to expand our presence in our markets and to enter new markets;

general business and economic conditions in our markets change or are less favorable than expected;

changes occur in business conditions and inflation;

an increase in the rate of personal or commercial customers' bankruptcies;

technology-related changes are harder to make or are more expensive than expected;

attacks on the security of, and breaches of, our Independent Bank's digital information systems, the costs we or Independent Bank incur to provide security against such attacks and any costs and liability we or Independent Bank

incurs in connection with any breach of those systems;

the potential impact of technology and "FinTech" entities on the banking industry generally; and

the other factors that are described or referenced 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 such forward-looking statements that we may make. As a result of these and other matters, including changes in facts and assumptions not being realized, the actual results relating to the subject matter of any forward-looking statement may differ 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.

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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, except as required by law.

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 Colorado. 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 retail mortgage 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 and acquisition expenses.

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, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016, and the accompanying notes, appearing elsewhere in this Annual Report on Form 10-K. The Company's year ends on December 31.

Certain Events Affect Year-over-Year Comparability**Acquisitions**

The Company completed an acquisition in 2018 and in 2017. There were no acquisitions completed in 2016. 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
Carlile Bancshares, Inc.	April 1, 2017	\$2,444.2	\$1,384.2	\$1,825.2
Integrity Bancshares, Inc.	June 1, 2018	851.9	651.8	593.1

The Company issued an aggregate 10,876,680 shares of common stock in connection with these acquisitions. In addition, the Company issued 448,500 and 400,000 shares of common stock in 2017 and 2016, respectively, to enhance our capital position. The comparability of the Company's consolidated results of operations for the years ended December 31, 2018, 2017 and 2016 are affected by these acquisitions and stock issuances.

At December 31, 2018, the acquisition of Guaranty Bancorp was pending. This transaction closed on January 1, 2019. For more information on this acquisition, see the Pending Acquisition of Guaranty Bancorp section as discussed in Part I, Item 1. Business.

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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 years ended December 31, 2018, 2017 and 2016.

Results of Operations

The Company's net income available to common shareholders increased by \$51.7 million, or 67.6%, to \$128.3 million (\$4.33 per common share on a diluted basis) for the year ended December 31, 2018, from \$76.5 million (\$2.97 per common share on a diluted basis) for the year ended December 31, 2017. The increase resulted from a \$99.4 million increase in interest income, a \$937 thousand increase in noninterest income and a decrease of \$13.4 million in income tax expense, partially offset by a \$38.6 million increase in interest expense and a \$21.8 million increase in noninterest expense. The Company's net income for the year ended December 31, 2018, and, therefore, the Company's return on average assets and the Company's return on average equity, were positively impacted by the enactment of the Tax Cuts and Jobs Act in late 2017 and adversely affected by \$6.2 million of acquisition-related expenses related to the Carlile, Integrity and Guaranty acquisitions. The Company posted returns on average common equity of 8.69% and 6.71%, returns on average assets of 1.35% and 0.96%, and efficiency ratios of 52.35% and 56.13% for the years ended December 31, 2018 and 2017, respectively. The efficiency ratio is calculated by dividing total noninterest expense (which does not include the provision for loan losses and the amortization of core deposits intangibles) by net interest income plus noninterest income. The Company's dividend payout ratio was 12.47% and 13.42% and the equity to assets ratio was 16.31% and 15.38% for the years ended December 31, 2018 and 2017, respectively.

The Company's net income available to common shareholders increased by \$23.0 million, or 42.9%, to \$76.5 million (\$2.97 per common share on a diluted basis) for the year ended December 31, 2017, from \$53.5 million (\$2.88 per common share on a diluted basis) for the year ended December 31, 2016. The increase resulted from a \$97.9 million increase in interest income and a \$21.7 million increase in noninterest income, partially offset by a \$16.2 million increase in interest expense, a \$63.0 million increase in noninterest expense and an \$18.6 million increase in income tax expense. The Company's net income for the year ended December 31, 2017, and, therefore, the Company's return on average assets and the Company's return on average equity, were adversely affected by \$12.9 million of acquisition-related expenses related to the Carlile acquisition as well as the one-time remeasurement charge of \$5.5 million to deferred taxes as a result of the enactment of the Tax Cuts and Jobs Act in late 2017. The Company posted returns on average common equity of 6.71% and 8.42%, returns on average assets of 0.96% and 0.98%, and efficiency ratios of 56.13% and 54.99% for the years ended December 31, 2017 and 2016, respectively. The efficiency ratio is calculated by dividing total noninterest expense (which does not include the provision for loan losses and the amortization of core deposits intangibles) by net interest income plus noninterest income. The Company's dividend payout ratio was 13.42% and 11.76% and the equity to assets ratio was 15.38% and 11.49% for the years ended December 31, 2017 and 2016, 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 \$326.3 million for the year ended December 31, 2018, an increase of \$60.8 million, or 22.9%, from \$265.5 million for the year ended December 31, 2017. The increase in net interest income from the previous year was primarily due to increased average earning assets resulting from organic growth and the acquisition of Integrity Bancshares, as well as overall higher interest rates due to a rising rate environment. The Company's net interest margin for 2018 increased to 3.97% from 3.84% in 2017, and the Company's interest rate spread for 2018 decreased to 3.59% from the 3.62% interest rate spread for 2017. The average balance of

interest-earning assets for 2018 increased by \$1.3 billion, or 18.7%, to \$8.2 billion from an average balance of \$6.9 billion for 2017. The increase from the prior year was due primarily to organic growth of 8.3% as well as \$718.9 million in earning assets acquired in the Integrity transaction. The Company's net interest margin for the year ended December 31, 2018 was positively impacted by a fifty-one basis point increase in the weighted-average yield on interest-earning assets to 4.96% for the year ended December 31, 2018, from 4.45% for the year ended December 31, 2017. The increase from the prior year is due primarily to higher rates on interest-earning assets due to

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continued increases in the Fed Funds rate during these periods. In addition, there was a shift in the earning asset mix from interest-bearing deposits to higher yielding loans and taxable securities. The cost of interest bearing liabilities, including borrowings, was 1.37% for the year ended December 31, 2018 compared to 0.83% for the year ended December 31, 2017. The increase from the prior year is primarily due to higher rates offered on our deposits, primarily commercial money market accounts and certificates of deposit, resulting both from market competition and general increases in interest rates on deposit products tied to Fed Funds rates. In addition, cost of interest bearing liabilities was adversely impacted by rate increases on short-term FHLB advances and junior subordinated debt.

The Company earned net interest income of \$265.5 million for the year ended December 31, 2017, an increase of \$81.7 million, or 44.4%, from \$183.8 million for the year ended December 31, 2016. The increase in net interest income from the previous year was due to increased average earning asset balances resulting primarily from the acquisition of Carlile, as well as organic growth for the year. The Company's net interest margin for 2017 increased to 3.84% from 3.81% in 2016, and the Company's interest rate spread for 2017 decreased to 3.62% from the 3.66% interest rate spread for 2016. The average balance of interest-earning assets for 2017 increased by \$2.1 billion, or 43.6%, to \$6.9 billion from an average balance of \$4.8 billion for 2016. The increase from prior year is due primarily to \$1.8 billion in average earning assets acquired in the Carlile transaction as well as organic growth of 12.2% for the year. The Company's net interest margin for the year ended December 31, 2017 was positively impacted by a nine basis point increase in the weighted-average yield on interest-earning assets to 4.45% for the year ended December 31, 2017, from 4.36% for the year ended December 31, 2016. The increase from the prior year is due primarily to loans and taxable securities acquired in the Carlile transaction, which had higher effective interest rates as well as higher loan accretion income and higher interest rates on interest-bearing deposits that are tied to the Fed Funds rate, which increased three times during 2017. The cost of interest bearing liabilities, including borrowings, was 0.83% for the year ended December 31, 2017 compared to 0.70% for the year ended December 31, 2016. The increase from the prior year is primarily due to higher rates offered on public fund certificates of deposit and money market accounts due to competition in our markets but also due in part to overall increased interest rates on deposit products, as well as short-term FHLB advances used for liquidity, which were both tied to Fed Funds rates.

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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 years ended December 31, 2018, 2017 and 2016. The average balances are principally daily averages and, for loans, include both performing and nonperforming balances.

	For the Years Ended December 31,									
	2018			2017			2016			
	Average Outstanding Balance	Interest	Yield/Rate	Average Outstanding Balance	Interest	Yield/Rate	Average Outstanding Balance	Interest	Yield/Rate	
(dollars in thousands)										
Interest-earning assets:										
Loans ⁽¹⁾	\$7,254,635	\$384,791	5.30 %	\$5,871,990	\$290,357	4.94 %	\$4,234,368	\$203,577	4.81 %	
Taxable securities	603,474	14,007	2.32	481,323	8,229	1.71	221,905	2,681	1.21	%
Nontaxable securities	177,348	4,580	2.58	157,086	3,877	2.47	74,227	1,768	2.38	%
Interest bearing deposits and other	179,411	3,912	2.18	409,976	5,451	1.33	290,316	2,023	0.70	%
Total interest-earning assets	8,214,868	\$407,290	4.96	6,920,375	\$307,914	4.45	4,820,816	\$210,049	4.36	%
Noninterest-earning assets	1,264,066			1,046,046			648,726			
Total assets	\$9,478,934			\$7,966,421			\$5,469,542			
Interest-bearing liabilities:										
Checking accounts	\$2,943,519	\$26,593	0.90 %	\$2,630,477	\$13,305	0.51 %	\$1,761,509	\$7,770	0.44 %	
Savings accounts	290,325	703	0.24	263,381	380	0.14	150,223	260	0.17	
Money market accounts	998,916	19,043	1.91	605,064	6,168	1.02	429,647	1,911	0.44	
Certificates of deposit	1,009,644	14,428	1.43	1,002,753	8,665	0.86	830,964	6,134	0.74	
Total deposits	5,242,404	60,767	1.16	4,501,675	28,518	0.63	3,172,343	16,075	0.51	
FHLB advances	515,479	10,264	1.99	483,923	5,858	1.21	465,010	4,119	0.89	
Other borrowings and repurchase agreements	137,549	8,398	6.11	117,162	6,898	5.89	87,943	5,428	6.17	
Junior subordinated debentures	27,761	1,609	5.80	25,252	1,162	4.60	18,147	621	3.42	
Total interest-bearing liabilities	5,923,193	81,038	1.37	5,128,012	42,436	0.83	3,743,443	26,243	0.70	
Noninterest-bearing checking accounts	2,052,675			1,671,872			1,076,340			
Noninterest-bearing liabilities	26,378			26,964			13,895			

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Stockholders' equity	1,476,688		1,139,573		635,864
Total liabilities and equity	\$9,478,934		\$7,966,421		\$5,469,542
Net interest income	\$326,252		\$265,478		\$183,806
Interest rate spread	3.59	%	3.62	%	3.66
Net interest margin (2)	3.97		3.84		3.81
Net interest income and margin (tax equivalent basis) (3)	\$328,090	3.99	\$268,235	3.88	\$185,429
Average interest earning assets to interest bearing liabilities	138.69		134.95		128.78

(1) Average loan balances include nonaccrual loans.

Net interest margins for the periods presented represent: (i) the difference between interest income on

(2) interest-earning assets and the interest expense on interest-bearing liabilities, divided by (ii) average interest-earning assets for the period.

(3) A tax-equivalent adjustment has been computed using a federal income tax rate of 21%, 35% and 35% for the years ended December 31, 2018, 2017, and 2016, respectively.

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

(dollars in thousands)	For the Year Ended December 31, 2018 vs. 2017			For the Year Ended December 31, 2017 vs. 2016		
	Increase (Decrease) Due to		Total Increase (Decrease)	Increase (Decrease) Due to		Total Increase (Decrease)
	Volume	Rate		Volume	Rate	
Interest-earning assets						
Loans	\$72,165	\$22,269	\$94,434	\$80,823	\$5,957	\$86,780
Taxable securities	2,398	3,380	5,778	4,094	1,454	5,548
Nontaxable securities	517	186	703	2,043	66	2,109
Interest bearing deposits and other	(3,983)	2,444	(1,539)	1,070	2,358	3,428
Total interest-earning assets	\$71,097	\$28,279	\$99,376	\$88,030	\$9,835	\$97,865
Interest-bearing liabilities						
Checking accounts	\$1,747	\$11,541	\$13,288	\$4,266	\$1,269	\$5,535
Savings accounts	42	281	323	169	(49)	120
Limited access money market accounts	5,510	7,365	12,875	1,022	3,235	4,257
Certificates of deposit	60	5,703	5,763	1,387	1,144	2,531
Total deposits	7,359	24,890	32,249	6,844	5,599	12,443
FHLB advances	405	4,001	4,406	174	1,565	1,739
Other borrowings and repurchase agreements	1,237	263	1,500	1,730	(260)	1,470
Junior subordinated debentures	124	323	447	288	253	541
Total interest-bearing liabilities	9,125	29,477	38,602	9,036	7,157	16,193
Net interest income	\$61,972	\$(1,198)	\$60,774	\$78,994	\$2,678	\$81,672

Interest Income. The Company's total interest income increased \$99.4 million, or 32.3%, to \$407.3 million for the year ended December 31, 2018, from \$307.9 million for the year ended December 31, 2017. The Company's total interest income increased \$97.9 million, or 46.6%, to \$307.9 million for the year ended December 31, 2017 from \$210.0 million for the year ended December 31, 2016. The following tables set forth the major components of the Company's interest income for the years ended December 31, 2018, 2017 and 2016 and the period-over-period variations in such categories of interest income:

(dollars in thousands)	For the Year Ended December 31,		Variance		For the Year Ended December 31,		Variance	
	2018	2017	2018 v. 2017		2017	2016	2017 v. 2016	
Interest income								
Interest and fees on loans	\$384,791	\$290,357	\$94,434	32.5 %	\$290,357	\$203,577	\$86,780	42.6 %
Interest on taxable securities	14,007	8,229	5,778	70.2	8,229	2,681	5,548	206.9
Interest on nontaxable securities	4,580	3,877	703	18.1	3,877	1,768	2,109	119.3
Interest on interest-bearing deposits and other	3,912	5,451	(1,539)	(28.2)	5,451	2,023	3,428	169.5

Total interest income	\$407,290	\$307,914	\$99,376	32.3	%	\$307,914	\$210,049	\$97,865	46.6	%
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The Company's interest and fees on loans increased 32.5% for the year ended December 31, 2018, compared to the year ended December 31, 2017, and was primarily attributable to a \$1.4 billion increase in the average balance of the Company's loans to \$7.3 billion during the year ended 2018 as compared with the average balance of \$5.9 billion for the year ended 2017. The increase primarily resulted from strong organic growth in the Company's loan portfolio of 12.0% for the year over year period as well as the \$651.8 million loans held for investment that were acquired in the Integrity acquisition.

The 42.6% increase in the Company's interest and fees on loans for the year ended December 31, 2017, from the year ended December 31, 2016 was primarily attributable to a \$1.6 billion increase in the average balance of the Company's loans to \$5.9 billion during the year ended 2017 as compared with the average balance of \$4.2 billion for the year ended 2016. The increase

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primarily resulted from \$1.4 billion loans held for investment that were acquired in the Carlile acquisition and strong organic growth in the Company's loan portfolio of 12.2% for the year.

The interest the Company earned on taxable securities, which consists primarily of government agency and residential pass-through securities, increased 70.2% for the year ended December 31, 2018 from the year ended December 31, 2017 as a result of an increase in the average portfolio balance from \$481.3 million for the year ended December 31, 2017 to \$603.5 million for the year ended December 31, 2018. This increase was primarily attributable to a shift in earnings assets from interest-bearing deposits to taxable securities in addition to taxable securities acquired through the Integrity acquisition. The interest the Company earned on taxable securities increased 206.9% for the year ended December 31, 2017 as a result of an increase in the average portfolio balance from \$221.9 million for the year ended December 31, 2016 to \$481.3 million for the year ended December 31, 2017. This increase was primarily attributable to the taxable securities acquired through the Carlile acquisition which had higher effective interest rates.

The interest the Company earned on nontaxable securities increased 18.1% for the year ended December 31, 2018 as a result of a 12.90% increase in the average balance of nontaxable securities from \$157.1 million for the year ended December 31, 2017 to \$177.3 million for the year ended December 31, 2018, primarily related to additions as well as a shift in the portfolio to higher earning nontaxable securities for the year over year period. The interest the Company earned on nontaxable securities increased 119.3% for the year ended December 31, 2017 as a result of an 111.6% increase in the average balance of nontaxable securities from \$74.2 million for the year ended December 31, 2016 to \$157.1 million for the year ended December 31, 2017, primarily related to the nontaxable securities acquired in the Carlile acquisition.

The 28.2% decrease in the Company's interest on interest-bearing deposits and other for the year ended December 31, 2018, from the year ended December 31, 2017 was primarily attributable to a 56.2% decrease in the average balance from \$410.0 million for the year ended December 31, 2017 to \$179.4 million for the year ended December 31, 2018. The decrease was primarily a result of a shift in earning assets from interest-bearing deposits to higher yielding loans and taxable securities. The 169.5% increase in the Company's interest on interest-bearing deposits and other for the year ended December 31, 2017, from the year ended December 31, 2016 was primarily attributable to a 41.2% increase in the average balance from \$290.3 million for the year ended December 31, 2016 to \$410.0 million for the year ended December 31, 2017. The increase was primarily a result of balances acquired in the Carlile acquisition as well as higher interest rates on interest-bearing deposits which are tied to the Fed Funds rate.

Interest Expense. Total interest expense on the Company's interest-bearing liabilities increased \$38.6 million, or 91.0%, to \$81.0 million for the year ended December 31, 2018, from \$42.4 million in the prior year. Total interest expense on the Company's interest-bearing liabilities increased \$16.2 million, or 61.7%, to \$42.4 million for 2017 from \$26.2 million for 2016. The following table sets forth the major components of the Company's interest expense for the years ended December 31, 2018, 2017 and 2016 and the period-over-period variations in such categories of interest expense:

(dollars in thousands)	For the Year				For the Year			
	Ended December 31,		Variance		Ended December 31,		Variance	
	2018	2017	2018 v. 2017		2017	2016	2017 v. 2016	
Interest Expense								
Interest on deposits	\$60,767	\$28,518	\$32,249	113.1%	\$28,518	\$16,075	\$12,443	77.4%
Interest of FHLB advances	10,264	5,858	4,406	75.2	5,858	4,119	1,739	42.2
Interest on other borrowings and repurchase agreements	8,398	6,898	1,500	21.7	6,898	5,428	1,470	27.1
Interest on junior subordinated debentures	1,609	1,162	447	38.5	1,162	621	541	87.1
Total interest expense	\$81,038	\$42,436	\$38,602	91.0%	\$42,436	\$26,243	\$16,193	61.7%

Interest expense on deposits for 2018 increased by \$32.2 million, or 113.1%, primarily as a result of the rising rate environment in addition to a 16.5% year-over-year increase in the average balance on the Company's interest-bearing

deposit accounts from \$4.5 billion in 2017 to \$5.2 billion in 2018 resulting from \$593.1 million of interest-bearing deposits acquired in the Integrity acquisition as well as organic growth. The average rate on the Company's deposits increased by 53 basis points to 1.16% on average interest-bearing deposits for the year ended 2018, from 0.63% on average interest-bearing deposits for the year ended 2017. This increase in cost of funds for this source of funding primarily resulted from higher rates offered on commercial money market accounts and certificates of deposit due to competition in our markets but also due in part to increased interest rates on deposit products tied to Fed Funds rates. In addition, rate increases on short-term FHLB advances and junior subordinated debt impacted interest expense.

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Interest expense on deposits for 2017 increased by \$12.4 million, or 77.4%, primarily as a result of a 41.9% year-over-year increase in the average balance on the Company's interest-bearing deposit accounts from \$3.2 billion in 2016 to \$4.5 billion in 2017 resulting from \$1.2 billion of interest-bearing deposits acquired in the Carlile acquisition as well as organic growth. The average rate on the Company's deposits increased by 12 basis points to 0.63% on average interest-bearing deposits for the year ended 2017, from 0.51% on average interest-bearing deposits for the year ended 2016. This increase in cost of funds for this source of funding primarily resulted from higher rates offered on public fund certificates of deposit and money market accounts due to competition in our markets but also due in part to increased interest rates on deposit products tied to Fed Funds rates and short-term FHLB advances.

Interest expense on FHLB advances for 2018 increased by \$4.4 million, or 75.2%, due primarily to a higher average balance of such advances over the period, from \$483.9 million in 2017 to \$515.5 million in 2018, resulting from the use of short-term FHLB advances for liquidity needs during the applicable period as well as rate increases on short-term FHLB advances.

Interest expense on FHLB advances for 2017 increased by \$1.7 million, or 42.2%, due primarily to a higher average balance of such advances over the period, from \$465.0 million in 2016 to \$483.9 million in 2017, resulting from the use of short term FHLB advances for liquidity needs during the applicable period.

Interest expense on other borrowings and repurchase agreements for the year ended December 31, 2018 increased by \$1.5 million, or 21.7% from the year ended December 31, 2017, primarily as a result of a full year's interest expense recognized on \$30 million subordinated debentures issued during fourth quarter 2017. The average balance of the Company's other borrowings increased by \$20.4 million primarily as a result a full year of the Company's issuance of the above mentioned subordinated debentures.

Interest expense on other borrowings and repurchase agreements for the year ended December 31, 2017 increased by \$1.5 million, or 27.1% from the year ended December 31, 2016, primarily as a result of a full year's interest expense recognized on \$45 million subordinated debt issued in 2016 in addition to a higher average balance of such borrowings. The average balance of the Company's other borrowings increased by \$29.2 million primarily as a result of the Company's issuance of \$30 million in 5.0% fixed and floating rate subordinated debentures in a public offering during fourth quarter 2017 to provide additional capital to the Bank to support growth.

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 \$44.8 million at December 31, 2018, by making provisions for loan losses totaling \$9.9 million during the year ended December 31, 2018. This is an increase of \$1.6 million, or 19.3% in provision expense compared to total provision expense of \$8.3 million made by the Company in 2017.

Provision expense is primarily reflective of organic loan growth and net charge-offs during the year. The increase from prior year is primarily due to additional general reserves for organic loan growth. Offsetting the increase to the allowance balance were net charge-offs totaling \$4.5 million for 2018, which is 0.06% of the Company's average loans outstanding during the period. The 2018 charge-offs were primarily related to partial charge-offs of an energy loan relationship and a commercial credit.

The Company increased its allowance for loan losses to \$39.4 million at December 31, 2017, by making provisions for loan losses totaling \$8.3 million during the year ended December 31, 2017. This is a decrease of \$1.2 million, or 12.4% in provision expense compared to total provision expense of \$9.4 million made by the Company in 2016.

Provision expense is primarily reflective of organic loan growth and net charge-offs during the year. The decrease from prior year primarily reflects the improved credit quality of our energy portfolio. Offsetting the increase to the

allowance balance were net charge-offs totaling \$454 thousand for 2017, which is 0.01% of the Company's average loans outstanding during the period.

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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 Integrity acquisition completed on June 1, 2018 because, in accordance with acquisition accounting standards, the Company recorded the loans acquired in the acquisition at fair value without a reserve 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 the acquisition and has not recorded a subsequent provision. The Company will begin phasing the acquired portfolio into the allowance allocation as acquired loans are renewed in 2019. As of December 31, 2018, the discount on acquired loans totaled \$25.2 million.

Noninterest Income

The following table sets forth the major components of noninterest income for the years ended December 31, 2018, 2017 and 2016 and the period-over-period variations in such categories of noninterest income:

(dollars in thousands)	For the Year Ended		Variance		For the Year Ended		Variance	
	December 31,	December 31,	2018 v. 2017		December 31,		2017 v. 2016	
	2018	2017			2017	2016		
Noninterest income:								
Service charges on deposit accounts	\$14,224	\$12,955	\$1,269	9.8 %	\$12,955	\$7,222	\$5,733	79.4 %
Mortgage banking revenue	15,512	13,755	1,757	12.8	13,755	7,038	6,717	95.4
Gain on sale of loans	—	351	(351)	(100.0)	351	—	351	100.0
Gain (loss) on sale of branches	—	2,917	(2,917)	(100.0)	2,917	(43)	2,960	N/M
Gain (loss) on sale of other real estate	269	(160)	429	N/M	(160)	57	(217)	N/M
Gain on sale of repossessed assets	—	1,010	(1,010)	(100.0)	1,010	—	1,010	100.0
(Loss) gain on sale of securities available for sale	(581)	124	(705)	N/M	124	4	120	N/M
Gain (loss) on sale of premises and equipment	123	(21)	144	N/M	(21)	32	(53)	N/M
Increase in cash surrender value of BOLI	3,170	2,748	422	15.4	2,748	1,348	1,400	103.9
Other	9,507	7,608	1,899	25.0	7,608	3,897	3,711	95.2
Total noninterest income	\$42,224	\$41,287	\$937	2.3 %	\$41,287	\$19,555	\$21,732	111.1 %

N/M - not meaningful

Noninterest income increased \$937 thousand, or 2.3%, to \$42.2 million for the year ended 2018 from \$41.3 million for the year ended 2017. Total noninterest income increased \$21.7 million, or 111.1%, for the year ended December 31, 2017, compared to the year ended December 31, 2016. Significant changes in the components of noninterest income are discussed below.

Service Charges. Service charges on deposit accounts increased \$1.3 million, or 9.8%, for the year ended December 31, 2018, as compared to the same period in 2017. The increase in service charges reflects an increase in deposit accounts due to organic growth and to the acquisition of Integrity in June 2018 as well as a full year of service charges on the deposits acquired in the 2017 Carlile acquisition. Service charges on deposit accounts increased \$5.7 million, or 79.4%, for the year ended December 31, 2017, as compared to the same period in 2016. The increase in service charges reflects an increase in deposit accounts due to organic growth and to the acquisition of Carlile in April 2017. In addition, the Company implemented a new deposit fee schedule in late 2016 which increased organic service charges for the year over year period.

Mortgage Banking Revenue. Mortgage banking revenue for the year ended December 31, 2018 increased \$1.8 million, or 12.8%, over the same period in 2017. This increase is primarily reflective of the mortgage hedging strategy initiated in July 2018. Mortgage banking revenue for the year ended December 31, 2017 increased \$6.7 million, or

95.4%, over the same period in 2016. This increase is primarily reflective of the retail mortgage line of business acquired with the Carlile acquisition.

Gain (Loss) on Sale of Branches. The net gain in 2017 relates to the sale of one Texas branch and nine Colorado branches to two unaffiliated institutions during third and fourth quarter of 2017 as a result of integrating and restructuring the Northstar branch system acquired in the Carlile acquisition.

Gain on Sale of Repossessed Assets. The gain in 2017 was the result of a sale of a previously charged off repossessed asset acquired in the Carlile acquisition.

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Increase in Cash Surrender Value of Bank Owned Life Insurance. The cash surrender value of bank owned life insurance increased \$422 thousand, or 15.4% from \$2.7 million in 2017 to \$3.2 million in 2018. The increase is a result of \$8.2 million in policies acquired in the Integrity transaction as well as a full year of income on policies from the 2017 Carlile acquisition. The cash surrender value of bank owned life insurance increased \$1.4 million, or 103.9% from \$1.3 million in 2016 to \$2.7 million in 2017. The increase is a result of \$53.2 million in policies acquired in the Carlile transaction.

Other Noninterest Income. Other noninterest income increased \$1.9 million, or 25.0%, for the year ended December 31, 2018 compared to the same period in 2017. The increase is primarily related to increases in earnings credits on correspondent accounts and mortgage warehouse purchase loans. Other noninterest income increased \$3.7 million, or 95.2%, for the year ended December 31, 2017 compared to the same period in 2016. The increase is primarily related to acquired loan recoveries as well as income related to the mortgage warehouse purchase loans line of business acquired with Carlile acquisition, in addition to increased merchant card income and earnings credits on correspondent accounts.

Noninterest Expense

Noninterest expense increased \$21.8 million, or 12.3%, to \$198.6 million for the year ended 2018 from \$176.8 million for the year ended 2017. The increase from 2017 to 2018 is primarily due to increases in salaries and benefits expenses, occupancy, data processing expenses and other noninterest expenses. The increases primarily reflect increased expenses related to the Integrity acquisition completed on June 1, 2018, a full year of expenses related to the Carlile acquisition completed on April 1, 2017 as well as organic growth within the Company.

Noninterest expense increased \$63.0 million, or 55.4%, to \$176.8 million for the year ended 2017 from \$113.8 million for the year ended 2016. The increase from 2016 to 2017 is primarily due to increases in salaries and benefits expenses, occupancy, data processing expenses, other real estate, acquisition expenses and other noninterest expenses. The increases primarily reflect increased expenses related to the Carlile acquisition completed on April 1, 2017 and also due to organic growth within the Company.

The following table sets forth the major components of the Company's noninterest expense for the years ended December 31, 2018, 2017 and 2016, and the period-over-period variations in such categories of noninterest expense:

(dollars in thousands)	For the Year Ended		Variance		For the Year Ended		Variance	
	December 31,	December 31,	2018 v. 2017		2017	2016	2017 v. 2016	
Noninterest expense:								
Salaries and employee benefits	\$111,697	\$95,741	\$15,956	16.7 %	\$95,741	\$66,762	\$28,979	43.4 %
Occupancy	24,786	22,079	2,707	12.3	22,079	16,101	5,978	37.1
Data processing	10,754	8,597	2,157	25.1	8,597	4,752	3,845	80.9
FDIC assessment	3,306	4,311	(1,005)	(23.3)	4,311	3,889	422	10.9
Advertising and public relations	1,907	1,452	455	31.3	1,452	1,107	345	31.2
Communications	3,353	2,860	493	17.2	2,860	2,116	744	35.2
Other real estate owned expenses, net	318	304	14	4.6	304	205	99	48.3
Impairment of other real estate	85	1,412	(1,327)	(94.0)	1,412	106	1,306	N/M
Core deposit intangible amortization	5,739	4,639	1,100	23.7	4,639	1,964	2,675	136.2
Professional fees	4,556	4,564	(8)	(0.2)	4,564	3,212	1,352	42.1
Acquisition expense, including legal	6,157	12,898	(6,741)	(52.3)	12,898	1,517	11,381	750.2
Other	25,961	17,956	8,005	44.6	17,956	12,059	5,897	48.9
Total noninterest expense	\$198,619	\$176,813	\$21,806	12.3 %	\$176,813	\$113,790	\$63,023	55.4 %

N/M - not meaningful

Salaries and Employee Benefits. Salaries and employee benefits expense, which historically has been the largest component of the Company's noninterest expense, increased \$16.0 million, or 16.7%, for the year ended December 31,

2018, compared to the year ended December 31, 2017. The increase is primarily due to an increase in the number of the Company's full-time equivalent employees from 924 to 1087, which resulted from both organic growth within the Company during the year as well as the acquisition of Integrity. The increase is also a result of a full year of expense in 2018 compared to nine months in 2017 related to the Carlisle acquisition in addition to severance and retention bonuses paid to Integrity employees during the year and increased 401K matching contributions resulting from a modification to the Company's plan.

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Salaries and employee benefits expense, increased \$29.0 million, or 43.4%, for the year ended December 31, 2017, compared to the year ended December 31, 2016. The increase is primarily due to an increase in the number of the Company's full-time equivalent employees both resulting from the acquisition of Carlile and organic growth within the Company. The increase is also due to severance and retention bonuses paid to Carlile/Northstar employees during the year. In addition, commissions paid to our mortgage lenders increased related to increased activity in our retail mortgage line of business, also primarily as a result of the Carlile acquisition.

Occupancy Expense. Occupancy expense increased \$2.7 million, or 12.3%, for the year ended December 31, 2018, compared to the year ended December 31, 2017. The increase is primarily reflective of a full year of expense in 2018 related to the additional Carlile branches compared to nine months of expense in 2017 as well as additional branches added with the Integrity transaction.

Occupancy expense increased \$6.0 million, or 37.1%, for the year ended December 31, 2017, compared to the year ended December 31, 2016. The increase is reflective of additional branches acquired in the Carlile transaction.

Data Processing. Data processing fees increased \$2.2 million, or 25.1%, for the year ended December 31, 2018, compared to the same period in 2017. The increase over the same prior period is reflective of increased costs due to the additional accounts, employees and locations added related to the Integrity acquisition during 2018 as well as a full year of cost related to Carlile in 2018 compared to nine months in 2017. Data processing fees increased \$3.8 million, or 80.9%, for the year ended December 31, 2017, compared to the same period in 2016. The increase over the same prior period is reflective of increased costs directly related to the Carlile transaction due to the additional accounts, employees and locations added, but also due to maintaining two core systems from close until the conversion was completed in early fourth quarter 2017.

FDIC Assessment. FDIC assessment expense decreased \$1.0 million, or 23.3%, for the year ended December 31, 2018, compared to the same period in 2017. The decrease is due to the improvement of certain Bank capital ratios used in the assessment calculation over the same period prior year. FDIC assessment expense increased \$422 thousand, or 10.9%, for the year ended December 31, 2017, compared to the same period in 2016. The increase is due to a higher assessment associated with an increase in deposit accounts, both due to organic growth and growth through acquisition.

Impairment of Other Real Estate. Impairment of other real estate decreased \$1.3 million for the year ended December 31, 2018 compared to the same period 2017 and increased \$1.3 million for the year ended December 31, 2017 compared to the same period in 2016. These year over year changes primarily relate to an impairment of a Houston branch location, which was closed in the third quarter of 2017 and transferred from bank premises to other real estate owned.

Core Deposit Intangible Amortization. Core deposit intangible amortization increased \$1.1 million, or 23.7%, for the year ended December 31, 2018 compared to the same period in 2017. The increase is due to the increase of \$7.5 million in core deposit intangibles recorded in connection with the Integrity transaction as well as a full year of expense related to the \$36.7 million increase in core deposit intangibles related to the Carlile acquisition compared to nine months in 2017. Core deposit intangible amortization increased \$2.7 million, or 136.2%, for the year ended December 31, 2017 compared to the same period in 2016. The increase is due to the increase of \$36.7 million in core deposit intangibles recorded in connection with the Carlile transaction.

Professional Fees. Professional fees remained consistent for the year ended December 31, 2018 compared to the same period in 2017. Professional fees increased \$1.4 million, or 42.1%, for the year ended December 31, 2017 compared to the same period in 2016. The increase is mainly due to increased consulting fees related to data processing projects and mortgage banking disclosure agreements in addition to legal fees associated with existing litigation inherited in the Carlile transactions as well as increased legal fees related to workouts on acquired Carlile loans, other real estate property and repossessed assets.

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 and contract termination costs. Total acquisition expenses for the year ended December 31, 2018, decreased \$6.7 million,

or 52.3% over the same period in 2017. Total acquisition expenses for the year ended December 31, 2017, increased \$11.4 million, or 750.2% over the same period in 2016. The change in the respective period is directly related to the acquisition activity in those periods. The Company incurred expenses related to the completed acquisitions of Integrity and Carlile which were completed in June 2018 and April 2017, respectively.

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Other. Other noninterest expense for the year ended December 31, 2018 increased by \$8.0 million, or 44.6%, compared to the same period in 2017. Other noninterest expense for the year ended December 31, 2017 increased by \$5.9 million, or 48.9%, compared to the same period in 2016. 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 June 2018 and April 2017.

Income Tax Expense

Income tax expense was \$31.7 million for the year ended December 31, 2018, which is an effective tax rate of 19.8%. Income tax expense was \$45.2 million for the year ended December 31, 2017, which is an effective tax rate of 37.1%. Income tax expense was \$26.6 million for the year ended December 31, 2016, which is an effective tax rate of 33.2%. The effective income tax rates differed from the U.S. statutory federal income tax rate of 21% in 2018 and 35% in 2017 and 2016 primarily due to the effect of tax-exempt income from loans, securities and life insurance policies and discrete items including the income tax effects associated with stock-based compensation, non-deductible acquisition expenses and changes in enacted tax rates.

The effective tax rate for 2018 was impacted by the decrease in the U.S. statutory federal income tax rate under the Tax Cuts and Jobs Act enacted on December 22, 2017.

The effective tax rate for 2017 was also impacted by the Tax Cuts and Jobs Act. Under ASC 740, Income Taxes, the effect of income tax law changes on deferred taxes are recognized as a component of income tax expense related to continuing operations in the period in which the law is enacted. As a result, the Company recognized additional tax expense of \$5.5 million related to the remeasurement of deferred taxes based on the new income tax rate.

No valuation allowance for deferred tax assets was recorded at December 31, 2018, 2017 and 2016, as management believes it is more likely than not that all of the deferred tax assets will be realized.

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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, 2018 and 2017. This information should be read in conjunction with the Company's consolidated financial statements as of and for the years ended December 31, 2018 and December 31, 2017 appearing elsewhere in this Annual Report on Form 10-K.

	Quarter Ended 2018			
	December 31	September 30	June 30	March 31
(dollars in thousands, except per share data)	(unaudited)			
Interest income	\$ 112,805	\$ 109,289	\$ 97,082	\$ 88,114
Interest expense	25,697	23,021	18,173	14,147
Net interest income	87,108	86,268	78,909	73,967
Provision for loan losses	2,910	1,525	2,730	2,695
Net interest income after provision for loan losses	84,198	84,743	76,179	71,272
Noninterest income	9,887	12,749	10,133	9,455
Noninterest expense	51,848	52,655	49,158	44,958
Income before income taxes	42,237	44,837	37,154	35,769
Provision for income taxes	8,273	9,141	7,519	6,805
Net income	\$ 33,964	\$ 35,696	\$ 29,635	\$ 28,964
Comprehensive income	\$ 39,879	\$ 31,633	\$ 28,644	\$ 20,518
Basic earnings per share	\$ 1.11	\$ 1.17	\$ 1.02	\$ 1.02
Diluted earnings per share	1.11	1.17	1.02	1.02
	Quarter Ended 2017			
	December 31	September 30	June 30	March 31
(dollars in thousands, except per share data)	(unaudited)			
Interest income	\$ 87,420	\$ 84,672	\$ 79,883	\$ 55,939
Interest expense	12,166	11,815	10,383	8,072
Net interest income	75,254	72,857	69,500	47,867
Provision for loan losses	1,897	1,873	2,472	2,023
Net interest income after provision for loan losses	73,357	70,984	67,028	45,844
Noninterest income	13,579	12,130	10,995	4,583
Noninterest expense	49,553	47,904	51,328	28,028
Income before income taxes	37,383	35,210	26,695	22,399
Provision for income taxes	18,190	11,696	8,561	6,728
Net income	\$ 19,193	\$ 23,514	\$ 18,134	\$ 15,671
Comprehensive income	\$ 15,228	\$ 23,372	\$ 21,554	\$ 16,971
Basic earnings per share	\$ 0.69	\$ 0.85	\$ 0.65	\$ 0.83
Diluted earnings per share	0.68	0.84	0.65	0.82

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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, 2018 and 2017 and certain changes in that financial condition from December 31, 2017 to December 31, 2018, and from December 31, 2016 to December 31, 2017.

Assets

The Company's total assets increased by \$1.2 billion, or 13.4%, to \$9.8 billion as of December 31, 2018 from \$8.7 billion at December 31, 2017 due to the Integrity acquisition and organic growth during the period. The Company's total assets increased by \$2.8 billion, or 48.4%, to \$8.7 billion as of December 31, 2017 from \$5.9 billion at December 31, 2016 due to the Carlile acquisition and organic growth during the period.

Loan Portfolio

The Company's loan portfolio is the largest category of the Company's earning assets. The following table presents the balance and associated percentage of each major category in the Company's loan portfolio as of December 31, 2018, 2017, 2016, 2015 and 2014:

	2018		2017		2016		2015		2014	
(dollars in thousands)	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Commercial	\$ 1,361,104	17.2 %	\$ 1,059,984	16.3 %	\$ 630,805	13.7 %	\$ 731,818	18.3 %	\$ 672,052	21.0 %
Real estate:										
Commercial	4,141,356	52.3	3,369,892	51.7	2,459,221	53.7	1,949,734	48.7	1,450,434	45.2
Commercial construction, land and land development	905,421	11.4	744,868	11.5	531,481	11.6	419,611	10.5	334,964	10.5
Residential ⁽¹⁾ Single family interim construction	1,082,248	13.7	931,495	14.3	644,340	14.1	620,289	15.5	518,478	16.2
Agricultural	66,638	0.8	82,583	1.3	53,548	1.2	50,178	1.3	38,822	1.2
Consumer	31,759	0.4	34,639	0.5	27,530	0.6	41,966	1.0	52,267	1.6
Other	253	—	304	—	166	—	124	—	242	—
	7,920,527	100.0 %	6,513,445	100.0 %	4,582,566	100.0 %	4,001,704	100.0 %	3,205,537	100.0 %
Deferred loan fees	(3,303)		(2,568)		(2,117)		(1,553)		(487)	
Allowance for loan losses	(44,802)		(39,402)		(31,591)		(27,043)		(18,552)	
Total loans, net	\$ 7,872,422		\$ 6,471,475		\$ 4,548,858		\$ 3,973,108		\$ 3,186,498	

⁽¹⁾ Includes mortgage loans held for sale as of December 31, 2018, 2017, 2016, 2015 and 2014 of \$32.7 million, \$39.2 million, \$9.8 million, \$12.3 million and \$4.5 million, respectively.

As of December 31, 2018, the Company's loan portfolio, net of the allowance for loan losses and deferred fees, totaled \$7.9 billion, which is an increase of 21.6% over total net loans at December 31, 2017 and for which increase was due to \$651.8 million acquired in the Integrity acquisition and the remaining was organic loan growth during the year. As of December 31, 2017, the Company's loan portfolio, net of the allowance for loan losses and deferred fees, totaled \$6.5 billion, which is an increase of 42.3% over total net loans at December 31, 2016 and for which increase was due to the Carlile acquisition and organic loan growth during the year.

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. In addition, with the acquisition of Carlile, the Company acquired a mortgage warehouse purchase program which provides a mortgage warehouse lending vehicle to third party mortgage bankers across a broad geographic scale. The mortgage loans are underwritten, in part, on approved investor takeout

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commitments. These loans are reported as commercial loans since the loans are secured by notes receivable, not real estate. The mortgage warehouse purchase loans outstanding totaled \$170.3 million, as of December 31, 2018 and \$164.7 million, as of December 31, 2017.

The Company's commercial loan portfolio increased \$301.1 million, or 28.4%, to \$1.4 billion as of December 31, 2018, from \$1.1 billion as of December 31, 2017 and from \$630.8 million at December 31, 2016. The increase in this portfolio type for the current year is primarily due to organic loan growth as well as loans acquired in the Integrity acquisition. The increase in commercial loans from 2016 to 2017 was primarily due to the loans acquired in the Carlile acquisition.

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 33%, 34% and 35% of the Company's commercial real estate loans as of December 31, 2018, 2017, and 2016, 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 \$771.5 million, or 22.9%, to \$4.1 billion as of December 31, 2018 from \$3.4 billion as of December 31, 2017. The increase was due to the loans added in the Integrity acquisition as well as organic loan growth in this loan type during the year. Commercial real estate loans increased \$910.7 million, or 37.0%, to \$3.4 billion as of December 31, 2017 from \$2.5 billion as of December 31, 2016. The increase was due to the loans added in the Carlile acquisition as well as organic loan growth in this loan type during the year.

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 \$160.6 million, or 21.6% to \$905.4 million at December 31, 2018 from \$744.9 million at December 31, 2017, due to the addition of the loans acquired through Integrity and through organic loan growth in this type of loan. The Company's loans in this segment increased \$213.4 million, or 40.1% to \$744.9 million at December 31, 2017 from \$531.5 million at December 31, 2016, due to the addition of the loans acquired through Carlile and through organic loan growth in this type of loan.

Residential Real Estate Loans. The Company's residential real estate loans, excluding mortgage loans held for sale, 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 \$150.8 million, or 16.2%, to a balance of \$1.1 billion as of December 31, 2018 from \$931.5 million as of December 31, 2017. The increase in this category was due to both organic loan growth and loans acquired in the Integrity transaction. This portfolio grew by \$287.2 million, or 44.6%, to a balance of \$931.5 million as of December 31, 2017 from \$644.3 million as of December 31, 2016. The increase in this category was due to both organic loan growth and loans acquired in the Carlile transaction.

Single-Family Interim Construction Loans. The Company makes single-family interim construction loans to home builders and individuals to fund the construction of single-family residences with the understanding that such loans will be repaid from the proceeds of the sale of the homes by builders or, in the case of individuals building their own homes, with the proceeds of a permanent mortgage loan. Such loans are secured by the real property being built and are made based on the Company's

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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 \$42.1 million, or 14.5%, to \$331.7 million as of December 31, 2018 from the balance of \$289.7 million as of December 31, 2017. The increase during the year was due to both organic growth and loans acquired in the Integrity transaction. Single family interim construction loans increased by \$54.2 million, or 23.0%, to \$289.7 million as of December 31, 2017 from the balance of \$235.5 million as of December 31, 2016. The increase during the year was due to continuing new home activity as a result of continued low mortgage rates and through the loans acquired in the Carlile transaction.

Other Categories of Loans. Other categories of loans included in the Company's loan portfolio include agricultural loans made to farmers and ranchers relating to their operations, consumer loans made to individuals for personal purposes, including automobile purchase loans and personal loans. None of these categories of loans represents more than 2% of the Company's total loan portfolio as of December 31, 2018, 2017, and 2016 and such categories continue to be a very small percentage of the Company's total loan portfolio.

The following table sets forth the contractual maturities, including scheduled principal repayments, of the Company's loan portfolio (which includes balloon notes) and the distribution between fixed and adjustable interest rate loans as of December 31, 2018:

As of December 31, 2018 (dollars in thousands)	Within One Year		One Year to Five Years		After Five Years		Total	
	Fixed Rate	Adjustable Rate	Fixed Rate	Adjustable Rate	Fixed Rate	Adjustable Rate	Fixed Rate	Adjustable Rate
Commercial	\$266,407	\$355,630	\$256,301	\$369,235	\$24,321	\$89,210	\$547,029	\$814,075
Real estate:								
Commercial real estate	241,992	100,548	1,690,168	513,855	196,713	1,398,080	2,128,873	2,012,483
Commercial construction, land and land development	83,338	125,415	265,372	239,647	23,056	168,593	371,766	533,655
Residential real estate	80,234	25,436	404,136	36,015	298,564	237,863	782,934	299,314
Single family interim construction	92,079	160,554	16,014	11,306	41,803	9,992	149,896	181,852
Agricultural	14,296	6,093	22,087	5,642	4,174	14,346	40,557	26,081
Consumer	10,674	3,606	15,985	688	706	100	27,365	4,394
Other	253	—	—	—	—	—	253	—
Total loans	\$789,273	\$777,282	\$2,670,063	\$1,176,388	\$589,337	\$1,918,184	\$4,048,673	\$3,871,854

Asset Quality

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

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

restructurings, that are placed on nonaccrual status or charged off is reversed against interest income. Cash collections on nonaccrual loans are generally credited to the loan receivable balance, and no interest income is recognized on those loans until the principal balance has been collected. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. The Company did not make any changes in the Company's nonaccrual policy during the years of 2018, 2017 or 2016.

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Placing a loan on nonaccrual status has a two-fold impact on net interest earnings. First, it may cause a charge against earnings for the interest which had been accrued in the current year but not yet collected on the loan. Second, it eliminates future interest income with respect to that particular loan from the Company's revenues. Interest on such loans is not recognized until the entire principal is collected or until the loan is returned to performing status.

Real estate the Company has acquired as a result of foreclosure or by deed-in-lieu of foreclosure is classified as other real estate owned until sold. The Company's policy is to initially record other real estate owned at fair value less estimated costs to sell at the date of foreclosure. After foreclosure, other real estate is carried at the lower of the initial carrying amount (fair value less estimated costs to sell or lease), or at the value determined by subsequent appraisals or internal valuations of the other real estate.

The Company obtains appraisals of real property that secure loans and may update such appraisals of real property securing loans categorized as nonperforming loans and potential problem loans, in each case as required by regulatory guidelines. In instances where updated appraisals reflect reduced collateral values, an evaluation of the borrower's overall financial condition is made to determine the need, if any, for possible write-downs or appropriate additions to the allowance for loan losses.

The Company periodically modifies loans to extend the term or make other concessions to help a borrower with a deteriorating financial condition stay current on their loan and to avoid foreclosure. The Company generally does not forgive principal or interest on loans or modify the interest rates on loans to rates that are below market rates. Under applicable accounting standards, such loan modifications are generally classified as troubled debt restructurings.

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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 (excluding loans acquired with deteriorated credit quality) 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,					
	2018	2017	2016	2015	2014	
Nonaccrual loans						
Commercial	\$5,224	\$10,304	\$7,718	\$7,366	\$1,449	
Real estate:						
Commercial real estate, construction, land and land development	1,329	2,716	5,885	591	70	
Residential real estate	1,775	998	866	552	2,117	
Single-family interim construction	3,578	—	884	—	—	
Agricultural	—	—	—	170	—	
Consumer	32	55	273	111	67	
Total nonaccrual loans ⁽¹⁾	11,938	14,073	15,626	8,790	3,703	
Loans delinquent 90 days or more and still accruing						
Commercial	—	8	—	—	157	
Real estate:						
Commercial real estate, construction, land and land development	—	120	—	—	—	
Residential real estate	—	8	—	—	288	
Consumer	5	—	—	—	6	
Total loans delinquent 90 days or more and still accruing	5	136	—	—	451	
Troubled debt restructurings, not included in nonaccrual loans						
Commercial	114	—	1	16	30	
Real estate:						
Commercial real estate, construction, land and land development	405	455	1,204	3,480	4,668	
Residential real estate	168	730	1,011	2,574	1,254	
Consumer	—	20	—	—	8	
Total troubled debt restructurings, not included in nonaccrual loans	687	1,205	2,216	6,070	5,960	
Total nonperforming loans	12,630	15,414	17,842	14,860	10,114	
Other real estate owned and other repossessed assets (Bank only):						
Commercial	—	—	—	1,050	—	
Commercial real estate, construction, land and land development	4,200	5,400	783	2,168	4,763	
Residential real estate	—	764	1,189	—	—	
Single-family interim construction	—	963	—	—	—	
Consumer	114	114	4	14	—	
Total other real estate owned and other repossessed assets	4,314	7,241	1,976	3,232	4,763	
Total nonperforming assets	\$16,944	\$22,655	\$19,818	\$18,092	\$14,877	
Ratio of nonperforming loans to total loans ⁽²⁾	0.16	% 0.24	% 0.39	% 0.37	% 0.32	%

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Ratio of nonperforming assets to total assets	0.17	0.26	0.34	0.36	0.36
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(1) Nonaccrual loans include troubled debt restructurings of \$506 thousand, \$1.0 million, \$209 thousand, \$621 thousand and \$1.3 million as of December 31, 2018, 2017, 2016, 2015 and 2014, respectively and excludes loans acquired with deteriorated credit quality of \$7.0 million, \$7.9 million and \$1.0 million as of December 31, 2018, 2017 and 2016, respectively.

(2) Excluding mortgage warehouse purchase loans of \$170.3 million and \$164.7 million at December 31, 2018 and 2017, respectively.

The Company had \$11.9 million, \$14.1 million and \$15.6 million in loans on nonaccrual status (excluding loans acquired with deteriorated credit quality) as of December 31, 2018, 2017 and 2016, respectively. The decrease from December 31, 2017 to December 31, 2018 was due to five nonaccrual loan payoffs totaling \$5.4 million and a \$2.5 million partial charge-off of an energy nonaccrual loan relationship offset by nonaccrual loan additions of two single-family interim construction loans totaling

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\$3.6 million and four other additions totaling \$2.1 million during the year. The decrease from December 31, 2016 to December 31, 2017 was due to \$5.8 million of nonaccrual payoffs offset by additions totaling \$4.7 million during the year as well as the removal of a \$1.0 million single-family interim construction loan from nonaccrual status due to repossession of collateral.

The Company did not recognize any interest income on nonaccrual loans during 2018, 2017 or 2016 while the loans were in nonaccrual status. The amount of interest the Company included in the Company's net interest income for the years ended 2018, 2017 and 2016 with respect to nonperforming loans was \$248 thousand, \$190 thousand and \$207 thousand, respectively. Additional interest income that the Company would have recognized on these nonperforming loans had they been current in accordance with their original terms was \$707 thousand, \$911 thousand and \$623 thousand, respectively, during the years ended 2018, 2017 and 2016, respectively.

As of December 31, 2018, the Company had a total of 117 loans with an aggregate principal balance of \$54.8 million that were not currently impaired loans, nonaccrual loans, 90 days past due loans or troubled debt restructurings, but where the Company had information about possible credit problems of the borrowers that caused the Company's management to have serious concerns as to the ability of the borrowers to comply with present loan repayment terms and that could result in those loans becoming nonaccrual loans, 90 days past due loans or troubled debt restructurings in the future.

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

As of December 31, 2018, the Company had other real estate owned and other repossessed assets of \$4.3 million, which is a decrease from the balance of \$7.2 million for prior year. The decrease is a result of dispositions of five properties totaling \$2.9 million. As of December 31, 2017, the Company had other real estate owned and other repossessed assets of \$7.2 million, which is an increase from the balance of \$2.0 million for prior year. The increase is a result of additions totaling \$11.2 million related to the Carlile acquisition as well as \$2.1 million in property additions, including the Houston branch closure, two foreclosures and capital improvements to single family interim properties, offset by dispositions totaling \$7.8 million and \$500 thousand in subsequent write-downs.

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

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

The Company establishes a general allowance for loan losses that the Company believes to be adequate for the losses the Company estimates to be inherent in the Company's loan portfolio. In making the Company's evaluation of the credit risk of the loan portfolio, the Company considers factors such as the volume, growth and composition of the loan portfolio, the effect of changes in the local real estate market on collateral values, trends in past dues, the experience of the lender, changes in lending policy, the effects on the loan portfolio of current economic indicators and their probable impact on borrowers, historical loan

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loss experience, the amount of nonperforming loans and related collateral and the evaluation of the Company's loan portfolio by the loan review function.

The Company may assign a specific allowance to individual loans based on an impairment analysis. Loans are considered impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The amount of impairment is based on an analysis of the most probable source of repayment, including the present value of the loan's expected future cash flows, the estimated market value or the fair value of the underlying collateral. Loans evaluated for impairment include all commercial, real estate, agricultural loans and TDRs.

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

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

	As of December 31,									
	2018		2017		2016		2015		2014	
(dollars in thousands)	Amount	% of Total Loans ⁽¹⁾	Amount	% of Total Loans ⁽¹⁾	Amount	% of Total Loans ⁽¹⁾	Amount	% of Total Loans ⁽¹⁾	Amount	% of Total Loans ⁽¹⁾
Commercial loans	\$11,793	17.2 %	\$10,599	16.3 %	\$8,593	13.7 %	\$10,573	18.3 %	\$5,051	21.0 %
Real estate:										
Commercial real estate, construction, land and land development	27,795	63.7	23,301	63.2	18,399	65.3	13,007	59.2	10,110	55.7
Residential real estate	3,320	13.7	3,447	14.3	2,760	14.1	2,339	15.5	2,205	16.2
Single family interim construction	1,402	4.2	1,583	4.4	1,301	5.1	769	4.7	669	4.3
Agricultural	241	0.8	250	1.3	207	1.2	215	1.3	246	1.2
Consumer	186	0.4	205	0.5	242	0.6	164	1.0	146	1.6
Other	3	—	(32)	—	29	—	8	—	—	—
Unallocated	62	—	49	—	60	—	(32)	—	125	—
Total allowance for loan losses	\$44,802	100.0 %	\$39,402	100.0 %	\$31,591	100.0 %	\$27,043	100.0 %	\$18,552	100.0 %

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

As of December 31, 2018, the allowance for loan losses amounted to \$44.8 million, or 0.58%, of total loans held for investment, excluding mortgage warehouse purchase loans, compared with \$39.4 million, or 0.62%, as of December 31, 2017 and \$31.6 million, or 0.69%, as of December 31, 2016. The dollar increase during 2018 is primarily due to additional general reserves for organic loan growth. The decrease in the allowance for loan losses as a percentage of loans from prior year reflects loans acquired in the Integrity transaction that were recorded at fair value without an allowance at acquisition date. As of December 31, 2018, the discount on acquired loans totaled \$25.2 million.

The allowance for loan losses as a percentage of nonperforming loans increased from 255.62% at December 31, 2017, to 354.73% at December 31, 2018, due to an increase in the recorded allowance balance as well as a reduction in total nonperforming loans. As of December 31, 2018, the Company had made a specific allowance for loan losses of \$2.7 million for impaired loans totaling \$14.6 million, compared with a specific allowance of \$3.8 million for impaired loans totaling \$15.2 million as of December 31, 2017. The decrease in specific reserves was due primarily to a partial charge-off of \$2.5 million on an energy loan relationship, offset by the addition of \$1.0 million in specific reserves on

a commercial loan, which was added to the impaired loan listing in 2018. The decrease in impaired loans during 2018 was mainly due to partial charge-off noted above, the pay-off of three commercial credits totaling \$3.8 million, one commercial real estate loan totaling \$1.6 million, offset by the addition of a commercial loan and a single family interim construction loan totaling \$5.1 million.

The allowance for loan losses as a percentage of nonperforming loans increased from 177.06% at December 31, 2016, to 255.62% at December 31, 2017, due to an increase in the recorded allowance balance as well as a reduction in total nonperforming loans. As of December 31, 2017, the Company had made a specific allowance for loan losses of \$3.8 million for impaired loans totaling \$15.2 million, compared with a specific allowance of \$185 thousand for impaired loans totaling \$17.9 million as of December 31, 2016. The increase in specific reserves was due primarily to the addition of \$3 million in specific reserves placed on a commercial impaired loan credit relationship which was added to the impaired loan listing in

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2016. The decrease in impaired loans during 2017 was mainly due to the pay-off of two commercial real estate loans totaling \$5.8 million offset by the addition of a commercial construction loan and a commercial loan totaling \$3.7 million.

Although the allowance for loan losses to nonperforming loans has increased significantly over the periods presented in the Company's consolidated financial statements appearing in this Annual Report on Form 10-K, the Company does not expect to decrease the Company's allowance as a percentage of total loans. The allowance is primarily related to loans evaluated collectively and will continue to increase as the Company's loan portfolio grows. Additional provision expense will vary depending on future credit quality trends within the portfolio.

The following table provides an analysis of the provisions for loan losses, net charge-offs and recoveries for the years ended December 31, 2018, 2017, 2016, 2015 and 2014 and the effects of those items on the Company's allowance for loan losses:

(dollars in thousands)	As of and for the Year Ended December 31,				
	2018	2017	2016	2015	2014
Allowance for loan losses-balance at beginning of year	\$39,402	\$31,591	\$27,043	\$18,552	\$13,960
Charge-offs					
Commercial	(3,863)	(81)	(4,384)	(606)	(368)
Real estate:					
Commercial real estate, construction, land and land development	(435)	(15)	(54)	(69)	(371)
Residential real estate	(6)	—	(401)	(9)	(32)
Single-family interim construction	—	(134)	—	—	—
Consumer	(93)	(182)	(27)	(52)	(63)
Other	(228)	(190)	(104)	(124)	(80)
Total charge-offs	(4,625)	(602)	(4,970)	(860)	(914)
Recoveries					
Commercial	84	28	13	28	19
Real estate:					
Commercial real estate, construction, land and land development	20	31	10	42	79
Residential real estate	3	4	12	5	8
Single-family interim construction	—	—	—	—	11
Consumer	5	46	8	14	6
Other	53	39	35	31	24
Total recoveries	165	148	78	120	147
Net charge-offs	(4,460)	(454)	(4,892)	(740)	(767)
Provision for loan losses	9,860	8,265	9,440	9,231	5,359
Allowance for loan losses-balance at end of year	\$44,802	\$39,402	\$31,591	\$27,043	\$18,552
Ratios					
Net charge-offs to average loans outstanding	0.06	%0.01	%0.12	%0.02	%0.03
Allowance for loan losses to nonperforming loans at end of year	354.73	255.62	177.06	181.99	183.43
Allowance for loan losses to total loans at end of year ⁽¹⁾	0.58	0.62	0.69	0.68	0.58

⁽¹⁾ Calculation excludes loans held for sale and mortgage warehouse purchase loans from total loans.

The Company's ratio of allowance to loan losses to total loans as of December 31, 2018 was 0.58%, down slightly from 0.62% at December 31, 2017. The decrease in the allowance for loan losses as a percentage of loans from prior year reflects that loans acquired in the Integrity transaction were recorded at fair value without an allowance at acquisition date. The ratio of net charge-offs to average loans outstanding during the year ended December 31, 2018

increased to 0.06% from 0.01% for the year ended December 31, 2017. The increase in charge-offs during 2018 was primarily related to energy-related charge-offs.

The Company's ratio of allowance to loan losses to total loans as of December 31, 2017 was 0.62%, down slightly from 0.69% at December 31, 2016. The decrease in the allowance for loan losses as a percentage of loans from prior year reflects that loans

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acquired in the Carlile transaction were recorded at fair value without an allowance at acquisition date. The ratio of net charge-offs to average loans outstanding during the year ended December 31, 2017 decreased to 0.01% from 0.12% for the year ended December 31, 2016. The increase in charge-offs during 2016 was primarily related to energy-related charge-offs.

Securities Available for Sale

The Company's investment strategy aims to maximize earnings while maintaining liquidity in securities with minimal credit, interest rate and duration risk. The types and maturities of securities purchased are primarily based on the Company's current and projected liquidity and interest rate sensitivity positions. The following table sets forth the book value, which is equal to fair market value because all investment securities the Company held were classified as available for sale as of the applicable date, and the percentage of each category of securities as of December 31, 2018, 2017 and 2016:

(dollars in thousands)	As of December 31,					
	2018		2017		2016	
	Book Value	% of Total	Book Value	% of Total	Book Value	% of Total
Securities available for sale						
U.S. Treasury securities	\$29,643	4.3 %	\$37,154	4.9 %	\$3,147	1.0 %
Government agency securities	150,230	21.9	211,509	27.7	122,267	38.6
Obligations of state and municipal subdivisions	185,007	27.0	229,613	30.1	87,256	27.6
Residential pass-through securities	320,470	46.8	274,377	35.9	103,765	32.8
Other securities	—	—	10,349	1.4	—	—
Total securities available for sale	\$685,350	100.0%	\$763,002	100.0%	\$316,435	100.0%

The Company recognized net losses on the sale of securities of \$581 thousand for the year ended December 31, 2018 and net gains on the sale of securities of \$124 thousand and \$4 thousand for the years ended December 31, 2017 and 2016, respectively. Securities represented 7.0%, 8.8% and 5.4% of the Company's total assets at December 31, 2018, 2017 and 2016, respectively.

Certain investment securities are valued at less than their historical cost. Management evaluates securities for other-than-temporary impairment (OTTI) on at least a quarterly basis and more frequently when economic and market conditions warrant such an evaluation. Management does not intend to sell any debt securities it holds and believes the Company more likely than not will not be required to sell any debt securities it holds before their anticipated recovery, at which time the Company will receive full value for the securities. Management has the ability and intent to hold the securities classified as available for sale that were in a loss position as of December 31, 2018 for a period of time sufficient for an entire recovery of the cost basis of the securities. For those securities that are impaired, the unrealized losses are largely due to interest rate changes. The fair value is expected to recover as the securities approach their maturity date. Management believes any impairment in the Company's securities at December 31, 2018 is temporary and no impairment has been realized in the Company's consolidated financial statements.

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The following table sets forth the book value, scheduled maturities and weighted average yields for the Company's investment portfolio as of December 31, 2018:

(dollars in thousands)	Book Value	% of Total Investment Securities	Weighted Average Yield
U.S. Treasury securities			
Maturing within one year	\$1,981	0.3	% 1.47 %
Maturing in one to five years	27,661	4.0	2.02
Maturing in five to ten years	—	—	—
Maturing after ten years	—	—	—
Total U.S. Treasury securities	29,642	4.3	1.98
Government agency securities			
Maturing within one year	\$28,313	4.1	% 1.57
Maturing in one to five years	87,010	12.7	1.89
Maturing in five to ten years	34,908	5.1	2.84
Maturing after ten years	—	—	—
Total government agency securities	150,231	21.9	2.05
Obligations of state and municipal subdivisions			
Maturing within one year	10,081	1.5	1.65
Maturing in one to five years	39,467	5.8	2.25
Maturing in five to ten years	46,291	6.8	2.47
Maturing after ten years	89,168	13.0	2.97
Total obligations of state and municipal subdivisions	185,007	27.1	2.62
Residential pass through securities			
Maturing within one year	4,376	0.6	1.95
Maturing in one to five years	—	—	—
Maturing in five to ten years	96,265	14.0	3.56
Maturing after ten years	219,829	32.1	3.02
Total residential pass through securities	320,470	46.7	2.86
Total investment securities	\$685,350	100.0	% 2.58 %

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

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale				
As of December 31, 2018				
U.S. treasuries	\$ 30,110	\$ —	\$ (467)	\$ 29,643
Government agency securities	152,969	80	(2,819)	150,230
Obligations of state and municipal subdivisions	187,366	727	(3,086)	185,007
Residential pass through securities guaranteed by FNMA, GNMA, and FHLMC	326,168	128	(5,826)	320,470
	\$ 696,613	\$ 935	\$ (12,198)	\$ 685,350
As of December 31, 2017				
U.S. treasuries	\$ 37,480	\$ —	\$ (326)	\$ 37,154
Government agency securities	213,649	83	(2,223)	211,509
Obligations of state and municipal subdivisions	228,782	2,118	(1,287)	229,613
Residential pass through securities guaranteed by FNMA, GNMA, FHLMC, FHR and GNR	274,356	1,229	(1,208)	274,377
Other securities	10,397	—	(48)	10,349
	\$ 764,664	\$ 3,430	\$ (5,092)	\$ 763,002
As of December 31, 2016				
U.S. treasuries	\$ 3,208	\$ —	\$ (61)	\$ 3,147
Government agency securities	123,605	141	(1,479)	122,267
Obligations of state and municipal subdivisions	88,358	920	(2,022)	87,256
Residential pass through securities guaranteed by FNMA, GNMA and FHLMC	103,869	928	(1,032)	103,765
	\$ 319,040	\$ 1,989	\$ (4,594)	\$ 316,435

The Company's available for sale securities, carried at fair value, decreased \$77.7 million, or 10.2%, during 2018 and increased \$446.6 million, or 141.1% during 2017. The decrease in 2018 was primarily due to the liquidation of securities to manage total assets to be less than \$10 billion at December 31, 2018. The increase in 2017 was due to securities acquired in the Carlile acquisition.

Residential pass-through securities (mortgage backed securities) are securities that have been developed by pooling a number of real estate mortgages that are principally issued by federal agencies. These securities are deemed to have high credit ratings, and minimum regular monthly cash flows of principal and interest are guaranteed by the issuing agencies. Unlike U.S. Treasury and U.S. government agency securities, which have a lump sum payment at maturity, mortgage-backed securities provide cash flows from regular principal and interest payments and principal prepayments throughout the lives of the securities. Premiums and discounts on mortgage-backed securities are amortized over the expected life of the security and may be impacted by prepayments. As such, mortgage-backed securities which are purchased at a premium will generally suffer decreasing net yields as interest rates drop because home owners tend to refinance their mortgages resulting in prepayments and an acceleration of premium amortization. Securities purchased at a discount will generally obtain higher net yields in a decreasing interest rate environment as prepayments result in acceleration of discount accretion.

Cash and Cash Equivalents

Cash and cash equivalents decreased by \$300.3 million, or 69.7% to \$130.8 million at December 31, 2018 from \$431.1 million at December 31, 2017. Cash and cash equivalents decreased by \$73.9 million, or 14.6% to \$431.1 million at December 31, 2017 from \$505.0 million at December 31, 2016. Cash and cash equivalent balances can vary

due to cash needs and volatility of several large title company and commercial accounts. During fourth quarter 2018, liquid assets were redeployed to loans and total growth was limited as part of the plan to maintain assets below \$10 billion through the end of the year, delaying the impact of the Durbin amendment limitation on interchange fees until July 2020.

Certificates of Deposit Held in Other Banks

The Company owned certificates of deposit held in other banks in the amount of \$1.2 million and \$13.0 million as of December 31, 2018 and 2017, respectively. The decrease in certificates held at December 31, 2018 is a result of certificates maturing in during 2018. The Company owned certificates of deposit held in other banks in the amount of \$13.0 million and \$2.7 million

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as of December 31, 2017 and 2016, respectively. The increase in certificates held at December 31, 2017 is a result of certificates acquired in the Carlile acquisition and certificates purchased in the first quarter of 2017 due to excess liquidity.

Goodwill

Goodwill represents the excess of the consideration paid over the fair value of the net assets acquired. The Company's total goodwill was \$721.8 million at December 31, 2018, \$621.5 million as of December 31, 2017 and \$258.3 million as of December 31, 2016. The increase in the goodwill balance from December 31, 2017 to December 31, 2018 is a result of \$100.3 million in goodwill recognized from the acquisition of Integrity. The increase in the goodwill balance from December 31, 2016 to December 31, 2017 is a result of \$363.1 million in goodwill recognized from the acquisition of Carlile.

Liabilities

Total liabilities increased \$895.1 million, or 12.2%, to \$8.2 billion as of December 31, 2018, from \$7.3 billion as of December 31, 2017, primarily due to \$593.1 million in deposit accounts and \$60 million in FHLB advances acquired in the Integrity transaction in addition to organic deposit growth, offset by payoffs of \$300.7 million in FHLB advances.

Total liabilities increased \$2.2 billion, or 41.8%, to \$7.3 billion as of December 31, 2017, from \$5.2 billion as of December 31, 2016, primarily due to \$1.8 billion in deposit accounts acquired in the Carlile transaction in addition to organic deposit growth, increases of \$69.9 million in FHLB advances, \$29.6 million in other borrowings (subordinated debentures) and \$9.4 million in junior subordinated debt acquired in the Carlile acquisition, respectively.

Deposits

Deposits represent Independent Bank's primary source of funds. The Company continues to focus on growing core deposits through the Company's relationship driven banking philosophy and community-focused marketing programs. Total deposits increased \$1.1 billion, or 16.7%, to \$7.7 billion as of December 31, 2018 from \$6.6 billion as of December 31, 2017. The increase is primarily due to organic growth as well as \$593.1 million in deposit accounts acquired in the Integrity transaction. Brokered deposits totaled \$356.3 million and \$400.1 million at December 31, 2018 and 2017, respectively. As of December 31, 2018 and 2017, noninterest-bearing demand, interest-bearing checking, savings deposits and limited access money market accounts accounted for 85.5% and 86.5%, respectively, of the Company's total deposits, while individual retirement accounts and certificates of deposit made up 14.5% and 13.5%, respectively, of total deposits. Noninterest-bearing demand deposits totaled \$2.1 billion, or 27.7% of total deposits, as of December 31, 2018, compared with \$1.9 billion, or 28.7% of total deposits, as of December 31, 2017. The total cost of deposits increased thirty-seven basis points from 0.46% at December 31, 2017 to 0.83% at December 31, 2018. The average cost of interest-bearing deposits was 1.16% per annum for 2018 compared with 0.63% for 2017. The increase in cost of funds was primarily due to higher rates offered on our deposits, primarily commercial money market accounts and certificates of deposit, resulting both from market competition and general increases in interest rates on deposit products tied to Fed Funds rates as a result of the rising interest rate environment. Total deposits increased \$2.1 billion, or 44.9%, to \$6.6 billion as of December 31, 2017 from \$4.6 billion as of December 31, 2016. The increase is primarily due to \$1.8 billion in deposit accounts acquired in the Carlile transaction in addition to organic growth. Brokered deposits totaled \$400.1 million and \$497.4 million at December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, noninterest-bearing demand, interest-bearing checking, savings deposits and limited access money market accounts accounted for 86.5% and 81.3%, respectively, of the Company's total deposits, while individual retirement accounts and certificates of deposit made up 13.5% and 18.7%, respectively, of total deposits. Noninterest-bearing demand deposits totaled \$1.9 billion, or 28.7% of total deposits, as of December 31, 2017, compared with \$1.1 billion, or 24.4% of total deposits, as of December 31, 2016. The total cost of deposits increased eight basis points from 0.38% at December 31, 2016 to 0.46% at December 31, 2017. The average cost of interest-bearing deposits was 0.63% per annum for 2017 compared with 0.51% for 2016. The increase in cost of funds was primarily due to higher rates offered on public fund

certificates of deposit and money market accounts due to competition in our markets but also due to increased interest rates on deposit products tied to Fed Funds rates and short-term FHLB advances.

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

(dollars in thousands)	As of December 31, 2018		2017		2016	
	Balance	Weighted Average Rate	Balance	Weighted Average Rate	Balance	Weighted Average Rate
Deposit Type						
Noninterest-bearing demand accounts	\$2,052,675	— %	\$1,671,872	— %	\$1,076,340	— %
Interest-bearing checking accounts	2,943,519	0.90	2,630,477	0.51	1,761,509	0.44
Savings accounts	290,325	0.24	263,381	0.14	150,223	0.17
Limited access money market accounts	998,916	1.91	605,064	1.02	429,647	0.44
Certificates of deposit, including individual retirement accounts (IRA)	1,009,644	1.43	1,002,753	0.86	830,964	0.74
Total deposits	\$7,295,079	0.83 %	\$6,173,547	0.46 %	\$4,248,683	0.38 %

The following table sets forth the maturity of time deposits (including IRA deposits) of \$100,000 or more as of December 31, 2018:

(dollars in thousands)	Maturity within:				
	Three Months	Three to Six Months	Six to Twelve Months	After Twelve Months	Total
Individual retirement accounts	\$1,822	\$4,505	\$7,039	\$7,188	\$20,554
Certificates of deposit (excluding CDARS)	93,022	142,100	450,960	155,244	841,326
CDARS	28,899	4,443	9,740	473	43,555
Total	\$123,743	\$151,048	\$467,739	\$162,905	\$905,435

Short-Term Borrowings

The Company's deposits have historically provided the Company with a major source of funds to meet the daily liquidity needs of the Company's customers and fund growth in earning assets. However, from time to time the Company may also engage in short-term borrowings. At December 31, 2018, 2017 and 2016, the Company had \$50.0 million, \$100.0 million and \$0.0 million, respectively, in short-term borrowings outstanding, all of which were short-term FHLB advances. These were recorded on the balance sheet under FHLB advances and are included in the total advances outstanding as discussed in the section below. The Company has not historically needed to engage in significant short-term borrowing through sources such as federal funds purchased, securities sold under agreements to repurchase or Federal Reserve Discount Window advances to meet the daily liquidity needs of the Company's customers or fund growth in earning assets.

FHLB Advances

In addition to deposits, the Company utilizes FHLB advances either as a short-term funding source or a longer-term funding source and to manage the Company's interest rate risk on the Company's loan portfolio. FHLB advances can be particularly attractive as a longer-term funding source to balance interest rate sensitivity and reduce interest rate risk. The Company's FHLB borrowings totaled \$290.0 million as of December 31, 2018, compared with \$530.7 million as of December 31, 2017, and \$460.7 million as of December 31, 2016. The decrease in FHLB borrowings during 2018 is due to repayment of FHLB Advances in order to manage total assets to be less than \$10 billion at December 31, 2018. The increase for FHLB borrowings during 2017 was primarily to manage liquidity needs. As of December 31, 2018, 2017 and 2016, the Company had \$2.0 billion, \$1.7 billion and \$830.8 million, respectively, in unused and available advances from the FHLB. At December 31, 2018, the Company's FHLB advances are collateralized by assets, including a blanket pledge of certain loans with a carrying value of \$2.8 billion and FHLB stock. As of December 31, 2018, 2017 and 2016, the Company had \$729.9 million, \$741.5 million and \$691.7 million,

respectively, in undisbursed advance commitments (letters of credit) with the FHLB. The FHLB letters of credit were obtained in lieu of pledging securities to secure public fund deposits that are over the FDIC insurance limit. There were no disbursements against the advance commitments as of December 31, 2018, 2017 or 2016.

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

	As of December 31,		
	2018	2017	2016
Fixed-rate, fixed term, at rates from 1.02% to 2.59%, with a weighted-average of 2.17% (maturing January 2019 through July 2021)	\$290,000	\$ —	—
Fixed-rate, fixed term, at rates from 1.02% to 5.57%, with a weighted-average of 1.43% (maturing January 2018 through January 2026)	—	530,667	—
Fixed-rate, fixed term, at rates from 0.46% to 5.57%, with a weighted-average of 0.98% (maturing October 2017 through January 2026)	—	—	460,746

As of December 31, 2018, the scheduled maturities of the Company's FHLB advances were as follows (dollars in thousands):

Maturing Within	Principal Amount to Mature As of December 31, 2018
First Year	\$ 115,000
Second Year	150,000
Third Year	25,000
Fourth Year	—
Fifth Year	—
Thereafter	—
	\$290,000

Other Long-Term Indebtedness

As of December 31, 2018, 2017 and 2016, the Company had \$137.3 million, \$136.9 million and \$107.3 million, respectively, of long-term indebtedness (other than FHLB advances and junior subordinated debentures) outstanding, which included subordinated debentures. The slight increase from December 31, 2017 to December 31, 2018 was due to discount accretion and origination fee amortization. The increase from December 31, 2016 to December 31, 2017 was mainly due to a new issuance of \$30 million in 5.0% fixed and floating rate subordinated debentures.

As of December 31, 2018, the Company's long-term gross indebtedness of \$110 million and \$30 million will mature on August 1, 2024 and December 31, 2027, respectively, with an optional redemption at December 31, 2022 for the latter.

Junior Subordinated Debentures

As of December 31, 2018, 2017 and 2016, the Company had outstanding an aggregate of \$31.6 million, \$31.6 million and \$18.1 million, respectively, principal amount of seven series of junior subordinated securities issued to seven unconsolidated subsidiary trusts. Each series of debentures was purchased by one of the trusts with the net proceeds of the issuance by such trust of floating rate trust preferred securities. These junior subordinated debentures are unsecured and will mature between March 2033 and September 2037. Each of the series of debentures bears interest at a per annum rate equal to three-month LIBOR plus a spread that ranges from 1.60% to 3.25%, with a weighted average spread of 4.94%. Interest on each series of these debentures is payable quarterly, although the Company may, from time to time defer the payment of interest on any series of these debentures. A deferral of interest payments would, however, restrict the Company's right to declare and pay cash distributions, including dividends on the Company's common stock, or making distributions with respect to any of the Company's future debt instruments that rank equally or are junior to such debentures. The Company may redeem the debentures, which are intended to qualify as Tier 1 capital, at the Company's option, subject to approval of the Federal Reserve.

Capital Resources and Liquidity Management

Capital Resources

The Company's stockholders' equity is influenced by the Company's earnings, the sales and redemptions of common stock that the Company makes, stock based compensation expense, the dividends the Company pays on its common stock, and, to a lesser extent, any changes in unrealized holding gains or losses occurring with respect to the Company's securities available for sale.

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Total stockholder's equity was \$1.6 billion at December 31, 2018, compared with \$1.3 billion at December 31, 2017, an increase of approximately \$270.4 million. The increase was primarily due to stock issued in the Integrity acquisition for a total,

net of offering costs, of \$157.1 million. In addition, net income earned for the year totaling \$128.3 million, stock based compensation of \$6.1 million and exercise of warrants of \$2.5 million offset by a decrease in the unrealized gain (loss) on securities totaling \$7.6 million and dividends paid of \$15.9 million.

Total stockholder's equity was \$1.3 billion at December 31, 2017, compared with \$672.4 million at December 31, 2016, an increase of approximately \$663.7 million. The increase was due primarily to the issuance of common stock, net of offering costs, totaling \$565.2 million in connection with the Company's acquisition of Carlile. In addition, net income earned for the year totaling \$76.5 million and the issuance of common stock, net of offering costs, totaling \$26.8 million, stock awards amortization of \$4.7 million and an increase in the unrealized gain (loss) on securities totaling \$613 thousand offset by dividends paid of \$10.2 million.

Liquidity Management

Liquidity refers to the measure of the Company's ability to meet the cash flow requirements of depositors and borrowers, while at the same time meeting the Company's operating, capital and strategic cash flow needs, all at a reasonable cost. The Company's asset and liability management policy is intended to maintain adequate liquidity and, therefore, enhance the Company's ability to raise funds to support asset growth, meet deposit withdrawals and lending needs, maintain reserve requirements, and otherwise sustain operations. The Company accomplishes this through management of the maturities of the Company's interest-earning assets and interest-bearing liabilities. The Company believes that the Company's present position is adequate to meet the Company's current and future liquidity needs. The Company continuously monitors the Company's liquidity position to ensure that assets and liabilities are managed in a manner that will meet all of the Company's short-term and long-term cash requirements. The Company manages the Company's liquidity position to meet the daily cash flow needs of customers, while maintaining an appropriate balance between assets and liabilities to meet the return on investment objectives of the Company's shareholders. The Company also monitors its liquidity requirements in light of interest rate trends, changes in the economy, and the scheduled maturity and interest rate sensitivity of the investment and loan portfolios and deposits.

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

In addition to the liquidity provided by the sources described above, the Company maintains correspondent relationships with other banks in order to sell loans or purchase overnight funds should additional liquidity be needed. As of December 31, 2018, 2017 and 2016 the Company had established federal funds lines of credit with various unaffiliated banks totaling \$365 million, \$225 million and \$225 million, respectively. Based on the values of stock, securities, and loans pledged as collateral, as of December 31, 2018, 2017 and 2016, the Company had additional borrowing capacity with the FHLB of \$2.0 billion, \$1.7 billion and \$830.8 million, respectively.

The Company also maintains a secured line of credit with the Federal Reserve Bank with an availability to borrow approximately \$738.9 million, \$552.2 million and \$384.2 million at December 31, 2018, 2017 and 2016, respectively. Approximately \$978.3 million, \$740.6 million and \$515.2 million of commercial loans were pledged as collateral at December 31, 2018, 2017 and 2016, respectively. There were no borrowings against this line as of December 31, 2018, 2017 or 2016.

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The Company also participates in an exchange that provides direct overnight borrowings with other financial institutions. The funds are provided on an unsecured basis. Borrowing availability totaled \$204 million, \$60 million and \$75 million at December 31, 2018, 2017 and 2016, respectively. There were no borrowings as of December 31, 2018, 2017 and 2016.

The Company has a \$50 million unsecured revolving line of credit with an unrelated commercial bank. The line bears interest at LIBOR plus 2.50% and matures January 29, 2019. As of December 31, 2018 and 2017, there was no outstanding balance on the line. The Company is required to meet certain financial covenants on a quarterly basis, which includes maintaining \$5 million in cash at Independent Bank Group and meeting minimum capital ratios. On January 17, 2019, the line of credit was renewed. The credit line was increased to \$100 million, bears interest at LIBOR plus 1.75% and matures on January 17, 2020. The line also bears a non-usage fee of 0.30% per year on the unused commitment at the end of each fiscal quarter. As of February 26, 2019, the Company had no borrowings against this line.

The Company is a corporation separate and apart from Independent Bank and, therefore, the Company must provide for the Company's own liquidity. The Company's main source of funding is dividends declared and paid to the Company by Independent Bank. Statutory and regulatory limitations exist that affect the ability of Independent Bank to pay dividends to the Company. Management believes that these limitations will not impact the Company's ability to meet the Company's ongoing short-term cash obligations. For additional information regarding dividend restrictions, see "Risk Factors-Risks Related to the Company's Business" in Part I, Item 1A, and "Supervision and Regulation" under Part I, Item 1, "Business."

Regulatory Capital Requirements

The Company's capital management consists of providing equity to support the Company's current and future operations. The Company is subject to various regulatory capital requirements administered by state and federal banking agencies, including the TDB, Federal Reserve and the FDIC. Failure to meet minimum capital requirements may prompt certain actions by regulators that, if undertaken, could have a direct material adverse effect on the Company's financial condition and results of operations. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The Company is subject to the Basel III regulatory capital framework (the "Basel III Capital Rules"). The implementation of the capital conservation buffer became effective for the Company on January 1, 2016 at the 0.625% level and increasing 0.625% each year thereafter, until it reaches 2.5% on January 1, 2019. The capital conservation buffer is designed to absorb losses during periods of economic stress and requires increased capital levels for the purpose of capital distributions and other payments. Failure to meet the full amount of the buffer will result in restrictions on the Company's ability to make capital distributions, including dividend payments and stock repurchases and to pay discretionary bonuses to executive officers.

In connection with the adoption of the Basel III Capital Rules, we elected to opt-out of the requirement to include most components of accumulated other comprehensive income in regulatory capital. Accordingly, amounts reported as accumulated other comprehensive income/loss related to securities available for sale do not increase or reduce regulatory capital and are not included in the calculation of risk-based capital and leverage ratios. Regulatory agencies for banks and bank holding companies utilize capital guidelines designed to measure capital and take into consideration the risk inherent in both on-balance sheet and off-balance sheet items. Please refer to Note 20 - Regulatory Matters in the accompanying notes to consolidated financial statements included elsewhere in this report. The FDIC has promulgated regulations setting the levels at which an insured institution such as Independent Bank would be considered well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Independent Bank is considered well-capitalized for purposes of the applicable prompt corrective action regulations.

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As of December 31, 2018, 2017 and 2016, the Company and Bank exceeded all capital ratio requirements under prompt corrective action and other regulatory requirements, as detailed in the table below:

	As of December 31, 2018			
	Actual Consolidated Ratio	Actual Bank Ratio	Required to be considered adequately capitalized Ratio	Required to be considered well capitalized (Bank only) Ratio
Tier 1 capital to average assets ratio	9.57%	10.91%	4.00-5.00%	≥5.00%
Common equity tier 1 to risk-weighted assets ratio	10.05	11.86	4.50-6.50	≥6.50
Tier 1 capital to risk-weighted assets ratio	10.41	11.86	6.00-8.00	≥8.00
Total capital to risk-weighted assets ratio	12.58	12.39	8.00-10.00	≥10.00
	As of December 31, 2017			
	Actual Consolidated Ratio	Actual Bank Ratio	Required to be considered adequately capitalized Ratio	Required to be considered well capitalized (Bank only) Ratio
Tier 1 capital to average assets ratio	8.92%	10.30%	4.00-5.00%	≥5.00%
Common equity tier 1 to risk-weighted assets ratio	9.61	11.59	4.50-6.50	≥6.50
Tier 1 capital to risk-weighted assets ratio	10.05	11.59	6.00-8.00	≥8.00
Total capital to risk-weighted assets ratio	12.56	12.15	8.00-10.00	≥10.00
	As of December 31, 2016			
	Actual Consolidated Ratio	Actual Bank Ratio	Required to be considered adequately capitalized Ratio	Required to be considered well capitalized (Bank only) Ratio
Tier 1 capital to average assets ratio	7.82%	9.65%	4.00-5.00%	≥5.00%
Common equity tier 1 to risk-weighted assets ratio	8.20	10.55	4.50-6.50	≥6.50
Tier 1 capital to risk-weighted assets ratio	8.55	10.55	6.00-8.00	≥8.00
Total capital to risk-weighted assets ratio	11.38	11.19	8.00-10.00	≥10.00

Share Repurchase Program. On October 24, 2018, the Company announced the reestablishment of its share repurchase program. The program authorizes the purchase by the Company of up to \$75 million of its common stock. The repurchase program is authorized to continue through October 1, 2019. No shares of Company stock have been repurchased by the Company under this program during 2018. Under the Basel III Capital Rules, the Company may not repurchase its common stock (or repurchase or redeem any of its preferred stock or subordinated notes) without the prior approval of the Federal Reserve Board. The Company received approval from the Federal Reserve on February 12, 2019 to repurchase up to \$60 million of its common stock during 2019. The Company has repurchased a total of 68,069 shares at a total cost of \$3.9 million through February 26, 2019. See Part II, Item 5 - Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities, elsewhere in this

report.

Contractual Obligations

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

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The following table contains supplemental information regarding the Company's total contractual obligations as of December 31, 2018:

(dollars in thousands)	Payments Due				
	Within One Year	One to Three Years	Three to Five Years	After Five Years	Total
Deposits without a stated maturity	\$6,617,491	\$—	\$—	\$—	\$6,617,491
Time deposits	913,746	179,970	26,587	—	1,120,303
FHLB advances	115,000	175,000	—	—	290,000
Subordinated debt	—	—	—	140,000	140,000
Junior subordinated debentures	—	—	—	31,550	31,550
Operating leases	3,968	7,551	5,723	7,863	25,105
Total contractual obligations	\$7,650,205	\$362,521	\$32,310	\$179,413	\$8,224,449

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

Corporate Headquarters Contract. On January 18, 2018, the Company entered into an agreement with an independent contractor for the oversight and construction of the Company's new corporate headquarters office building in McKinney, Texas. The 165,000 square foot building is estimated to cost approximately \$58.0 million and expected to be completed in second quarter 2019. At December 31, 2018, the project's estimated remaining costs was approximately \$27 million.

Other than normal changes in the ordinary course of business and the items mentioned above, there have been no significant changes in the types of contractual obligations or amounts due since December 31, 2017.

Off-Balance Sheet Arrangements

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

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

Standby Letters of Credit. Standby letters of credit are written conditional commitments that Independent Bank issues to guarantee the performance of a customer to a third party. In the event the customer does not perform in accordance with the terms of the agreement with the third party, Independent Bank would be required to fund the commitment. The maximum potential amount of future payments Independent Bank could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, the customer is obligated to reimburse Independent Bank for the amount paid under this standby letter of credit.

Commitments to extend credit were \$1.8 billion, \$1.3 billion and \$865.7 million, as of December 31, 2018, 2017 and 2016, respectively. Outstanding standby letters of credit were \$15.0 million, \$10.5 million and \$10.6 million, as of December 31, 2018, 2017 and 2016, respectively. Since commitments associated with letters of credit and

commitments to extend credit may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements. The Company manages the Company's liquidity in light of the aggregate amounts of commitments to extend credit and outstanding standby letters of credit in effect from time to time to ensure that the Company will have adequate sources of liquidity to fund such commitments and honor drafts under such letters of credit.

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The Company guarantees the distributions and payments for redemption or liquidation of the trust preferred securities issued by the Company's wholly owned subsidiary trusts to the extent of funds held by the trusts. Although this guarantee is not separately recorded, the obligation underlying the guarantee is fully reflected on the Company's consolidated balance sheets as junior subordinated debentures, which debentures are held by the Company's subsidiary trusts. The junior subordinated debentures currently qualify as Tier 1 capital under the Federal Reserve capital adequacy guidelines. For additional information regarding the subordinated debentures, see Note 12 to the Company's consolidated financial statements.

Asset/Liability Management and Interest Rate Risk

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

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

Instantaneous parallel rate shift scenarios are modeled and utilized to evaluate risk and establish exposure limits for acceptable changes in net interest margin. These scenarios, known as rate shocks, simulate an instantaneous change in interest rates and use various assumptions, including, but not limited to, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, reinvestment and replacement of asset and liability cash flows. The Company also analyzes the economic value of equity as a secondary measure of interest rate risk. This is a complementary measure to net interest income where the calculated value is the result of the market value of assets less the market value of liabilities. The economic value of equity is a longer term view of interest rate risk because it measures the present value of the future cash flows. The impact of changes in interest rates on this calculation is analyzed for the risk to the Company's future earnings and is used in conjunction with the analyses on net interest income.

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

The Company's interest rate risk model indicated that it was in a balanced rate sensitive position in terms of interest rate sensitivity as of December 31, 2018. The table below illustrates the impact of an immediate and sustained 200 and 100 basis point increase and a 100 basis point decrease in interest rates on net interest income based on the interest rate risk model as of December 31, 2018:

Hypothetical Shift in Interest Rates (in bps)	% Change in Projected Net Interest Income
200	(0.73)%
100	(0.22)
(100)	1.06

These are good faith estimates and assume that the composition of the Company's interest sensitive assets and liabilities existing at each year-end will remain constant over the relevant twelve-month measurement period and that

changes in market interest rates are instantaneous and sustained across the yield curve regardless of duration of pricing characteristics of specific assets or liabilities. Also, this analysis does not contemplate any actions that the Company might undertake in response to changes in market interest rates. The Company believes these estimates are not necessarily indicative of what actually could occur in the event of immediate interest rate increases or decreases of this magnitude. As interest-bearing assets and liabilities

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re-price in different time frames and proportions to market interest rate movements, various assumptions must be made based on historical relationships of these variables in reaching any conclusion. Since these correlations are based on competitive and market conditions, the Company anticipates that its future results will likely be different from the foregoing estimates, and such differences could be material.

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

As part of the Company's asset/liability management strategy, the Company's management has emphasized the origination of shorter duration loans as well as variable rate loans to limit the negative exposure to a rate increase, as well as obtaining funding with FHLB advances to manage interest rate risks on funding of loan commitments. Additionally, a significant portion of the loans in the Company's loan portfolio typically have short-term maturities. The Company's strategy with respect to liabilities has been to emphasize transaction accounts, particularly noninterest or low interest-bearing nonmaturing deposit accounts, which are less sensitive to changes in interest rates. In response to this strategy, nonmaturing deposit accounts have been a large portion of total deposits and totaled 85.5%, 86.5% and 81.3% of total deposits as of December 31, 2018, 2017 and 2016, respectively. The Company had brokered deposits, including CDARS totaling \$356.3 million, \$400.1 million and \$497.4 million, at December 31, 2018, 2017 and 2016, respectively. The Company intends to focus on the Company's strategy of increasing noninterest or low interest-bearing nonmaturing deposit accounts, but may consider the use brokered deposits as a stable source of lower cost funding.

Inflation and Changing Prices

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

Critical Accounting Policies and Estimates

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

Accounting policies, as described in detail in the notes to the Company's consolidated financial statements are an integral part of the Company's financial statements. A thorough understanding of these accounting policies is essential when reviewing the Company's reported results of operations and the Company's financial position. The Company believes that the critical accounting policies and estimates discussed below require the Company to make difficult, subjective or complex judgments about matters that are inherently uncertain. Changes in these estimates, that are likely to occur from period to period, or the use of different estimates that the Company could have reasonably used in the current period, would have a material impact on the Company's financial position, results of operations or liquidity. Acquired Loans. The Company's accounting policies require that the Company evaluates all acquired loans for evidence of deterioration in credit quality since origination and to evaluate whether it is probable that the Company will collect all contractually required payments from the borrower.

Acquired loans from the transactions accounted for as a business combination include both nonperforming loans with evidence of credit deterioration since their origination date and performing loans. The Company accounts for performing loans under ASC Paragraph 310-20, Nonrefundable Fees and Other Costs, with the related difference in the initial fair value and unpaid principal balance (the discount) recognized as interest income on a level yield basis over the life of the loan. The Company

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accounts for the nonperforming loans acquired in accordance with ASC Paragraph 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. At the date of the acquisition, acquired loans are recorded at their fair value with no valuation allowance.

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

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

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

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

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

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

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

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Recently Issued Accounting Pronouncements

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements, the reports thereon, the notes thereto and supplementary data commence at page 79 of this Annual Report on Form 10-K.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

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

Management's report on internal control over financial reporting. The management, including the Chief Executive Officer and Chief Financial Officer, of the Company is responsible for establishing and maintaining an effective system of internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act.

As of December 31, 2018, management, including the Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control-Integrated Framework," issued by the Committee of Sponsoring Organizations, or COSO, of the Treadway Commission (2013 framework). Based on the assessment, management determined that the Company maintained effective internal control over financial reporting, as of December 31, 2018, to provide reasonable

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assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Attestation report of the registered public accounting firm. The Company's independent registered public accounting firm that audited the Company's consolidated financial statements included in this Annual Report on Form 10-K has issued an attestation report on the Company's internal control over financial reporting. The attestation report of RSM US LLP, which expresses an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2018, appears below.

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Report of Independent Registered Public Accounting Firm

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

Opinion on the Internal Control Over Financial Reporting

We have audited Independent Bank Group, Inc.'s (the Company) internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and our report dated February 28, 2019 expressed an unqualified opinion.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

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

/s/ RSM US LLP

Dallas, Texas
February 28, 2019

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ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item 10 is incorporated herein by reference to the information under the captions “Election of Directors,” “Current Executive Officers and Directors,” “Beneficial Ownership of the Company’s Common Stock by Management and Principal Shareholders of the Company-Section 16(a) Beneficial Ownership Reporting Compliance,” “Board and Committee Matters-Audit Committee,” “Board and Committee Matters-Director Nominations” and “Board and Committee Matters-Code of Conduct: Code of Ethics for Chief Executive Officer and Senior Financial Officers” in the Company’s definitive Proxy Statement for its 2019 Annual Meeting of Shareholders (the “2019 Proxy Statement”) to be filed with the Commission pursuant to Regulation 14A under the Exchange Act within 120 days of the Company’s fiscal year end.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is incorporated herein by reference to the information under the captions “Executive Compensation and Other Matters” in the 2019 Proxy Statement.

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

Certain information required by this Item 12 is included under “Securities Authorized for Issuance under Equity Compensation Plans” in Part II, Item 5 of this Annual Report on Form 10-K. The other information required by this Item is incorporated herein by reference to the information under the caption “Beneficial Ownership of Common Stock by Management and Principal Shareholders of the Company” and “Securities Authorized for Issuance Under Equity Compensation Plans” in the 2019 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this Item 13 is incorporated herein by reference to the information under the captions “Board and Committee Matters-Director Independence” and “Certain Relationships and Related Person Transactions” in the 2019 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item 14 is incorporated herein by reference to the information under the caption “Board and Committee Matters-Fees paid to Independent Registered Public Accounting Firm” and “Board and Committee Matters-Audit Committee Pre-Approval Policy” in the 2019 Proxy Statement.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Annual Report on Form 10-K:

1. Consolidated Financial Statements. Reference is made to the Consolidated Financial Statements, the report thereon and the notes thereto commencing at page 79 of this Annual Report on Form 10-K. Set forth below is an index of such Consolidated Financial Statements:

Report of Independent Registered Public Accounting Firm 78

Consolidated Balance Sheets as of December 31, 2018 and 2017 79

Consolidated Statements of Income for the Years Ended December 31, 2018, 2017 and 2016 80

Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2018, 2017 and 2016 81

Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2018, 2017 and 2016 82

Consolidated Statements of Cash Flows for the Years Ended December 31, 2018, 2017 and 2016 83

Notes to Consolidated Financial Statements 85

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

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

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

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EXHIBIT LIST

Exhibit Number	Description
3.1	<u>Amended and Restated Certificate of Formation of the Company (incorporated herein by reference to Exhibit 3.1 to the Company’s Registration Statement on Form S-1 filed with the SEC on February 27, 2013 (Registration No. 333-186912) (the “Form S-1 Registration Statement”))</u>
3.2	<u>Certificate of Amendment to Amended and Restated Certificate of Formation of the Company (incorporated herein by reference to Exhibit 3.3 to Amendment No. 2 to the Form S-1 Registration Statement filed with SEC on April 1, 2013)</u>
3.3	<u>Third Amended and Restated Bylaws of the Company (incorporated herein by reference to Exhibit 3.2 Amendment No. 1 to the Form S-1 Registration Statement filed with the SEC on March 18, 2013)</u>
3.4	<u>Certificate of Merger, dated January 2, 2014, of Live Oak Financial Corp. with and into Independent Bank Group, Inc. (incorporated herein by reference to Exhibit 3.5 to Amendment No. 1 to the Company’s Registration Statement on Form S-3 (Registration No. 333-196627 filed with the SEC on June 25, 2014 (the “Form S-3 Registration Statement”))</u>
3.5	<u>Certificate of Merger, dated April 15, 2014, of BOH Holdings, Inc. with and into Independent Bank Group, Inc. (incorporated herein by reference to Exhibit 3.6 to Amendment No. 1 to the Form S-3 Registration Statement filed with the SEC on June 25, 2014)</u>
3.6	<u>Certificate of Merger, dated September 30, 2014, of Houston City Bancshares, Inc. with and into Independent Bank Group, Inc. (incorporated by reference to Exhibit 3.7 to the Company’s Quarterly Report on Form 10-Q, for the quarter ended June 30, 2015, filed with the SEC on July 31, 2015)</u>
3.7	<u>Certificate of Merger, dated March 31, 2017, of Carlile Bancshares, Inc. with and into Independent Bank Group, Inc. (incorporated by reference to Exhibit 3.8 to the Company’s Quarterly Report on Form 10-Q, for the quarter ended March 31, 2017 filed with the SEC on April 27, 2017)</u>
3.8	<u>Certificate of Merger, dated October 23, 2017, of Washington Investment Company with and into Independent Bank Group, Inc. (incorporated by reference to Exhibit 3.9 to the Registrant’s Current Report on Form 10-Q filed with the SEC on July 26, 2018)</u>
3.9	<u>Certificate of Merger, dated May 31, 2018, of Integrity Bancshares, Inc. with and into Independent Bank Group, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant’s Current Report on Form 10-Q filed with the SEC on July 26, 2018)</u>
3.10	<u>Certificate of Merger, dated December 27, 2018, but effective January 1, 2019, of Guaranty Bancorp with and into Independent Bank Group, Inc.*</u>
4.1	<u>Form of certificate representing shares of the Company’s common stock (incorporated herein by reference to Exhibit 4.1 to Amendment No. 1 to the Form S-1 Registration Statement filed with the SEC on March 18, 2013)</u>
4.2	<u>Form of Common Stock Purchase Warrant, with schedules of differences (incorporated herein by reference to Exhibit 4.2 to the Form S-1 Registration Statement)</u>
4.3	<u>Statement of Designations of Senior Non-Cumulative Perpetual Preferred Stock, Series A of the Company, as filed with the Office of the Secretary of State of the State of Texas on April 15, 2014 (incorporated herein by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K, filed with the SEC on April 17, 2014)</u>
4.4	<u>Independent Bank 401(k) Profit Sharing Plan (Prototype Plan), including related Adoption Agreement (incorporated herein by reference to Exhibit 4.9 to the Company’s Registration Statement on Form S-8 filed with the SEC on August 29, 2014)</u>

The other instruments defining the rights of holders of the long-term debt securities of the Company and its subsidiaries are omitted pursuant to section (b)(4)(iii)(A) of Item 601 of Regulation S-K. The Company hereby agrees to furnish copies of these instruments to the SEC upon request

- 10.1 Form of Indemnification Agreement for directors and officers (incorporated herein by reference to Exhibit 10.16 to the Form S-1 Registration Statement)
- 10.2 Form of S-Corporation Revocation, Tax Allocation and Indemnification Agreement (incorporated herein by reference to Exhibit 10.17 to the Form S-1 Registration Statement)
- 10.3 2015 Performance Award Plan (incorporated by reference to Annex A of the Company's definitive Proxy Statement for its 2015 Annual Meeting of Shareholders, dated April 13, 2015)
- 10.4 2005 Stock Grant Plan, with form of Notice of Grant Letter Agreement, as amended, and related Form of Notice of Grant Letter Agreement relating to the written compensation contracts (incorporated herein by reference to Exhibit 10.18 to the Form S-1 Registration Statement)

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- 10.5 2012 Stock Grant Plan, with form of Notice of Grant Letter Agreement (incorporated herein by reference to Exhibit 10.19 to the Form S-1 Registration Statement)
- 10.6 2013 Equity Incentive Plan, with form of Restricted Stock Award Agreement (incorporated herein by reference to Exhibit 10.20 to the Form S-1 Registration Statement)
- 10.7 Subordinated Debt Indenture, dated as of June 25, 2014, between the Company and Wells Fargo Bank, National Association, in its capacity as Indenture Trustee (incorporated herein by reference to Exhibit 4.6 to the Company’s Amendment No. 1 to the Form S-3 Registration Statement filed with the SEC on June 25, 2014)
- 10.8 First Supplemental Indenture, dated as of July 17, 2014, between the Company and Wells Fargo Bank, National Association, in its capacity as Indenture Trustee (incorporated herein by reference to Exhibit 4.2 to the Company’s Current Report on Form 8-K, dated July 17, 2014)
- 10.9 Second Supplemental Indenture, dated as of December 19, 2017, between the Company and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.2 to the Company’s Current Report on Form 8-K, dated December 19, 2017)
- 10.10(a) Credit Agreement, dated as of January 17, 2019, between Independent Bank Group, Inc., in favor of U.S. Bank National Association (incorporated herein by reference to Exhibit 10.1(a) to the Company’s Current Report on Form 8-K, dated January 17, 2019)
- 10.10(b) Revolving Credit Note, dated January 17, 2019, by Independent Bank Group, Inc. in favor of U.S. Bank National Association (incorporated herein by reference to Exhibit 10.1(b) to the Company’s Current Report on Form 8-K, dated January 17, 2019)
- 10.10(c) Negative Pledge Agreement, dated as of January 17, 2019, by the Company, in favor of U.S. Bank National Association (incorporated herein by reference to Exhibit 10.1(c) to the Company’s Current Report on Form 8-K, dated January 17, 2019)
- 10.11 Employment Agreement, dated March 25, 2016, between Independent Bank and James C. White and joined in by the Company (incorporated herein by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q for the Quarter ended June 30, 2016, filed with the SEC on July 27, 2016)
- 10.12(a) Form of Change in Control Agreement, dated July 26, 2016, between the Company and certain Executive Officers (incorporated herein by reference to Exhibit 10.1(a) to the Company’s Quarterly Report on Form 10-Q for the Quarter ended September 30, 2016, filed with the SEC on October 27, 2016)
- 10.12(b) Schedule of Executive Officers who have Executed a Change in Control Agreement (incorporated herein by reference to Exhibit 10.14(b) to the Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on February 27, 2018)
- 10.13(a) CBI Nominee Agreement, dated March 28, 2017, by and among the Company and Tom C. Nichols (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8 K of Independent filed with the SEC on April 14, 2017)
- 10.13(b) CBI Nominee Agreement, dated March 28, 2017, by and among the Company and Trident IV PF Depository Holdings, LLC (incorporated herein by reference to Exhibit 10.2 to the Current Report on Form 8 K of Independent filed with the SEC on April 14, 2017)
- 10.13(c) CBI Nominee Agreement, dated March 28, 2017, by and among the Company and LEP Carlile Holdings, LLC (incorporated herein by reference to Exhibit 10.3 to the Current Report on Form 8 K of Independent filed with the SEC on April 14, 2017)
- 10.14 Agreement and Plan of Reorganization, dated as of November 28, 2017, by and among the Company and Integrity Bancshares, Inc. (incorporated herein by reference to Appendix A to the joint proxy statement/prospectus, which forms a part of the Registration Statement on Form S-4 (Registration No. 333-222804 filed with the SEC on January 31, 2018 (the “Form S-4 Registration Statement”))
- 10.15 Agreement and Plan of Reorganization, dated May 22, 2018, by and between Independent Bank Group, Inc. and Guaranty Bancorp (incorporated herein by reference to Exhibit 2.1 to the Company’s Current Report on

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Form 8-K, dated May 22, 2018)

10.16 Development Management Agreement, dated January 18, 2018, by and between IBG Real Estate Holdings II, Inc. and KDC McKinney Development One LLC and guaranteed by Independent Bank Group, Inc. and KDC Holdings LLC (incorporated herein by reference to Exhibit 10.18 to the Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on February 27, 2018)

21.1 Subsidiaries of Independent Bank Group, Inc.*

23.1 Consent of RSM US LLP, Independent Registered Public Accounting Firm of Independent Bank Group, Inc.*

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31.1 Chief Executive Officer Section 302 Certification*
31.2 Chief Financial Officer Section 302 Certification*
32.1 Chief Executive Officer Section 906 Certification**
32.2 Chief Financial Officer Section 906 Certification**
101.INS XBRL Instance Document*
101.SCH XBRL Taxonomy Extension Schema Document*
101.CAL XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB XBRL Taxonomy Extension Label Linkbase Document*
101.PRE XBRL Taxonomy Extension Presentation Linkbase Document*

* Filed herewith as an Exhibit

** Furnished herewith as an Exhibit

(b) Exhibits. See the exhibit list included in Item 15(a)3 of this Annual Report on Form 10-K.

(c) Financial Statement Schedules. See Item 15(a)2 of this Annual Report on Form 10-K.

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Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Independent Bank Group, Inc. and its subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated February 28, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ RSM US LLP

We have served as the Company's auditor since 2001.

Dallas, Texas
February 28, 2019

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Independent Bank Group, Inc. and Subsidiaries
 Consolidated Balance Sheets
 December 31, 2018 and 2017
 (Dollars in thousands, except share information)

	December 31,	
	2018	2017
Assets		
Cash and due from banks	\$102,024	\$187,574
Interest-bearing deposits in other banks	28,755	243,528
Cash and cash equivalents	130,779	431,102
Certificates of deposit held in other banks	1,225	12,985
Securities available for sale, at fair value	685,350	763,002
Loans held for sale (includes \$27,871 carried at fair value at December 31, 2018)	32,727	39,202
Loans, net	7,839,695	6,432,273
Premises and equipment, net	167,866	147,835
Other real estate owned	4,200	7,126
Federal Home Loan Bank (FHLB) of Dallas stock and other restricted stock	26,870	29,184
Bank-owned life insurance (BOLI)	129,521	113,170
Deferred tax asset	13,180	9,763
Goodwill	721,797	621,458
Core deposit intangible, net	45,042	43,244
Other assets	51,713	34,119
Total assets	\$9,849,965	\$8,684,463
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing	\$2,145,930	\$1,907,770
Interest-bearing	5,591,864	4,725,052
Total deposits	7,737,794	6,632,822
FHLB advances	290,000	530,667
Other borrowings	137,316	136,911
Junior subordinated debentures	27,852	27,654
Other liabilities	50,570	20,391
Total liabilities	8,243,532	7,348,445
Commitments and contingencies		
Stockholders' equity:		
Preferred stock (0 and 0 shares outstanding, respectively)	—	—
Common stock (30,600,582 and 28,254,893 shares outstanding, respectively)	306	283
Additional paid-in capital	1,317,616	1,151,990
Retained earnings	296,816	184,232
Accumulated other comprehensive loss	(8,305)	(487)
Total stockholders' equity	1,606,433	1,336,018
Total liabilities and stockholders' equity	\$9,849,965	\$8,684,463
See Notes to Consolidated Financial Statements		

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Independent Bank Group, Inc. and Subsidiaries
Consolidated Statements of Income
Years Ended December 31, 2018, 2017 and 2016
(Dollars in thousands, except per share information)

	Years ended December 31,		
	2018	2017	2016
Interest income:			
Interest and fees on loans	\$384,791	\$290,357	\$203,577
Interest on taxable securities	14,007	8,229	2,681
Interest on nontaxable securities	4,580	3,877	1,768
Interest on interest-bearing deposits and other	3,912	5,451	2,023
Total interest income	407,290	307,914	210,049
Interest expense:			
Interest on deposits	60,767	28,518	16,075
Interest on FHLB advances	10,264	5,858	4,119
Interest on other borrowings and repurchase agreements	8,398	6,898	5,428
Interest on junior subordinated debentures	1,609	1,162	621
Total interest expense	81,038	42,436	26,243
Net interest income	326,252	265,478	183,806
Provision for loan losses	9,860	8,265	9,440
Net interest income after provision for loan losses	316,392	257,213	174,366
Noninterest income:			
Service charges on deposit accounts	14,224	12,955	7,222
Mortgage banking revenue	15,512	13,755	7,038
Gain on sale of loans	—	351	—
Gain (loss) on sale of branches	—	2,917	(43)
Gain (loss) on sale of other real estate	269	(160)	57
Gain on sale of repossessed assets	—	1,010	—
(Loss) gain on sale of securities available for sale	(581)	124	4
Gain (loss) on sale of premises and equipment	123	(21)	32
Increase in cash surrender value of BOLI	3,170	2,748	1,348
Other	9,507	7,608	3,897
Total noninterest income	42,224	41,287	19,555
Noninterest expense:			
Salaries and employee benefits	111,697	95,741	66,762
Occupancy	24,786	22,079	16,101
Data processing	10,754	8,597	4,752
FDIC assessment	3,306	4,311	3,889
Advertising and public relations	1,907	1,452	1,107
Communications	3,353	2,860	2,116
Other real estate owned expenses, net	318	304	205
Impairment of other real estate	85	1,412	106
Core deposit intangible amortization	5,739	4,639	1,964
Professional fees	4,556	4,564	3,212
Acquisition expense, including legal	6,157	12,898	1,517
Other	25,961	17,956	12,059
Total noninterest expense	198,619	176,813	113,790
Income before taxes	159,997	121,687	80,131

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Income tax expense	31,738	45,175	26,591
Net income	\$128,259	\$76,512	\$53,540
Basic earnings per share	\$4.33	\$2.98	\$2.89
Diluted earnings per share	\$4.33	\$2.97	\$2.88
See Notes to Consolidated Financial Statements			

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Independent Bank Group, Inc. and Subsidiaries
 Consolidated Statements of Comprehensive Income
 Years Ended December 31, 2018, 2017 and 2016
 (Dollars in thousands)

	Years ended December 31,		
	2018	2017	2016
Net income	\$128,259	\$76,512	\$53,540
Other comprehensive income (loss) before tax:			
Change in net unrealized gains (losses) on available for sale securities during the year	(10,182)	1,067	(5,353)
Reclassification for amount realized through sales of securities available for sale included in net income	581	(124)	(4)
Other comprehensive income (loss) before tax	(9,601)	943	(5,357)
Income tax expense (benefit)	(2,016)	330	(1,875)
Other comprehensive income (loss), net of tax	(7,585)	613	(3,482)
Comprehensive income	\$120,674	\$77,125	\$50,058
See Notes to Consolidated Financial Statements			

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Independent Bank Group, Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2018, 2017 and 2016
(Dollars in thousands, except for par value, share and per share information)

	Preferred Stock \$.01 Par Value 10 million shares authorized	Common Stock \$.01 Par Value 100 million shares authorized	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total	
Balance, December 31, 2015	\$ —	18,399,194	\$ 184	\$ 530,107	\$ 70,698	\$ 2,382	\$ 603,371
Net income	—	—	—	—	53,540	—	53,540
Other comprehensive loss, net of tax	—	—	—	—	—	(3,482)	(3,482)
Common stock issued, net of offering costs of \$1,071	—	400,000	4	19,925	—	—	19,929
Restricted stock forfeited	—	(25,102)	—	—	—	—	—
Restricted stock granted	—	96,220	1	(1)	—	—	—
Income tax deficiency on restricted stock vested	—	—	—	(137)	—	—	(137)
Stock based compensation expense	—	—	—	5,431	—	—	5,431
Preferred stock dividends	—	—	—	—	(8)	—	(8)
Cash dividends (\$0.34 per share)	—	—	—	—	(6,279)	—	(6,279)
Balance, December 31, 2016	\$ —	18,870,312	\$ 189	\$ 555,325	\$ 117,951	\$ (1,100)	\$ 672,365
Net income	—	—	—	—	76,512	—	76,512
Other comprehensive income, net of tax	—	—	—	—	—	613	613
Stock issued for acquisition of bank, net of offering costs of \$942	—	8,804,699	88	565,112	—	—	565,200
Common stock issued, net of offering costs of \$525	—	448,500	5	26,811	—	—	26,816
Restricted stock forfeited	—	(2,543)	—	—	—	—	—
Restricted stock granted	—	130,722	1	(1)	—	—	—
Stock based compensation expense	—	—	—	4,688	—	—	4,688
Exercise of warrants	—	3,203	—	55	—	—	55
Cash dividends (\$0.40 per share)	—	—	—	—	(10,231)	—	(10,231)
Balance, December 31, 2017	\$ —	28,254,893	\$ 283	\$ 1,151,990	\$ 184,232	\$ (487)	\$ 1,336,018
Cumulative effect of change in accounting principle	—	—	—	—	233	(233)	—
Net income	—	—	—	—	128,259	—	128,259
Other comprehensive loss, net of tax	—	—	—	—	—	(7,585)	(7,585)
Stock issued for acquisition of bank, net of offering costs of \$209	—	2,071,981	21	157,033	—	—	157,054

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Restricted stock forfeited	—	(3,845)	—	—	—	—	—
Restricted stock granted	—	130,212	1	(1)	—	—	—
Stock based compensation expense	—	—	—	6,062	—	—	6,062
Exercise of warrants	—	147,341	1	2,532	—	—	2,533
Cash dividends (\$0.54 per share)	—	—	—	—	(15,908)	—	(15,908)
Balance, December 31, 2018	\$	—30,600,582	\$ 306	\$1,317,616	\$296,816	\$ (8,305)	\$1,606,433
See Notes to Consolidated Financial Statements							

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Independent Bank Group, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2018, 2017 and 2016
(Dollars in thousands)

	Years ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net income	\$ 128,259	\$ 76,512	\$ 53,540
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	8,391	8,196	6,763
Accretion of income recognized on acquired loans	(13,523)	(7,833)	(4,482)
Amortization of core deposit intangibles	5,739	4,639	1,964
Amortization of premium on securities, net	3,316	3,629	2,230
Amortization of discount and origination costs on borrowings	633	505	241
Stock based compensation expense	6,062	4,688	5,431
Excess tax benefit on restricted stock vested	(646)	(1,323)	—
FHLB stock dividends	(791)	(448)	(261)
(Gain) loss on sale of premises and equipment	(123)	21	(32)
Gain on sale of loans	—	(351)	—
Gain (loss) on sale of branches	—	(2,917)	43
Loss (gain) on sale of securities available for sale	581	(124)	(4)
(Gain) loss on sale of other real estate owned	(269)	160	(57)
Gain recognized on sale of repossessed assets	—	(1,010)	—
Impairment of other real estate	85	1,412	106
Deferred tax expense (benefit)	1,937	17,054	(1,849)
Provision for loan losses	9,860	8,265	9,440
Increase in cash surrender value of BOLI	(3,170)	(2,748)	(1,348)
Net gain on loans held for sale	(13,794)	(9,160)	—
Originations of loans held for sale	(384,178)	(429,874)	(276,679)
Proceeds from sale of loans held for sale	404,447	422,409	279,183
Net change in other assets	(14,352)	(5,987)	(978)
Net change in other liabilities	20,277	(2,920)	7,026
Net cash provided by operating activities	158,741	82,795	80,277
Cash flows from investing activities:			
Proceeds from maturities, calls and pay downs of securities available for sale	3,660,624	2,328,843	1,569,462
Proceeds from sale of securities available for sale	102,647	31,367	5,399
Purchases of securities available for sale	(3,674,396)	(2,472,799)	(1,625,416)
Purchases of certificates of deposit held in other banks	—	—	(2,707)
Proceeds from maturities of certificates of deposit held in other banks	11,760	747	61,746
Purchase of bank owned life insurance contracts	(5,000)	—	(15,000)
Purchases of FHLB stock and other restricted stock	(6,144)	(48)	(12,019)
Proceeds from redemptions of FHLB stock and other restricted stock	12,606	8,958	—
Proceeds from sale of loans	—	3,867	—
Net loans originated held for investment	(746,804)	(566,881)	(584,316)
Originations of mortgage warehouse purchase loans	(5,128,767)	(3,640,235)	—

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Proceeds from pay-offs of mortgage warehouse purchase loans	5,123,171	3,575,863	—
Additions to premises and equipment	(38,110)	(13,193)	(6,139)
Proceeds from sale of premises and equipment	14,479	16	332
Proceeds from sale of other real estate owned	3,520	9,433	1,860
Proceeds from sale of repossessed assets	—	1,010	—
Capitalized additions to other real estate	—	(1,030)	—
Cash received from acquired bank	44,723	148,444	—
Cash paid in connection with acquisition	(31,016)	(17,773)	—
Selling costs paid in connection with branch sale	—	(235)	(107)
Net cash transferred in branch sale	—	(58,687)	(2,399)
Net cash used in investing activities	(656,707)	(662,333)	(609,304)

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Independent Bank Group, Inc. and Subsidiaries
 Consolidated Statements of Cash Flows (Continued)
 Years Ended December 31, 2018, 2017 and 2016
 (Dollars in thousands)

	Years ended December 31,		
	2018	2017	2016
Cash flows from financing activities:			
Net increase in demand deposits, money market and savings accounts	363,003	610,279	521,100
Net increase (decrease) in time deposits	148,891	(210,382)	11,670
Repayments of FHLB advances	(1,985,667)	(130,079)	(402,579)
Proceeds from FHLB advances	1,685,000	200,000	575,000
Net change in repurchase agreements	—	(9,158)	8,528
Repayments of other borrowings	—	—	(5,798)
Proceeds from other borrowings, net of issuance costs	—	29,255	43,150
Proceeds from exercise of common stock warrants	2,533	55	—
Offering costs paid in connection with acquired bank	(209)	(942)	—
Proceeds from sale of common stock, net	—	26,816	19,929
Redemption of preferred stock	—	—	(23,938)
Dividends paid	(15,908)	(10,231)	(6,287)
Net cash provided by financing activities	197,643	505,613	740,775
Net change in cash and cash equivalents	(300,323)	(73,925)	211,748
Cash and cash equivalents at beginning of year	431,102	505,027	293,279
Cash and cash equivalents at end of year	\$130,779	\$431,102	\$505,027
See Notes to Consolidated Financial Statements			

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Independent Bank Group, Inc. and Subsidiaries
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Note 1. Summary of Significant Accounting Policies

Nature of operations: Independent Bank Group, Inc. (IBG) through its subsidiary, Independent Bank, a Texas state banking corporation (Bank) (collectively known as the Company), provides a full range of banking services to individual and corporate customers in North, Central and Southeast, Texas areas and along the Colorado Front Range, through its various branch locations in those areas. The Company is engaged in traditional community banking activities, which include commercial and retail lending, deposit gathering, investment and liquidity management activities. The Company's primary deposit products are demand deposits, money market accounts and certificates of deposit, and its primary lending products are commercial business and real estate, real estate mortgage and consumer loans.

Basis of presentation: The accompanying consolidated financial statements include the accounts of IBG, its wholly-owned subsidiaries, the Bank, IBG Adriatica Holdings, Inc. (Adriatica) and Carlile Capital, LLC and the Bank's wholly-owned subsidiaries, IBG Real Estate Holdings, Inc., IBG Real Estate Holdings II, Inc., IBG Aircraft Company III, Preston Grand, Inc., CFRH II, LLC, McKinney Avenue Holdings, Inc. and its wholly owned subsidiary, McKinney Avenue Holdings SPE 1, Inc. Adriatica, CFRH II, LLC, McKinney Avenue Holdings, Inc. and its subsidiary are currently not active entities.

On June 1, 2018, the Company acquired Integrity Bancshares, Inc. (Integrity) and its wholly owned subsidiary, Integrity Bank, SSB, Houston, Texas. Integrity has been merged into the Company and dissolved and Integrity Bank has been merged with the Bank as of acquisition date. See Note 21, Business Combinations for more details of the Integrity acquisition.

All material intercompany transactions and balances have been eliminated in consolidation. In addition, the Company wholly-owns IB Trust I (Trust I), IB Trust II (Trust II), IB Trust III (Trust III), IB Centex Trust I (Centex Trust I), Community Group Statutory Trust I (CGI Trust I), Northstar Statutory Trust II (Northstar Trust II) and Northstar Statutory Trust III (Northstar Trust III). The Trusts were formed to issue trust preferred securities and do not meet the criteria for consolidation (see Note 12).

Accounting standards codification: The Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) is the officially recognized source of authoritative U.S. generally accepted accounting principles (GAAP) applicable to all public and non-public non-governmental entities. Rules and interpretive releases of the SEC under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered non-authoritative. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure.

Segment reporting: The Company has one reportable segment. The Company's chief operating decision-maker uses consolidated results to make operating and strategic decisions.

Reclassifications: Certain prior period financial statement amounts have been reclassified to conform to current period presentation. The reclassifications have no effect on net income or stockholders' equity as previously reported.

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

Cash and cash equivalents: For the purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold. All highly liquid investments with an initial maturity of less than

ninety days are considered to be cash equivalents. The Company maintains deposits with other financial institutions in amounts that exceed FDIC insurance coverage. The Company's management monitors the balance in these accounts and periodically assesses the financial condition of the other financial institutions. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks on cash or cash equivalents.

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Certificates of deposit: Certificates of deposit are FDIC insured deposits in other financial institutions that mature within 18 months and are carried at cost.

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

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

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

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

Loans held for sale: The Company originates residential mortgage loans that may subsequently be sold to unaffiliated third parties. The Company elected the fair value option for certain residential mortgage loans held for sale originated after July 1, 2018 in accordance with ASC 825, Financial Instruments. This election allows for a more effective offset of the changes in fair values of the loans and the derivative instruments used to economically hedge them without the burden of complying with the requirements for hedge accounting under ASC 815, Derivatives and Hedging. The Company has not elected the fair value option for other residential mortgage loans held for sale primarily because they are not economically hedged using derivative instruments. Mortgage loans originated and intended for sale not recorded under the fair value option are carried at the lower of aggregate cost or fair value, as determined by aggregate outstanding commitments from investors. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. All mortgage loans held for sale are sold without servicing rights retained. Gains and losses on sales of loans are recognized in noninterest income at settlement dates and are determined by the difference between the sales proceeds and the carrying value of the loans.

Acquired loans: Acquired loans from the transactions accounted for as a business combination include both non-performing loans with evidence of credit deterioration since their origination date and performing loans. The Company is accounting for the non-performing loans acquired in accordance with ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. The performing loans are being accounted for under ASC 310-20, Nonrefundable Fees and Other Costs, with the related difference in the initial fair value and unpaid principal balance (the discount) recognized as interest income on a level yield basis over the life of the loan. At the date of the acquisition, the acquired loans are recorded at their fair value with no valuation allowance.

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

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

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

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

Allowance for loan losses: The allowance for loan losses is maintained at a level considered adequate by management to provide for probable loan losses. The allowance is increased by provisions charged to expense. Loans are charged against the allowance for loan losses when management believes that collectability of the principal is unlikely.

Subsequent recoveries, if any, are credited to the allowance. The provision for loan losses is the amount, which, in the judgment of management, is necessary to establish the allowance for loan losses at a level that is adequate to absorb known and inherent risks in the loan portfolio. See Note 6 for further information on the Company's policies and methodology used to estimate the allowance for loan losses.

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

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

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

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

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

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

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

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

Bank-owned life insurance: Bank-owned life insurance is recorded at the amount that can be realized under the insurance contracts at the balance sheet date, which is the cash surrender value adjusted for other charges or other

amounts due that are

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probable at settlement. Changes in the net cash surrender value of the policies, as well as insurance proceeds received are reflected in noninterest income.

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

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

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

Management estimates losses on off-balance-sheet financial instruments using the same methodology as for portfolio loans. Estimated losses on off-balance-sheet financial instruments are recorded by charges to the provision for losses and credits to other liabilities in the Company's consolidated balance sheet. There were no estimated losses on off-balance sheet financial instruments as of December 31, 2018 or 2017.

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

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

Advertising costs: Advertising costs are expensed as incurred.

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

period in which the adjustment amounts are determined. Acquisition-related costs are expensed as incurred.
Comprehensive income: Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for

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sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income. Gains and losses on available for sale securities are reclassified to net income as the gains or losses are realized upon sale of the securities. The credit component of other than temporary impairment charges are reclassified to net income at the time of the charge.

Fair values of financial instruments: Accounting standards define fair value, establish a framework for measuring fair value in U.S. generally accepted accounting principles, and require certain disclosures about fair value measurements (see Note 17, Fair Value Measurements). In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

Derivative financial instruments: The Company enters into certain derivative financial instruments: interest rate lock commitments, forward mortgage-backed securities trades and interest rate swaps. These financial instruments are not designated as hedging instruments and are used for asset and liability management related to the Company's mortgage banking activities and commercial customers' financing needs. All derivatives are carried at fair value in either other assets or other liabilities (see Note 18, Derivative Financial Instruments).

Mortgage banking: This revenue category reflects the Company's mortgage production revenue, including fees and income derived from mortgages originated with the intent to sell, gains on sales of mortgage loans and the initial and subsequent changes in the fair value of the mortgage derivatives. Interest earned on mortgage loans is recorded in interest income.

Revenue recognition: The Company adopted Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606) as of January 1, 2018 (See Note 2, Recent Accounting Pronouncements). ASC Topic 606, Revenue from Contracts with Customers, establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The majority of the Company's revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as loans, letters of credit, and investment securities, as well as revenue related to mortgage banking activities, and BOLI, as these activities are subject to other accounting guidance. Descriptions of revenue-generating activities that are within the scope of ASC 606, and are presented in the accompanying Consolidated Statements of Income as components of noninterest income, are as follows:

Service charges on deposit accounts - these represent general service fees for monthly account maintenance and activity- or-transaction-based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Revenue is recognized when the performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed (such as a wire transfer). Payment for such performance obligations are generally received at the time the performance obligations are satisfied.

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Gains/losses on the sale of other real estate owned - generally recognized when the performance obligation is complete which is typically at delivery of control over the property to the buyer at time of each real estate closing.

Other noninterest income - includes the Company's correspondent bank earnings credit, mortgage warehouse purchase program fees, acquired loan recoveries, wealth management referral income, other deposit fees, and merchant interchange income. The majority of these fees in other noninterest income are not subject to the requirements of ASC 606. The wealth management referral fees, other deposit fees and merchant interchange income are in the scope of ASC 606, and payment for such performance obligations are generally received at the time the performance obligations are satisfied.

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The Company has made no significant judgments in applying the revenue guidance prescribed in ASC 606 that affect the determination of the amount and timing of revenue from the above-described contracts with customers.

Share repurchase program: The Company established share repurchase programs in prior years which would allow the Company to purchase its common stock in the open market or in privately negotiated transactions. In general, share repurchase programs allow the Company to proactively manage its capital position and return excess capital to shareholders. On October 24, 2018, the Company announced the reestablishment of its share repurchase program. The program authorizes the purchase by the Company of up to \$75,000 of its common stock. The repurchase program is authorized to continue through October 1, 2019. No shares of Company stock were repurchased by the Company under this program during 2018.

Subsequent events: Companies are required to evaluate events and transactions that occur after the balance sheet date but before the date the financial statements are issued. They must recognize in the financial statements the effect of all events or transactions that provide additional evidence of conditions that existed at the balance sheet date, including the estimates inherent in the financial statement preparation process. Entities shall not recognize the impact of events or transactions that provide evidence about conditions that did not exist at the balance sheet date but arose after that date. The Company has evaluated subsequent events through the date of filing these financial statements with the SEC and noted no subsequent events requiring financial statement recognition or disclosure, except as disclosed in Note 24.

Earnings per share: Basic earnings per common share are net income divided by the weighted average number of common shares outstanding during the period. The unvested share-based payment awards that contain rights to non-forfeitable dividends are considered participating securities for this calculation. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under stock warrants. The participating nonvested common stock was not included in dilutive shares as it was anti-dilutive for the years ended December 31, 2018 and 2017. Proceeds from the assumed exercise of dilutive stock warrants are assumed to be used to repurchase common stock at the average market price. No stock warrants remain outstanding as of December 31, 2018.

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

	Years ended December 31,		
	2018	2017	2016
Basic earnings per share:			
Net income	\$ 128,259	\$ 76,512	\$ 53,540
Less: Preferred stock dividends	—	—	8
Net income after preferred stock dividends	128,259	76,512	53,532
Less:			
Undistributed earnings allocated to participating securities	976	626	774
Dividends paid on participating securities	139	97	103
Net income available to common shareholders	\$ 127,144	\$ 75,789	\$ 52,655
Weighted-average basic shares outstanding	29,341,843	25,394,079	18,198,578
Basic earnings per share	\$ 4.33	\$ 2.98	\$ 2.89
Diluted earnings per share:			
Net income available to common shareholders	\$ 127,144	\$ 75,789	\$ 52,655
Weighted-average basic shares outstanding	29,341,843	25,394,079	18,198,578
Add dilutive stock warrants	—	106,070	86,646
Total weighted-average diluted shares outstanding	29,341,843	25,500,149	18,285,224
Diluted earnings per share	\$ 4.33	\$ 2.97	\$ 2.88

Anti-dilutive participating securities	114,087	123,564	92,196
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Note 2. Recent Accounting Pronouncements

Adoption of new accounting standards

ASU 2014-09, Revenue from Contracts with Customers (Topic 606), ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. ASU 2014-09 amends existing guidance related to revenue from contracts with customers. The amendments state that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 affects entities that enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards. The Company's revenue consists of net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASU 2014-9, and non-interest income. The Company adopted ASU 2014-09 in the first quarter of 2018 using the modified retrospective approach effective on January 1, 2018 to all existing contracts with customers covered under the scope of the standard. The Company did not have an aggregate effect of modification resulting from the adoption of ASU 2014-09, and no financial statement line items were affected by this change in accounting standard. The newly applicable revenue disclosures have been included in the footnotes to these financial statements (see Note 1, Summary of Significant Accounting Policies).

ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This ASU required that all equity investments be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under the equity method of accounting or those that result in consolidation of the investee). This ASU also required that an entity present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. Additionally, this ASU required that public business entities base their fair value disclosures for financial instruments that are not measured at fair value in the financial statements on the exit price notion. The Company adopted ASU 2016-01 in the first quarter of 2018, and have estimated fair values of loans held for investment for the 2018 period on cash flows, adjusted for credit and prepayments, discounted using current market yields (see Note 17, Fair Value Measurements). The adoption of this ASU did not have a material impact on the Company's financial statements.

ASU 2016-15, Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments. This ASU was intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows, including debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims and distributions received from equity method investments. ASU 2016-15 became effective for the Company on January 1, 2018 and did not have a significant impact on its financial statements.

ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220) - Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments in this update allow reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (TCJA) which was signed into law on December 22, 2017. The Company elected to early adopt ASU 2018-02 in the first quarter of 2018 and apply the guidance to the beginning of the period, effective January 1, 2018. The impact of adopting the amendment resulted in a cumulative effect adjustment to the consolidated balance sheet as of January 1, 2018 to reclassify approximately \$233 of tax expense from accumulated other comprehensive loss to retained earnings as reflected in the accompanying Consolidated Statements of Changes in Stockholders' Equity.

Newly issued but not yet effective accounting standards

ASU 2016-02, Leases (Topic 842). This ASU will, among other things, require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under this guidance, lessor accounting is largely unchanged. This ASU is effective for annual and interim periods for the Company on January 1, 2019. The Company will adopt the standard by applying the alternative transition method whereby comparative periods will not be restated, and any cumulative effect adjustment to the opening balance of retained earnings would be recognized as of

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January 1, 2019. The impact to retained earnings is expected to be immaterial. The Company also expects to elect the ASU's package of three practical expedients, which allows the Company to forego a reassessment of (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases and (iii) the initial direct costs for any existing leases. The Company also does not expect to apply the recognition requirements of the ASU to any short-term leases (as defined by related accounting guidance) and expects to account for lease and non-lease components separately because such amounts are readily determinable under most lease contracts and because we expect this election will result in a lower impact on our balance sheet. The Company has implemented a lease management system to assist in centralizing, maintaining and accounting for all leases and is finalizing its evaluation of the ASU on its financial statements and disclosures, as well as any additional changes to processes and internal controls to ensure we meet the ASU's reporting and disclosure requirements. The Company currently expects to recognize right-of-use assets and related lease liabilities totaling approximately \$26,800 and \$21,900, respectively. The adoption of this ASU is not expected to have a significant impact on the Company's consolidated statement of income. Presentation of leases within the consolidated statements of income and consolidated statements of cash flows will be generally consistent with the current lease accounting guidance.

ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU removes the thresholds that companies apply to measure credit losses on financial instruments measured at amortized cost, such as loans, receivables and held-to-maturity debt securities. Under current US GAAP, companies generally recognize credit losses when it is probable that the loss has been incurred. This revised guidance will remove all recognition thresholds and will require companies to recognize an allowance for lifetime expected credit losses. Credit losses will be immediately recognized through net income; the amount recognized will be based on the current estimate of contractual cash flows not expected to be collected over the financial asset's contractual term. ASU 2016-13 also amends the credit loss measurement guidance for available for sale debt securities. This ASU will be effective for the Company on January 1, 2020. The Company is currently evaluating the potential impact of ASU 2016-13 on its financial statements and has formed a cross-functional working group, under the direction of executive management including the Chief Financial Officer and Chief Risk Officer. The working group is comprised of individuals from various functional areas including credit, risk management, accounting and information technology, among others. The Company is currently working through its implementation plan which includes such things as assessment and documentation of processes, internal controls and data sources; model development and documentation; and system configuration. The Company is also in the process of implementing a third-party vendor solution to assist in the application of the ASU 2016-13. The adoption of ASU 2016-13 could result in an increase in the allowance for loan losses as a result of changing from an "incurred loss" model, which encompasses allowances for current known and inherent losses within the portfolio, to an "expected loss" model, which encompasses allowances for losses expected to be incurred over the life of the portfolio. Furthermore, this ASU will necessitate that the Company establish an allowance for expected credit losses for certain debt securities and other financial assets. While the Company is currently unable to reasonably estimate the impact of adopting ASU 2016-13, the Company expects that the impact of adoption will be significantly influenced by the composition, characteristics and quality of our loan and securities portfolios as well as the prevailing economic conditions and forecasts as of the adoption date.

ASU 2017-04, Intangibles - Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment. This ASU simplifies the accounting for goodwill impairment for all entities by requiring impairment charges to be based on the first step in today's two-step impairment test. Under the new guidance, if a reporting unit's carrying amount exceeds its fair value, an entity will record an impairment charge based on that difference. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit. The standard eliminates today's requirement to calculate a goodwill impairment charge using Step 2, which requires an entity to calculate any impairment charge by

comparing the implied fair value of goodwill with its carrying amount. ASU 2017-04 will be effective for the Company on January 1, 2020, with earlier adoption permitted and is not expected to have a significant impact on its financial statements.

ASU 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities. This ASU requires certain premiums on callable debt securities to be amortized to the earliest call date. The amortization period for callable debt securities purchased at a discount will not be impacted. Under current GAAP, premiums on callable debt securities are generally amortized over the contractual life of the security. ASU 2017-08 will be effective for the Company on January 1, 2019 and, upon adoption, the Company expects to recognize a cumulative effect adjustment reducing retained earnings by approximately \$880, but otherwise is not expected to have a significant impact to the Company's consolidated financial statements and disclosures.

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ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. This ASU refines and expand hedge accounting for both financial and commodity risks. Its provisions create more transparency around how economic results are presented, both on the face of the financial statements and in the footnotes. It also makes certain targeted improvements to simplify the application of hedge accounting guidance. ASU 2017-02 will be effective for the Company on January 1, 2019. The adoption of this ASC is not expected to have a significant impact on the Company's consolidated financial statements and disclosures.

ASU 2018-07, Improvements to Nonemployee Share-Based Payment Accounting. This ASU aligns much of the guidance on measuring and classifying nonemployee awards with that of awards to employees. The guidance applies to nonemployee awards issued in exchange for goods or services used or consumed in an entity's own operations and to awards granted by an investor to employees and nonemployees of an equity method investee for goods or services used or consumed in the investee's operations. There are no new disclosure requirements. This ASU will be effective for the Company on January 1, 2019. The adoption of this ASU is not expected to have a significant impact on the Company's financial statements and disclosures.

ASU 2018-13, Fair Value Measurement (Topic 820) - Changes to the Disclosure Requirements for Fair Value Measurement. This ASU modifies the disclosure requirements on fair value measurements by requiring that Level 3 fair value disclosures include the range and weighted average of significant unobservable inputs used to develop those fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements. ASU 2018-13 will be effective for the Company on January 1, 2020, with early adoption permitted, and is not expected to have a significant impact on its financial statements and disclosures.

ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40) - Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by these amendments. This ASU will be effective for the Company on January 1, 2020, with early adoption permitted, and is not expected to have a significant impact on its financial statements and disclosures.

Note 3. Restrictions on Cash and Due From Banks

At December 31, 2018 and 2017, the Company had a reserve requirement of \$35,952 and \$36,321, respectively, with the Federal Reserve Bank.

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Note 4. Statement of Cash Flows

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

	Years ended December 31,		
	2018	2017	2016
Cash transactions:			
Interest expense paid	\$79,509	\$41,802	\$25,015
Income taxes paid	\$25,109	\$34,161	\$26,485
Noncash transactions:			
Transfers of loans to other real estate owned	\$410	\$1,201	\$1,713
Transfers of loans to other assets	\$—	\$—	\$124
Excess tax deficiency on restricted stock vested	\$—	\$—	\$(137)
Transfer of bank premises to other real estate	\$—	\$2,716	\$—
Transfer of repurchase accounts to deposits	\$—	\$8,845	\$20,688
Supplemental schedule of noncash investing activities from branch sales is as follows:			
	Years ended		
	December 31,		
	2018	2017	2016
Noncash assets transferred:			
Loans, including accrued interest	\$-\$106,008	\$2	
Premises and equipment	-\$7,473	2,193	
Core deposit intangible, net	-\$3,011	—	
Other assets	-\$74	—	
Total assets	\$-\$116,566	\$2,195	
Noncash liabilities transferred:			
Deposits, including interest	\$-\$178,279	\$4,628	
Other liabilities	-\$129	30	
Total liabilities	\$-\$178,408	\$4,658	
Cash and cash equivalents transferred in branch sales	\$-\$1,712	\$208	
Deposit premium received	\$-\$7,107	\$64	
Cash paid to buyer, net of deposit premium	\$-\$56,975	\$2,191	

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

	Years ended December 31,		
	2018	2017	2016
Noncash assets acquired			
Certificates of deposit held in other banks	\$—	\$11,025	\$ —
Securities available for sale	24,721	336,540	—
Restricted stock	3,357	11,110	—
Loans	651,769	1,384,210	—
Premises and equipment	4,863	63,166	—
Other real estate owned	—	11,212	—
Goodwill	100,339	363,139	—
Core deposit intangibles	7,537	36,717	—
Bank owned life insurance	8,181	53,213	—
Other assets	6,385	25,379	—
Total assets	\$807,152	\$2,295,711	\$ —
Noncash liabilities assumed:			
Deposits	\$593,078	\$1,825,181	\$ —
Repurchase agreements	—	18,003	—
FHLB advances	60,000	—	—
Junior subordinated debt	—	9,359	—
Other liabilities	10,518	7,697	—
Total liabilities	\$663,596	\$1,860,240	\$ —
Cash and cash equivalents acquired from acquisitions	\$44,723	\$148,444	\$ —
Cash paid to shareholders of acquired banks	\$31,016	\$17,773	\$ —
Fair value of common stock issued to shareholders of acquired bank	\$157,263	\$566,142	\$ —

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In addition, the following measurement-period adjustments were made during the years ended December 31, 2018, 2017 and 2016 relating to Company acquisition activity:

	Years ended	
	December 31,	
	2018	2016
Noncash assets acquired:		
Loans	\$—	-\$735
Premises and equipment	—	—
Other real estate owned	—	—
Goodwill	—	(324)
Core deposit intangibles	—	(216)
Other assets	—	(175)
Total assets	\$—	-\$20
Noncash liabilities assumed:		
Other liabilities	\$—	-\$20
Total liabilities	\$—	-\$20

Note 5. Securities Available for Sale

Securities available for sale have been classified in the consolidated balance sheets according to management's intent. The amortized cost of securities and their approximate fair values at December 31, 2018 and 2017, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
December 31, 2018				
U.S. treasuries	\$ 30,110	\$ —	\$(467)	\$29,643
Government agency securities	152,969	80	(2,819)	150,230
Obligations of state and municipal subdivisions	187,366	727	(3,086)	185,007
Residential pass-through securities guaranteed by FNMA, GNMA, and FHLMC	326,168	128	(5,826)	320,470
	\$ 696,613	\$ 935	\$(12,198)	\$685,350
December 31, 2017				
U.S. treasuries	\$ 37,480	\$ —	\$(326)	\$37,154
Government agency securities	213,649	83	(2,223)	211,509
Obligations of state and municipal subdivisions	228,782	2,118	(1,287)	229,613
Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC, FHR and GNR	274,356	1,229	(1,208)	274,377
Other securities	10,397	—	(48)	10,349
	\$ 764,664	\$ 3,430	\$(5,092)	\$763,002

Securities with a carrying amount of approximately \$219,927 and \$238,344 at December 31, 2018 and 2017, respectively, were pledged to secure public fund deposits.

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Proceeds from sale of securities available for sale and gross gains and losses for the years ended December 31, 2018, 2017 and 2016 were as follows:

	Years ended December 31,		
	2018	2017	2016
Proceeds from sale	\$ 102,647	\$ 31,367	\$ 5,399
Gross gains	\$ 268	\$ 176	\$ 4
Gross losses	\$ 849	\$ 52	\$ —

The amortized cost and estimated fair value of securities available for sale at December 31, 2018, by contractual maturity, are shown below. Maturities of pass-through certificates will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2018	
	Securities Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	\$40,616	\$40,375
Due from one year to five years	156,743	154,139
Due from five to ten years	82,488	81,198
Thereafter	90,598	89,168
	370,445	364,880
Residential pass-through securities guaranteed by FNMA, GNMA, and FHLMC	326,168	320,470
	\$696,613	\$685,350

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The number of securities, unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2018 and 2017, are summarized as follows:

Description of Securities	Less Than 12 Months			Greater Than 12 Months			Total	
	Number of Securities	Estimated Fair Value	Unrealized Losses	Number of Securities	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Securities Available for Sale								
December 31, 2018								
U.S. treasuries	1	\$9,749	\$(6)	5	\$19,894	\$(461)	\$29,643	\$(467)
Government agency securities	4	6,068	(32)	43	126,745	(2,787)	132,813	(2,819)
Obligations of state and municipal subdivisions	88	32,493	(326)	218	105,817	(2,760)	138,310	(3,086)
Residential pass-through securities guaranteed by FNMA, GNMA, and FHLMC	56	112,114	(1,031)	101	186,713	(4,795)	298,827	(5,826)
	149	\$160,424	\$(1,395)	367	\$439,169	\$(10,803)	\$599,593	\$(12,198)
December 31, 2017								
U.S. treasuries	7	\$34,053	\$(267)	1	\$3,101	\$(59)	\$37,154	\$(326)
Government agency securities	51	142,991	(1,155)	27	60,030	(1,068)	203,021	(2,223)
Obligations of state and municipal subdivisions	202	87,625	(564)	54	26,883	(723)	114,508	(1,287)
Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC, FHR and GNR	55	125,970	(834)	10	25,398	(374)	151,368	(1,208)
Other securities	1	10,349	(48)	—	—	—	10,349	(48)
	316	\$400,988	\$(2,868)	92	\$115,412	\$(2,224)	\$516,400	\$(5,092)

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

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Note 6. Loans, Net and Allowance for Loan Losses

Loans, net at December 31, 2018 and 2017, consisted of the following:

	December 31,	
	2018	2017
Commercial	\$1,361,104	\$1,059,984
Real estate:		
Commercial	4,141,356	3,369,892
Commercial construction, land and land development	905,421	744,868
Residential	1,049,521	892,293
Single family interim construction	331,748	289,680
Agricultural	66,638	82,583
Consumer	31,759	34,639
Other	253	304
	7,887,800	6,474,243
Deferred loan fees	(3,303)	(2,568)
Allowance for loan losses	(44,802)	(39,402)
	\$7,839,695	\$6,432,273

The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans. Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. The Company's management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. These cash flows, however, may not be as expected and the value of collateral securing the loans may fluctuate. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short term loans may be made on an unsecured basis. Additionally, our commercial loan portfolio includes loans made to customers in the energy industry, which is a complex, technical and cyclical industry. Experienced bankers with specialized energy lending experience originate our energy loans. Companies in this industry produce, extract, develop, exploit and explore for oil and natural gas. Loans are primarily collateralized with proven producing oil and gas reserves based on a technical evaluation of these reserves. At December 31, 2018 and 2017, there were approximately \$135,034 and \$106,060, respectively, of energy related loans outstanding. The Company has a mortgage warehouse purchase program which provides a mortgage warehouse lending vehicle to third party mortgage bankers across a broad geographic scale. The mortgage loans are underwritten, in part, on approved investor takeout commitments. These loans have a very short duration ranging between 10 days and 15 days. In some cases, loans to larger mortgage originators may be financed for up to 60 days. These loans are reported as commercial loans since the loans are secured by notes receivable, not real estate. As of December 31, 2018 and 2017, mortgage warehouse purchase loans outstanding totaled \$170,290 and \$164,694, respectively.

Commercial real estate loans are subject to underwriting standards and processes similar to commercial loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally largely

dependent on the successful operation of the property or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's commercial real estate portfolio are diverse in terms of type and geographic location. Management monitors the diversification of the portfolio on a quarterly basis by type and geographic location. Management also tracks the level of owner occupied property versus non owner occupied property. At December 31, 2018, the portfolio consisted of approximately 33% of owner occupied property.

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

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

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

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

Consumer loans represent less than 1% of the outstanding total loan portfolio. Collateral consists primarily of automobiles and other personal assets. Credit score analysis is used to supplement the underwriting process. Most of the Company's lending activity occurs within the State of Texas, primarily in the north, central and southeast Texas regions and the State of Colorado, specifically along the Front Range area. As of December 31, 2018, loans in the Colorado region represented about 6% of the total portfolio. A large percentage of the Company's portfolio consists of commercial and residential real estate loans. As of December 31, 2018 and 2017, there were no concentrations of loans related to a single industry in excess of 10% of total loans.

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

The Company's management continually evaluates the allowance for loan losses determined from the allowances established on individual loans and the amounts determined from historical loss percentages adjusted for the qualitative factors above. Should any of the factors considered by management change, the Company's estimate of loan losses could also change and would

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affect the level of future provision expense. While the calculation of the allowance for loan losses utilizes management's best judgment and all the information available, the adequacy of the allowance for loan losses is dependent on a variety of factors beyond the Company's control, including, among other things, the performance of the entire loan portfolio, the economy, changes in interest rates and the view of regulatory authorities towards loan classifications.

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

Loans requiring an allocated loan loss provision are generally identified at the servicing officer level based on review of weekly past due reports and/or the loan officer's communication with borrowers. In addition, past due loans are discussed at weekly officer loan committee meetings to determine if classification is warranted. The Company's credit department has implemented an internal risk based loan review process to identify potential internally classified loans that supplements the annual independent external loan review. The external review generally covers all loans greater than \$4,125 annually. These reviews include analysis of borrower's financial condition, payment histories and collateral values to determine if a loan should be internally classified. Generally, once classified, an impaired loan analysis is completed by the credit department to determine if the loan is impaired and the amount of allocated allowance required.

The Texas and Colorado economies, specifically the Company's lending area of north, central and southeast Texas and the Colorado Front Range area, continued to be strong throughout 2018. The Texas economy, which is the second largest in the nation, and the Colorado economy are out-pacing the U.S. economy in job creation and employment growth. Overall, the forecast is positive with continued moderate growth in the manufacturing and service sectors and rising activity in the energy sector. While the current economic outlook remains optimistic, future and long-term concerns continue to include the tightening labor markets, decreased housing affordability, energy price volatility and trade uncertainty. The risk of loss associated with all segments of the portfolio could increase due to these factors.

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The economy and other risk factors are minimized by the Company's underwriting standards which include the following principles: 1) financial strength of the borrower including strong earnings, high net worth, significant liquidity and acceptable debt to worth ratio, 2) managerial business competence, 3) ability to repay, 4) loan to value, 5) projected cash flow and 6) guarantor financial statements as applicable. The following is a summary of the activity in the allowance for loan losses by loan class for the years ended December 31, 2018, 2017 and 2016:

	Commercial	Commercial Real Estate, Construction Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Unallocated	Total
Year ended December 31, 2018									
Balance at the beginning of year	\$ 10,599	\$ 23,301	\$ 3,447	\$ 1,583	\$ 250	\$ 205	\$(32)	\$ 49	\$ 39,402
Provision for loan losses	4,973	4,909	(124)	(181)	(9)	69	210	13	9,860
Charge-offs	(3,863)	(435)	(6)	—	—	(93)	(228)	—	(4,625)
Recoveries	84	20	3	—	—	5	53	—	165
Balance at the end of year	\$ 11,793	\$ 27,795	\$ 3,320	\$ 1,402	\$ 241	\$ 186	\$ 3	\$ 62	\$ 44,802
Year ended December 31, 2017									
Balance at the beginning of year	\$ 8,593	\$ 18,399	\$ 2,760	\$ 1,301	\$ 207	\$ 242	\$ 29	\$ 60	\$ 31,591
Provision for loan losses	2,059	4,886	683	416	43	99	90	(11)	8,265
Charge-offs	(81)	(15)	—	(134)	—	(182)	(190)	—	(602)
Recoveries	28	31	4	—	—	46	39	—	148
Balance at the end of year	\$ 10,599	\$ 23,301	\$ 3,447	\$ 1,583	\$ 250	\$ 205	\$(32)	\$ 49	\$ 39,402
Year ended December 31, 2016									
Balance at the beginning of year	\$ 10,573	\$ 13,007	\$ 2,339	\$ 769	\$ 215	\$ 164	\$ 8	\$(32)	\$ 27,043
Provision for loan losses	2,391	5,436	810	532	(8)	97	90	92	9,440
Charge-offs	(4,384)	(54)	(401)	—	—	(27)	(104)	—	(4,970)
Recoveries	13	10	12	—	—	8	35	—	78
Balance at the end of year	\$ 8,593	\$ 18,399	\$ 2,760	\$ 1,301	\$ 207	\$ 242	\$ 29	\$ 60	\$ 31,591

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The following table details the amount of the allowance for loan losses and recorded investment in loans by class as of December 31, 2018 and 2017:

	Commercial	Commercial Real Estate, Construction Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agriculture	Consumer	Other	Unallocated	Total
December 31, 2018									
Allowance for losses:									
Individually evaluated for impairment	\$2,633	\$—	\$92	\$—	\$—	\$2	\$—	\$—	\$2,727
Collectively evaluated for impairment	9,115	27,795	3,228	1,402	241	184	3	62	42,030
Loans acquired with deteriorated credit quality	45	—	—	—	—	—	—	—	45
Ending balance	\$11,793	\$27,795	\$3,320	\$1,402	\$241	\$186	\$3	\$62	\$44,802
Loans:									
Individually evaluated for impairment	\$7,288	\$1,734	\$1,943	\$3,578	\$—	\$32	\$—	\$—	\$14,575
Collectively evaluated for impairment	1,335,194	4,955,178	1,044,265	328,170	66,032	31,699	253	—	7,760,791
Acquired with deteriorated credit quality	18,622	89,865	3,313	—	606	28	—	—	112,434
Ending balance	\$1,361,104	\$5,046,777	\$1,049,521	\$331,748	\$66,638	\$31,759	\$253	\$—	\$7,887,800
December 31, 2017									
Allowance for losses:									
Individually evaluated for impairment	\$3,500	\$311	\$—	\$—	\$—	\$2	\$—	\$—	\$3,813
Collectively evaluated for impairment	7,099	22,990	3,447	1,583	250	203	(32)	49	35,589
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—
Ending balance	\$10,599	\$23,301	\$3,447	\$1,583	\$250	\$205	\$(32)	\$49	\$39,402
Loans:									
Individually evaluated for impairment	\$10,297	\$3,054	\$1,727	\$—	\$—	\$74	\$—	\$—	\$15,152

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Collectively evaluated for impairment	1,037,401	4,039,332	887,292	289,680	78,646	34,544	304	—	6,367,199
Acquired with deteriorated credit quality	12,286	72,374	3,274	—	3,937	21	—	—	91,892
Ending balance	\$ 1,059,984	\$ 4,114,760	\$ 892,293	\$ 289,680	\$ 82,583	\$ 34,639	\$ 304	\$ —	\$ 6,474,243

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Nonperforming loans by loan class (excluding loans acquired with deteriorated credit quality) at December 31, 2018 and 2017, are summarized as follows:

	Commercial Real Estate, Commercial Land Development	Construction Land and Estate	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Total
December 31, 2018								
Nonaccrual loans	\$ 5,224	\$ 1,329	\$ 1,775	\$ 3,578	\$ —	\$ 32	\$ —	\$ -11,938
Loans past due 90 days and still accruing	—	—	—	—	—	5	—	5
Troubled debt restructurings (not included in nonaccrual or loans past due and still accruing)	114	405	168	—	—	—	—	687
	\$ 5,338	\$ 1,734	\$ 1,943	\$ 3,578	\$ —	\$ 37	\$ —	\$ -12,630
December 31, 2017								
Nonaccrual loans	\$ 10,304	\$ 2,716	\$ 998	\$ —	\$ —	\$ 55	\$ —	\$ -14,073
Loans past due 90 days and still accruing	8	120	8	—	—	—	—	136
Troubled debt restructurings (not included in nonaccrual or loans past due and still accruing)	—	455	730	—	—	20	—	1,205
	\$ 10,312	\$ 3,291	\$ 1,736	\$ —	\$ —	\$ 75	\$ —	\$ -15,414

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

All commercial, real estate, agricultural loans and troubled debt restructurings are considered for individual impairment analysis. Smaller balance consumer loans are collectively evaluated for impairment.

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Impaired loan information by loan class (excluding loans acquired with deteriorated credit quality) at December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016, is summarized as follows:

	Commercial Real Estate, Commercial Land Development	Construction Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agriculture	Consumer	Other	Total
December 31, 2018								
Recorded investment in impaired loans:								
Impaired loans with an allowance for loan losses	\$ 6,416	\$ —	\$ 134	\$ —	\$ —	\$ 1	\$ —	\$ —\$6,551
Impaired loans with no allowance for loan losses	872	1,734	1,809	3,578	—	31	—	8,024
Total	\$ 7,288	\$ 1,734	\$ 1,943	\$ 3,578	\$ —	\$ 32	\$ —	\$ —\$14,575
Unpaid principal balance of impaired loans	\$ 9,822	\$ 1,860	\$ 2,056	\$ 3,579	\$ —	\$ 38	\$ —	\$ —\$17,355
Allowance for loan losses on impaired loans	\$ 2,633	\$ —	\$ 92	\$ —	\$ —	\$ 2	\$ —	\$ —\$2,727
December 31, 2017								
Recorded investment in impaired loans:								
Impaired loans with an allowance for loan losses	\$ 9,255	\$ 1,793	\$ —	\$ —	\$ —	\$ 2	\$ —	\$ —\$11,050
Impaired loans with no allowance for loan losses	1,042	1,261	1,727	—	—	72	—	4,102
Total	\$ 10,297	\$ 3,054	\$ 1,727	\$ —	\$ —	\$ 74	\$ —	\$ —\$15,152
Unpaid principal balance of impaired loans	\$ 13,456	\$ 3,124	\$ 1,818	\$ —	\$ —	\$ 197	\$ —	\$ —\$18,595
Allowance for loan losses on impaired loans	\$ 3,500	\$ 311	\$ —	\$ —	\$ —	\$ 2	\$ —	\$ —\$3,813
For the year ended December 31, 2018								
Average recorded investment in impaired loans	\$ 8,919	\$ 2,667	\$ 2,033	\$ 716	\$ —	\$ 46	\$ —	\$ —\$14,381
Interest income recognized on impaired loans	\$ 119	\$ 65	\$ 81	\$ 1	\$ —	\$ 2	\$ —	\$ —\$268
For the year ended December 31, 2017								
Average recorded investment in impaired loans	\$ 8,524	\$ 3,690	\$ 2,431	\$ 177	\$ —	\$ 218	\$ —	\$ —\$15,040

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Interest income recognized on impaired loans	\$ 8	\$ 428	\$ 58	\$ —	\$ —	\$ 5	\$ —\$499
For the year ended December 31, 2016							
Average recorded investment in impaired loans	\$ 11,783	\$ 3,324	\$ 2,773	\$ 177	\$ 34	\$ 118	\$ —\$18,209
Interest income recognized on impaired loans	\$ 58	\$ 73	\$ 97	\$ —	\$ —	\$ —	\$ —\$228

Certain impaired loans have adequate collateral and do not require a related allowance for loan loss. The Company will charge off that portion of any loan which management considers a loss. Commercial and real estate loans are generally considered for charge-off when exposure beyond collateral coverage is apparent and when no further collection of the loss portion is anticipated based on the borrower’s financial condition. The restructuring of a loan is considered a “troubled debt restructuring” if both 1) the borrower is experiencing financial difficulties and 2) the creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, extending amortization and other actions intended to minimize potential losses.

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A “troubled debt restructured” loan is identified as impaired and measured for credit impairment as of each reporting period in accordance with the guidance in ASC 310-10-35. Modifications primarily relate to extending the amortization periods of the loans and interest rate concessions. The majority of these loans were identified as impaired prior to restructuring; therefore, the modifications did not materially impact the Company’s determination of the allowance for loan losses. The recorded investment in troubled debt restructurings, including those on nonaccrual, was \$1,925 and \$3,028 as of December 31, 2018 and 2017, respectively.

Following is a summary of loans modified under troubled debt restructurings during the years ended December 31, 2018 and 2017:

	Commercial	Commercial Real Estate, Construction and Land Development	Residential Real Estate	Single-Family Interim Construction	Agriculture	Consumer	Other	Total
Troubled debt restructurings during the year ended December 31, 2018								
Number of contracts	1	—	—	—	—	—	—	1
Pre-restructuring outstanding recorded investment	\$ 114	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Post-restructuring outstanding recorded investment	\$ 114	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Troubled debt restructurings during the year ended December 31, 2017								
Number of contracts	1	—	1	—	—	1	—	3
Pre-restructuring outstanding recorded investment	\$ 873	\$ —	\$ 465	\$ —	\$ —	\$ 22	\$ —	\$ 1,360
Post-restructuring outstanding recorded investment	\$ 873	\$ —	\$ 465	\$ —	\$ —	\$ 22	\$ —	\$ 1,360

At December 31, 2018 and 2017, there were no loans modified under troubled debt restructurings during the previous twelve month period that subsequently defaulted during the years ended December 31, 2018 and 2017. At December 31, 2018 and 2017, the Company had no commitments to lend additional funds to any borrowers with loans whose terms have been modified under troubled debt restructurings.

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Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. The following table presents information regarding the aging of past due loans by loan class as of December 31, 2018 and 2017:

	Loans 30-89 Days Past Due	Loans 90 or More Past Due	Total Past Due Loans	Current Loans	Total Loans
December 31, 2018					
Commercial	\$15,426	\$4,366	\$19,792	\$1,322,690	\$1,342,482
Commercial real estate, construction, land and land development	3,435	—	3,435	4,953,477	4,956,912
Residential real estate	4,199	1,035	5,234	1,040,974	1,046,208
Single-family interim construction	774	3,578	4,352	327,396	331,748
Agricultural	—	—	—	66,032	66,032
Consumer	135	35	170	31,561	31,731
Other	—	—	—	253	253
	23,969	9,014	32,983	7,742,383	7,775,366
Acquired with deteriorated credit quality	2,939	957	3,896	108,538	112,434
	\$26,908	\$9,971	\$36,879	\$7,850,921	\$7,887,800
December 31, 2017					
Commercial	\$730	\$10,300	\$11,030	\$1,036,668	\$1,047,698
Commercial real estate, construction, land and land development	4,083	1,944	6,027	4,036,359	4,042,386
Residential real estate	6,269	138	6,407	882,612	889,019
Single-family interim construction	1,436	—	1,436	288,244	289,680
Agricultural	—	—	—	78,646	78,646
Consumer	373	47	420	34,198	34,618
Other	—	—	—	304	304
	12,891	12,429	25,320	6,357,031	6,382,351
Acquired with deteriorated credit quality	2,748	4,013	6,761	85,131	91,892
	\$15,639	\$16,442	\$32,081	\$6,442,162	\$6,474,243

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

The loans that are not impaired are included with the remaining “pass” credits in determining the portion of the allowance for loan loss based on historical loss experience and other qualitative factors. The portfolio is segmented into categories including: commercial loans, consumer loans, commercial real estate loans, residential real estate loans and agricultural loans. The

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adjusted historical loss percentage is applied to each category. Each category is then added together to determine the allowance allocated under ASC 450-20.

A summary of loans by credit quality indicator by class as of December 31, 2018 and 2017, is as follows:

	Pass	Pass/ Watch	Special Mention	Substandard	Doubtful	Total
December 31, 2018						
Commercial	\$1,279,024	\$18,378	\$30,783	\$32,919	\$	—\$1,361,104
Commercial real estate, construction, land and land development	4,895,217	81,693	40,601	29,266	—	5,046,777
Residential real estate	1,038,283	3,617	707	6,914	—	1,049,521
Single-family interim construction	327,939	—	231	3,578	—	331,748
Agricultural	61,055	2,918	2,093	572	—	66,638
Consumer	31,559	67	—	133	—	31,759
Other	253	—	—	—	—	253
	\$7,633,330	\$106,673	\$74,415	\$73,382	\$	—\$7,887,800
December 31, 2017						
Commercial	\$989,953	\$35,105	\$3,737	\$31,189	\$	—\$1,059,984
Commercial real estate, construction, land and land development	4,040,385	46,288	11,915	16,172	—	4,114,760
Residential real estate	883,653	2,722	462	5,456	—	892,293
Single-family interim construction	288,020	1,660	—	—	—	289,680
Agricultural	59,392	5,762	13,802	3,627	—	82,583
Consumer	34,510	25	4	100	—	34,639
Other	304	—	—	—	—	304
	\$6,296,217	\$91,562	\$29,920	\$56,544	\$	—\$6,474,243

The Company has acquired certain loans which experienced credit deterioration since origination (purchase credit impaired (PCI) loans).

The Company has included PCI loans in the above grading tables. The following provides additional detail on the grades applied to those loans at December 31, 2018 and December 31, 2017:

	Pass	Pass/ Watch	Special Mention	Substandard	Doubtful	Total
December 31, 2018	\$40,940	\$32,427	\$14,817	\$24,250	\$	—\$112,434
December 31, 2017	36,928	32,674	2,662	19,628	—	91,892

PCI loans may remain on accrual status to the extent the company can reasonably estimate the amount and timing of expected future cash flows. At December 31, 2018 and December 31, 2017, nonaccrual PCI loans were \$6,996 and \$7,889, respectively.

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Accretion on PCI loans is based on estimated future cash flows, regardless of contractual maturity. The following table summarizes the outstanding balance and related carrying amount of purchased credit impaired loans as of the respective acquisition date for the acquisitions occurring in 2018 and 2017.

	Acquisition Date	
	June 1, 2018	April 1, 2017
	Integrity Bancshares, Inc.	Carlisle Bancshares, Inc.
Outstanding balance	\$57,317	\$ 101,153
Nonaccretable difference	(9,969)	(14,700)
Accretable yield	(128)	(685)
Carrying amount	\$47,220	\$ 85,768

The carrying amount of acquired PCI loans included in the consolidated balance sheet and the related outstanding balance at December 31, 2018 and 2017, were as follows:

	December 31,	
	2018	2017
Outstanding balance	\$ 129,333	\$ 105,685
Carrying amount	112,434	91,892

There was an allocation of \$45 and \$0 established in the allowance for loan losses related to PCI loans at December 31, 2018 and 2017, respectively.

The changes in accretable yield during the years ended December 31, 2018 and 2017 in regard to loans transferred at acquisition for which it was probable that all contractually required payments would not be collected are presented in the table below.

	2018	2017
Balance at January 1	\$ 1,546	\$ 1,526
Additions	128	685
Accretion	(1,557)	(665)
Net transfers to/from nonaccretable	1,319	—
Balance at December 31	\$ 1,436	\$ 1,546

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Note 7. Premises and Equipment, Net

Premises and equipment, net at December 31, 2018 and 2017 consisted of the following:

	December 31,	
	2018	2017
Land	\$43,746	\$45,048
Building	93,793	107,144
Furniture, fixtures and equipment	34,602	31,290
Aircraft	8,947	8,807
Leasehold and tenant improvements	4,638	2,077
Construction in progress	32,399	252
	218,125	194,618
Less accumulated depreciation	(50,259)	(46,783)
	\$167,866	\$147,835

Depreciation expense amounted to \$8,391, \$8,196 and \$6,763 for the years ended December 31, 2018, 2017 and 2016, respectively.

Note 8. Goodwill and Core Deposit Intangible, Net

At December 31, 2018 and 2017, goodwill totaled \$721,797 and \$621,458, respectively. In 2018, the Company recorded goodwill of \$100,339 relating to the Integrity Bancshares, Inc. acquisition (see Note 21, Business Combinations).

The following is a summary of core deposit intangible activity:

	December 31,	
	2018	2017
Core deposit intangible, beginning of the year	\$56,354	\$22,803
Additions: Integrity and Carlile acquisitions	7,537	36,717
Deletions: branch disposals	—	(3,166)
Core deposit intangible, end of the year	63,891	56,354
Less accumulated amortization	(18,849)	(13,110)
	\$45,042	\$43,244

Amortization of the core deposit intangible amounted to \$5,739, \$4,639 and \$1,964 for the years ended December 31, 2018, 2017 and 2016, respectively. The remaining weighted average amortization period is 7.9 years as of December 31, 2018.

The future amortization expense related to core deposit intangible remaining at December 31, 2018 is as follows:

First year	\$6,009
Second year	5,978
Third year	5,888
Fourth year	5,799
Fifth year	5,747
Thereafter	15,621
	\$45,042

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Note 9. Deposits

Deposits at December 31, 2018 and 2017 consisted of the following:

	December 31,		2017	
	Amount	Percent	Amount	Percent
Noninterest-bearing demand accounts	\$2,145,930	27.7 %	\$1,907,770	28.7 %
Interest-bearing checking accounts	2,892,318	37.4	2,956,196	44.6
Savings accounts	293,108	3.8	283,036	4.3
Limited access money market accounts	1,286,135	16.6	591,421	8.9
Certificates of deposit and individual retirement accounts (IRA), less than \$250,000	559,016	7.2	456,018	6.9
Certificates of deposit and individual retirement accounts (IRA), \$250,000 and greater	561,287	7.3	438,381	6.6
	\$7,737,794	100.0%	\$6,632,822	100.0%

At December 31, 2018, the scheduled maturities of certificates of deposit, including IRAs, were as follows:

First year	\$913,746
Second year	143,721
Third year	36,249
Fourth year	12,620
Fifth year	13,967
Thereafter	—
	\$1,120,303

Brokered deposits at December 31, 2018 and 2017 totaled \$356,282 and \$400,144, respectively.

Note 10. Federal Home Loan Bank Advances

At December 31, 2018, the Company has advances from the FHLB of Dallas under note payable arrangements with maturities which range from January 2, 2019 to July 6, 2021. Interest payments on these notes are made monthly. The weighted average interest rate of all notes was 2.17% and 1.43% at December 31, 2018 and 2017, respectively. The balances outstanding on these advances were \$290,000 and \$530,667 at December 31, 2018 and 2017, respectively. Contractual maturities of FHLB advances at December 31, 2018 were as follows:

First year	\$115,000
Second year	150,000
Third year	25,000
Fourth year	—
Fifth year	—
Thereafter	—
	\$290,000

The advances are secured by FHLB stock owned by the Company and a blanket lien on certain loans with an aggregate available carrying value of \$2,821,112 at December 31, 2018. The Company had remaining credit available under the

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FHLB advance program of \$1,951,066 at December 31, 2018.

At December 31, 2018, the Company had \$729,875 in undisbursed advance commitments (letters of credit) with the FHLB. As of December 31, 2018, these commitments mature on various dates from January 2019 through July 2020. The FHLB letters of credit were obtained in lieu of pledging securities to secure public fund deposits that are over the FDIC insurance limit. At December 31, 2018, there were no disbursements against the advance commitments.

Note 11. Other Borrowings

Other borrowings at December 31, 2018 and 2017 consisted of the following:

	December 31, 2018	2017
Unsecured subordinated debentures (notes) in the amount of \$110,000. The balance of borrowings at December 31, 2018 and 2017 is net of discount and origination costs of \$1,986 and \$2,344, respectively. Interest payments of 5.875% are made semiannually on February 1 and August 1. The maturity date is August 1, 2024. The notes may not be redeemed prior to maturity and meet the criteria to be recognized as Tier 2 capital for regulatory purposes.	\$108,014	\$107,656
Unsecured subordinated debentures (notes) in the amount of \$30,000. The balance of borrowings at December 31, 2018 and 2017 is net of origination costs of \$698 and \$745, respectively. Interest payments of 5.00% fixed rate are made semiannually on June 30 and December 31 through December 31, 2022. Thereafter, floating rate payments of 3 month LIBOR plus 2.83% are made quarterly in arrears on March 31, June 30, September 30, and December 31 through March 31, 2028. The maturity date is December 31, 2027 with an optional redemption at December 31, 2022. The notes meet the criteria to be recognized as Tier 2 capital for regulatory purposes.	29,302	29,255
	\$137,316	\$136,911

At December 31, 2018 and 2017, other borrowings included amounts owed to related parties of \$50.

In December 2017, the Company issued \$30,000 in aggregate principal of 5.00% fixed and floating rate subordinated notes due December 31, 2027. The notes were sold at par.

The Company has a \$50,000 unsecured revolving line of credit with an unrelated commercial bank at December 31, 2018. The line bears interest at LIBOR plus 2.50% and matures January 29, 2019. As of December 31, 2018 and 2017, there was no outstanding balance on the line. The Company is required to meet certain financial covenants on a quarterly basis, which includes maintaining \$5,000 in cash at Independent Bank Group and meeting minimum capital ratios. Subsequent to December 31, 2018, the Company renewed and amended the line (see Note 24, Subsequent Events).

The Company has established federal funds lines of credit notes with ten and nine unaffiliated banks totaling \$365,000 and \$225,000 of borrowing capacity at December 31, 2018 and 2017, respectively. At December 31, 2018, three of the lines totaling \$45,000 have stated maturity dates in August and September 2019. The remaining lines have no stated maturity date and the lenders may terminate the lines at any time without notice. The lines are provided on an unsecured basis and must be repaid the following business day from when the funds were borrowed. There were no borrowings against the lines at December 31, 2018 and 2017.

In addition, the Company maintains a secured line of credit with the Federal Reserve Bank with an availability to borrow approximately \$738,919 and \$552,181 at December 31, 2018 and 2017, respectively. Approximately \$978,266 and \$740,639 of commercial loans were pledged as collateral at December 31, 2018 and 2017, respectively. There were no borrowings against this line as of December 31, 2018 and 2017.

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The Company also participates in an exchange that provides direct overnight borrowings with other financial institutions. The funds are provided on an unsecured basis. Borrowing availability totaled \$204,000 and \$60,000 at December 31, 2018 and 2017, respectively. There were no borrowings as of December 31, 2018 and 2017.

Note 12. Junior Subordinated Debentures

The Company has formed or acquired seven statutory business trusts under the laws of the State of Delaware for the purpose of issuing trust preferred securities. The statutory business trusts formed or acquired by the Company (the "Trusts") have each issued capital and common securities and invested the proceeds thereof in an equivalent amount of junior subordinated debentures (the "Debentures") issued by the Company. The interest rate payable on, and the payment terms of the Debentures are the same as the distribution rate and payment terms of the respective issues of capital and common securities issued by the Trusts. The Debentures are subordinated and junior in right of payment to all present and future senior indebtedness. The Company has fully and unconditionally guaranteed the obligations of each of the Trusts with respect to the capital and common securities. Except under certain circumstances, the common securities issued to the Company by the trusts possess sole voting rights with respect to matters involving those entities. Under certain circumstances, the Company may, from time to time, defer the debentures' interest payments, which would result in a deferral of distribution payments on the related trust preferred securities and, with certain exceptions, prevent the Company from declaring or paying cash distributions on the Company's common stock and any other future debt ranking equally with or junior to the debentures.

As of December 31, 2018 and 2017, the carrying amount of debentures outstanding totaled \$27,852 and \$27,654, respectively. As a result of the Carlisle acquisition during 2017 (see Note 21, Business Combinations), the Company assumed subordinated obligations for two statutory Trusts. At acquisition date, the total debt for these two Trusts was recorded at fair value with a recorded discount totaling \$4,045, which will be amortized back to par value over the estimated lives of the instruments. During 2018 and 2017, \$198 and \$149, respectively, was amortized into interest expense related to the discount recorded.

Information regarding the Debentures as of December 31, 2018 consisted of the following:

	Junior Subordinated Debentures Owed to Trusts	Carrying Value	Repricing Frequency	Interest Rate	Interest Rate Index	Maturity Date
IB Trust I	\$ 5,155	\$5,155	Quarterly	5.79%	LIBOR + 3.25%	March 2033
IB Trust II	3,093	3,093	Quarterly	5.29	LIBOR + 2.85	March 2034
IB Trust III	3,712	3,712	Quarterly	5.05	LIBOR + 2.40	December 2035
IB Centex Trust I	2,578	2,578	Quarterly	5.90	LIBOR + 3.25	February 2035
Community Group Statutory Trust I	3,609	3,609	Quarterly	4.39	LIBOR + 1.60	June 2037
Northstar Trust II	5,155	3,739	Quarterly	4.46	LIBOR + 1.67	June 2037
Northstar Trust III	8,248	5,966	Quarterly	4.46	LIBOR + 1.67	September 2037
	\$ 31,550	\$27,852				

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Note 13. Income Taxes

The Tax Cuts and Jobs Act, which was enacted on December 22, 2017, made significant changes to the U.S. tax law, including the reduction of the corporate income tax rate from 35% to 21%.

Income tax expense for the years ended December 31, 2018, 2017 and 2016 was as follows:

	Years ended December 31,		
	2018	2017	2016
Current income tax expense	\$29,801	\$28,121	\$28,440
Deferred income tax expense (benefit)	2,000	11,526	(1,849)
Deferred income tax (benefit) expense related to remeasurement of deferred taxes	(63)	5,528	—
Income tax expense, as reported	\$31,738	\$45,175	\$26,591

A reconciliation between reported income tax expense and the amounts computed by applying the U.S. federal statutory income tax rate of 21% for the year ended December 31, 2018 and 35% for the years ended December 31, 2017 and 2016 to income before income taxes is presented below:

	Years ended December 31,		
	2018	2017	2016
Income tax expense computed at the statutory rate	\$33,599	\$42,590	\$28,046
Tax-exempt interest income from municipal securities	(962)	(1,357)	(619)
Tax-exempt loan income	(490)	(435)	(436)
Bank owned life insurance income	(666)	(962)	(472)
Non-deductible acquisition expenses	142	491	—
State taxes, net of federal benefit	375	241	—
Net tax benefit from stock based compensation	(646)	(1,323)	—
Deferred tax adjustment related to reduction in U.S. Federal statutory income tax rate	(63)	5,528	—
Other	449	402	72
	\$31,738	\$45,175	\$26,591

As ASC 740, Income Taxes, requires the effects of changes in tax rates and laws on deferred tax balances to be recognized in the period in which the legislation is enacted, the Company remeasured its deferred tax assets and liabilities based upon the newly enacted U.S. statutory federal income tax rate of 21%, which is the tax rate at which these assets and liabilities are expected to reverse in the future and, as noted above, recognized a tax expense related to the remeasurement of \$5,528 in 2017. In accordance with the SEC Staff Accounting Bulletin No. 118 (SAB 118), which provides for a one year measurement period from the Tax Act enactment date for companies to complete the accounting under ASC 740, Income Taxes, an additional net tax benefit resulting from the finalization of those calculations of \$63 was recorded in 2018.

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Components of deferred tax assets and liabilities are presented in the table below. As a result of the Tax Cuts and Jobs Act, deferred taxes as of December 31, 2018 and 2017 are based on the newly enacted U.S. statutory federal income tax rate of 21%.

	December 31,	
	2018	2017
Deferred tax assets:		
Allowance for loan losses	\$9,496	\$8,365
NOL and tax credit carryforwards from acquisitions	4,810	6,791
Net unrealized loss on available for sale securities	2,365	349
Acquired loan fair market value adjustments	6,090	5,214
Restricted stock	987	791
Reserve for bonuses	1,646	479
Deferred loan fees	700	545
Securities	273	265
Start up costs	274	281
Other real estate owned	273	402
Unearned bankcard income	160	244
Deferred compensation	1,266	492
Noncompete agreements	552	526
Nonaccrual loans	470	414
Other	303	310
	29,665	25,468
Deferred tax liabilities:		
Premises and equipment	(5,242)	(5,128)
Core deposit intangibles	(9,547)	(9,181)
Acquired junior subordinated debentures fair value adjustment	(777)	(818)
FHLB stock	(250)	(204)
Prepays	(190)	(153)
Acquired tax goodwill	(232)	(111)
Other	(247)	(110)
	(16,485)	(15,705)
Net deferred tax asset	\$13,180	\$9,763

At December 31, 2018, the Company had federal net operating loss carryforwards of approximately \$18,822 which expire in various years from 2021 to 2032, federal tax credit carryovers of approximately \$132 which will never expire and state net operating loss carryforwards of approximately \$19,821 which expire in various years from 2030 to 2036. Deferred tax assets are recognized for net operating losses because the benefit is more likely than not to be realized. No valuation allowance for deferred tax assets was recorded at December 31, 2018 or 2017 as management believes it is more likely than not that all of the deferred tax assets will be realized.

The Company does not have any material uncertain tax positions and does not have any interest and penalties recorded in the income statement for the years ended December 31, 2018, 2017 and 2016. The Company files a consolidated income tax return in the US federal tax jurisdiction. The Company is no longer subject to examination by the US federal tax jurisdiction for years prior to 2015.

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Note 14. Commitments and Contingencies
 Financial Instruments with Off-Balance Sheet Risk

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

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of this instrument. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. At December 31, 2018 and 2017, the approximate amounts of these financial instruments were as follows:

	December 31,	
	2018	2017
Commitments to extend credit	\$1,761,724	\$1,286,704
Standby letters of credit	14,997	10,532
	\$1,776,721	\$1,297,236

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, farm crops, property, plant and equipment and income-producing commercial properties.

Letters of credit are written conditional commitments used by the Company to guarantee the performance of a customer to a third party. The Company's policies generally require that letter of credit arrangements contain security and debt covenants similar to those contained in loan arrangements. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount shown in the table above. If the commitment is funded, the Company would be entitled to seek recovery from the customer. As of December 31, 2018 and 2017, no amounts have been recorded as liabilities for the Company's potential obligations under these guarantees.

Litigation

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

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

Lease Commitments

The Company leases certain branch facilities and other facilities. Rent expense related to these leases amounted to \$3,758, \$3,073 and \$2,114 for the years ended December 31, 2018, 2017 and 2016, respectively.

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At December 31, 2018, minimum future rental payments due under noncancelable lease commitments were as follows:

First year	\$3,968
Second year	3,853
Third year	3,698
Fourth year	3,221
Fifth year	2,502
Thereafter	7,863
	\$25,105

It is expected that certain leases will be renewed as these leases expire. The Company leases office space in certain locations to other unaffiliated tenants. Rental income of \$456 was recognized during 2018. This rental income is recorded in the consolidated statement of income as an offset to occupancy expense. Aggregate future minimum rentals to be received under noncancelable subleases greater than one year at December 31, 2018, were \$1,311. During third quarter 2018, the Company sold its existing corporate headquarters to an unaffiliated third party and executed a five year leaseback with the buyer. In connection with the sale and subsequent leaseback, the Company agreed to a prepayment of \$7,822 which represents \$5,222 in base rent and \$2,600 in operating expenses, as defined under the terms of the lease. Such prepaid is reflected in other assets in the consolidated balance sheet and totaled \$7,375, of which \$4,931 relates to base rent, as of December 31, 2018. The base rent prepaid has been excluded from the above table of minimum future rental payments due under noncancelable leases.

Note 15. Related Party Transactions

In the ordinary course of business, the Company has and expects to continue to have transactions, including loans to its officers, directors and their affiliates. In the opinion of management, such transactions are on the same terms as those prevailing at the time for comparable transactions with unaffiliated persons. Loan activity for officers, directors and their affiliates for the year ended December 31, 2018 is as follows:

Balance at beginning of year	\$63,916
New loans	26,701
Repayments	(9,247)
Changes in affiliated persons	(22,403)
Balance at end of year	\$58,967

See Note 11, Other Borrowings, for related party borrowings.

Note 16. Employee Benefit Plans

The Company has a 401(k) profit sharing plan (Plan) which covers employees over the age of eighteen who have completed ninety days of credited service, as defined by the Plan. The Plan provides for "before tax" employee contributions through salary reduction contributions under Section 401(k) of the Internal Revenue Code. A participant may choose a salary reduction not to exceed the dollar limit set by law each year (\$18.5 in 2018). Contributions by the Company and by participants are immediately fully vested. In July 2018, the Plan was modified to provide for the Company to make 401(k) matching contributions of 100%, but limited to 6% of the participant's eligible salary. Previously, the Plan provided for the Company to make 401(k) matching contributions ranging from 50% to 100% depending upon the employee's years of service, but limited to 6% of the participant's eligible salary. The Plan also

provides for the Company to make additional discretionary contributions to

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the Plan. The Company made contributions of approximately \$3,280, \$2,070 and \$1,393 for the years ended December 31, 2018, 2017 and 2016, respectively.

Note 17. Fair Value Measurements

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

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

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

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

The Company elected the fair value option for certain residential mortgage loans held for sale originated after July 1, 2018 in accordance with ASC 825, Financial Instruments. This election allows for a more effective offset of the changes in fair values of the loans and the derivative instruments used to economically hedge them without the burden of complying with the requirements for hedge accounting under ASC 815, Derivatives and Hedging. The Company has not elected the fair value option for other residential mortgage loans held for sale primarily because they are not economically hedged using derivative instruments. See below and Note 18, Derivative Financial Instruments, for additional information.

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Assets and Liabilities Measured on a Recurring Basis

The following table represents assets and liabilities reported on the consolidated balance sheets at their fair value on a recurring basis as of December 31, 2018 and 2017 by level within the ASC Topic 820 fair value measurement hierarchy:

		Fair Value Measurements at Reporting Date Using		
		Quoted	Other	Significant
		Prices	Observable	Unobservable
	Assets/ Liabilities Measured at Fair Value	in Active Markets for Identical Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)
December 31, 2018				
Assets:				
Investment securities available for sale:				
U.S. treasuries	\$29,643	\$—	\$29,643	\$ —
Government agency securities	150,230	—	150,230	—
Obligations of state and municipal subdivisions	185,007	—	185,007	—
Residential pass-through securities guaranteed by FNMA, GNMA, and FHLMC	320,470	—	320,470	—
Total investment securities available for sale	\$685,350	\$—	\$685,350	\$ —
Loans held for sale, fair value option elected ⁽¹⁾	\$27,871	\$—	\$27,871	\$ —
Derivative financial instruments:				
Interest rate lock commitments	822	—	822	—
Loan customer counterparty	360	—	360	—
Financial institution counterparty	109	—	109	—
Liabilities:				
Derivative financial instruments:				
Forward mortgage-backed securities trades	226	—	226	—
Loan customer counterparty	108	—	108	—
Financial institution counterparty	406	—	406	—
December 31, 2017				
Assets:				
Investment securities available for sale:				
U.S. treasuries	\$37,154	\$—	\$37,154	\$ —
Government agency securities	211,509	—	211,509	—
Obligations of state and municipal subdivisions	229,613	—	229,613	—
	274,377	—	274,377	—

Residential pass-through securities guaranteed by FNMA, GNMA,
 FHLMC, FHR and GNR

Other securities	10,349	10,349	—	—
Total investment securities available for sale	\$763,002	\$10,349	\$752,653	\$ —

⁽¹⁾ At December 31, 2018, loans held for sale for which the fair value option was elected had an aggregate outstanding principal balance of \$26,594. There were no mortgage loans held for sale under the fair value option that were 90 days or greater past due or on nonaccrual at December 31, 2018.

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

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

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Securities classified as available for sale are reported at fair value utilizing Level 1 and Level 2 inputs. Securities are classified within Level 1 when quoted market prices are available in an active market. Inputs include securities that have quoted prices in active markets for identical assets. For securities utilizing Level 2 inputs, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury and other yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security's terms and conditions, among other things.

Certain mortgage loans held for sale are measured at fair value on a recurring basis due to the Company's election to adopt fair value accounting treatment for those loans originated after July 1, 2018 for which the Company has entered into certain derivative financial instruments as part of its mortgage banking and related risk management activities. These instruments include interest rate lock commitments and mandatory forward commitments to sell these loans to investors known as forward mortgage-backed securities trades. Such mortgage loans held for sale, which are sold on a servicing released basis, are valued using a market approach by utilizing either: (i) the fair value of securities backed by similar mortgage loans, adjusted for certain factors to approximate the fair value of a whole mortgage loan, including the value attributable to mortgage servicing and credit risk, (ii) current commitments to purchase loans or (iii) recent observable market trades for similar loans, adjusted to credit risk and other individual loan characteristics. As these prices are derived from market observable inputs, the Company classifies these valuations as Level 2 in the fair value disclosures. For mortgage loans held for sale for which the fair value option was elected, the earned current contractual interest payment is recognized in interest income, loan origination costs and fees on fair value option loans are recognized in earnings as incurred and not deferred. The Company has no continuing involvement in any residential mortgage loans sold.

The estimated fair values of interest rate lock commitments utilize current secondary market prices for underlying loans and estimated servicing value with similar coupons, maturity and credit quality, subject to the anticipated loan funding probability (pull-through rate). The fair value of interest rate lock commitments is subject to change primarily due to changes in interest rates and the estimated pull-through rate. These commitments are classified as Level 2 in the fair value disclosures, as the valuations are based on observable market inputs.

Forward mortgage-backed securities trades are exchange-traded or traded within highly active dealer markets. In order to determine the fair value of these instruments, the Company utilized the exchange price or dealer market price for the particular derivative contract; therefore these contracts are classified as Level 2. The estimated fair values are subject to change primarily due to changes in interest rates.

The Company also enters into certain interest rate derivative positions that are not designated as hedging instruments. The estimated fair value of these commercial loan interest rate swaps are obtained from a pricing service that provides the swaps' unwind value (Level 2 inputs). See Note 18, Derivative Financial Instruments, for more information.

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Assets and Liabilities Measured on a Nonrecurring Basis

In accordance with ASC Topic 820, certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets carried on the consolidated balance sheet by caption and by level in the fair value hierarchy at December 31, 2018 and 2017, for which a nonrecurring change in fair value has been recorded:

	Fair Value Measurements at Reporting Date Using			
	Quoted Prices		Significant	Period
Assets/ Liabilities Measured at Fair Value	in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Ended Total Losses
December 31, 2018				
Assets:				
Impaired loans	\$ 3,824	\$ —	—\$ 3,824	\$2,227
December 31, 2017				
Assets:				
Impaired loans	\$ 7,237	\$ —	—\$ 7,237	\$3,719
Other real estate owned	1,726	—	1,726	375

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

Therefore, the Company has categorized its impaired loans as Level 3.

Other real estate is measured at fair value on a nonrecurring basis (upon initial recognition or subsequent impairment). Other real estate owned is classified within Level 3 of the valuation hierarchy. When transferred from the loan portfolio, other real estate owned is adjusted to fair value less estimated selling costs and is subsequently carried at the lower of carrying value or fair value less estimated selling costs. The fair value is determined using an external appraisal process, discounted based on internal criteria. Therefore, the Company has categorized its other real estate as Level 3.

In addition, mortgage loans held for sale not recorded under the fair value option are required to be measured at the lower of cost or fair value. The fair value of these loans is based upon binding quotes or bids from third party investors. As of December 31, 2018 and 2017, all mortgage loans held for sale not recorded under the fair value option were recorded at cost.

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Fair Value of Financial Instruments not Recorded at Fair Value

The carrying amount, estimated fair value and the level of the fair value hierarchy of the Company's financial instruments that are reported at amortized cost on the Company's consolidated balance sheets were as follows at December 31, 2018 and 2017:

	Carrying Amount	Estimated Fair Value	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018					
Financial assets:					
Cash and cash equivalents	\$ 130,779	\$ 130,779	\$ 130,779	\$ —	—
Certificates of deposit held in other banks	1,225	1,224	—	1,224	—
Loans held for sale, at cost	4,856	4,974	—	4,974	—
Loans, net	7,839,695	7,807,823	—	7,803,999	3,824
FHLB of Dallas stock and other restricted stock	26,870	26,870	—	26,870	—
Accrued interest receivable	24,253	24,253	—	24,253	—
Financial liabilities:					
Deposits	7,737,794	7,750,059	—	7,750,059	—
Accrued interest payable	6,183	6,183	—	6,183	—
FHLB advances	290,000	287,450	—	287,450	—
Other borrowings	137,316	138,450	—	138,450	—
Junior subordinated debentures	27,852	31,370	—	31,370	—
Off-balance sheet assets (liabilities):					
Commitments to extend credit	—	—	—	—	—
Standby letters of credit	—	—	—	—	—
December 31, 2017					
Financial assets:					
Cash and cash equivalents	\$ 431,102	\$ 431,102	\$ 431,102	\$ —	—
Certificates of deposit held in other banks	12,985	13,049	—	13,049	—
Loans held for sale, at cost	39,202	40,436	—	40,436	—
Loans, net	6,432,273	6,350,416	—	6,343,179	7,237
FHLB of Dallas stock and other restricted stock	29,184	29,184	—	29,184	—
Accrued interest receivable	20,835	20,835	—	20,835	—
Financial liabilities:					
Deposits	6,632,822	6,637,813	—	6,637,813	—
Accrued interest payable	4,654	4,654	—	4,654	—
FHLB advances	530,667	526,514	—	526,514	—

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Other borrowings	136,911	141,650	—	141,650	—
Junior subordinated debentures	27,654	20,008	—	20,008	—
Off-balance sheet assets (liabilities):					
Commitments to extend credit	—	—	—	—	—
Standby letters of credit	—	—	—	—	—

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The methods and assumptions used by the Company in estimating fair values of financial instruments as disclosed herein in accordance with ASC Topic 825, Financial Instruments, as amended by ASU 2016-01 requiring public entities to use the exit price notion effective January 1, 2018, other than for those measured at fair value on a recurring and nonrecurring basis discussed above, are as follows:

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

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

Loans held for sale, at cost: The fair value of loans held for sale is determined based upon commitments on hand from investors.

Loans: Pursuant to the adoption of ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, for loan values reported for the 2018 period, a discounted cash flow model is used to estimate the fair value of the loans. The discounted cash flow approach models the credit losses directly in the projected cash flows, applying various assumptions regarding credit, interest, and prepayment risks for the loans based on loan types, payment types and fixed or variable classifications. Loans reported prior to 2018 were valued as follows: For variable-rate loans that reprice frequently and have no significant changes in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (for example, one-to-four family residential), commercial real estate and commercial loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

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

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

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

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

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

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

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

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Note 18. Derivative Financial Instruments

The Company enters into certain derivative financial instruments as part of its hedging strategy. These financial instruments are not designated as hedging instruments and are used for asset and liability management related to the Company's mortgage banking activities and commercial customers' financing needs. All derivatives are carried at fair value in either other assets or other liabilities.

Through the normal course of business, the Company enters into interest rate lock commitments with consumers to originate mortgage loans at a specified interest rate. These commitments, which contain fixed expiration dates, offer the borrower an interest rate guarantee provided the loan meets underwriting guidelines and closes within the timeframe established by the Company.

During July 2018, the Company began managing the changes in fair value associated with changes in interest rates related to interest rate lock commitments by using forward sold commitments known as forward mortgage-backed securities trades. These instruments are typically entered into at the time the interest rate lock commitment is made. The Company also offers certain derivatives products, primarily interest rate swaps, directly to qualified commercial banking customers to facilitate their risk management strategies. The interest rate swap derivative positions relate to transactions in which the Company enters into an interest rate swap with a customer, while at the same time entering into an offsetting interest rate swap with another financial institution. An interest rate swap transaction allows customers to effectively convert a variable rate loan to a fixed rate. In connection with each swap, the Company agrees to pay interest to the customer on a notional amount at a variable interest rate and receive interest from the customer on a similar notional amount at a fixed interest rate. At the same time, the Company agrees to pay another financial institution the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount. These products were not significant for disclosure in prior periods.

The following table provides the outstanding notional balances and fair values of outstanding derivative positions at December 31, 2018:

	December 31, 2018		
	Outstanding	Asset	Liability
	Notional	Derivative	Derivative
	Balance	Fair Value	Fair Value
Interest rate lock commitments	\$20,306	\$ 822	\$ —
Forward mortgage-backed securities trades	27,500	—	226
Commercial loan interest rate swaps:			
Loan customer counterparty	25,055	360	108
Financial institution counterparty	25,055	109	406

The credit exposure related to interest rate swaps is limited to the net favorable value of all swaps by each counterparty, which was approximately \$469 at December 31, 2018.

The initial and subsequent changes in the fair value of interest rate lock commitments and the forward sales of mortgage-back securities are recorded in mortgage banking revenue. These gains and losses were not attributable to instrument-specific credit risk. For interest rate swaps, because the Company acts as an intermediary for our customer, changes in the fair value of the underlying derivative contracts substantially offset each other and do not have a material impact on the results of operations.

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Income (loss) for the year ended December 31, 2018 was as follows:

	Year ended December 31, 2018
Derivatives not designated as hedging instruments	
Interest rate lock commitments	\$ 822
Forward mortgage-backed securities trades	(226)

Note 19. Stock Awards and Stock Warrants

The Company grants common stock awards to certain employees of the Company. The common stock awards issued prior to 2013 vest five years from the date the award was granted and the related compensation expense is recognized over the vesting period. In connection with the Company's initial public offering in April 2013, the Board of Directors adopted the 2013 Equity Incentive Plan. Under this plan, the Compensation Committee may grant awards in the form of restricted stock, restricted stock rights, restricted stock units, qualified and nonqualified stock options, performance-based share awards and other equity-based awards. In May 2018, the shareholders of the Company voted to amend the plan to increase the reserved shares of common stock to be awarded by the Company's compensation committee by 1,500,000 for a total of 2,300,000 reserved shares. As of December 31, 2018, there were 1,581,608 shares remaining available for grant for future awards. The shares currently issued under the 2013 Plan are restricted and will vest evenly over the required employment period, generally ranging from three to five years. Shares granted under a previous plan prior to 2012 and those in and subsequent to 2013 under the 2013 Equity Incentive Plan were issued at the date of grant and receive dividends. Shares issued under a revised plan in 2012 are not outstanding shares of the Company until they vest and do not receive dividends. During the year ended December 31, 2017, 25,760 shares that were issued under the 2012 Plan vested during the period. All stock awards issued under expired plans prior to 2013 are fully vested.

The following table summarizes the activity in nonvested shares for the years ended December 31, 2018 and 2017:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested shares, December 31, 2017	242,056	\$ 49.17
Granted during the period	130,212	71.85
Vested during the period	(115,520)	44.36
Forfeited during the period	(3,845)	64.47
Nonvested shares, December 31, 2018	252,903	\$ 62.81
Nonvested shares, December 31, 2016	280,524	\$ 36.88
Granted during the period	104,962	61.89
Vested during the period	(140,887)	34.18
Forfeited during the period	(2,543)	48.29

Nonvested shares, December 31, 2017 242,056 \$ 49.17

Compensation expense related to these awards is recorded based on the fair value of the award at the date of grant and totaled \$6,062, \$4,688 and \$5,431 for the years ended December 31, 2018, 2017 and 2016, respectively.

Compensation expense is recorded in salaries and employee benefits in the accompanying consolidated statements of income. At December 31, 2018, future compensation expense is estimated to be \$11,186 and will be recognized over a remaining weighted average period of 3.09 years.

The fair value of common stock awards that vested during the years ended December 31, 2018, 2017 and 2016 was \$8,206, \$8,597 and \$5,208, respectively. The Company has recorded \$646 and \$1,323 in excess tax benefits on vested restricted stock to income tax expense for the years ended December 31, 2018 and 2017, respectively. The Company recorded \$(137) to

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additional paid in capital, which represents the income tax deficiency recognized on the vested shares for the year ended December 31, 2016.

There were no modifications of stock agreements during 2018, 2017 and 2016 that resulted in significant additional incremental compensation costs.

At December 31, 2018, the future vesting schedule of the nonvested shares is as follows:

First year	108,883
Second year	59,344
Third year	42,620
Fourth year	24,876
Fifth year	17,180
Total nonvested shares	252,903

The Company had issued warrants representing the right to purchase 150,544 shares of Company stock at \$17.19 per share to certain Company directors and shareholders. The warrants were issued in return for the shareholders' agreement to repurchase the subordinated debt outstanding to an unaffiliated bank in the event of Company default. The warrants were recorded as equity awards at fair value and were being amortized over the term of the debt. The subordinated debt was paid off by the Company in 2013. The warrants expired in December 2018 and all warrants were exercised before the expiration date. During the years ended December 31, 2018 and 2017, warrants to purchase 147,341 and 3,203 shares of common stock were exercised and have been issued by the Company, respectively.

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Note 20. Regulatory Matters

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

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

The Company is subject to the Basel III regulatory capital framework (the "Basel III Capital Rules"). The implementation of the capital conservation buffer became effective for the Company on January 1, 2016 at the 0.625% level and increasing 0.625% each year thereafter, until it reaches 2.5% on January 1, 2019. The capital conservation buffer is designed to absorb losses during periods of economic stress and requires increased capital levels for the purpose of capital distributions and other payments. Failure to meet the full amount of the buffer will result in restrictions on the Company's ability to make capital distributions, including dividend payments and stock repurchases and to pay discretionary bonuses to executive officers.

When fully phased in on January 1, 2019, the Basel III Capital Rules will require the Company and Bank to maintain (i) a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of at least 4.5%, plus the 2.5% capital conservation buffer (7.0% upon full implementation), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the 2.5% capital conservation buffer (8.5% upon full implementation), (iii) a minimum ratio of Total capital (that is, Tier 1 plus Tier 2) to risk-weighted assets of at least 8.0%, plus the 2.5% capital conservation buffer (10.5% upon full implementation) and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average quarterly assets.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total, Common Equity Tier 1 ("CET1") and Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2018 and 2017, the Company and the Bank meet all capital adequacy requirements to which they are subject, including the capital buffer requirement.

As of December 31, 2018 and 2017, the Bank's capital ratios exceeded those levels necessary to be categorized as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Bank must maintain minimum total risk based, CET1, Tier 1 risk based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

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The actual capital amounts and ratios of the Company and Bank as of December 31, 2018 and 2017, are presented in the following table:

	Actual		Minimum for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2018						
Total capital to risk weighted assets:						
Consolidated	\$1,072,156	12.58 %	\$681,686	8.00 %	N/A	N/A
Bank	1,054,783	12.39	681,004	8.00	\$851,255	10.00 %
Tier 1 capital to risk weighted assets:						
Consolidated	887,354	10.41	511,264	6.00	N/A	N/A
Bank	1,009,981	11.86	510,753	6.00	681,004	8.00
Common equity tier 1 to risk weighted assets:						
Consolidated	856,754	10.05	383,448	4.50	N/A	N/A
Bank	1,009,981	11.86	383,065	4.50	553,316	6.50
Tier 1 capital to average assets:						
Consolidated	887,354	9.57	370,727	4.00	N/A	N/A
Bank	1,009,981	10.91	370,412	4.00	463,015	5.00
December 31, 2017						
Total capital to risk weighted assets:						
Consolidated	\$897,760	12.56 %	\$572,025	8.00 %	N/A	N/A
Bank	867,082	12.15	571,142	8.00	\$713,928	10.00 %
Tier 1 capital to risk weighted assets:						
Consolidated	718,358	10.05	429,019	6.00	N/A	N/A
Bank	827,680	11.59	428,357	6.00	571,142	8.00
Common equity tier 1 to risk weighted assets:						
Consolidated	687,006	9.61	321,764	4.50	N/A	N/A
Bank	827,680	11.59	321,268	4.50	464,053	6.50
Tier 1 capital to average assets:						
Consolidated	718,358	8.92	322,124	4.00	N/A	N/A
Bank	827,680	10.30	321,384	4.00	401,730	5.00

Note 21. Business Combinations
 Integrity Bancshares, Inc.

On June 1, 2018, the Company acquired 100% of the outstanding stock of Integrity Bancshares, Inc. and its subsidiary, Integrity Bank, SSB, Houston, Texas (Integrity) with four branches located in Houston, TX. The Company issued 2,071,981 shares of Company stock and paid \$31,016 in cash for the outstanding shares and options of Integrity common stock.

The Company recognized total goodwill of \$100,339, which is calculated as the excess of both the consideration exchanged and liabilities assumed compared to the fair market value of identifiable assets acquired. The fair value of

consideration exchanged related to the Company's stock was calculated based upon the closing market price of the Company's stock as of June 1, 2018. The goodwill in this acquisition resulted from a combination of expected synergies and expansion in the Houston market. None of the goodwill recognized is expected to be deductible for income tax purposes.

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The Company has incurred expenses related to the acquisition of approximately \$4,074 and \$360 during the years ended December 31, 2018 and 2017, which are included in acquisition expense in the consolidated statements of income. In addition, as of December 31, 2018, the Company paid offering costs totaling \$209 which were recorded as a reduction to stock issuance proceeds through additional paid in capital.

Fair values of the assets acquired and liabilities assumed as of the closing date and subsequent measurement period adjustments made during 2018 are as follows:

	Initially Recorded at Acquisition Date	Measurement Period Adjustments	Adjusted Values as of December 31, 2018
Assets of acquired bank:			
Cash and cash equivalents	\$ 44,723	\$ —	\$ 44,723
Securities available for sale	24,726	(5)	24,721
Restricted stock	3,357	—	3,357
Loans	651,722	47	651,769
Premises and equipment	4,800	63	4,863
Goodwill	100,120	219	100,339
Core deposit intangible	7,532	5	7,537
Bank owned life insurance	8,181	—	8,181
Other assets	6,416	(31)	6,385
Total assets acquired	\$ 851,577	\$ 298	\$ 851,875
Liabilities of acquired bank:			
Deposits	\$ 593,078	\$ —	\$ 593,078
FHLB advances	60,000	—	60,000
Other liabilities	10,220	298	10,518
Total liabilities assumed	\$ 663,298	\$ 298	\$ 663,596
Common stock issued at \$75.90 per share	\$ 157,263	\$ —	\$ 157,263
Cash paid	\$ 31,016	\$ —	\$ 31,016

The nature of the measurement period adjustments noted in the table above was a result of information obtained subsequent to our initial reporting of provisional fair values but prior to finalizing our fair values in accordance with ASC 805, Business Combinations. Such information was determined to be a condition in existence as of acquisition date. The income effects resulting from the recorded measurement period adjustments during the period ending December 31, 2018 are immaterial for separate disclosure.

Non-credit impaired loans had a fair value of \$604,549 at acquisition date and contractual balance of \$609,675. As of acquisition date, the Company expects that an insignificant amount of the contractual balance of these loans will be uncollectible. The difference of \$5,126 will be recognized into interest income as an adjustment to yield over the life of the loans.

The acquisition is not considered significant to the Company's financial statements and therefore, pro-forma financial data is not included.

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Carlile Bancshares, Inc.

On April 1, 2017, the Company acquired 100% of the outstanding stock of Carlile. This transaction resulted in 24 additional branches in the DFW Metroplex and Austin area as well as 18 branches in Colorado. The Company issued 8,804,699 shares of Company stock and paid \$17,773 in cash for the outstanding shares of Carlile common stock. During the fourth quarter of 2017, the Company sold nine of the acquired Colorado branches as part of the Northstar branch integration process (see Note 22, Branch Sales).

The Company has recognized total goodwill of \$363,139 which is calculated as the excess of both the consideration exchanged and liabilities assumed compared to the fair market value of identifiable assets acquired. The fair value of the consideration exchanged related to the Company's stock was calculated based upon the closing market price of the Company's stock as of March 31, 2017. The goodwill in this acquisition resulted from a combination of expected synergies and entrance into desirable Texas and Colorado markets. None of the goodwill recognized is expected to be deductible for income tax purposes.

The Company has incurred expenses related to the acquisition of approximately \$523, \$15,648 and \$659 during the years ended December 31, 2018, 2017, and 2016, which are included in noninterest expense in the consolidated statements of income. In addition, as of December 31, 2017, the Company paid offering costs totaling \$942 which were recorded as a reduction to stock issuance proceeds through additional paid in capital.

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

	Final value as reported at December 31, 2017
Assets of acquired bank:	
Cash and cash equivalents	\$ 148,444
Certificates of deposit held in other banks	11,025
Securities available for sale	336,540
Loans	1,384,210
Premises and equipment	63,166
Other real estate owned	11,212
Goodwill	363,139
Core deposit intangible	36,717
Other assets	89,702
Total assets acquired	\$2,444,155
Liabilities of acquired bank:	
Deposits	\$ 1,825,181
Junior subordinated debentures	9,359
Other liabilities	25,700
Total liabilities assumed	\$ 1,860,240
Common stock issued at \$64.30 per share	\$566,142
Cash paid	\$17,773

Non-credit impaired loans had a fair value of \$1,298,442 at acquisition date and contractual balance of \$1,309,360. As of acquisition date, the Company expects that an insignificant amount of the contractual balance of these loans will be

uncollectible. The difference of \$10,918 will be recognized into interest income as an adjustment to yield over the life of the loans.

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The following table presents pro-forma information as if the Carlile acquisition was completed as of January 1, 2016. The pro-forma results combine the historical results of Carlile into the Company's consolidated statement of income including the impact of certain purchase accounting adjustments including loan discount accretion, intangible assets amortization, and junior subordinated debentures discount amortization. The pro-forma results have been prepared for comparative purposes only and are not necessarily indicative of the results that would have been obtained had the acquisition actually occurred on January 1 of each year.

(Dollars in thousands)	December 31,	
	2017	2016
Interest income	\$330,792	\$300,202
Noninterest income	48,165	48,016
Total Revenue	378,957	348,218
Net income ⁽¹⁾	90,700	67,029
Net income attributable to noncontrolling interests	—	(315)
Net income to common stockholders	\$90,700	\$66,714
Basic earnings per share	\$3.26	\$2.41
Diluted earnings per share	\$3.25	\$2.40

⁽¹⁾ Excludes acquisition, restructure, conversion, severance and retention related costs incurred by the Company of \$15,648 and \$659 for the years ended December 31, 2017 and 2016, respectively, and acquisition / change of control related costs incurred by Carlile of \$0 and \$15,687 for the years ended December 31, 2017 and 2016, respectively, and related tax effects.

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

Note 22. Branch Sales

No branches were sold during 2018.

During September 2017, the Company sold its Marble Falls, Texas branch to an unaffiliated institution. As a result of this branch sale, the Company transferred deposits of \$17,508, including accrued interest, for a deposit premium of \$336, and loans, including interest, of \$5,424. The Company reduced net core deposit intangibles associated with this branch by \$385 and recognized a loss of \$116 on the sale.

During October 2017, the Company sold nine Colorado branches to an unaffiliated institution. As a result of this sale, the Company transferred deposits and interest of \$160,771 for a deposit premium of \$6,771. The assets sold included loans and interest of \$100,584 and property and equipment of \$7,473. The company reduced net core deposit intangibles associated with these branches by \$2,626 and recognized a gain of \$3,033.

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Note 23. Parent Company Only Financial Statements

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

Balance Sheets

	December 31,	
	2018	2017
Assets		
Cash and cash equivalents	\$8,355	\$9,400
Investment in subsidiaries	1,764,698	1,484,217
Investment in trusts	950	950
Other assets	2,189	10,093
Total assets	\$1,776,192	\$1,504,660
Liabilities and Stockholders' Equity		
Other borrowings	\$137,316	\$136,911
Junior subordinated debentures	27,852	27,654
Other liabilities	4,591	4,077
Total liabilities	169,759	168,642
Stockholders' equity:		
Common stock	306	283
Additional paid-in capital	1,317,616	1,151,990
Retained earnings	296,816	184,232
Accumulated other comprehensive loss	(8,305)	(487)
Total stockholders' equity	1,606,433	1,336,018
Total liabilities and stockholders' equity	\$1,776,192	\$1,504,660

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Statements of Income

	Years ended December 31,		
	2018	2017	2016
Interest expense:			
Interest on other borrowings	\$8,390	\$6,873	\$5,426
Interest on junior subordinated debentures	1,609	1,162	621
Total interest expense	9,999	8,035	6,047
Noninterest income:			
Dividends from subsidiaries	39,841	29,563	36,018
Other	14	32	25
Total noninterest income	39,855	29,595	36,043
Noninterest expense:			
Salaries and employee benefits	6,318	5,175	6,226
Professional fees	332	546	523
Acquisition expense, including legal	6,157	12,767	1,380
Other	1,611	1,614	1,126
Total noninterest expense	14,418	20,102	9,255
Income before income tax benefit and equity in undistributed income of subsidiaries	15,438	1,458	20,741
Income tax benefit	5,541	8,890	5,339
Income before equity in undistributed income of subsidiaries	20,979	10,348	26,080
Equity in undistributed income of subsidiaries	107,280	66,164	27,460
Net income	\$128,259	\$76,512	\$53,540

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Statements of Cash Flows

	Years ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net income	\$128,259	\$76,512	\$53,540
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of subsidiaries	(107,280)	(66,164)	(27,460)
Amortization of discount and origination costs on borrowings	633	505	241
Stock based compensation expense	6,062	4,688	5,431
Excess tax benefit on restricted stock vested	(646)	(1,323)	—
Deferred tax expense (benefit)	1,054	11,782	(205)
Net change in other assets	6,918	(6,750)	—
Net change in other liabilities	1,130	(1,663)	1,038
Net cash provided by operating activities	36,130	17,587	32,585
Cash flows from investing activities:			
Capital investment in subsidiaries	—	(50,050)	(57,000)
Cash received from acquired bank	7,425	5,418	—
Cash paid in connection with acquisition	(31,016)	(17,773)	—
Net cash used in investing activities	(23,591)	(62,405)	(57,000)
Cash flows from financing activities:			
Repayments of other borrowings	—	—	(5,798)
Proceeds from other borrowings, net of issuance costs	—	29,255	43,150
Proceeds from exercise of common stock warrants	2,533	55	—
Offering costs paid in connection with acquired bank	(209)	(942)	—
Proceeds from sale of common stock, net	—	26,816	19,929
Redemption of preferred stock	—	—	(23,938)
Dividends paid	(15,908)	(10,231)	(6,287)
Net cash (used in) provided by financing activities	(13,584)	44,953	27,056
Net change in cash and cash equivalents	(1,045)	135	2,641
Cash and cash equivalents at beginning of year	9,400	9,265	6,624
Cash and cash equivalents at end of year	\$8,355	\$9,400	\$9,265

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Note 24. Subsequent Events

Guaranty Bancorp

On January 1, 2019, the Company acquired 100% of the outstanding stock of Guaranty Bancorp (Guaranty) and its subsidiary, Guaranty Bank and Trust Company (Guaranty Bank), Denver, Colorado. As a result of the acquisition, the Company added 32 full service branch locations along the Colorado Front Range, including locations throughout the Denver metropolitan area and along I-25 to Fort Collins expanding the Company's footprint in Colorado. The Company issued 13,179,748 shares of Company stock for the outstanding shares of GBNK common stock, including restricted stock replacement awards.

The Company has recognized a provisional amount of goodwill of \$267,169 which is calculated as the excess of both the consideration exchanged and liabilities assumed compared to the estimated fair market value of identifiable assets acquired. The goodwill in this acquisition resulted from a combination of expected synergies and expansion into desirable Colorado markets. None of the goodwill recognized is expected to be deductible for income tax purposes. The Company has incurred expenses related to the acquisition of approximately \$1,560 during the year ended December, 31, 2018, which is included in acquisition expenses in the consolidated statements of income. Provisional fair market value estimates related to the assets acquired and liabilities assumed have been recorded as the acquisition valuations are currently in process and not yet available. The Company is still evaluating the loan portfolio for credit-impaired and non-credit-impaired loan estimations, therefore, the amounts are not available for disclosure.

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

Assets of acquired bank:	
Cash and cash equivalents	\$40,175
Securities	561,158
Restricted stock	27,688
Loans	2,790,026
Premises and equipment	68,819
Goodwill	267,169
Core deposit and customer relationship intangibles	71,752
Bank owned life insurance	80,837
Other assets	30,813
Total assets acquired	\$3,938,437

Liabilities of acquired bank:	
Deposits	\$3,108,810
FHLB advances	142,653
Subordinated debentures	65,774
Other liabilities	19,319
Total liabilities assumed	\$3,336,556
Common stock of 13,109,500 issued at \$45.77 per share	\$600,022
Consideration attributable to 70,248 shares of restricted stock replacement awards	\$1,850
Cash paid	\$9

To determine pro-forma information, the Company adjusted its 2018 and 2017 historical results to include the historical results for GBNK for the years ended December 31, 2018 and 2017 as if the acquisition had occurred on January 1, 2017. The pro-forma results include the impact of certain estimated purchase accounting adjustments including loan and investment discount accretion and intangible assets amortization. The pro-forma results have been prepared for comparative purposes only and are not necessarily indicative of the results that would have been obtained had the acquisition actually occurred on January 1 of each year. Pro-forma net income for the years ended December 31, 2018 and 2017 was \$200,855 and \$133,146, respectively, and pro-forma revenue was \$657,371 and \$563,592, respectively, had the transaction occurred as of January 1, 2017.

Line of credit agreement

On January 17, 2019, the Company's unsecured revolving line of credit was renewed. The credit line was increased to \$100,000, bears interest at LIBOR plus 1.75% and matures on January 17, 2020. The line also bears a non-usage fee of 0.30% per year on the unused commitment at the end of each fiscal quarter. As of February 26, 2019, the Company has no borrowings against this line.

Declaration of dividends

On January 30, 2019, the Company declared a quarterly cash dividend in the amount of \$0.25 per share of common stock to the stockholders of record on February 11, 2019. The dividend totaling \$10,945 was paid on February 21, 2019.

Share repurchase program

Subsequent to December 31, 2018, the Company has repurchased a total of 68,069 shares at a total cost of \$3,926 through February 26, 2019.

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ITEM 16. FORM 10-K SUMMARY

The Company has not elected to include a summary of the information required in this Annual Report on Form 10-K.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of McKinney, Texas, on February 28, 2019.

Independent Bank Group, Inc. (Registrant)

Date: February 28, 2019 By: /s/ David R. Brooks

David R. Brooks
Chairman, President and Chief Executive Officer

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ David R. Brooks David R. Brooks	Chairman, Chief Executive Officer, President, and Director (Principal Executive Officer)	February 28, 2019
/s/ Michelle S. Hickox Michelle S. Hickox	Executive Vice President and Chief Financial Officer (Principal Financial and Principal Accounting Officer)	February 28, 2019
/s/ Daniel W. Brooks Daniel W. Brooks	Vice Chairman, Chief Risk Officer and Director	February 28, 2019
/s/ Douglas A. Cifu Douglas A. Cifu	Director	February 28, 2019
/s/ Paul W. Taylor Paul W. Taylor	Director	February 28, 2019
/s/ William E. Fair William E. Fair	Director	February 28, 2019
/s/ Mark K. Gormley Mark K. Gormley	Director	February 28, 2019
/s/ Craig E. Holmes Craig E. Holmes	Director	February 28, 2019
/s/ J. Webb Jennings III J. Webb Jennings III	Director	February 28, 2019
/s/ Tom C. Nichols Tom C. Nichols	Director	February 28, 2019
/s/ Donald L. Poarch Donald L. Poarch	Director	February 28, 2019

/s/ G. Stacy Smith Director
G. Stacy Smith

February 28,
2019

/s/ Michael T. Viola Director
Michael T. Viola

February 28,
2019