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Independent Bank Group, Inc.
Form 10-Q
April 27, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the quarterly period ended March 31, 2016.

or
 Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the transition period from _____ to _____ .
Commission file number 001-35854

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)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

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 such shorter periods 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See 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

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

Applicable Only to Corporate Issuers

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

Common Stock, Par Value \$0.01 Per Share – 18,460,978 shares as of April 26, 2016.

INDEPENDENT BANK GROUP, INC. AND SUBSIDIARIES
Form 10-Q
March 31, 2016

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Signatures

Independent Bank Group, Inc. and Subsidiaries

Consolidated Balance Sheets

March 31, 2016 and December 31, 2015 (unaudited)

(Dollars in thousands, except share information)

	March 31, 2016	December 31, 2015
Assets		
Cash and due from banks	\$89,631	\$129,096
Interest-bearing deposits in other banks	266,895	164,183
Cash and cash equivalents	356,526	293,279
Certificates of deposit held in other banks	39,334	61,746
Securities available for sale (amortized cost of \$298,693 and \$270,711, respectively)	302,650	273,463
Loans held for sale	8,515	12,299
Loans, net of allowance for loan losses of \$29,984 and \$27,043, respectively	4,098,573	3,960,809
Premises and equipment, net	92,599	93,015
Other real estate owned	1,745	2,168
Federal Home Loan Bank (FHLB) of Dallas stock and other restricted stock	22,400	14,256
Bank-owned life insurance (BOLI)	41,126	40,861
Deferred tax asset	4,754	5,892
Goodwill	258,319	258,643
Core deposit intangible, net	15,653	16,357
Other assets	19,773	22,212
Total assets	\$5,261,967	\$5,055,000
Liabilities, Temporary Equity and Stockholders' Equity		
Deposits:		
Noninterest-bearing	\$1,070,611	\$1,071,656
Interest-bearing	3,101,341	2,956,623
Total deposits	4,171,952	4,028,279
FHLB advances	380,805	288,325
Repurchase agreements	—	12,160
Other borrowings	63,890	68,295
Other borrowings, related parties	50	2,503
Junior subordinated debentures	18,147	18,147
Other liabilities	10,865	9,982
Total liabilities	4,645,709	4,427,691
Commitments and contingencies		
Temporary equity: Series A preferred stock (0 and 23,938.35 shares issued and outstanding, respectively)	—	23,938
Stockholders' equity:		
Common stock (18,461,480 and 18,399,194 shares outstanding, respectively)	185	184
Additional paid-in capital	531,243	530,107
Retained earnings	81,665	70,698

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Accumulated other comprehensive income	3,165	2,382
Total stockholders' equity	616,258	603,371
Total liabilities, temporary equity and stockholders' equity	\$5,261,967	\$5,055,000
See Notes to Consolidated Financial Statements		

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Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Income

Three Months Ended March 31, 2016 and 2015 (unaudited)

(Dollars in thousands, except per share information)

	Three Months Ended March 31,	
	2016	2015
Interest income:		
Interest and fees on loans	\$49,910	\$39,580
Interest on taxable securities	730	609
Interest on nontaxable securities	451	414
Interest on interest-bearing deposits and other	373	133
Total interest income	51,464	40,736
Interest expense:		
Interest on deposits	3,651	2,709
Interest on FHLB advances	1,001	752
Interest on repurchase agreements and other borrowings	1,003	1,069
Interest on junior subordinated debentures	149	128
Total interest expense	5,804	4,658
Net interest income	45,660	36,078
Provision for loan losses	2,997	1,670
Net interest income after provision for loan losses	42,663	34,408
Noninterest income:		
Service charges on deposit accounts	1,695	1,585
Mortgage fee income	1,376	1,300
Gain on sale of other real estate	43	130
Gain on sale of premises and equipment	38	—
Increase in cash surrender value of BOLI	265	270
Other	1,053	681
Total noninterest income	4,470	3,966
Noninterest expense:		
Salaries and employee benefits	16,774	14,424
Occupancy	4,040	3,910
Data processing	1,182	688
FDIC assessment	726	519
Advertising and public relations	295	346
Communications	535	539
Net other real estate owned expenses (including taxes)	33	59
Other real estate impairment	55	—
Core deposit intangible amortization	488	372
Professional fees	660	490
Acquisition expense, including legal	639	472
Other	3,092	2,567
Total noninterest expense	28,519	24,386
Income before taxes	18,614	13,988
Income tax expense	6,162	4,536
Net income	\$12,452	\$9,452

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Basic earnings per share	\$0.67	\$0.55
Diluted earnings per share	\$0.67	\$0.55

See Notes to Consolidated Financial Statements

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Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income
 Three Months Ended March 31, 2016 and 2015 (unaudited)
 (Dollars in thousands)

	Three Months Ended March 31,	
	2016	2015
Net income	\$ 12,452	\$ 9,452
Other comprehensive income before tax:		
Change in net unrealized gains on available for sale securities during the year	1,205	1,381
Reclassification adjustment for gain on sale of securities available for sale included in net income	—	—
Other comprehensive income before tax	1,205	1,381
Income tax expense	422	483
Other comprehensive income, net of tax	783	898
Comprehensive income	\$ 13,235	\$ 10,350

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity
 Three Months Ended March 31, 2016 and 2015 (unaudited)
 (Dollars in thousands, except for par value, share and per share information)

	Series A Preferred Stock \$.01 Par Value 10 million shares authorized	Common Stock \$.01 Par Value 100 million shares authorized	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total	
	Shares	Amount					
Balance, December 31, 2015	\$ —	18,399,194	\$ 184	\$ 530,107	\$ 70,698	\$ 2,382	\$ 603,371
Net income	—	—	—	—	12,452	—	12,452
Other comprehensive income, net of tax	—	—	—	—	—	783	783
Restricted stock forfeited	—	(5,534)	—	—	—	—	—
Restricted stock granted	—	67,820	1	(1)	—	—	—
Stock based compensation expense	—	—	—	1,220	—	—	1,220
Income tax deficiency on restricted stock vested	—	—	—	(83)	—	—	(83)
Preferred stock dividends	—	—	—	—	(8)	—	(8)
Cash dividends (\$0.08 per share)	—	—	—	—	(1,477)	—	(1,477)
Balance, March 31, 2016	\$ —	18,461,480	\$ 185	\$ 531,243	\$ 81,665	\$ 3,165	\$ 616,258
Balance, December 31, 2014	\$ 23,938	17,032,669	\$ 170	\$ 476,609	\$ 37,731	\$ 2,403	\$ 540,851
Net income	—	—	—	—	9,452	—	9,452
Other comprehensive income, net of tax	—	—	—	—	—	898	898
Offering costs related to acquired bank	—	—	—	(144)	—	—	(144)
Restricted stock granted	—	87,124	1	(1)	—	—	—
Excess tax benefit on restricted stock vested	—	—	—	3	—	—	3
Stock based compensation expense	—	—	—	1,097	—	—	1,097
Preferred stock dividends	—	—	—	—	(60)	—	(60)
Cash dividends (\$0.08 per share)	—	—	—	—	(1,369)	—	(1,369)
Balance, March 31, 2015	\$ 23,938	17,119,793	\$ 171	\$ 477,564	\$ 45,754	\$ 3,301	\$ 550,728

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Three Months Ended March 31, 2016 and 2015 (unaudited)

(Dollars in thousands)

	Three Months Ended March 31, 2016	2015
Cash flows from operating activities:		
Net income	\$ 12,452	\$ 9,452
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	1,639	1,521
Accretion of income recognized on acquired loans	(1,333)	(113)
Amortization of core deposit intangibles	488	372
Amortization of premium on securities, net	377	426
Stock based compensation expense	1,220	1,097
FHLB stock dividends	(36)	(12)
Gain on sale of premises and equipment	(38)	—
Gain recognized on other real estate transactions	(43)	(130)
Impairment of other real estate	55	—
Deferred tax expense (benefit)	594	(599)
Provision for loan losses	2,997	1,670
Increase in cash surrender value of life insurance	(265)	(270)
Loans originated for sale	(49,481)	(55,984)
Proceeds from sale of loans	53,265	53,403
	1,326	6,446

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Net change in other assets			
Net change in other liabilities	780		(13,081)
Net cash provided by operating activities	23,997		4,198
Cash flows from investing activities:			
Proceeds from maturities, calls and pay downs of securities available for sale	16,479		8,868
Purchases of securities available for sale	(44,838)	—
Proceeds from maturities of certificates held in other banks	22,412		—
Net purchases of FHLB stock	(8,108)	—
Net loans originated	(138,693)	(102,533)
Additions to premises and equipment	(1,269)	(2,782)
Proceeds from sale of premises and equipment	84		—
Proceeds from sale of other real estate owned	411		316
Capitalized additions to other real estate owned	—		(10)
Net cash used in investing activities	(153,522)	(96,141)
Cash flows from financing activities:			
Net increase in demand deposits, NOW and savings accounts	163,847		98,901
Net (decrease) increase in time deposits	(40,862)	38,179
Proceeds from FHLB advances	225,000		55,000
Repayments of FHLB advances	(132,520)	(65,019)
Net change in repurchase	8,528		1,771

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agreements				
Repayments of other borrowings	(5,798)	(625)
Redemption of preferred stock	(23,938)	—	
Offering costs paid in connection with acquired banks	—		(144)
Dividends paid	(1,485)	(1,369)
Net cash provided by financing activities	192,772		126,694	
Net change in cash and cash equivalents	63,247		34,751	
Cash and cash equivalents at beginning of year	293,279		324,047	
Cash and cash equivalents at end of period	\$ 356,526		\$ 358,798	

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries

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

Note 1. Summary of Significant Accounting Policies

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

Basis of Presentation: The accompanying consolidated financial statements include the accounts of IBG, its wholly-owned subsidiaries, the Bank and IBG Adriatica Holdings, Inc. (Adriatica) and the Bank's wholly-owned subsidiaries, IBG Real Estate Holdings, Inc., IBG Aircraft Company III, Preston Grand, Inc, and McKinney Avenue Holdings, Inc. and its wholly owned subsidiary, McKinney Avenue SPE 1, Inc. McKinney Avenue Holdings, Inc. and its subsidiary were formed during the first quarter 2016 for the purpose of possible future asset holdings. Adriatica became inactive in 2014. All material intercompany transactions and balances have been eliminated in consolidation. In addition, the Company wholly-owns IB Trust I (Trust I), IB Trust II (Trust II), IB Trust III (Trust III), IB Centex Trust I (Centex Trust I) and Community Group Statutory Trust I (CGI Trust I). The Trusts were formed to issue trust preferred securities and do not meet the criteria for consolidation.

The consolidated interim financial statements are unaudited, but include all adjustments, which, in the opinion of management, are necessary for a fair presentation of the results of the periods presented. All such adjustments were of a normal and recurring nature. These financial statements should be read in conjunction with the financial statements and the notes thereto in the Company's Annual Report of Form 10-K for the year ended December 31, 2015. The consolidated statement of condition at December 31, 2015 had been derived from the audited financial statements as of that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

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.

Redemption of Small Business Lending Fund Series A Preferred Stock: On January 14, 2016, the Company redeemed all outstanding shares of its Senior Non-Cumulative Perpetual Small Business Lending Fund Series A Preferred Stock held by the Treasury and related accrued dividends.

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 Securities and Exchange Commission (SEC) and noted no subsequent events requiring financial statement recognition or disclosure, except as disclosed in Note 12.

Earnings per share: Basic earnings per common share are net income available to common shareholders 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 three months ended March 31, 2015. Proceeds from the assumed exercise of dilutive stock warrants are assumed to be used to repurchase common stock at the average market price.

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	Three Months Ended	
	March 31,	
	2016	2015
Basic earnings per share:		
Net income	\$12,452	\$ 9,452
Less: Preferred stock dividends	(8)	(60)
Net income after preferred stock dividends	12,444	9,392
Less:		
Undistributed earnings allocated to participating securities	211	178
Dividends paid on participating securities	28	30
Net income available to common shareholders	\$12,205	\$ 9,184
Weighted-average basic shares outstanding	18,089,853	16,712,527
Basic earnings per share	\$0.67	\$ 0.55
Diluted earnings per share:		
Net income available to common shareholders	\$12,205	\$ 9,184
Total weighted-average basic shares outstanding	18,089,853	16,712,527
Add dilutive stock warrants	61,492	77,933
Add dilutive participating securities	22,255	—
Total weighted-average diluted shares outstanding	18,173,600	16,790,460
Diluted earnings per share	\$0.67	\$ 0.55
Anti-dilutive participating securities	—	19,705

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Note 2. Statement of Cash Flows

As allowed by the accounting standards, 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:

	Three Months Ended March 31,	
	2016	2015
Cash transactions:		
Interest expense paid	\$6,823	\$5,754
Income taxes paid	\$760	\$6,150
Noncash transactions:		
Accrued preferred stock dividends	\$—	\$60
Excess tax benefit (tax deficiency) on restricted stock vested	\$(83)	\$3
Transfer of repurchase agreements to deposits	\$20,688	\$—

The supplemental schedule of noncash investing activities from Company acquisition activity includes the following measurement-period adjustments made during the period:

	Three Months Ended March 31,	
	2016	2015
Assets acquired:		
Loans	\$735	\$—
Goodwill	(324)	182
Core deposit intangibles	(216)	—
Deferred tax asset	(175)	—
Total assets	\$20	\$182
Liabilities assumed:		
Other liabilities	20	182
Total liabilities	\$20	\$182

Note 3. 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 March 31, 2016 and December 31, 2015, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
March 31, 2016				
U.S. treasuries	\$ 999	\$ 2	\$ —	\$ 1,001
Government agency securities	171,397	420	(197)	171,620
Obligations of state and municipal subdivisions	78,603	2,401	(189)	80,815
Residential pass-through securities guaranteed by FNMA, GNMA and FHLMC	47,694	1,520	—	49,214
	\$ 298,693	\$ 4,343	\$ (386)	\$ 302,650
December 31, 2015				
U.S. treasuries	\$ 999	\$ 3	\$ —	\$ 1,002
Government agency securities	135,630	237	(567)	135,300
Obligations of state and municipal subdivisions	83,442	2,222	(248)	85,416
Residential pass-through securities guaranteed by FNMA, GNMA and FHLMC	50,640	1,202	(97)	51,745
	\$ 270,711	\$ 3,664	\$ (912)	\$ 273,463

Securities with a carrying amount of approximately \$193,326 and \$195,479 at March 31, 2016 and December 31, 2015, respectively, were pledged to secure public fund deposits and repurchase agreements.

There were no sales of securities during the three months ended March 31, 2016 and 2015.

The amortized cost and estimated fair value of securities available for sale at March 31, 2016, by contractual maturity, are shown below. Maturities of pass-through certificates will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	March 31, 2016 Securities Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	\$ 18,520	\$ 18,530
Due from one year to five years	168,443	168,695
Due from five to ten years	28,662	29,256
Thereafter	35,374	36,955
	250,999	253,436
Residential pass-through securities guaranteed by FNMA, GNMA and FHLMC	47,694	49,214
	\$ 298,693	\$ 302,650

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 March 31, 2016 and December 31, 2015, 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								
March 31, 2016								
Government agency securities	29	\$78,228	\$ (189)	2	\$ 1,992	\$ (8)	\$80,220	\$ (197)
Obligations of state and municipal subdivisions	27	12,845	(106)	8	4,652	(83)	17,497	(189)
	56	\$91,073	\$ (295)	10	\$ 6,644	\$ (91)	\$97,717	\$ (386)
December 31, 2015								
Government agency securities	25	\$84,798	\$ (531)	4	\$ 4,964	\$ (36)	\$89,762	\$ (567)
Obligations of state and municipal subdivisions	32	16,202	(88)	19	8,662	(160)	24,864	(248)
Residential pass-through securities guaranteed by FNMA, GNMA and FHLMC	6	10,765	(97)	—	—	—	10,765	(97)
	63	\$111,765	\$ (716)	23	\$ 13,626	\$ (196)	\$125,391	\$ (912)

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.

Note 4. Loans, Net and Allowance for Loan Losses

Loans, net at March 31, 2016 and December 31, 2015, consisted of the following:

	March 31, 2016	December 31, 2015
Commercial	\$714,789	\$731,818
Real estate:		
Commercial	2,080,550	1,949,734
Commercial construction, land and land development	418,197	419,611
Residential	619,647	607,990
Single family interim construction	218,746	187,984
Agricultural	46,616	50,178
Consumer	31,821	41,966
Other	130	124
	4,130,496	3,989,405
Deferred loan fees	(1,939)	(1,553)
Allowance for loan losses	(29,984)	(27,043)
	\$4,098,573	\$3,960,809

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 March 31, 2016 and December 31, 2015, there were approximately \$173.2 million and \$182.5 million of exploration and production (E&P) energy loans outstanding, 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.

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.

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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 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. A large percentage of the Company's portfolio consists of commercial and residential real estate loans. As of March 31, 2016 and December 31, 2015, 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 in which the customer operates, and 2) allowances based on actual historical loss experience for the last three years for similar types of loans in the Company's loan portfolio adjusted for primarily changes in the lending policies and procedures; collection, charge-off and recovery practices; nature and volume of the loan portfolio; change in value of underlying collateral; volume and severity of nonperforming loans; existence and effect of any concentrations of credit and the level of such concentrations and current, national and local economic and business conditions. This second component also includes an unallocated allowance to cover uncertainties that could affect management's estimate of probable losses. The unallocated allowance reflects the imprecision inherent in the underlying assumptions used in the methodologies for estimating this component.

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

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

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

The Texas economy, specifically the Company's lending area of north, central and southeast Texas, has generally performed better than certain other parts of the country. However, the ongoing volatility in oil prices has the potential to have a negative impact on the Texas economy, specifically in Houston. The risk of loss associated with all segments of the portfolio could increase due to this impact. The Company increased its allowance for loan losses during the quarter ended March 31, 2016 in consideration of this risk to the energy portfolio.

The economy and other risk factors are minimized by the Company's underwriting standards, which include the following principles: 1) financial strength of the borrower including strong earnings, high net worth, significant liquidity and acceptable debt to worth ratio, 2) managerial business competence, 3) ability to repay, 4) loan to value, 5) projected cash flow and 6) guarantor financial statements as applicable. The following is a summary of the activity in the allowance for loan losses by loan class for the three months ended March 31, 2016 and 2015:

	Commercial	Real Estate, Land and Development	Residential Estate	Single-Family Interim Construction	Agriculture	Consumer	Other	Unallocated	Total
Three months ended March 31, 2016									
Balance at the beginning of period	\$ 10,573	\$ 13,007	\$ 2,339	\$ 769	\$ 215	\$ 164	\$—	\$ (24)	\$27,043
Provision for loan losses	1,592	1,046	133	220	(28)	(3)	30	7	2,997
Charge-offs	—	(54)	—	—	—	(1)	(23)	—	(78)
Recoveries	8	2	1	—	—	2	9	—	22
Balance at end of period	\$ 12,173	\$ 14,001	\$ 2,473	\$ 989	\$ 187	\$ 162	\$ 16	\$ (17)	\$29,984
Three months ended March 31, 2015									
Balance at the beginning of period	\$ 5,051	\$ 10,110	\$ 2,205	\$ 669	\$ 246	\$ 146	\$—	\$ 125	\$18,552
Provision for loan losses	1,023	526	(13)	65	(8)	29	—	48	1,670
Charge-offs	—	—	—	—	—	(36)	—	—	(36)
Recoveries	4	18	2	—	—	17	—	—	41
Balance at end of period	\$ 6,078	\$ 10,654	\$ 2,194	\$ 734	\$ 238	\$ 156	\$—	\$ 173	\$20,227

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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 March 31, 2016 and December 31, 2015:

	Commercial	Commercial Real Estate, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agriculture	Consumer	Other	Unallocated	Total
March 31, 2016									
Allowance for losses:									
Individually evaluated for impairment	\$ 3,563	\$ 4	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3,567
Collectively evaluated for impairment	8,610	13,997	2,473	989	187	162	16	(17)	26,417
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—
Ending balance	\$ 12,173	\$ 14,001	\$ 2,473	\$ 989	\$ 187	\$ 162	\$ 16	\$ (17)	\$ 29,984
Loans:									
Individually evaluated for impairment	\$ 23,973	\$ 2,186	\$ 3,178	\$ —	\$ —	\$ 76	\$ —	\$ —	\$ 29,413
Collectively evaluated for impairment	686,828	2,462,162	614,438	218,746	46,616	31,725	130	—	4,060,645
Acquired with deteriorated credit quality	3,988	34,399	2,031	—	—	20	—	—	40,438
Ending balance	\$ 714,789	\$ 2,498,747	\$ 619,647	\$ 218,746	\$ 46,616	\$ 31,821	\$ 130	\$ —	\$ 4,130,496
December 31, 2015									
Allowance for losses:									
Individually evaluated for impairment	\$ 3,085	\$ 116	\$ —	\$ —	\$ —	\$ 2	\$ —	\$ —	\$ 3,203
Collectively evaluated for impairment	7,488	12,891	2,339	769	215	162	—	(24)	23,840
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—
Ending balance	\$ 10,573	\$ 13,007	\$ 2,339	\$ 769	\$ 215	\$ 164	\$ —	\$ (24)	\$ 27,043
Loans:									
Individually evaluated for impairment	\$ 7,382	\$ 4,671	\$ 3,136	\$ —	\$ 170	\$ 111	\$ —	\$ —	\$ 15,470
Collectively evaluated for impairment	720,732	2,321,209	602,206	187,984	50,008	41,835	124	—	3,924,098
Acquired with deteriorated credit quality	3,704	43,465	2,648	—	—	20	—	—	49,837
Ending balance	\$ 731,818	\$ 2,369,345	\$ 607,990	\$ 187,984	\$ 50,178	\$ 41,966	\$ 124	\$ —	\$ 3,989,405

Nonperforming loans by loan class at March 31, 2016 and December 31, 2015, are summarized as follows:

	Commercial	Commercial Real Estate, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Total
March 31, 2016								
Nonaccrual loans	\$ 23,961	\$ 60	\$ 558	\$ —	\$ —	\$ 76	\$ —	\$ -24,655
Loans past due 90 days and still accruing	—	—	472	—	—	3	—	475
Troubled debt restructurings (not included in nonaccrual or loans past due and still accruing)	12	2,126	2,611	—	—	—	—	4,749
	\$ 23,973	\$ 2,186	\$ 3,641	\$ —	\$ —	\$ 79	\$ —	\$ -29,879
December 31, 2015								
Nonaccrual loans	\$ 7,366	\$ 591	\$ 552	\$ —	\$ 170	\$ 111	\$ —	\$ -8,790
Loans past due 90 days and still accruing	—	—	—	—	—	—	—	—
Troubled debt restructurings (not included in nonaccrual or loans past due and still accruing)	16	3,480	2,574	—	—	—	—	6,070
	\$ 7,382	\$ 4,071	\$ 3,126	\$ —	\$ 170	\$ 111	\$ —	\$ -14,860

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 will not be collected according to contractual terms of the loan agreement. 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 the 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 loans by loan class at March 31, 2016 and December 31, 2015, are summarized as follows:

	Commercial	Commercial Real Estate, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Total
March 31, 2016								
Recorded investment in impaired loans:								
Impaired loans with an allowance for loan losses	\$ 6,799	\$ 78	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —\$6,877
Impaired loans with no allowance for loan losses	17,174	2,108	3,178	—	—	76	—	22,536
Total	\$ 23,973	\$ 2,186	\$ 3,178	\$ —	\$ —	\$ 76	\$ —	\$ —\$29,413
Unpaid principal balance of impaired loans	\$ 24,109	\$ 2,227	\$ 3,195	\$ —	\$ —	\$ 99	\$ —	\$ —\$29,630
Allowance for loan losses on impaired loans	\$ 3,563	\$ 4	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —\$3,567
December 31, 2015								
Recorded investment in impaired loans:								
Impaired loans with an allowance for loan losses	\$ 7,221	\$ 1,930	\$ —	\$ —	\$ —	\$ 5	\$ —	\$ —\$9,156
Impaired loans with no allowance for loan losses	161	2,741	3,136	—	170	106	—	6,314
Total	\$ 7,382	\$ 4,671	\$ 3,136	\$ —	\$ 170	\$ 111	\$ —	\$ —\$15,470
Unpaid principal balance of impaired loans	\$ 7,520	\$ 4,936	\$ 3,204	\$ —	\$ 172	\$ 133	\$ —	\$ —\$15,965
Allowance for loan losses on impaired loans	\$ 3,085	\$ 116	\$ —	\$ —	\$ —	\$ 2	\$ —	\$ —\$3,203
For the three months ended March 31, 2016								
Average recorded investment in impaired loans	\$ 15,677	\$ 3,429	\$ 3,157	\$ —	\$ 85	\$ 94	\$ —	\$ —\$22,442
Interest income recognized on impaired loans	\$ 366	\$ 36	\$ 40	\$ —	\$ —	\$ —	\$ —	\$ —\$442
For the three months ended March 31, 2015								
Average recorded investment in impaired loans	\$ 3,689	\$ 6,627	\$ 3,302	\$ —	\$ —	\$ 76	\$ —	\$ —\$13,694
Interest income recognized on impaired loans	\$ 21	\$ 93	\$ 29	\$ —	\$ —	\$ —	\$ —	\$ —\$143

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 Accounting Standards Codification (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 \$4,845 and \$6,691 as of March 31, 2016 and December 31, 2015.

Following is a summary of loans modified under troubled debt restructurings during the three months ended March 31, 2016 and 2015:

	Commercial Real Estate, Commercial and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Total
Troubled debt restructurings during the three months ended March 31, 2016							
Number of contracts	—	—	—	—	—	—	—
Pre-restructuring outstanding recorded investment	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Post-restructuring outstanding recorded investment	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Troubled debt restructurings during the three months ended March 31, 2015							
Number of contracts	—	—	—	—	—	—	—
Pre-restructuring outstanding recorded investment	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Post-restructuring outstanding recorded investment	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

At March 31, 2016 and 2015, there were no loans modified under troubled debt restructurings during the previous twelve month period that subsequently defaulted during the three months ended March 31, 2016 and 2015, respectively. At March 31, 2016 and 2015, 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 March 31, 2016 and December 31, 2015:

	Loans 30-89 Days Past Due	Loans 90 or More Past Due	Total Past Due Loans	Current Loans	Total Loans
March 31, 2016					
Commercial	\$21,573	\$6,770	\$28,343	\$686,446	\$714,789
Commercial real estate, land and land development	1,520	—	1,520	2,497,227	2,498,747
Residential real estate	1,259	708	1,967	617,680	619,647
Single-family interim construction	967	—	967	217,779	218,746
Agricultural	43	—	43	46,573	46,616
Consumer	125	3	128	31,693	31,821
Other	—	—	—	130	130
	\$25,487	\$7,481	\$32,968	\$4,097,528	\$4,130,496
December 31, 2015					
Commercial	\$2,740	\$7,220	\$9,960	\$721,858	\$731,818
Commercial real estate, land and land development	2,059	—	2,059	2,367,286	2,369,345
Residential real estate	1,456	330	1,786	606,204	607,990
Single-family interim construction	503	—	503	187,481	187,984
Agricultural	89	170	259	49,919	50,178
Consumer	290	26	316	41,650	41,966
Other	—	—	—	124	124
	\$7,137	\$7,746	\$14,883	\$3,974,522	\$3,989,405

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

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

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A summary of loans by credit quality indicator by class as of March 31, 2016 and December 31, 2015, is as follows:

	Pass	Pass/ Watch	OAEM	Substandard	Doubtful	Total
March 31, 2016						
Commercial	\$590,490	\$55,912	\$19,446	\$48,941	\$—	—\$714,789
Commercial real estate, construction, land and land development	2,482,565	11,469	3,281	1,432	—	2,498,747
Residential real estate	612,026	1,436	1,288	4,897	—	619,647
Single-family interim construction	217,779	—	967	—	—	218,746
Agricultural	44,850	64	1,702	—	—	46,616
Consumer	31,540	30	19	232	—	31,821
Other	130	—	—	—	—	130
	\$3,979,380	\$68,911	\$26,703	\$55,502	\$—	—\$4,130,496
December 31, 2015						
Commercial	\$616,149	\$46,607	\$44,469	\$24,593	\$—	—\$731,818
Commercial real estate, construction, land and land development	2,343,883	18,463	3,341	3,658	—	2,369,345
Residential real estate	599,937	2,150	982	4,921	—	607,990
Single-family interim construction	187,984	—	—	—	—	187,984
Agricultural	48,185	66	1,757	170	—	50,178
Consumer	41,601	57	32	276	—	41,966
Other	124	—	—	—	—	124
	\$3,837,863	\$67,343	\$50,581	\$33,618	\$—	—\$3,989,405

The Company has acquired certain loans which experienced credit deterioration since origination (purchased credit impaired (PCI) loans). Accretion on PCI loans is based on estimated future cash flows, regardless of contractual maturity. There are no PCI loans outstanding for acquisitions prior to 2012. No additional PCI loans were acquired during the three months ended March 31, 2016.

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

	Acquisition Date November 1, 2015 Grand Bank
Outstanding balance	\$ 3,548
Nonaccretable difference	(593)
Accretable yield	—
Carrying amount	\$ 2,955

The carrying amount of all acquired PCI loans included in the consolidated balance sheet and the related outstanding balance at March 31, 2016 and December 31, 2015, were as follows:

	March 31, 2016	December 31, 2015
Outstanding balance	\$46,514	\$57,178
Carrying amount	40,438	49,837

There was no allocation established in the allowance for loan losses relating to PCI loans at March 31, 2016 or December 31, 2015.

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The changes in accretable yield during the three months ended March 31, 2016 and 2015 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.

	For the Three Months Ended March 31,	
	2016	2015
Balance at January 1,	\$2,380	\$2,546
Additions	—	—
Accretion	(302)	(184)
Transfers from nonaccretable	—	—
Balance at March 31,	\$2,078	\$2,362

Note 5. 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 March 31, 2016 and December 31, 2015, the approximate amounts of these financial instruments were as follows:

	March 31, 2016	December 31, 2015
Commitments to extend credit	\$858,317	\$838,341
Standby letters of credit	9,835	10,361
	\$868,152	\$848,702

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 March 31, 2016 and December 31, 2015, no amounts have been recorded as liabilities for the Company's potential obligations under these guarantees.

Litigation

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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.

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. Please see Part II, Item 1. for more details on this lawsuit.

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Lease Commitments

The Company leases certain branch facilities and other facilities. Rent expense related to these leases amounted to \$675 and \$483 for the three months ended March 31, 2016 and 2015, respectively.

Note 6. Repurchase Agreements and Other Borrowings

At March 31, 2016 and December 31, 2015, repurchase agreements totaled \$0 and \$12,160, respectively. During the three months ended March 31, 2016, repurchase agreements were transferred to deposit accounts.

Other borrowings, including those borrowings due to related parties totaled \$63,940 and \$70,798 at March 31, 2016 and December 31, 2015, respectively. The balance of borrowings at March 31, 2016 is net of deferred originations costs of \$1,060. In January 2016, the Company redeemed two debenture issuances in full with principal payments totaling \$5,798 plus all interest accrued at time of redemption.

Note 7. Income Taxes

Income tax expense for the three months ended March 31, 2016 and 2015 was as follows:

	Three Months		Ended March 31,	
	2016	2015		
Income tax expense for the period	\$6,162	\$4,536		
Effective tax rate	33.1	% 32.4	%	

The effective tax rates differ from the statutory federal tax rate of 35% largely due to tax exempt interest income earned on certain investment securities and loans and the nontaxable earnings on bank owned life insurance.

Note 8. 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.

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The following table represents assets reported on the consolidated balance sheets at their fair value on a recurring basis as of March 31, 2016 and December 31, 2015 by level within the ASC Topic 820 fair value measurement hierarchy:

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	Fair Value Measurements at Reporting Date Using Quoted Prices		
Assets/ Liabilities Measured at Fair Value	in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2016			
Measured on a recurring basis:			
Assets:			
Investment securities available for sale:			
U.S. treasuries	\$ 1,001	\$ -1,001	\$ —
Government agency securities	171,620	— 171,620	—
Obligations of state and municipal subdivisions	80,815	— 80,815	—
Residential pass-through securities guaranteed by FNMA, GNMA and FHLMC	49,214	— 49,214	—
December 31, 2015			
Measured on a recurring basis:			
Assets:			
Investment securities available for sale:			
U.S. treasuries	\$ 1,002	\$ -1,002	\$ —
Government agency securities	135,300	— 135,300	—
Obligations of state and municipal subdivisions	85,416	— 85,416	—
Residential pass-through securities guaranteed by FNMA, GNMA and FHLMC	51,745	— 51,745	—

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

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

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

In accordance with ASC Topic 820, certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets carried on the consolidated balance sheet by caption and by level in the fair value hierarchy at March 31, 2016 and December 31, 2015, for which a nonrecurring change in fair value has been recorded:

Assets Measured at Fair Value	Fair Value Measurements at Reporting Date Using			Period Ended Total Losses
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
March 31, 2016				
Measured on a nonrecurring basis:				
Assets:				
Impaired loans	\$ 6,194	\$ —	—\$ 6,194	\$ 480
Other real estate	702	—	702	55
December 31, 2015				
Measured on a nonrecurring basis:				
Assets:				
Impaired loans	\$ 4,827	\$ —	—\$ 4,827	\$ 3,029
Other real estate	577	—	577	35

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 is classified within Level 3 of the valuation hierarchy. When transferred from the loan portfolio, other real estate is adjusted to fair value less estimated selling costs and is subsequently carried at the lower of carrying value or fair value less estimated selling costs. The fair value is determined using an external appraisal process, discounted based on internal criteria.

In addition, mortgage loans held for sale are required to be measured at the lower of cost or fair value. The fair value of mortgage loans held for sale is based upon binding quotes or bids from third party investors. As of March 31, 2016 and December 31, 2015, all mortgage loans held for sale were recorded at cost.

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

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

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

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

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

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

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

Repurchase agreements and other borrowings: The carrying value of repurchase agreements approximates fair value due to the short term nature. The fair values of 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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The carrying amount, estimated fair value and the level of the fair value hierarchy of the Company's financial instruments were as follows at March 31, 2016 and December 31, 2015:

	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)
March 31, 2016					
Financial assets:					
Cash and cash equivalents	\$ 356,526	\$ 356,526	\$ 356,526	\$ —	—
Certificates of deposit held in other banks	39,334	39,389	—	39,389	—
Securities available for sale	302,650	302,650	—	302,650	—
Loans held for sale	8,515	8,515	—	8,515	—
Loans, net	4,098,573	4,102,030	—	4,098,720	3,310
FHLB of Dallas stock and other restricted stock	22,400	22,400	—	22,400	—
Accrued interest receivable	10,472	10,472	—	10,472	—
Financial liabilities:					
Deposits	4,171,952	4,175,251	—	4,175,251	—
Accrued interest payable	1,773	1,773	—	1,773	—
FHLB advances	380,805	380,237	—	380,805	—
Other borrowings	63,940	64,025	—	64,025	—
Junior subordinated debentures	18,147	18,140	—	18,140	—
Off-balance sheet assets (liabilities):					
Commitments to extend credit	—	—	—	—	—
Standby letters of credit	—	—	—	—	—
December 31, 2015					
Financial assets:					
Cash and cash equivalents	\$ 293,279	\$ 293,279	\$ 293,279	\$ —	—
Certificates of deposit held in other banks	61,746	61,873	—	61,873	—
Securities available for sale	273,463	273,463	—	273,463	—
Loans held for sale	12,299	12,299	—	12,299	—
Loans, net	3,960,809	3,966,199	—	3,960,246	5,953
FHLB of Dallas stock and other restricted stock	14,256	14,256	—	14,256	—
Accrued interest receivable	10,991	10,991	—	10,991	—
Financial liabilities:					
Deposits	4,028,279	4,031,365	—	4,031,365	—
Accrued interest payable	2,792	2,792	—	2,792	—
FHLB advances	288,325	295,345	—	295,345	—
Repurchase agreements	12,160	12,160	—	12,160	—
Other borrowings	70,798	70,935	—	70,935	—
Junior subordinated debentures	18,147	18,128	—	18,128	—
Off-balance sheet assets (liabilities):					
Commitments to extend credit	—	—	—	—	—
Standby letters of credit	—	—	—	—	—

Note 9. Stock Awards and Stock Warrants

The Company grants common stock awards to certain employees of the Company. The common stock issued prior to 2013 vests five years from the date the award is granted and the related compensation expense is recognized over the vesting period. In connection with the initial public offering in April 2013, the Board of Directors adopted a new 2013 Equity Incentive Plan. Under this plan, the Compensation Committee may grant awards in the form of restricted stock, restricted stock rights, restricted stock units, qualified and nonqualified stock options, performance-based share awards and other equity-based awards. The Plan reserved 800,000 shares of common stock to be awarded by the Company's compensation committee. The shares 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 three months ended March 31, 2016, 1,600 shares that were issued under the 2012 Plan vested during the period.

The following table summarizes the activity in nonvested shares for the three months ended March 31, 2016 and 2015:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested shares, December 31, 2015	373,572	\$ 40.29
Granted during the period	66,220	29.91
Vested during the period	(44,220)	32.61
Forfeited during the period	(6,334)	42.25
Nonvested shares, March 31, 2016	389,238	\$ 39.20
Nonvested shares, December 31, 2014	373,886	\$ 41.58
Granted during the period	87,124	31.41
Vested during the period	(19,016)	32.98
Nonvested shares, March 31, 2015	441,994	\$ 40.16

Compensation expense related to these awards is recorded based on the fair value of the award at the date of grant and totaled \$1,220 and \$1,097 for the three months ended March 31, 2016 and 2015, respectively. Compensation expense is recorded in salaries and employee benefits in the accompanying consolidated statements of income. At March 31, 2016, future compensation expense is estimated to be \$11,385 and will be recognized over a remaining weighted average period of 2.62 years.

The fair value of common stock awards that vested during the three months ended March 31, 2016 and 2015 was \$1,306 and \$635, respectively. The Company has recorded \$(83) and \$3 to additional paid in capital, which represents the income tax deficiency and excess tax benefit, respectively, recognized on the vested shares for the three months ended March 31, 2016 and 2015, respectively.

At March 31, 2016, the future vesting schedule of the nonvested shares is as follows:

First year	144,098
Second year	125,752
Third year	81,388
Fourth year	35,800
Fifth year	2,200
Total nonvested shares	389,238

The Company has warrants outstanding 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 expire in December 2018.

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Note 10. 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"). Starting in January 2016, the implementation of the capital conservation buffer was effective for the Company starting at the 0.625% level and increasing 0.625% each year thereafter, until it reaches 2.5% on January 1, 2019. The capital conservation buffer is designed to absorb losses during periods of economic stress and requires increased capital levels for the purpose of capital distributions and other payments. Failure to meet the full amount of the buffer will result in restrictions on the Company's ability to make capital distributions, including dividend payments and stock repurchases and to pay discretionary bonuses to executive officers.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total, CET1 and Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of March 31, 2016 and December 31, 2015, the Company and the Bank meet all capital adequacy requirements to which they are subject, including the capital buffer requirement.

As of March 31, 2016 and December 31, 2015, 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 March 31, 2016 and December 31, 2015, 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
March 31, 2016						
Total capital to risk weighted assets:						
Consolidated	\$461,253	10.53 %	\$350,554	8.00 %	N/A	N/A
Bank	455,475	10.35	352,216	8.00	\$440,270	10.00 %
Tier 1 capital to risk weighted assets:						
Consolidated	366,269	8.36	262,915	6.00	N/A	N/A
Bank	425,491	9.66	264,162	6.00	352,216	8.00 %
Common equity tier 1 to risk weighted assets						
Consolidated	348,669	7.96	197,187	4.50	N/A	N/A
Bank	425,491	9.66	198,121	4.50	286,175	6.50 %
Tier 1 capital to average assets:						
Consolidated	366,269	7.36	199,114	4.00	N/A	N/A
Bank	425,491	8.55	199,021	4.00	248,776	5.00 %
December 31, 2015						
Total capital to risk weighted assets:						
Consolidated	\$473,993	11.14 %	\$340,533	8.00 %	N/A	N/A
Bank	470,495	11.06	340,259	8.00	\$425,323	10.00 %
Tier 1 capital to risk weighted assets:						
Consolidated	379,631	8.92	255,400	6.00	N/A	N/A
Bank	443,452	10.43	255,194	6.00	340,259	8.00 %
Common equity tier 1 to risk weighted assets						
Consolidated	338,093	7.94	191,550	4.50	N/A	N/A
Bank	443,452	10.43	191,396	4.50	276,460	6.50 %
Tier 1 capital to average assets:						
Consolidated	379,631	8.28	183,379	4.00	N/A	N/A
Bank	443,452	9.72	182,421	4.00	228,026	5.00 %

Note 11. Business Combinations

Grand Bank

During the three months ended March 31, 2016, the Company made measurement-period adjustments to previously-reported acquisition accounting estimates for the November 1, 2015 acquisition of Grand Bank. The adjustments were a result of finalizing the fair value valuation analysis for the acquired loans and core deposits, and additional termination accruals identified that related to Grand Bank accounts that existed prior to the acquisition. The adjustments resulted in decreases of \$324 to goodwill, \$175 to deferred tax asset, \$216 to core deposit intangible, and increases of \$735 to loans and \$20 to other liabilities.

Note 12. Subsequent Event

Declaration of Dividends

On April 27, 2016, the Company declared a quarterly cash dividend in the amount of \$0.08 per share of common stock to the stockholders of record on May 9, 2016. The dividend will be paid on May 19, 2016.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Note Regarding Forward Looking Statements

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

- worsening business and economic conditions nationally, regionally and in our target markets, particularly in Texas and the geographic areas in which we operate;
- our dependence on our management team and our ability to attract, motivate and retain qualified personnel;
- the concentration of our business within our geographic areas of operation in Texas;
- deteriorating asset quality and higher loan charge-offs;
- concentration of our loan portfolio in commercial and residential real estate loans and changes in the prices, values and sales volumes of commercial and residential real estate;
- inaccuracy of the assumptions and estimates we make in establishing reserves for probable loan losses and other estimates;
- lack of liquidity, including as a result of a reduction in the amount of sources of liquidity we currently have;
- material decreases in the amount of deposits we hold;
- regulatory requirements to maintain minimum capital levels;
- changes in market interest rates that affect the pricing of our loans and deposits and our net interest income;
- fluctuations in the market value and liquidity of the securities we hold for sale;
- effects of competition from a wide variety of local, regional, national and other providers of financial, investment and insurance services;
- changes in economic and market conditions that affect the amount of assets we have under administration;
- the institution and outcome of litigation and other legal proceeding against us or to which we become 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;

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

• governmental monetary and fiscal policies;

• changes in the scope and cost of FDIC insurance and other coverage;

• the effects of war or other conflicts, acts of terrorism (including cyber attacks) or other catastrophic events, including storms, droughts, tornadoes and flooding, that may affect general economic conditions;

our actual cost savings resulting from the acquisitions of BOH Holdings, Houston City Bancshares and Live Oak Financial Corp. 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 the BOH Holdings, Inc., Houston City Bancshares and Live Oak Financial Corp. acquisitions are less than expected;

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 risk that the businesses of the Company, and financial institutions that it has or will acquire, will not be integrated successfully, or such integrations may be more difficult, time-consuming or costly than expected;

the quality of the assets acquired from other organizations being lower than determined in our due diligence investigation and related exposure to unrecoverable losses on loans acquired;

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

changes occur in business conditions and inflation;

personal or commercial customers' bankruptcies increase;

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

the other factors that are described or referenced in Part II, Item 1A. of this Quarterly Report on Form 10-Q 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 we may make. As a result of these and other matters, including changes in facts, assumptions not being realized or other factors, the actual results relating to the subject matter of any forward-looking statement may 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. The Company undertakes no obligation to update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

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

Overview

This Management's Discussion and Analysis of Financial Condition and Results of Operations analyzes the major elements of the Company's financial condition and results of operation as reflected in the interim consolidated financial statements and accompanying notes appearing in this Quarterly Report on Form 10-Q. This section should be read in conjunction with the Company's interim consolidated financial statements and accompanying notes included elsewhere in this report and with the consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2015.

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

The Company operates 42 full service banking locations, with 24 located in the Dallas/North Texas region, 7 located in the Austin/Central Texas region and 11 in the Houston region. The Company's headquarters are located at 1600 Redbud, Suite 400, McKinney, Texas 75069, and its telephone number is (972) 562-9004. The Company's website address is www.ibtx.com. Information contained on the Company's website is not incorporated by reference into this Quarterly Report on Form 10-Q and is not part of this or any other report.

Our principal business is lending to and accepting deposits from businesses, professionals and individuals. We conduct all of our banking operations through Independent Bank, which is a Texas state banking corporation and our principal subsidiary (the Bank). We derive our income principally from interest earned on loans and, to a lesser extent, income from securities available for sale. We also derive income from non-interest sources, such as fees received in connection with various deposit services and mortgage brokerage operations. From time to time, we also realize gains on the sale of assets. Our principal expenses include interest expense on interest-bearing customer deposits, advances from the Federal Home Loan Bank of Dallas, or the 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 our assessment for FDIC deposit insurance.

Certain Events Affect Year-over-Year Comparability

Acquisition. The Company completed the acquisition of Grand Bank effective November 1, 2015. This acquisition increased total assets by \$620.2 million, gross loans by \$274.4 million and deposits by \$523.7 million on the acquisition date. The comparability of the Company's results of operations for the three months ended March 31, 2016 and 2015 are affected by this acquisition.

Discussion and Analysis of Results of Operations for the Three Months Ended March, 2016 and 2015

The following discussion and analysis of our results of operations compares our results of operations for the three months ended March 31, 2016 with the three months ended March 31, 2015. The results of operations for the three months ended March 31, 2016 are not necessarily indicative of the results of operations that may be expected for all of the year ending December 31, 2016.

Results of Operations

For the three months ended March 31, 2016, net income after preferred stock dividends was \$12.4 million (\$0.67 per common share on a diluted basis) compared with \$9.4 million (\$0.55 per common share on a diluted basis) for the three months ended March 31, 2015. The Company posted annualized returns on average common equity of 8.10% and 7.31%, returns on average assets of 0.95% and 0.92% and efficiency ratios of 56.89% and 60.90% for the three months ended March 31, 2016 and 2015, respectively. The efficiency ratio is calculated by dividing total noninterest expense (which does not include the provision for loan losses) by net interest income plus noninterest income.

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.

Net interest income was \$45.7 million for the three months ended March 31, 2016, an increase of \$9.6 million, or 26.6%, from \$36.1 million for the three months ended March 31, 2015. This increase is due primarily to a \$901.3 million increase, or 25.0%, in average interest earning assets to \$4.5 billion for the three months ended March 31, 2016 compared to \$3.6 billion for the three months ended March 31, 2015. The greatest part of the increases in interest-earning assets and interest-bearing deposits occurred as a result of the acquisition the Company completed in November 2015 but was also due in part to organic loan and deposit growth. The average yield on interest earning assets increased one basis point from 4.59% for the three months ended March 31, 2015 to 4.60% for the three months ended March 31, 2016 primarily due to an increase in the loan yield from 4.93% for the three months ended March 31, 2015 to 4.98% for the three months ended March 31, 2016. The increase in loan yield was primarily due to increased accretion income on acquired loans during the period as well as interest income recognized on the payoff a nonaccrual loan and the recognition of a large extension fee on an energy credit offset by a decrease in yield on taxable securities. The average cost on interest-bearing liabilities decreased three basis points to 0.65% for the three months ended March 31, 2016 compared to 0.68% for the three months ended March 31, 2015. This change was primarily due to a decrease in the cost of borrowings due to maturities of higher rate FHLB advances during 2015 as well as the retirement of \$5.8 million of 7% debentures during the first quarter of 2016. The aforementioned changes resulted in a one basis point increase in the net interest margin for the three months ended March 31, 2016 to 4.08% compared to 4.07% for the three months ended March 31, 2015.

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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 three months ended March 31, 2016 and 2015. The average balances are principally daily averages and, for loans, include both performing and nonperforming balances.

	Three Months Ended March 31,					
	2016			2015		
	Average Outstanding Balance	Interest	Yield/ Rate ⁽³⁾	Average Outstanding Balance	Interest	Yield/ Rate ⁽³⁾
(dollars in thousands)						
Interest-earning assets:						
Loans ⁽¹⁾	\$4,031,322	\$49,910	4.98 %	\$3,254,038	\$39,580	4.93 %
Taxable securities	208,740	730	1.41	134,015	609	1.84
Nontaxable securities	74,609	451	2.43	69,245	414	2.42
Interest-bearing deposits and other	185,855	373	0.81	141,968	133	0.38
Total interest-earning assets	4,500,526	\$51,464	4.60	3,599,266	\$40,736	4.59
Noninterest-earning assets	741,763			554,741		
Total assets	\$5,242,289			\$4,154,007		
Interest-bearing liabilities:						
Checking accounts	\$1,593,295	\$1,745	0.44	\$1,267,242	\$1,358	0.43
Savings accounts	144,315	64	0.18	143,754	65	0.18
Money market accounts	504,616	459	0.37	236,589	100	0.17
Certificates of deposit	825,353	1,383	0.67	818,773	1,186	0.59
Total deposits	3,067,579	3,651	0.48	2,466,358	2,709	0.45
FHLB advances	435,730	1,001	0.92	219,842	752	1.39
Repurchase agreements and other borrowings	72,297	1,003	5.58	76,951	1,069	5.63
Junior subordinated debentures	18,147	149	3.30	18,147	128	2.86
Total interest-bearing liabilities	3,593,753	5,804	0.65	2,781,298	4,658	0.68
Noninterest-bearing checking accounts	1,016,032			819,330		
Noninterest-bearing liabilities	11,026			8,542		
Stockholders' equity	621,478			544,837		
Total liabilities and equity	\$5,242,289			\$4,154,007		
Net interest income		\$45,660			\$36,078	
Interest rate spread			3.95 %			3.91 %
Net interest margin ⁽²⁾			4.08			4.07
Average interest earning assets to interest bearing liabilities			125.23			129.41

(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) Yield and rates for the three month periods are annualized.

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 determined 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 made a \$3.0 million provision for loan losses for the three months ended March 31, 2016 compared to \$1.7 million for the comparable period in 2015. The increase in provision expense is directly related to loan growth in the respective period as well as increased general reserve allocations on the energy portfolio primarily due to continued volatility in commodity prices. Net chargeoffs were \$56 thousand for the three months ended March 31, 2016 compared to net recoveries of \$5 thousand for the same period in 2015.

Noninterest Income

The following table sets forth the components of noninterest income for the three months ended March 31, 2016 and 2015 and the period-over-period variations in such categories of noninterest income:

(dollars in thousands)	For the Three Months Ended		Variance 2016 v. 2015
	2016	2015	
Noninterest Income			
Service charges on deposit accounts	\$1,695	\$1,585	\$ 110
Mortgage fee income	1,376	1,300	76
Gain on sale of other real estate	43	130	(87)
Gain on sale of premises and equipment	38	—	38
Increase in cash surrender value of bank owned life insurance	265	270	(5)
All other noninterest income	1,053	681	372
Total noninterest income	\$4,470	\$3,966	\$ 504

Total noninterest income increased \$504 thousand, or 12.7% for the three months ended March 31, 2016 compared to the same period in 2015. Significant changes in the components of noninterest income are discussed below.

Service charges on deposit accounts. Service charges on deposit accounts increased \$110 thousand, or 6.9% for the three months ended March 31, 2016, as compared to the same period in 2015. The increase in service charge income is due to an increase in deposit accounts due to both organic growth between periods and growth through the acquisition closed in November 2015.

Other noninterest income. Other noninterest income for the three months ended March 31, 2016 increased \$372 thousand, or 54.6% compared to the same period in 2015. A large portion of the increase in other noninterest income from the prior year is related to increased earning credits on correspondent accounts and an increase in income distributions from small business fund investments during the first quarter 2016.

Noninterest Expense

Noninterest expense increased \$4.1 million, or 16.9% for the three months ended March 31, 2016, respectively, as compared to the same period in 2015. The following table sets forth the components of the Company's noninterest expense for the three months ended March 31, 2016 and 2015 and the period-over-period variations in such categories of noninterest expense:

(dollars in thousands)	For the Three Months Ended March 31,		Variance
	2016	2015	2016 v. 2015
Noninterest Expense			
Salaries and employee benefits	\$16,774	\$14,424	\$2,350
Occupancy	4,040	3,910	130
Data processing	1,182	688	494
FDIC assessment	726	519	207
Advertising and public relations	295	346	(51)
Communications	535	539	(4)
Other real estate owned expense, net	33	59	(26)
Impairment of other real estate	55	—	55
Core deposit intangible amortization	488	372	116
Professional fees	660	490	170
Acquisition expense, including legal	639	472	167
Other	3,092	2,567	525
Total noninterest expense	\$28,519	\$24,386	\$4,133

Salaries and Employee Benefits. Salaries and employee benefits expense, which historically has been the largest component of the Company's noninterest expense, increased \$2.4 million, or 16.3% for the three months ended March 31, 2016, compared to the same period in 2015. Salaries and employee benefits expenses increased for the three months ended March 31, 2016 over the same period in 2015 due to an increase in the number of the Company's full-time equivalent employees both resulting from organic growth within the Company and growth through the acquisition completed by the Company in November 2015.

Data Processing. Data processing fees increased \$494 thousand, or 71.8% for the three months ended March 31, 2016, respectively, compared to the same period in 2015. The increase is due to increased online banking fees and other costs related directly to an increase in accounts over the same period prior year, related both to organic growth and growth through acquisition.

FDIC Assessment. FDIC assessment expense increased \$207 thousand, or 39.9% for the three months ended March 31, 2016, compared to the same period in 2015. The increase is due to a higher assessment associated with an increase in deposit accounts, both due to organic growth and growth through the Grand Bank acquisition in November 2015.

Core Deposit Intangible Amortization. Amortization expense on core deposit intangibles increased \$116 thousand for the three months ended March 31, 2016 over the same period in 2015. The increase is due to core deposit intangibles acquired in the Grand Bank acquisition in November 2015. Core deposit intangibles are being amortized on the straight line method over 10 years.

Professional Fees. Professional fees increased \$170 thousand, or 34.7% for the three months ended March 31, 2016 over the same period in 2015. The increase in professional fees is primarily due to increased legal fees on existing litigation inherited in the Bank of Houston transaction.

Acquisition Expenses. Acquisition expenses increased \$167 thousand, or 35.4% for the three month period ending March 31, 2016 compared to the same period in 2015. The increase in acquisition-related expenses primarily related to additional fees incurred relating to the core data system conversion of Grand Bank during the first quarter 2016.

Other. Other expense increased by \$525 thousand, or 20.5% for the three months ended March 31, 2016 compared to the same period in 2015. The majority of the increase in this category from the prior period is due to increased loan related expenses, including \$307 thousand expense to repair a repossessed airplane.

Income Tax Expense

Income tax expense was \$6.2 million and \$4.5 million for the three months ended March 31, 2016 and 2015, respectively. The effective tax rates were 33.1% and 32.4% for the three months ended March 31, 2016 and 2015,

respectively.

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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 March 31, 2016 and December 31, 2015.

Assets

The Company's total assets increased by \$207.0 million, or 4.1%, to \$5.3 billion as of March 31, 2016 from \$5.1 billion at December 31, 2015.

Loan Portfolio

The following table presents the balance and associated percentage of each major category in our loan portfolio as of March 31, 2016 and December 31, 2015:

(dollars in thousands)	March 31, 2016		December 31, 2015	
Commercial	\$714,789	17.3 %	\$731,818	18.3 %
Real estate:				
Commercial	2,080,550	50.3	1,949,734	48.7
Commercial construction, land and land development	418,197	10.1	419,611	10.5
Residential ⁽¹⁾	628,162	15.2	620,289	15.5
Single family interim construction	218,746	5.3	187,984	4.7
Agricultural	46,616	1.0	50,178	1.3
Consumer	31,821	0.8	41,966	1.0
Other	130	—	124	—
	4,139,011	100.0%	4,001,704	100.0%
Deferred loan fees	(1,939)		(1,553)	
Allowance for loan losses	(29,984)		(27,043)	
Total loans, net	\$4,107,088		\$3,973,108	

⁽¹⁾ Includes mortgage loans held for sale as of March 31, 2016 and December 31, 2015 of \$8.5 million and \$12.3 million, respectively.

Our loan portfolio is the largest category of our earning assets. As of March 31, 2016 and December 31, 2015, loans, net of allowance for loan losses, totaled \$4.107 billion and \$3.973 billion, respectively, which is an increase of 3.4% between the two dates.

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

The Company discontinues accruing interest on a loan when management of the Company believes, after considering the Company's collection efforts and other factors, that the borrower's financial condition is such that collection of interest of that loan is doubtful. Loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans, including troubled debt restructurings, that are placed on nonaccrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future

payments are reasonably assured.

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

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

The following table sets forth the allocation of the Company's nonperforming assets among the Company's different asset categories as of the dates indicated. The Company classifies nonperforming loans as nonaccrual loans, loans past due 90 days or more and still accruing interest or loans modified under restructurings as a result of the borrower experiencing financial difficulties. The balances of nonperforming loans reflect the net investment in these assets, including deductions for purchase discounts.

(dollars in thousands)	March 31, 2016	December 31, 2015	
Nonaccrual loans			
Commercial	\$23,961	\$ 7,366	
Real estate:			
Commercial real estate, construction, land and land development	60	591	
Residential real estate	558	552	
Agricultural	—	170	
Consumer	76	111	
Total nonaccrual loans ⁽¹⁾	24,655	8,790	
Loans delinquent 90 days or more and still accruing			
Real estate:			
Residential real estate	472	—	
Consumer	3	—	
Total loans delinquent 90 days or more and still accruing	475	—	
Troubled debt restructurings, not included in nonaccrual loans			
Commercial	12	16	
Real estate:			
Commercial real estate, construction, land and land development	2,126	3,480	
Residential real estate	2,611	2,574	
Total troubled debt restructurings, not included in nonaccrual loans	4,749	6,070	
Total nonperforming loans	29,879	14,860	
Other real estate owned and other repossessed assets:			
Commercial real estate, construction, land and land development	1,745	2,168	
Commercial	1,050	1,050	
Consumer	10	14	
Total other real estate owned and other repossessed assets	2,805	3,232	
Total nonperforming assets	\$32,684	\$ 18,092	
Ratio of nonperforming loans to total loans	0.72	%	0.37
Ratio of nonperforming assets to total assets	0.62		0.36

(1) Nonaccrual loans include troubled debt restructurings of \$96 thousand and \$621 thousand as of March 31, 2016 and December 31, 2015, respectively.

Nonaccrual loans increased to \$24.7 million at March 31, 2016 from \$8.8 million as of December 31, 2015. The increase in nonaccruals is due to one energy loan participation totaling \$17.1 million that was placed on nonaccrual by the lead bank in the first quarter. Troubled debt restructurings that were not on nonaccrual status totaled \$4.7 million and \$6.1 million at March 31, 2016 and December 31, 2015, respectively. The decrease was primarily due to a payoff of one commercial real estate loan totaling \$1.3 million. The net decrease in other real estate owned and repossessed assets is due to the disposition of \$368 thousand and a \$55 thousand write-down in other real estate properties during the first quarter.

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As of March 31, 2016, the Company had a total of 53 substandard loans with an aggregate principal balance of \$27.9 million that were not currently nonaccrual loans, 90 days past due loans or troubled debt restructurings, but where the Company had information about possible credit problems of the borrowers that caused the Company's management to have serious concerns as to the ability of the borrowers to comply with present loan repayment terms and that could result in those loans becoming nonaccrual loans, 90 days past due loans or troubled debt restructurings in the future. The Company generally continues to use the classification of acquired loans classified nonaccrual or 90 days and accruing as of the acquisition date. The Company does not classify acquired loans as troubled debt restructurings, or TDRs, unless the Company modifies an acquired loan subsequent to acquisition that meets the TDR criteria. Reported delinquency of the Company's purchased loan portfolio is based upon the contractual terms of the loans.

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. As of March 31, 2016, the allowance for loan losses amounted to \$30.0 million, or 0.73% of total loans, compared with \$27.0 million, or 0.68% of total loans as of December 31, 2015. The increase in the allowance is due to general reserves for organic loan growth, specific allocations on impaired assets, and increased qualitative factors in the general allocation in recognition of continued volatility in commodity prices.

The allowance for loan losses to nonperforming loans has decreased from 181.99% at December 31, 2015 to 100.35% at March 31, 2016 primarily due to the energy loan participation noted above totaling \$17.1 million that was placed on nonaccrual in the first quarter. Nonperforming loans have increased to \$29.9 million at March 31, 2016 compared to \$14.9 million at December 31, 2015 also due to the one energy loan that was added to nonaccrual in the first quarter.

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 Company had no sales of securities during the three months ended March 31, 2016 and 2015. Securities represented 5.8% and 5.4% of the Company's total assets at March 31, 2016 and December 31, 2015, respectively.

Management evaluates securities for other-than-temporary impairment (OTTI) on at least a quarterly basis and more frequently when economic or 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 March 31, 2016 for a period of time sufficient for an entire recovery of the cost basis of the securities. For those securities that are impaired, the unrealized losses are largely due to interest rate changes. The fair value is expected to recover as the securities approach their maturity date. Management believes any impairment in the Company's securities at March 31, 2016 is temporary and no other-than-temporary impairment has been realized in the Company's consolidated financial statements.

Capital Resources and Regulatory Capital Requirements

Total stockholder's equity was \$616.3 million at March 31, 2016 compared with \$603.4 million at December 31, 2015, an increase of approximately \$12.9 million. The increase was due primarily to net income of \$12.5 million earned by the Company during the three months ended March 31, 2016, as well as stock awards amortization of \$1.2 million and an increase of \$783 thousand in unrealized gain (loss) on available for sale securities offset by dividends paid of \$1.5 million.

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

	As of March 31, 2016		
	Actual Ratio	Required to be considered well capitalized Ratio	Required to be considered adequately capitalized Ratio
Tier 1 capital to average assets ratio	7.36	% ≥ 5.00%	4.00-5.00%
Common equity tier 1 capital to risk-weighted assets ratio	7.96	≥ 6.50	4.50-6.50
Tier 1 capital to risk-weighted assets ratio	8.36	≥ 8.00	6.00-8.00
Total capital to risk-weighted assets ratio	10.53	≥ 10.00	8.00-10.00

Liquidity Management

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, brokered 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 non core 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, Independent Bank maintains correspondent relationships with other banks in order to sell loans or purchase overnight funds should additional liquidity be needed. As of March 31, 2016, the Bank had established federal funds lines of credit with nine unaffiliated banks totaling \$200.0 million with no amounts advanced against those lines at that time. In addition, the Company has an unsecured line of credit totaling \$50.0 million at an unaffiliated commercial bank. Based on the values of stock, securities, and loans pledged as collateral, as of March 31, 2016, the Company had additional borrowing capacity with the FHLB of \$868.0 million.

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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Other than normal changes in the ordinary course of business, there have been no significant changes in the types of contractual obligations or amounts due since December 31, 2015.

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.

Independent Bank's commitments to extend credit and outstanding standby letters of credit were \$858.3 million and \$9.8 million, respectively, as of March 31, 2016. 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.

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 loans with evidence of credit deterioration since their origination date and performing loans. The Company accounts for performing loans under ASC Paragraph 310-20, Nonrefundable Fees and Other Costs, with the related discount being adjusted for over the life of the loan

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and recognized as interest income. The Company accounts for the loans acquired in accordance with ASC Paragraph 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. At the date of the acquisition, acquired loans are recorded at their fair value.

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

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

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

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

Goodwill and Core Deposit Intangible. The excess purchase price over the fair value of net assets from acquisitions, or goodwill, is evaluated for impairment at least annually and on an interim basis if an event or circumstance indicates that it is likely an impairment has occurred. Under current accounting standards, the Company has the option to first assess 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, no further testing is necessary. If the Company concludes otherwise, then it is required to perform the 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. The Company performs its impairment test annually as of December 31. There have been no circumstances since December 31, 2015 that would indicate any impairment has occurred, therefore, management does not believe goodwill is impaired as of March 31, 2016.

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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET 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 the Bank's Board of Directors has oversight of our asset and liability management function, which is managed by our Treasurer. Our Treasurer meets with our Chief Financial Officer and senior executive management team regularly to review, among other things, the sensitivity of the Company's assets and liabilities to market interest rate changes, local and national market conditions and market interest rates. That group also reviews the liquidity, capital, deposit mix, loan mix and investment positions of our Company.

Our management and our Board of Directors are responsible for managing interest rate risk and employing risk management policies that monitor and limit our 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. We also analyze 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 our future earnings and is used in conjunction with the analyses on net interest income.

We conduct 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 on an installment level basis. 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.

Our interest rate risk model indicated that we were in a balanced position in terms of interest rate sensitivity as of March 31, 2016. The table below illustrates the impact of an immediate and sustained 200 and 100 basis point increase and a 100 basis point decrease in interest rates on net interest income based on the interest rate risk model as of March 31, 2016:

Hypothetical Shift in Interest Rates (in bps)	% Change in Projected Net Interest Income
200	(1.43)%
100	(0.86)%
(100)	(5.77)%

These are good faith estimates and assume that the composition of our interest sensitive assets and liabilities existing at each period-end and is based on future maturities and market pricing 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 we might undertake in response to changes in market interest rates. We believe these estimates are not necessarily indicative of what actually could occur in the event of immediate interest rate increases or decreases of this magnitude. As interest-bearing assets and liabilities re-price in different time frames and proportions to market interest rate movements, various assumptions must be made based on historical relationships of these variables in reaching any conclusion. Since these correlations are based on competitive and market conditions, we anticipate that our future

results will likely be different from the foregoing estimates, and such differences could be material.

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ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q was performed under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms.

Changes in internal control over financial reporting. There were no changes in the Company's internal control over financial reporting during the three months ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II

Item 1. LEGAL PROCEEDINGS

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

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

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

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

Item 1A. RISK FACTORS

In evaluating an investment in our common stock, investors should consider carefully, among other things, the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015, as well as the information contained in this Quarterly Report on Form 10-Q and our other reports and registrations statements filed with the SEC.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

Item 3. DEFAULTS UPON SENIOR SECURITIES

None

Item 4. MINE SAFETY DISCLOSURES

Not applicable

Item 5. OTHER INFORMATION

None

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Item 6. EXHIBITS

The following documents are filed as exhibits to this Quarterly Report on Form 10-Q:

- Exhibit 3.1 Amended and Restated Certificate of Formation of Independent Bank Group, Inc., which is incorporated herein by reference to Exhibit 3.1 to Registration Statement on Form S-1 of Independent Bank Group, Inc. filed with the SEC on February 27, 2013 (the "S-1 Registration Statement").
- Exhibit 3.2 Certificate of Amendment to Amended and Restated Certificate of Formation of Independent Bank Group, Inc., which is incorporated herein by reference to Exhibit 3.3 to Amendment No. 2 to the S-1 Registration Statement filed with the SEC on April 1, 2013.
- Exhibit 3.3 Third Amended and Restated Bylaws of Independent Bank Group, Inc., which are incorporated herein by reference to Exhibit 3.2 to Amendment No. 1 to the S-1 Registration Statement filed with the SEC on March 18, 2013.
- Exhibit 3.4 Statement of Designations of Senior Non-Cumulative Perpetual Preferred Stock, Series A of Independent Bank Group, Inc., as filed with the Office of the Secretary of State of the State of Texas on April 15, 2014, which is incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K of Independent Bank Group, Inc. filed with the SEC on April 17, 2014.
- Exhibit 3.5 Certificate of Merger, dated January 2, 2014, of Live Oak Financial Corp. with and into Independent Bank Group, Inc., which is incorporated herein by reference to Exhibit 3.5 to Amendment No. 1 to the Registrant's Registration Statement on Form S-3 (Registration No. 333-196627) filed with the SEC on June 25, 2014 (the "S-3 Registration Statement")
- Exhibit 3.6 Certificate of Merger, dated April 15, 2014, of BOH Holdings, Inc. with and into Independent Bank Group, Inc., which is incorporated herein by reference to Exhibit 3.6 to Amendment No. 1 to the S-3 Registration Statement filed with the SEC on June 25, 2014
- Exhibit 3.7 Certificate of Merger, dated September 30, 2014, of Houston City Bancshares, Inc. with and into Independent Bank Group, Inc., which are incorporated by reference to Exhibit 3.7 to the Registrant's Quarterly Report on Form 10-Q, dated July 31, 2015
- Exhibit 4.1 Form of certificate representing shares of the Registrant's common stock, which is 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
- Exhibit 4.2 Form of Common Stock Purchase Warrant, with schedules of differences, which is incorporated herein by reference to Exhibit 4.2 to the Form S-1 Registration Statement
- Exhibit 4.3 Form of certificate representing shares of the Registrant's Series A preferred stock, which is incorporated herein by reference to Exhibit 4.3 to the S-3 Registration Statement

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Exhibit 4.4 Subordinated Debt Indenture, dated as of June 25, 2014, between Independent Bank Group, Inc. and Wells Fargo Bank, National Association, in its capacity as Indenture Trustee, which is incorporated herein by reference to Exhibit 4.6 to the Registrant's Amendment No. 1 to the S-3 Registration Statement filed with the SEC on June 25, 2014

Exhibit 4.5 First Supplemental Indenture, dated as of July 17, 2014, between Independent Bank Group, Inc. and Wells Fargo Bank Shareowner Services, in its capacity as Indenture Trustee, which is incorporated herein by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K, dated July 17, 2014.

Exhibit 4.6 Form of Global Note to represent the 5.875% Subordinated Notes due August 1, 2024, of the Registrant, which is incorporated herein by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K, dated July 17, 2014.

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Exhibit 4.7 Independent Bank 401(k) Profit Sharing Plan, including related Adoption Agreement, which is incorporated herein by reference to Exhibit 4.9 to the Registrant's Registration Statement on Form S-8 filed with the SEC on August 29, 2014.

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

Exhibit 31.1* Chief Executive Officer Section 302 Certification

Exhibit 31.2* Chief Financial Officer Section 302 Certification

Exhibit 32.1** Chief Executive Officer Section 906 Certification

Exhibit 32.2** Chief Financial Officer Section 906 Certification

Exhibit 101.INS * XBRL Instance Document

Exhibit 101.SCH * XBRL Taxonomy Extension Schema Document

Exhibit 101.CAL * XBRL Taxonomy Extension Calculation Linkbase Document

Exhibit 101.DEF * XBRL Taxonomy Extension Definition Linkbase Document

Exhibit 101.LAB * XBRL Taxonomy Extension Label Linkbase Document

Exhibit 101.PRE * XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith as an Exhibit.

**Furnished herewith as an Exhibit.

Signatures

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

Independent Bank Group, Inc.

Date: April 27, 2016 By: /s/ David R. Brooks

David R. Brooks
Chairman and Chief Executive Officer

Date: April 27, 2016 By: /s/ Michelle S. Hickox

Michelle S. Hickox
Executive Vice President
Chief Financial Officer