Independent Bank Group, Inc.
Form 10-Q
July 27, 2017

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

FORM 10-Q(Mark One)
ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the quarterly period ended June 30, 2017.
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 McKinney, Texas	75069-3257
(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 ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	ý
Non-accelerated filer	¨ (Do not check if a smaller reporting company)		
		Smaller reporting company	¨
		Emerging growth company	ý

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards pursuant to Section 13(a) of the Exchange Act. ý
Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
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 – 27,790,144 shares as of July 26, 2017.

INDEPENDENT BANK GROUP, INC. AND SUBSIDIARIES
Form 10-Q
June 30, 2017

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Independent Bank Group, Inc. and Subsidiaries

Consolidated Balance Sheets
June 30, 2017 (unaudited) and December 31, 2016
(Dollars in thousands, except share information)

Assets	June 30, 2017	December 31, 2016
Cash and due from banks	$238,796	$158,686
Interest-bearing deposits in other banks	331,104	336,341
Federal funds sold	10,000	10,000
Cash and cash equivalents	579,900	505,027
Certificates of deposit held in other banks	15,692	2,707
Securities available for sale, at fair value	754,139	316,435
Loans held for sale	25,218	9,795
Loans, net	6,200,978	4,539,063
Premises and equipment, net	151,175	89,898
Other real estate owned	11,476	1,972
Federal Home Loan Bank (FHLB) of Dallas stock and other restricted stock	28,928	26,536
Bank-owned life insurance (BOLI)	111,603	57,209
Deferred tax asset	22,291	9,631
Goodwill	607,263	258,319
Core deposit intangible, net	48,992	14,177
Other assets	36,324	22,032
Total assets	$8,593,979	$5,852,801
Liabilities and Stockholders’ Equity		
Deposits:		
Noninterest-bearing	$1,885,138	$1,117,927
Interest-bearing	4,784,150	3,459,182
Total deposits	6,669,288	4,577,109
FHLB advances	460,707	460,746
Repurchase agreements	16,164	—
Other borrowings	107,478	107,299
Junior subordinated debentures	27,555	18,147
Other liabilities	53,195	17,135
Total liabilities	7,334,387	5,180,436
Commitments and contingencies		
Stockholders’ equity:		
Preferred stock (0 and 0 shares outstanding, respectively)	—	—
Common stock (27,790,144 and 18,870,312 shares outstanding, respectively)	278	189
Additional paid-in capital	1,108,608	555,325
Retained earnings	147,086	117,951
Accumulated other comprehensive income (loss)	3,620	(1,100)
Total stockholders’ equity	1,259,592	672,365

Total liabilities and stockholders' equity	$8,593,979	$5,852,801

See Notes to Consolidated Financial Statements

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Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Income
Three and Six Months Ended June 30, 2017 and 2016 (unaudited)
(Dollars in thousands, except per share information)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Interest income:				
Interest and fees on loans	$75,194	$50,418	$128,938	$100,328
Interest on taxable securities	2,303	764	3,067	1,494
Interest on nontaxable securities	992	444	1,533	895
Interest on interest-bearing deposits and other	1,394	315	2,284	688
Total interest income	79,883	51,941	135,822	103,405
Interest expense:				
Interest on deposits	6,981	3,923	12,010	7,574
Interest on FHLB advances	1,351	998	2,522	1,999
Interest on repurchase agreements and other borrowings	1,716	987	3,421	1,990
Interest on junior subordinated debentures	335	150	502	299
Total interest expense	10,383	6,058	18,455	11,862
Net interest income	69,500	45,883	117,367	91,543
Provision for loan losses	2,472	2,123	4,495	5,120
Net interest income after provision for loan losses	67,028	43,760	112,872	86,423
Noninterest income:				
Service charges on deposit accounts	3,760	1,752	5,687	3,447
Mortgage fee income	5,019	2,021	6,286	3,397
(Loss) gain on sale of other real estate	(36)	10	(36)	53
Gain on sale of securities available for sale	52	4	52	4
Gain on sale of premises and equipment	1	3	6	41
Increase in cash surrender value of BOLI	782	270	1,181	535
Other	1,417	869	2,402	1,922
Total noninterest income	10,995	4,929	15,578	9,399
Noninterest expense:				
Salaries and employee benefits	27,089	19,567	43,926	36,341
Occupancy	6,147	4,041	10,019	8,081
Data processing	2,615	1,203	3,903	2,385
FDIC assessment	1,201	869	2,079	1,595
Advertising and public relations	317	251	614	546
Communications	852	550	1,327	1,085
Net other real estate owned expenses (including taxes)	125	2	162	35
Other real estate impairment	120	—	120	55
Core deposit intangible amortization	1,410	492	1,902	980
Professional fees	1,166	977	1,939	1,637
Acquisition expense, including legal	5,673	90	5,819	729
Other	4,613	2,981	7,546	6,073
Total noninterest expense	51,328	31,023	79,356	59,542
Income before taxes	26,695	17,666	49,094	36,280
Income tax expense	8,561	5,857	15,289	12,019
Net income	$18,134	$11,809	$33,805	$24,261

Basic earnings per share	$0.65	$0.64	$1.45	$1.31
Diluted earnings per share	$0.65	$0.64	$1.44	$1.31

See Notes to Consolidated Financial Statements

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Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income
Three and Six Months Ended June 30, 2017 and 2016 (unaudited)
(Dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$18,134	$11,809	$33,805	$24,261
Other comprehensive income before tax:				
Change in net unrealized gains on available for sale securities during the year	5,314	1,407	7,314	2,612
Reclassification adjustment for gain on sale of securities available for sale included in net income	(52)	(4)	(52)	(4)
Other comprehensive income before tax	5,262	1,403	7,262	2,608
Income tax expense	1,842	491	2,542	913
Other comprehensive income, net of tax	3,420	912	4,720	1,695
Comprehensive income	$21,554	$12,721	$38,525	$25,956

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity
Six Months Ended June 30, 2017 and 2016 (unaudited)
(Dollars in thousands, except for par value, share and per share information)

	Preferred Stock $.01 Par Value 10 million shares authorized	Common Stock $.01 Par Value 100 million shares authorized		Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
		Shares	Amount				
Balance, December 31, 2016	$ —	18,870,312	$ 189	$555,325	$117,951	$ (1,100)	$672,365
Net income	—	—	—	—	33,805	—	33,805
Other comprehensive income, net of tax	—	—	—	—	—	4,720	4,720
Stock issued for acquisition of bank, net of offering costs of $942	—	8,804,699	88	551,063	—	—	551,151
Restricted stock granted	—	111,930	1	(1)	—	—	—
Stock based compensation expense	—	—	—	2,166	—	—	2,166
Exercise of warrants	—	3,203	—	55	—	—	55
Cash dividends ($0.20 per share)	—	—	—	—	(4,670)	—	(4,670)
Balance, June 30, 2017	$ —	27,790,144	$ 278	$1,108,608	$147,086	$ 3,620	$1,259,592
Balance, December 31, 2015	$ —	18,399,194	$ 184	$530,107	$70,698	$ 2,382	$603,371
Net income	—	—	—	—	24,261	—	24,261
Other comprehensive income, net of tax	—	—	—	—	—	1,695	1,695
Restricted stock forfeited	—	(6,036)	—	—	—	—	—
Restricted stock granted	—	82,820	1	(1)	—	—	—
Income tax deficiency on restricted stock vested	—	—	—	(378)	—	—	(378)
Stock based compensation expense	—	—	—	3,641	—	—	3,641
Preferred stock dividends	—	—	—	—	(8)	—	(8)
Cash dividends ($0.16 per share)	—	—	—	—	(2,954)	—	(2,954)
Balance, June 30, 2016	$ —	18,475,978	$ 185	$533,369	$91,997	$ 4,077	$629,628

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Six Months Ended June 30, 2017 and 2016 (unaudited)
(Dollars in thousands)

	Six Months Ended June 30, 2017			2016		
Cash flows from operating activities:						
Net income	$	33,805		$	24,261	
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation expense	4,036			3,306		
Accretion income recognized on acquired loans	(2,066		)	(3,362		)
Amortization of core deposit intangibles	1,902			980		
Amortization of premium on securities, net	1,635			812		
Amortization of discount and origination costs on borrowings	228			64		
Stock based compensation expense	2,166			3,641		
Excess tax benefit on restricted stock vested	(1,244		)	—		
FHLB stock dividends	(189		)	(103		)
Gain on sale of securities available for sale	(52		)	(4		)
Gain on sale of premises and equipment	(6		)	(41		)
Loss (gain) on sale of other real estate	36			(53		)
Impairment of other real estate	120			55		
Deferred tax expense (benefit)	2,036			(388		)
Provision for loan losses	4,495			5,120		

Increase in cash surrender value of life insurance	(1,181	)	(535	)
Originations of loans held for sale	(191,220	)	(133,684	)
Proceeds from sale of loans held for sale	188,579		132,041	
Net change in other assets	(6,229	)	446	
Net change in other liabilities	(5,672	)	2,068	
Net cash provided by operating activities	31,179		34,624	
Cash flows from investing activities:				
Proceeds from maturities, calls and pay downs of securities available for sale	699,005		399,799	
Proceeds from sale of securities available for sale	16,810		5,399	
Purchases of securities available for sale	(778,030	)	(417,911	)
Purchases of certificates held in other banks	(1,960	)	—	
Maturities of certificates held in other banks	—		48,860	
Purchase of bank owned life insurance contracts	—		(15,000	)
Net redemptions (purchases) of FHLB stock	8,907		(12,020	)
Net loans originated - held for investment	(273,256	)	(259,286	)
Net loans originated - mortgage warehouse	(19,895	)	—	
Additions to premises and equipment	(1,756	)	(3,564	)
Proceeds from sale of premises and equipment	10		163	
Proceeds from sale of other real estate owned	1,235		1,122	
	(853	)	—	

Capitalized additions to other real estate owned		
Cash received from acquired banks	148,444	—
Cash paid in connection with acquisitions	(17,773)	—
Net cash used in investing activities	(219,112)	(252,438)
Cash flows from financing activities:		
Net increase in demand deposits, NOW and savings accounts	316,272	213,324
Net decrease in time deposits	(46,031)	(53,886)
Proceeds from FHLB advances	—	525,000
Repayments of FHLB advances	(39)	(342,541)
Net change in repurchase agreements	(1,839)	8,528
Repayments of other borrowings	—	(5,798)
Proceeds from other borrowings	—	43,413
Proceeds from exercise of common stock warrants	55	—
Redemption of preferred stock	—	(23,938)
Offering costs paid in connection with acquired banks	(942)	—
Dividends paid	(4,670)	(2,962)
Net cash provided by financing activities	262,806	361,140
Net change in cash and cash equivalents	74,873	143,326
Cash and cash equivalents at beginning of year	505,027	293,279
Cash and cash equivalents at end of period	$ 579,900	$ 436,605

See Notes to Consolidated Financial Statements

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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, Central and Houston, Texas areas and along the Colorado Front Range, through its various branch locations in those areas. The Company is engaged in traditional community banking activities, which include commercial and retail lending, deposit gathering, investment and liquidity management activities. The Company's primary deposit products are demand deposits, money market accounts and certificates of deposit, and its primary lending products are commercial business and real estate, real estate mortgage and consumer loans.
Basis of Presentation: The accompanying consolidated financial statements include the accounts of IBG, its wholly-owned subsidiaries, the Bank, IBG Adriatica Holdings, Inc. (Adriatica) and Carlile Capital, LLC and the Bank's wholly-owned subsidiaries, IBG Real Estate Holdings, Inc., IBG Aircraft Company III, Preston Grand, Inc, Goldome Financial, LLC, McKinney Avenue Holdings, Inc. and its wholly owned subsidiary, McKinney Avenue SPE 1, Inc. Adriatica, McKinney Avenue Holdings, Inc. and its subsidiary are currently not active entities. On April 1, 2017, the Company acquired Carlile Bancshares, Inc. (Carlile) and its wholly owned subsidiaries, Carlile Capital, LLC and Northstar Bank of Texas (Northstar) and it's wholly owned subsidiary, Goldome Financial, LLC. Carlile has been merged into the Company and dissolved and Northstar has been merged with the Bank as of acquisition date. Carlile Capital holds and manages non-performing assets, including loans and other real estate owned and Goldome Financial is a mortgage warehouse company. See Note 10, Business Combination for more details of the Carlile acquisition.
All material intercompany transactions and balances have been eliminated in consolidation. In addition, the Company wholly-owns IB Trust I (Trust I), IB Trust II (Trust II), IB Trust III (Trust III), IB Centex Trust I (Centex Trust I), Community Group Statutory Trust I (CGI Trust I), Northstar Statutory Trust II (Northstar Trust II) and Northstar Statutory Trust III (Northstar Trust III). Northstar Trust II and Northstar Trust III were acquired in the acquisition of Carlile Bancshares. 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 Form10-K for the year ended December 31, 2016. The consolidated statement of condition at December 31, 2016 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.

New Accounting Pronouncement: ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting was effective for the Company on January 1, 2017. ASU 2016-09 requires that all income tax effects related to vestings of share-based payment awards be reported in earnings as an increase (or decrease) to income tax expense. Previously, excess income tax benefits of a vested award were reported as an increase (or decrease) to additional paid-in capital to the extent that those benefits were greater than (or less than) the income tax benefits recognized in earnings during the award's vesting period. The requirement to report those income tax effects in earnings has been applied to vestings occurring on or after January 1, 2017 and resulted in recording a $1,244 tax benefit for the six months ended June 30, 2017. ASU 2016-09 also requires that all income

tax-related cash flows resulting from share-based payments be reported as operating activities in the statement of cash flows. We have elected to apply that change in cash flow classification on a prospective basis. The impact of this change and that of the remaining provisions of ASU 2016-09 did not have significant impact on our financial statements.

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

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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 11.

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 and six months ended June 30, 2017 and 2016. Proceeds from the assumed exercise of dilutive stock warrants are assumed to be used to repurchase common stock at the average market price.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Basic earnings per share:				
Net income	$18,134	$ 11,809	$33,805	$ 24,261
Less: Preferred stock dividends	—	—	—	(8)
Net income after preferred stock dividends	18,134	11,809	33,805	24,253
Less:				
Undistributed earnings allocated to participating securities	134	174	301	385
Dividends paid on participating securities	24	25	48	53
Net income available to common shareholders	$17,976	$ 11,610	$33,456	$ 23,815
Weighted-average basic shares outstanding	27,541,007	18,157,372	23,128,651	18,123,585
Basic earnings per share	$0.65	$ 0.64	$1.45	$ 1.31
Diluted earnings per share:				
Net income available to common shareholders	$17,976	$ 11,610	$33,456	$ 23,815
Total weighted-average basic shares outstanding	27,541,007	18,157,372	23,128,651	18,123,585
Add dilutive stock warrants	104,901	77,892	106,050	70,721
Total weighted-average diluted shares outstanding	27,645,908	18,235,264	23,234,701	18,194,306
Diluted earnings per share	$0.65	$ 0.64	$1.44	$ 1.31
Anti-dilutive participating securities	92,658	35,504	109,465	38,533

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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:

	Six Months Ended June 30,	
	2017	2016
Cash transactions:		
Interest expense paid	$17,891	$10,855
Income taxes paid	$14,511	$12,010
Noncash transactions:		
Transfers of loans to other real estate owned	$750	$523
Loans to facilitate the sale of other real estate owned	$684	$—
Securities purchased, not yet settled	$33,270	$—
Excess tax deficiency on restricted stock vested	$—	$(378)
Transfer of repurchase agreements to deposits	$—	$20,688

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

	Six Months Ended June 30,	
	2017	2016
Noncash assets acquired		
Certificates of deposit held in other banks	$11,025	$ —
Securities available for sale	336,540	—
Restricted stock	11,110	—
Loans	1,384,041	—
Premises and equipment	63,561	—
Other real estate owned	9,976	—
Goodwill	348,944	—
Core deposit intangibles	36,717	—
Bank owned life insurance	53,213	—
Other assets	25,301	—
Total assets	$2,280,428	$ —
Noncash liabilities assumed:		
Deposits	$1,821,938	$ —
Repurchase agreements	18,003	—
Junior subordinated debt	9,359	—
Other liabilities	9,706	—
Total liabilities	$1,859,006	$ —
Cash and cash equivalents acquired from acquisitions	$148,444	$ —
Cash paid to shareholders of acquired banks	$17,773	$ —
Fair value of common stock issued to shareholders of acquired bank	$552,093	$ —

In addition, the following measurement-period adjustments were made during the period:

	Six Months Ended June 30,	
	2017	2016
Assets acquired:		
Loans	$—	$735
Goodwill	—	(324)
Core deposit intangibles	—	(216)
Deferred tax asset	—	(175)
Total assets	$—	$20
Liabilities assumed:		
Other liabilities	—	20
Total liabilities	$—	$20

The measurement-period adjustments for the six months ended June 30, 2016 were related to the acquisition of Grand Bank in 2015.

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 June 30, 2017 and December 31, 2016, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
June 30, 2017				
U. S. treasuries	$ 32,409	$ 4	$ (55)	$ 32,358
Government agency securities	241,462	255	(862)	240,855
Obligations of state and municipal subdivisions	214,584	3,024	(720)	216,888
Residential pass-through securities guaranteed by FNMA, GNMA and FHLMC	250,743	3,287	(287)	253,743
Other securities	10,284	11	—	10,295
	$ 749,482	$ 6,581	$ (1,924)	$ 754,139
December 31, 2016				
U.S. treasuries	$ 3,208	$ —	$ (61)	$ 3,147
Government agency securities	123,605	141	(1,479)	122,267
Obligations of state and municipal subdivisions	88,358	920	(2,022)	87,256
Residential pass-through securities guaranteed by FNMA, GNMA and FHLMC	103,869	928	(1,032)	103,765
	$ 319,040	$ 1,989	$ (4,594)	$ 316,435

Securities with a carrying amount of approximately $281,386 and $176,457 at June 30, 2017 and December 31, 2016, respectively, were pledged to secure public fund deposits and repurchase agreements.

Proceeds from sale of securities available for sale and gross gains and gross losses for the three months and six months ended June 30, 2017 and 2016 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Proceeds from sale	16,810	$5,399	$16,810	$5,399
Gross gains	104	4	104	4
Gross losses	52	—	52	—

The amortized cost and estimated fair value of securities available for sale at June 30, 2017, 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.

	June 30, 2017 Securities Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$91,080	$90,990
Due from one year to five years	229,121	229,126
Due from five to ten years	82,184	82,772
Thereafter	96,354	97,508
	498,739	500,396
Residential pass-through securities guaranteed by FNMA, GNMA and FHLMC	250,743	253,743
	$749,482	$754,139

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 June 30, 2017 and December 31, 2016, are summarized as follows:

	Less Than 12 Months			Greater Than 12 Months			Total	
Description of Securities	Number of Securities	Estimated Fair Value	Unrealized Losses	Number of Securities	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Securities Available for Sale								
June 30, 2017								
U.S. treasuries	6	$30,353	$(55)	—	$—	$—	$30,353	$(55)
Government agency securities	56	137,096	(587)	6	11,825	(275)	148,921	(862)
Obligations of state and municipal subdivisions	90	39,356	(583)	15	7,385	(137)	46,741	(720)
Residential pass-through securities guaranteed by FNMA, GNMA and FHLMC	17	46,141	(283)	1	1,134	(4)	47,275	(287)
	169	$252,946	$(1,508)	22	$20,344	$(416)	$273,290	$(1,924)
December 31, 2016								
U.S. treasuries	1	$3,147	$(61)	—	$—	$—	$3,147	$(61)
Government agency securities	43	102,044	(1,472)	1	993	(7)	103,037	(1,479)

Obligations of state and municipal subdivisions	100	46,186	(2,011)	4	1,549	(11)	47,735	(2,022)
Residential pass-through securities guaranteed by FNMA, GNMA and FHLMC	30	67,868	(1,032)	—	—	—	67,868	(1,032)
	174	$ 219,245	$ (4,576)	5	$ 2,542	$ (18)	$ 221,787	$ (4,594)

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 June 30, 2017 and December 31, 2016, consisted of the following:

	June 30, 2017	December 31, 2016
Commercial	$981,200	$630,805
Real estate:		
Commercial	3,232,256	2,459,221
Commercial construction, land and land development	686,404	531,481
Residential	851,519	634,545
Single family interim construction	286,445	235,475
Agricultural	161,044	53,548
Consumer	40,359	27,530
Other	295	166
	6,239,522	4,572,771
Deferred loan fees	(2,663)	(2,117)
Allowance for loan losses	(35,881)	(31,591)
	$6,200,978	$4,539,063

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. Our commercial loan portfolio also 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 June 30, 2017 and December 31, 2016, there were approximately $106,151 and $115,311 of exploration and production (E&P) energy loans outstanding, respectively. Additionally, with the acquisition of Carlile, the Company acquired a mortgage warehouse company, Goldome Financial, which provides mortgage warehouse lending to mortgage bankers across a broad geographic scale. Such loans are underwritten, in part, on approved investor takeout commitments. These loans have a very short duration ranging between 10 days and 15 days. In some cases, loans to larger mortgage originators may be financed for up to 60 days. These loans are reported as business loans since the loans are secured by notes receivable, not real estate. As of June 30, 2017, warehouse lines outstanding totaled $120,217.
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

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dependent on the success of the ultimate project. Sources of repayment for these loans may be pre-committed permanent financing or sale of the developed property. The loans in this portfolio are geographically diverse and due to the increased risk are monitored closely by management and the board of directors on a quarterly basis.
Residential real estate and single family interim construction loans are underwritten primarily based on borrowers' credit scores, documented income and minimum collateral values. Relatively small loan amounts are spread across many individual borrowers, which minimizes risk in the residential portfolio. In addition, management evaluates trends in past dues and current economic factors on a regular basis.
Agricultural loans are collateralized by real estate and/or agricultural-related assets. Agricultural real estate loans are primarily comprised of loans for the purchase of farmland. Loan-to-value ratios on loans secured by farmland generally do not exceed 80% and have amortization periods limited to twenty years. Agricultural non-real estate loans are generally comprised of term loans to fund the purchase of equipment, livestock and seasonal operating lines to 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. With the acquisition of Carlile as further explained in Note 10, Business Combination, the Company expanded into the State of Colorado, specifically along the Front Range area. As of June 30, 2017, loans in the Colorado region represented about 7% of the total portfolio. A large percentage of the Company's portfolio consists of commercial and residential real estate loans. As of June 30, 2017 and December 31, 2016, 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 identity potential internally classified loans that supplements the annual independent external loan review. The external review generally covers all loans greater than $2.9 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 and Colorado economies, specifically the Company's lending area of north, central and southeast Texas and Colorado Front Range area, has continued to expand and recover at a moderate pace during 2017 due largely to improvement in the energy sector and a strong labor force. The Texas economy is the second largest in the nation. However, uncertainty exists in the potential effect of the Trump administration's impact on foreign trade policy, specifically related to the service and manufacturing industries and industrial real estate. The risk of loss associated with all segments of the portfolio could increase due to this impact.

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 and six months ended June 30, 2017 and 2016:

	Commercial	Commercial Real Estate, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Unallocated	Total
Three months ended June 30, 2017									
Balance at the beginning of period	$ 8,005	$ 20,467	$ 2,828	$ 1,402	$ 201	$ 252	$ 34	$ 242	$ 33,431
Provision for loan losses	675	1,029	463	(15)	71	35	23	191	2,472
Charge-offs	—	—	—	—	—	(11)	(55)	—	(66)
Recoveries	20	1	1	—	—	12	10	—	44
Balance at end of period	$ 8,700	$ 21,497	$ 3,292	$ 1,387	$ 272	$ 288	$ 12	$ 433	$ 35,881
Six months ended June 30, 2017									
Balance at the beginning of period	$ 8,593	$ 18,399	$ 2,760	$ 1,301	$ 207	$ 242	$ 29	$ 60	$ 31,591
Provision for loan losses	85	3,077	530	220	65	99	46	373	4,495
Charge-offs	—	—	—	(134)	—	(67)	(77)	—	(278)
Recoveries	22	21	2	—	—	14	14	—	73
Balance at end of period	$ 8,700	$ 21,497	$ 3,292	$ 1,387	$ 272	$ 288	$ 12	$ 433	$ 35,881
Three months ended June 30, 2016									
Balance at the beginning of period	$ 12,173	$ 14,001	$ 2,473	$ 989	$ 187	$ 162	$ 16	$ (17)	$ 29,984
Provision for loan losses	374	1,491	52	132	(12)	7	23	56	2,123
Charge-offs	(1,191)	—	—	—	—	(1)	(22)	—	(1,214)
Recoveries	1	—	8	—	—	3	11	—	23
Balance at end of period	$ 11,357	$ 15,492	$ 2,533	$ 1,121	$ 175	$ 171	$ 28	$ 39	$ 30,916

Six months ended June 30, 2016									
Balance at the beginning of period	$ 10,573	$ 13,007	$ 2,339	$ 769	$ 215	$ 164	$ —	$ (24)	$ 27,043
Provision for loan losses	1,966	2,537	185	352	(40)	4	53	63	5,120
Charge-offs	(1,191)	(54)	—	—	—	(2)	(45)	—	(1,292)
Recoveries	9	2	9	—	—	5	20	—	45
Balance at end of period	$ 11,357	$ 15,492	$ 2,533	$ 1,121	$ 175	$ 171	$ 28	$ 39	$ 30,916

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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 June 30, 2017 and December 31, 2016:

	Commercial	Commercial Real Estate, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Unallocated	Total
June 30, 2017									
Allowance for losses:									
Individually evaluated for impairment	$ 1,000	$ —	$ —	$ —	$ —	$ 94	$ —	$ —	$ 1,094
Collectively evaluated for impairment	7,700	21,497	3,292	1,387	272	194	12	433	34,787
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—
Ending balance	$ 8,700	$ 21,497	$ 3,292	$ 1,387	$ 272	$ 288	$ 12	$ 433	$ 35,881
Loans:									
Individually evaluated for impairment	$ 8,181	$ 2,752	$ 3,276	$ —	$ —	$ 237	$ —	$ —	$ 14,446
Collectively evaluated for impairment	960,441	3,860,872	843,969	286,445	155,088	40,067	295	—	6,147,177
Acquired with deteriorated credit quality	12,578	55,036	4,274	—	5,956	55	—	—	77,899
Ending balance	$ 981,200	$ 3,918,660	$ 851,519	$ 286,445	$ 161,044	$ 40,359	$ 295	$ —	$ 6,239,522
December 31, 2016									
Allowance for losses:									
Individually evaluated for impairment	$ 3	$ 4	$ —	$ 84	$ —	$ 94	$ —	$ —	$ 185
Collectively evaluated for impairment	8,590	18,395	2,760	1,217	207	148	29	60	31,406
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—
Ending balance	$ 8,593	$ 18,399	$ 2,760	$ 1,301	$ 207	$ 242	$ 29	$ 60	$ 31,591
Loans:									
Individually evaluated for impairment	$ 7,720	$ 7,089	$ 1,889	$ 884	$ —	$ 279	$ —	$ —	$ 17,861
Collectively evaluated for impairment	620,665	2,953,333	630,689	234,591	53,548	27,240	166	—	4,520,232
Acquired with deteriorated credit quality	2,420	30,280	1,967	—	—	11	—	—	34,678
Ending balance	$ 630,805	$ 2,990,702	$ 634,545	$ 235,475	$ 53,548	$ 27,530	$ 166	$ —	$ 4,572,771

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Nonperforming loans by loan class (excluding loans acquired with deteriorated credit quality) at June 30, 2017 and December 31, 2016, are summarized as follows:

	Commercial	Commercial Real Estate, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Total
June 30, 2017								
Nonaccrual loans	$ 8,181	$ 1,665	$ 2,319	$ —	$ —	$ 237	$ —	$ 12,402
Loans past due 90 days and still accruing	11	—	—	—	—	—	—	11
Troubled debt restructurings (not included in nonaccrual or loans past due and still accruing)	—	1,087	957	—	—	—	—	2,044
	$ 8,192	$ 2,752	$ 3,276	$ —	$ —	$ 237	$ —	$ 14,457
December 31, 2016								
Nonaccrual loans	$ 7,718	$ 5,885	$ 866	$ 884	$ —	$ 273	$ —	$ 15,626
Loans past due 90 days and still accruing	—	—	—	—	—	—	—	—
Troubled debt restructurings (not included in nonaccrual or loans past due and still accruing)	1	1,204	1,011	—	—	—	—	2,216
	$ 7,719	$ 7,089	$ 1,877	$ 884	$ —	$ 273	$ —	$ 17,842

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.

Impaired loans by loan class (excluding loans acquired with deteriorated credit quality) at June 30, 2017 and December 31, 2016, are summarized as follows:

	Commercial	Commercial Real Estate, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Total
June 30, 2017								
Recorded investment in impaired loans:								
Impaired loans with an allowance for loan losses	$ 6,502	$ —	$ —	$ —	$ —	$ 202	$ —	$ 6,704
Impaired loans with no allowance for loan losses	1,679	2,752	3,276	—	—	35	—	7,742
Total	$ 8,181	$ 2,752	$ 3,276	$ —	$ —	$ 237	$ —	$ 14,446
Unpaid principal balance of impaired loans	$ 11,304	$ 2,769	$ 3,325	$ —	$ —	$ 246	$ —	$ 17,644
Allowance for loan losses on impaired loans	$ 1,000	$ —	$ —	$ —	$ —	$ 94	$ —	$ 1,094
December 31, 2016								
Recorded investment in impaired loans:								
Impaired loans with an allowance for loan losses	$ 8	$ 78	$ —	$ 168	$ —	$ 209	$ —	$ 463
Impaired loans with no allowance for loan losses	7,712	7,011	1,889	716	—	70	—	17,398
Total	$ 7,720	$ 7,089	$ 1,889	$ 884	$ —	$ 279	$ —	$ 17,861
Unpaid principal balance of impaired loans	$ 10,844	$ 7,133	$ 2,087	$ 884	$ —	$ 291	$ —	$ 21,239
Allowance for loan losses on impaired loans	$ 3	$ 4	$ —	$ 84	$ —	$ 94	$ —	$ 185
For the three months ended June 30, 2017								
Average recorded investment in impaired loans	$ 8,189	$ 2,798	$ 2,658	$ —	$ —	$ 251	$ —	$ 13,896
Interest income recognized on impaired loans	$ 3	$ 15	$ 12	$ —	$ —	$ 3	$ —	$ 33
For the six months ended June 30, 2017								
Average recorded investment in impaired loans	$ 8,032	$ 4,228	$ 2,401	$ 295	$ —	$ 260	$ —	$ 15,216
Interest income recognized on impaired loans	$ 4	$ 412	$ 24	$ —	$ —	$ 5	$ —	$ 445
For the three months ended June 30, 2016								
Average recorded investment in impaired loans	$ 17,966	$ 1,789	$ 3,441	$ —	$ —	$ 70	$ —	$ 23,266

Interest income recognized on impaired loans	$ —	$ 13	$ 32	$ —	$ —	$ —	$ —	$ 45
For the six months ended June 30, 2016								
Average recorded investment in impaired loans	$ 14,438	$ 2,750	$ 3,339	$ —	$ 57	$ 84	$ —	$ 20,668
Interest income recognized on impaired loans	$ —	$ 38	$ 72	$ —	$ —	$ —	$ —	$ 110

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

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

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

A "troubled debt restructured" loan is identified as impaired and measured for credit impairment as of each reporting period in accordance with the guidance in 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 $2,730 and $2,425 as of June 30, 2017 and December 31, 2016.
Following is a summary of loans modified under troubled debt restructurings during the three and six months ended June 30, 2017 and 2016:

	Commercial	Commercial Real Estate, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Total
Troubled debt restructurings during the three months ended June 30, 2017								
Number of contracts	—	—	1	—	—	1	—	2
Pre-restructuring outstanding recorded investment	$ —	$ —	$ 465	$ —	$ —	$ 22	$ —	$ 487
Post-restructuring outstanding recorded investment	$ —	$ —	$ 465	$ —	$ —	$ 22	$ —	$ 487
Troubled debt restructurings during the six months ended June 30, 2017								
Number of contracts	—	—	1	—	—	1	—	2
Pre-restructuring outstanding recorded investment	$ —	$ —	$ 465	$ —	$ —	$ 22	$ —	$ 487
Post-restructuring outstanding recorded investment	$ —	$ —	$ 465	$ —	$ —	$ 22	$ —	$ 487
Troubled debt restructurings during the three months ended June 30, 2016								
Number of contracts	1	—	—	—	—	—	—	1
Pre-restructuring outstanding recorded investment	$ 24	$ —	$ —	$ —	$ —	$ —	$ —	$ 24
Post-restructuring outstanding recorded investment	$ 24	$ —	$ —	$ —	$ —	$ —	$ —	$ 24
Troubled debt restructurings during the six months ended June 30, 2016								
Number of contracts	1	—	—	—	—	—	—	1
Pre-restructuring outstanding recorded investment	$ 24	$ —	$ —	$ —	$ —	$ —	$ —	$ 24
Post-restructuring outstanding recorded investment	$ 24	$ —	$ —	$ —	$ —	$ —	$ —	$ 24

At June 30, 2017 and 2016, there were no loans modified under troubled debt restructurings during the previous twelve month period that subsequently defaulted during the three and six months ended June 30, 2017 and 2016, respectively. At June 30, 2017 and 2016, the Company had no commitments to lend additional funds to any borrowers with loans whose terms have been modified under troubled debt restructurings.
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 June 30, 2017 and December 31, 2016:

	Loans 30-89 Days Past Due	Loans 90 or More Past Due	Total Past Due Loans	Current Loans	Total Loans
June 30, 2017					
Commercial	$4,316	$8,175	$12,491	$956,131	$968,622
Commercial real estate, land and land development	3,611	1,631	5,242	3,858,382	3,863,624
Residential real estate	1,385	1,405	2,790	844,455	847,245
Single-family interim construction	—	—	—	286,445	286,445
Agricultural	325	—	325	154,763	155,088
Consumer	721	25	746	39,558	40,304
Other	—	—	—	295	295
	10,358	11,236	21,594	6,140,029	6,161,623
Acquired with deteriorated credit quality	5,008	5,459	10,467	67,432	77,899
	$15,366	$16,695	$32,061	$6,207,461	$6,239,522
December 31, 2016					
Commercial	$226	$7,711	$7,937	$620,448	$628,385
Commercial real estate, land and land development	151	6,752	6,903	2,953,519	2,960,422
Residential real estate	846	561	1,407	631,171	632,578
Single-family interim construction	1,062	—	1,062	234,413	235,475
Agricultural	10	—	10	53,538	53,548
Consumer	154	52	206	27,313	27,519
Other	—	—	—	166	166
	2,449	15,076	17,525	4,520,568	4,538,093
Acquired with deteriorated credit quality	181	910	1,091	33,587	34,678
	$2,630	$15,986	$18,616	$4,554,155	$4,572,771

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

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

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adjusted historical loss percentage is applied to each category. Each category is then added together to determine the allowance allocated under ASC 450-20.
A summary of loans by credit quality indicator by class as of June 30, 2017 and December 31, 2016, is as follows:

	Pass	Pass/ Watch	Special Mention	Substandard	Doubtful	Total
June 30, 2017						
Commercial	$887,313	$44,842	$17,152	$ 31,893	$ —	$981,200
Commercial real estate, construction, land and land development	3,827,899	56,367	14,910	19,484	—	3,918,660
Residential real estate	842,240	2,113	1,210	5,956	—	851,519
Single-family interim construction	285,222	1,223	—	—	—	286,445
Agricultural	132,638	8,983	14,942	4,481	—	161,044
Consumer	40,036	19	10	294	—	40,359
Other	295	—	—	—	—	295
	$6,015,643	$113,547	$48,224	$ 62,108	$ —	$6,239,522
December 31, 2016						
Commercial	$555,342	$31,954	$16,734	$ 26,775	$ —	$630,805
Commercial real estate, construction, land and land development	2,972,732	5,426	5,148	7,396	—	2,990,702
Residential real estate	629,081	1,897	370	3,197	—	634,545
Single-family interim construction	233,800	791	—	884	—	235,475
Agricultural	52,724	569	255	—	—	53,548
Consumer	27,215	12	3	300	—	27,530
Other	166	—	—	—	—	166
	$4,471,060	$40,649	$22,510	$ 38,552	$ —	$4,572,771

The Company has acquired certain loans which experienced credit deterioration since origination (purchased credit impaired (PCI) loans).
The Company has included PCI loans in the above grading tables. The following provides additional detail on the grades applied to those loans at June 30, 2017 and December 31, 2016:

	Pass	Pass/ Watch	Special Mention	Substandard	Doubtful	Total
June 30, 2017	$37,334	$6,933	$ 4,098	$ 29,534	$ —	$77,899
December 31, 2016	30,498	1,237	1,069	1,874	—	34,678

PCI loans may remain on accrual status to the extent the company can reasonably estimate the amount and timing of expected future cash flows. At June 30, 2017 and December 31, 2016, non-accrual PCI loans were $8,845 and $960, respectively.

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

	Acquisition Date
	April 1, 2017
	Carlile Bancshares, Inc.*
Outstanding balance	$ 58,790
Nonaccretable difference	(11,630)
Accretable yield	(944)
Carrying amount	$ 46,216

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

The carrying amount of all acquired PCI loans included in the consolidated balance sheet and the related outstanding balance at June 30, 2017 and December 31, 2016 were as follows:

	June 30, 2017	December 31, 2016
Outstanding balance	$94,074	$ 39,442
Carrying amount	77,899	34,678

There was no allocation established in the allowance for loan losses relating to PCI loans at June 30, 2017 or December 31, 2016.

The changes in accretable yield during the six months ended June 30, 2017 and 2016 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 Six Months Ended June 30,	
	2017	2016
Balance at January 1,	$1,526	$2,380
Additions	944	—
Accretion	(187)	(653)
Transfers from nonaccretable	—	—
Balance at June 30,	$2,283	$1,727

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 June 30, 2017 and December 31, 2016, the approximate amounts of these financial instruments were as follows:

	June 30, 2017	December 31, 2016
Commitments to extend credit	$1,113,077	$865,668
Standby letters of credit	10,249	10,562
	$1,123,326	$876,230

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 June 30, 2017 and December 31, 2016, no amounts have been recorded as liabilities for the Company's potential obligations under these guarantees.

Litigation

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

Independent Bank is a party to a legal proceeding inherited 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.

Lease Commitments

The Company leases certain branch facilities and other facilities. Rent expense related to these leases amounted to $966 and $1,647 for the three and six months ended June 30, 2017, respectively, and $638 and $1,313 for the three and six months ended June 30, 2016, respectively.

Note 6. Income Taxes

Income tax expense for the three and six months ended June 30, 2017 and 2016 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Income tax expense for the period	$8,561	$5,857	$15,289	$12,019

Effective tax rate	32.1	%	33.2	%	31.1	%	33.1	%

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. In addition, the effective tax rate differs for the three and six months ended June 30, 2017 due to nondeductible acquisition expenses incurred during the three months ended June 30, 2017 and excess tax benefit on restricted stock vestings recognized in income tax expense during the period as a result of adopting ASU 2016-09 on January 1, 2017.

Note 7. Fair Value Measurements

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

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

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

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

The following table represents assets reported on the consolidated balance sheets at their fair value on a recurring basis as of June 30, 2017 and December 31, 2016 by level within the ASC Topic 820 fair value measurement hierarchy:

		Fair Value Measurements at Reporting Date Using		
	Assets/ Liabilities Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2017				
Measured on a recurring basis:				
Assets:				
Investment securities available for sale:				
U.S. treasuries	$ 32,358	$ —	$ 32,358	$ —
Government agency securities	240,855	—	240,855	—
Obligations of state and municipal subdivisions	216,888	—	216,888	—
Residential pass-through securities guaranteed by FNMA, GNMA and FHLMC	253,743	—	253,743	—
Other securities	10,295	10,295	—	—
December 31, 2016				
Measured on a recurring basis:				
Assets:				

Investment securities available for sale:				
U.S. treasuries	$ 3,147	$ —	$ 3,147	$ —
Government agency securities	122,267	—	122,267	—
Obligations of state and municipal subdivisions	87,256	—	87,256	—
Residential pass-through securities guaranteed by FNMA, GNMA and FHLMC	103,765	—	103,765	—

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 1 and Level 2 inputs. Securities are classified within Level 1 when quoted market prices are available in an active market. Inputs include securities that have quoted prices in active markets for identical assets. For securities utilizing Level 2 inputs, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury and other yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security's terms and conditions, among other things.
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 June 30, 2017 and December 31, 2016, for which a nonrecurring change in fair value has been recorded:

		Fair Value Measurements at Reporting Date Using			
	Assets Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Period Ended Total Losses
June 30, 2017					
Measured on a nonrecurring basis:					
Assets:					
Impaired loans	$ 5,502	$ —	$ —	$ 5,502	$ 1,000
Other real estate	322	—	—	322	120
December 31, 2016					
Measured on a nonrecurring basis:					
Assets:					
Impaired loans	$ 968	$ —	$ —	$ 968	$ 708
Other real estate	340	—	—	340	52

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 June 30, 2017 and December 31, 2016, 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 held for sale: The fair value of loans held for sale is determined based upon commitments on hand from investors.
Loans: 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 value of private subordinated debentures are based upon prevailing rates on similar debt in the market place. The subordinated debentures that are publicly traded are valued based on indicative bid prices based upon market pricing observations in the current market.
Junior subordinated debentures: The fair value of junior subordinated debentures is estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.
Accrued interest: The carrying amounts of accrued interest approximate their fair values.
Off-balance sheet instruments: Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not material.

The carrying amount, estimated fair value and the level of the fair value hierarchy of the Company's financial instruments were as follows at June 30, 2017 and December 31, 2016:

			Fair Value Measurements at Reporting Date Using		
	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2017					
Financial assets:					
Cash and cash equivalents	$579,900	$579,900	$579,900	$ —	$ —
Certificates of deposit held in other banks	15,692	15,845	—	15,845	—
Securities available for sale	754,139	754,139	10,295	743,844	—
Loans held for sale	25,218	26,472	—	26,472	—
Loans, net	6,200,978	6,140,705	—	6,135,095	5,610
FHLB of Dallas stock and other restricted stock	28,928	28,928	—	28,928	—
Accrued interest receivable	18,448	18,448	—	18,448	—
Financial liabilities:					
Deposits	6,669,288	6,675,210	—	6,675,210	—
Accrued interest payable	4,584	4,584	—	4,584	—
FHLB advances	460,707	453,058	—	453,058	—
Repurchase agreements	16,164	16,164	—	16,164	—
Other borrowings	107,478	111,100	—	111,100	—
Junior subordinated debentures	27,555	18,996	—	18,996	—
Off-balance sheet assets (liabilities):					
Commitments to extend credit	—	—	—	—	—
Standby letters of credit	—	—	—	—	—
December 31, 2016					
Financial assets:					
Cash and cash equivalents	$505,027	$505,027	$505,027	$ —	$ —
Certificates of deposit held in other banks	2,707	2,733	—	2,733	—
Securities available for sale	316,435	316,435	—	316,435	—
Loans held for sale	9,795	9,795	—	9,795	—
Loans, net	4,539,063	4,532,364	—	4,532,086	278
FHLB of Dallas stock and other restricted stock	26,536	26,536	—	26,536	—
Accrued interest receivable	12,331	12,331	—	12,331	—
Financial liabilities:					
Deposits	4,577,109	4,581,866	—	4,581,866	—
Accrued interest payable	4,020	4,020	—	4,020	—
FHLB advances	460,746	459,436	—	459,436	—
Other borrowings	107,299	110,000	—	110,000	—
Junior subordinated debentures	18,147	18,131	—	18,131	—
Off-balance sheet assets (liabilities):					
Commitments to extend credit	—	—	—	—	—
Standby letters of credit	—	—	—	—	—

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Note 8. 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 six months ended June 30, 2017, 24,160 shares that were issued under the 2012 Plan vested during the period.

The following table summarizes the activity in nonvested shares for the six months ended June 30, 2017 and 2016:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested shares, December 31, 2016	280,524	$ 36.88
Granted during the period	87,770	62.51
Vested during the period	(130,819)	33.96
Nonvested shares, June 30, 2017	237,475	$ 47.96
Nonvested shares, December 31, 2015	373,572	$ 40.29
Granted during the period	81,220	30.88
Vested during the period	(107,539)	39.95
Forfeited during the period	(6,836)	41.34
Nonvested shares, June 30, 2016	340,417	$ 34.87

Compensation expense related to these awards is recorded based on the fair value of the award at the date of grant and totaled $1,196 and $2,166 for the three and six months ended June 30, 2017, respectively and $2,421 and $3,641 for the three and six months ended June 30, 2016, respectively. Compensation expense is recorded in salaries and employee benefits in the accompanying consolidated statements of income. At June 30, 2017, future compensation expense is estimated to be $9,772 and will be recognized over a remaining weighted average period of 3.66 years. The fair value of common stock awards that vested during the six months ended June 30, 2017 and 2016 was $7,995 and $3,185, respectively. The Company has recorded $520 and $1,244 in excess tax benefits on vested restricted stock to income tax expense for the three and six months ended June 30, 2017, respectively, as a result of adopting ASU 2016-09. The Company recorded $(83) and $(378) to additional paid in capital, which represents the income tax deficiency recognized on the vested shares for the three and six months ended June 30, 2016, respectively.

At June 30, 2017, the future vesting schedule of the nonvested shares is as follows:

First year	112,774
Second year	73,984
Third year	28,357
Fourth year	13,476
Fifth year	8,884
Total nonvested shares	237,475

The Company has warrants outstanding representing the right to purchase 147,341 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. During the six months ended June 30, 2017, warrants to purchase 3,203 shares of common stock were exercised and have been issued by the Company.

Note 9. 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 June 30, 2017 and December 31, 2016, the Company and the Bank meet all capital adequacy requirements to which they are subject, including the capital buffer requirement.

As of June 30, 2017 and December 31, 2016, the Bank's capital ratios exceeded those levels necessary to be categorized as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Bank must maintain minimum total risk based, CET1, Tier 1 risk based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The actual capital amounts and ratios of the Company and Bank as of June 30, 2017 and December 31, 2016, 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
June 30, 2017						
Total capital to risk weighted assets:						
Consolidated	$791,169	11.60%	$545,833	8.00%	N/A	N/A
Bank	762,610	11.20	544,674	8.00	$680,842	10.00%
Tier 1 capital to risk weighted assets:						
Consolidated	645,288	9.46	409,374	6.00	N/A	N/A
Bank	726,724	10.67	408,505	6.00	544,674	8.00
Common equity tier 1 to risk weighted assets						
Consolidated	616,412	9.03	307,031	4.50	N/A	N/A
Bank	726,724	10.67	306,379	4.50	442,547	6.50
Tier 1 capital to average assets:						
Consolidated	645,288	8.23	313,552	4.00	N/A	N/A
Bank	726,724	9.28	313,095	4.00	391,368	5.00
December 31, 2016						
Total capital to risk weighted assets:						
Consolidated	$568,808	11.38%	$399,698	8.00%	N/A	N/A
Bank	558,551	11.19	399,497	8.00	$499,371	10.00%
Tier 1 capital to risk weighted assets:						
Consolidated	427,217	8.55	299,774	6.00	N/A	N/A
Bank	526,960	10.55	299,623	6.00	399,497	8.00
Common equity tier 1 to risk weighted assets						
Consolidated	409,617	8.20	224,830	4.50	N/A	N/A
Bank	526,960	10.55	224,717	4.50	324,591	6.50
Tier 1 capital to average assets:						
Consolidated	427,217	7.82	218,612	4.00	N/A	N/A
Bank	526,960	9.65	218,517	4.00	273,146	5.00

Note 10. Business Combination

Carlile Bancshares, Inc.

On April 1, 2017, the Company acquired 100% of the outstanding stock of Carlile. This transaction resulted in 24 additional branches in the DFW Metroplex and Austin area as well as 18 branches in Colorado. The Company issued 8,804,699 shares of Company stock and paid $17,773 in cash for the outstanding shares of Carlile common stock.

The Company has recognized a provisional amount of goodwill of $348,944 which is calculated as the excess of both the consideration exchanged and liabilities assumed compared to the fair market value of identifiable assets acquired. The goodwill in this acquisition resulted from a combination of expected synergies and entrance into desirable Texas and Colorado markets. None of the goodwill recognized is expected to be deductible for income tax purposes.

Provisional estimates for loans, goodwill, core deposit intangible, deposits, and junior subordinated debentures have been recorded for the acquisition as final valuations are not yet available. The Company does not expect any significant differences from estimated values upon completion of the valuations.

The Company has incurred expenses related to the acquisition of approximately $6,960 and $7,106 for the three and six months ended June 30, 2017, respectively, which are included in noninterest expense in the consolidated statements of income. The Company incurred expenses of $659 during the year ended December 31, 2016. In addition, for the six months ended June 30, 2017, the Company paid offering costs totaling $942 which were recorded as a reduction to stock issuance proceeds through additional paid in capital.

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

Assets of acquired bank:	
Cash, cash equivalents, and certificates of deposit	$ 159,469
Securities available for sale	336,540
Loans	1,384,041
Premises and equipment	63,561
Other real estate owned	9,976
Goodwill	348,944
Core deposit intangible	36,717
Other assets	89,624
Total assets acquired	$ 2,428,872
Liabilities of acquired bank:	
Deposits	$ 1,821,938
Junior subordinated debentures	9,359
Other liabilities	27,709
Total liabilities assumed	$ 1,859,006
Common stock issued at $62.70 per share	$ 552,093
Cash paid	$ 17,773

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2017	2016	2017	2016
Interest income	$79,883	$74,884	$158,099	$148,874
Noninterest income	10,995	12,170	22,456	22,995
Total Revenue	90,878	87,054	180,555	171,869
Net income [1]	21,235	18,038	43,156	35,743
Net income attributable to noncontrolling interests	—	(188)	—	(315)
Net income to common stockholders	$21,235	$17,850	$43,156	$35,428
Basic earnings per share	$0.76	$0.65	$1.56	$1.28
Diluted earnings per share	$0.76	$0.64	$1.55	$1.28

[1] Excludes acquisition / restructure related costs incurred by the Company of $7.0 million and $7.1 million for the three and six months ended June 30, 2017, respectively, and acquisition / change of control related costs incurred by Carlile of $15.7 million and $0 million for the three and six months ended June 30, 2017, respectively, and related tax effects.

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

Note 11. Subsequent Events

Line of Credit Amendment

On July 15, 2017, the Company's unsecured line of credit with two unrelated commercial banks was amended to extend the termination date. The line bears interest at LIBOR plus 2.50% and matures on October 15, 2017. As of June 30, 2017, there were no borrowings outstanding against this line.

Purchase Commitment

On July 25, 2017, the Company completed a feasibility study on land to be acquired for future use, committing to purchase the property for $5,902.

Declaration of Dividends

On July 26, 2017, the Company declared a quarterly cash dividend in the amount of $0.10 per share of common stock to the stockholders of record on August 7, 2017. The dividend will be paid on August 17, 2017.

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 and the integration thereof, the future or expected effect of acquisitions on our operations, results of operations and financial condition, our future economic performance and the statements of the assumptions underlying any such statement. Such statements are typically identified by the use in the statements of words or phrases such as "aim," "anticipate," "estimate," "expect," "goal," "guidance, "intend," "is anticipated," "is estimated," "is expected," "is intended," "objective," "plan," "projected," "projection," "will affe "will continue," "will decrease," "will grow," "will impact," "will increase," "will incur," "will reduce," "will remain," "will re "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 or maintenance of capital at levels sufficient to support our anticipated growth;
- 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 the 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 previous or future acquisitions are less than expected, we are unable to realize those cost savings as soon as expected, or we incur additional or unexpected costs;
- our revenues after previous or future acquisitions are less than expected;
- 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 that we may make. As a result of these and other matters, including changes in facts and assumptions not being realized, the actual results relating to the subject matter of any forward-looking statement may differ materially from the anticipated results expressed or implied in that forward-looking statement. Any forward-looking statement made by the Company in any report, filing, press release, document, report or announcement speaks only as of the date on which it is made. The Company undertakes no obligation to update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

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

Overview
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, 2016.

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.

As of June 30, 2017, the Company operated 83 full service banking locations in north, central and southeast Texas regions, and along the Colorado Front Range region. During the six months ended June 30, 2017, the Company entered into definitive agreements to sell 10 branch locations and close three other branch locations, two of which will be merged into existing branches. The branch sales and closings are expected to close in third and fourth quarters 2017 and are not expected to have a material impact on the Company's financial position or operations.

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 Carlile Bancshares, Inc., a Texas corporation ("Carlile") and its subsidiary, Northstar Bank, Denton, Texas, a Texas state chartered bank on April 1, 2017. This acquisition increased total assets by $2.4 billion, gross loans by $1.4 billion and deposits by $1.8 billion.
The comparability of the Company's consolidated financial condition as of December 31, 2016 and June 30, 2017 and results of operations for the three and six months ended June 30, 2017 and 2016 are affected by this acquisition.

Discussion and Analysis of Results of Operations for the Three and Six Months Ended June 30, 2017 and 2016

The following discussion and analysis of our results of operations compares the operations for the three and six months ended June 30, 2017 with the three and six months ended June 30, 2016. The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the results of operations that may be expected for all of the year ending December 31, 2017.

Results of Operations

For the three months ended June 30, 2017, net income was $18.1 million ($0.65 per common share on a diluted basis) compared with net income of $11.8 million ($0.64 per common share on a diluted basis) for the three months ended June 30, 2016. The Company posted annualized returns on average equity of 5.85% and 7.60%, returns on average assets of 0.86% and 0.88% and efficiency ratios of 62.01% and 55.91% for the three months ended June 30, 2017 and 2016, respectively. The efficiency ratio is calculated by dividing total noninterest expense (which excludes the provision for loan losses and the amortization of core deposits intangibles) by net interest income plus noninterest income.

For the six months ended June 30, 2017, net income was $33.8 million ($1.44 per common share on a diluted basis) compared with $24.3 million ($1.31 per common share on a diluted basis) for the six months ended June 30, 2016. The Company posted annualized returns on average common equity of 7.07% and 7.85%, returns on average assets of 0.95% and 0.92% and efficiency ratios of 58.26% and 58.02% for the six months ended June 30, 2017 and 2016, respectively.

Net Interest Income

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

Net interest income was $69.5 million for the three months ended June 30, 2017, an increase of $23.6 million, or 51.5%, from $45.9 million for the three months ended June 30, 2016. This increase is due primarily to a $2.7 billion increase, or 57.3%, in average interest earning assets to $7.3 billion for the three months ended June 30, 2017 compared to $4.7 billion for the three months ended June 30, 2016. The increases in interest-earning assets and interest-bearing deposits is primarily due to the acquisition of Carlile Bancshares in April 2017 as well as organic growth. The average yield on interest earning assets decreased 11 basis points from 4.49% for the three months ended June 30, 2016 to 4.38% for the three months ended June 30, 2017 primarily due to a shift in the earning asset mix from loans to lower yielding interest-bearing accounts. The average cost of interest-bearing liabilities increased 11 basis points to 0.77% for the three months ended June 30, 2017 compared to 0.66% for the three months ended June 30, 2016. The increase from the prior year is primarily due to higher rates offered on public fund certificates of deposit and money market accounts due to competition in our markets but also due in part to increased interest rates on short-term FHLB advances. The aforementioned changes resulted in a 15 basis point decrease in the net interest margin for the three months ended June 30, 2017 to 3.81% compared to 3.96% for the three months ended June 30, 2016.

Net interest income was $117.4 million for the six months ended June 30, 2017, an increase of $25.8 million, or 28.2%, from $91.5 million for the six months ended June 30, 2016. This increase is due primarily to a $1.7 billion increase, or 37.9%, in average interest earning assets to $6.3 billion for the six months ended June 30, 2017 compared to $4.6 billion for six months ended June 30, 2016. The increases in interest-earning assets and interest-bearing deposits is due to organic growth and the result of the Carlile acquisition completed in April 2017. The net interest margin for the six months ended June 30, 2017 decreased 27 basis points to 3.75% compared to 4.02% for the six months ended June 30, 2016. The decrease from prior year is primarily due to a decrease in loan yields of 11 basis points from prior year which is reflective of lower loan yields due to unusually high accretion income of $1.3 million

first quarter 2016 and a flattened yield curve and a shift to a higher mix of variable rate loans in the second half of 2016. The average yield on interest earning assets decreased 20 basis points from 4.54% for the six months ended June 30, 2016 to 4.34% while the average rate paid on interest bearing liabilities increased 12 basis points from 0.66% to 0.78%.

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 and six months ended June 30, 2017 and 2016. The average balances are principally daily averages and, for loans, include both performing and nonperforming balances.

	Three Months Ended June 30,					
	2017			2016		
(dollars in thousands)	Average Outstanding Balance	Interest	Yield/ Rate [3]	Average Outstanding Balance	Interest	Yield/ Rate [3]
Interest-earning assets:						
Loans [1]	$6,166,878	$75,194	4.89 %	$4,177,451	$50,418	4.85 %
Taxable securities	533,690	2,303	1.73	233,522	764	1.32
Nontaxable securities	161,402	992	2.47	71,097	444	2.51
Interest-bearing deposits and other	460,511	1,394	1.21	174,227	315	0.73
Total interest-earning assets	7,322,481	$79,883	4.38	4,656,297	$51,941	4.49
Noninterest-earning assets	1,155,879			711,638		
Total assets	$8,478,360			$5,367,935		
Interest-bearing liabilities:						
Checking accounts	$2,351,619	$2,560	0.44	$1,770,050	$1,998	0.45
Savings accounts	309,369	97	0.13	149,349	66	0.18
Money market accounts	993,663	1,936	0.78	401,386	452	0.45
Certificates of deposit	1,153,990	2,388	0.83	806,403	1,407	0.70
Total deposits	4,808,641	6,981	0.58	3,127,188	3,923	0.50
FHLB advances	460,713	1,351	1.18	461,231	998	0.87
Repurchase agreements and other borrowings	124,177	1,716	5.54	64,497	987	6.15
Junior subordinated debentures	27,506	335	4.89	18,147	150	3.32
Total interest-bearing liabilities	5,421,037	10,383	0.77	3,671,063	6,058	0.66
Noninterest-bearing checking accounts	1,787,955			1,060,507		
Noninterest-bearing liabilities	26,037			11,384		
Stockholders' equity	1,243,331			624,981		
Total liabilities and equity	$8,478,360			$5,367,935		
Net interest income		$69,500			$45,883	
Interest rate spread			3.61 %			3.83 %
Net interest margin [2]			3.81			3.96
Average interest earning assets to interest bearing liabilities			135.08			126.84

(1) Average loan balances include nonaccrual loans.

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

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

	For The Six Months Ended June 30,					
	2017			2016		
(dollars in thousands)	Average Outstanding Balance	Interest	Yield/ Rate [3]	Average Outstanding Balance	Interest	Yield/ Rate [3]
Interest-earning assets:						
Loans [1]	$5,403,638	$128,938	4.81 %	$4,104,386	$100,328	4.92 %
Taxable securities	389,060	3,067	1.59	221,131	1,494	1.36
Nontaxable securities	121,807	1,533	2.54	72,853	895	2.47
Interest-bearing deposits and other	399,611	2,284	1.15	180,041	688	0.77
Total interest-earning assets	6,314,116	$135,822	4.34	4,578,411	$103,405	4.54
Noninterest-earning assets	872,462			726,698		
Total assets	$7,186,578			$5,305,109		
Interest-bearing liabilities:						
Checking accounts	$2,153,035	$4,726	0.44	$1,681,673	$3,743	0.45
Savings accounts	232,467	163	0.14	146,832	130	0.18
Money market accounts	781,427	2,992	0.77	453,001	911	0.40
Certificates of deposit	1,001,150	4,129	0.83	815,878	2,790	0.69
Total deposits	4,168,079	12,010	0.58	3,097,384	7,574	0.49
FHLB advances	460,724	2,522	1.10	448,480	1,999	0.90
Repurchase agreements and other borrowings	115,813	3,421	5.96	68,397	1,990	5.85
Junior subordinated debentures	22,852	502	4.43	18,147	299	3.31
Total interest-bearing liabilities	4,767,468	18,455	0.78	3,632,408	11,862	0.66
Noninterest-bearing checking accounts	1,432,802			1,038,270		
Noninterest-bearing liabilities	22,374			11,202		
Stockholders' equity	963,934			623,229		
Total liabilities and equity	$7,186,578			$5,305,109		
Net interest income		$117,367			$91,543	
Interest rate spread			3.56 %			3.88 %
Net interest margin [2]			3.75			4.02
Average interest earning assets to interest bearing liabilities			132.44			126.04

(1) Average loan balances include nonaccrual loans.
(2) Net interest margins for the periods presented represent: (i) the difference between interest income on interest-earning assets and the interest expense on interest-bearing liabilities, divided by (ii) average interest-earning assets for the period.
(3) Yield and rates for the six 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, concentrations, 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 recorded a $2.5 million provision for loan losses for the three months ended June 30, 2017 compared to $2.1 million for the comparable period in 2016. Provision expense for the six months ended June 30, 2017 was $4.5 million compared to $5.1 million for the same period in 2016. Provision expense is directly related to organic loan growth and net charge-offs during the respective periods. The increased provision for the six months ended June 30, 2016 also reflected increased reserve allocations related to the risks associated with the energy portfolio due to commodity price volatility during the majority of 2016. Net charge-offs were $22 thousand and $1.2 million for the three months ended June 30, 2017 and 2016, respectively and $205 thousand and $1.2 million for the six months ended June 30, 2017 and 2016, respectively. The higher level of charge-offs in 2016 is primarily due to charge-offs on energy related credits.

Noninterest Income

The following table sets forth the components of noninterest income for the three and six months ended June 30, 2017 and 2016 and the period-over-period variations in such categories of noninterest income:

	Three Months Ended June 30,		Variance	Six Months Ended June 30,		Variance
(dollars in thousands)	2017	2016	2017 v. 2016	2017	2016	2017 v. 2016
Noninterest Income						
Service charges on deposit accounts	$3,760	$1,752	$2,008	$5,687	$3,447	$2,240
Mortgage fee income	5,019	2,021	2,998	6,286	3,397	2,889
(Loss) gain on sale of other real estate	(36)	10	(46)	(36)	53	(89)
Gain on sale of securities available for sale	52	4	48	52	4	48
Gain on sale of premises and equipment	1	3	(2)	6	41	(35)
Increase in cash surrender value of bank owned life insurance	782	270	512	1,181	535	646
All other noninterest income	1,417	869	548	2,402	1,922	480
Total noninterest income	$10,995	$4,929	$6,066	$15,578	$9,399	$6,179

Total noninterest income increased $6.1 million, or 123.1% and $6.2 million, or 65.7% for the three and six months ended June 30, 2017 over same periods in 2016. Significant changes in the components of noninterest income are discussed below.

Service charges on deposit accounts. Service charges on deposit accounts increased $2.0 million, or 114.6% and $2.2 million, or 65.0%, respectively for the three and six months ended June 30, 2017, as compared to the same periods in 2016. The increase in service charge income reflects organic growth and the acquisition of Carlile in April 2017. In addition, the Company implemented a new deposit fee schedule in late 2016 which increased organic service charges for the year over year period.

Mortgage fee income. Mortgage fee income for the three and six months ended June 30, 2017 increased $3.0 million, or 148.3% and $2.9 million, or 85.0%, respectively compared to the same periods in 2016. This increase is primarily due to the retail mortgage line of business acquired with the acquisition of Carlile.

Increase in cash surrender value of bank owned life insurance (BOLI). BOLI income increased $512 thousand, or 189.6% and $646 thousand, or 120.7% for the three and six months ended June 30, 2017, respectively as compared to the same periods in 2016. The increase for both periods is the result of $51.6 million in BOLI policies acquired in the

Carlile transaction.

Other noninterest income. Other noninterest income increased $548 thousand, or 63.1% and $480 thousand, or 25.0% for the three and six months ended June 30, 2017, respectively as compared to the same period in 2016. A large portion of this increase in other noninterest income from the prior periods is related to increased merchant card service fees in addition to increased fees related to the Carlile transaction.

Noninterest Expense

Noninterest expense increased $20.3 million, or 65.5% and $19.8 million, or 33.3% for the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. The following table sets forth the components of the Company's noninterest expense for the three and six months ended June 30, 2017 and 2016 and the period-over-period variations in such categories of noninterest expense:

	Three Months Ended June 30,		Variance	Six Months Ended June 30,		Variance
(dollars in thousands)	2017	2016	2017 v. 2016	2017	2016	2017 v. 2016
Noninterest Expense						
Salaries and employee benefits	$27,089	$19,567	$7,522	$43,926	$36,341	$7,585
Occupancy	6,147	4,041	2,106	10,019	8,081	1,938
Data processing	2,615	1,203	1,412	3,903	2,385	1,518
FDIC assessment	1,201	869	332	2,079	1,595	484
Advertising and public relations	317	251	66	614	546	68
Communications	852	550	302	1,327	1,085	242
Other real estate owned expense, net	125	2	123	162	35	127
Impairment of other real estate	120	—	120	120	55	65
Core deposit intangible amortization	1,410	492	918	1,902	980	922
Professional fees	1,166	977	189	1,939	1,637	302
Acquisition expense, including legal	5,673	90	5,583	5,819	729	5,090
Other	4,613	2,981	1,632	7,546	6,073	1,473
Total noninterest expense	$51,328	$31,023	$20,305	$79,356	$59,542	$19,814

Salaries and Employee Benefits. Salary and employee benefits increased $7.5 million and $7.6 million, or 38.4% and 20.9%, respectively for the three and six months ended June 30, 2017 compared to the same periods in 2016. Salaries and employee benefits expenses increased in 2017 over the same prior year periods due to an increase in the number of the Company's full-time equivalent employees both resulting from the acquisition of Carlile, which includes closing and retention bonuses of $1.2 million in second quarter 2017, and organic growth within the Company. Salaries and benefits expense was elevated in second quarter 2016 due to senior leadership restructuring costs totaling $2.6 million.

Occupancy. Occupancy expense increased by $2.1 million and $1.9 million, or 52.1% and 24.0%, respectively for the three and six months ended June 30, 2017 compared to the same periods in 2016. The increase for both periods is reflective of 42 additional branches acquired in the Carlile transaction, which closed on April 1, 2017.

Data Processing. Data processing expense increased $1.4 million and $1.5 million, or 117.4% and 63.6%, respectively for the three and six months ended June 30, 2017 compared to the same periods in 2016. The increase for both periods is reflective of increased costs related directly to the Carlile transaction due to maintaining two core systems until planned conversion in fourth quarter 2017.

FDIC Assessment. FDIC assessment expense increased $332 thousand, or 38.2% and $484 thousand, or 30.3% for the three and six months ended June 30, 2017, respectively, compared to the same periods in 2016. The higher assessment is associated with an increase in deposit accounts due to the acquisition of Carlile Bancshares and organic growth from the prior period.

Communications. Communications expense increased $302 thousand and $242 thousand, or 54.9% and 22.3%, respectively for the three and six months ended June 30, 2017 compared to the same period in 2016. The increase for both periods is reflective of added data line and telecommunication expenses for additional branches and employees added in the Carlile transaction..

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Core Deposit Intangible Amortization. Core deposit intangible amortization increased $918 thousand, or 186.6% and $922 thousand, or 94.1%, respectively for the three and six months ended June 30, 2017 compared to the same periods in 2016. The increase for both periods reflects the $36.7 million increase in core deposit intangibles recorded with the Carlile transaction.

Acquisition Expenses. Acquisition expenses increased $5.6 million, or 6203.3% and increased $5.1 million, or 698.2%, respectively, for the three and six months ended June 30, 2017 compared to the same periods in 2016. The increase in acquisition expenses is due to professional fees incurred relating to the acquisition as well as a termination fee paid for the cancellation of the contract for Carlile's core processing system.

Other Noninterest Expense. Other noninterest expense increased $1.6 million and $1.5 million, or 54.7% and 24.3%, respectively for the three and six months ended June 30, 2017 compared to the same periods in 2016. The increase for both periods is reflective of additional headcount, branch locations and accounts acquired in the Carlile transaction.

Income Tax Expense

Income tax expense was $8.6 million and $15.3 million for the three and six months ended June 30, 2017, respectively and $5.9 million and $12.0 million for the same periods in 2016. The effective tax rates were 32.1% and 31.1% for the three and six months ended June 30, 2017, respectively compared to 33.2% and 33.1% for the same periods in 2016. The lower tax rates in 2017 was due to the adoption of ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which resulted in recording $1.2 million in tax benefits related to restricted stock vesting into income tax expense during 2017. In addition, the rate in second quarter 2017 was negatively affected by $1.3 million of nondeductible acquisition expenses incurred during the period.

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 June 30, 2017 and December 31, 2016.

Assets

The Company's total assets increased by $2.7 billion, or 46.8%, to $8.6 billion as of June 30, 2017 from $5.9 billion at December 31, 2016. The increase is primarily due to $2.4 billion in total assets acquired in the Carlile transaction as well as organic growth for the period.

Loan Portfolio

The following table presents the balance and associated percentage of each major category in our loan portfolio as of June 30, 2017 and December 31, 2016:

(dollars in thousands)	June 30, 2017		December 31, 2016	
Commercial [2]	$981,200	15.5 %	$630,805	13.7 %
Real estate:				
Commercial	3,232,256	51.6	2,459,221	53.7
Commercial construction, land and land development	686,404	11.0	531,481	11.6
Residential [1]	876,737	14.0	644,340	14.1
Single family interim construction	286,445	4.6	235,475	5.1
Agricultural	161,044	2.6	53,548	1.2
Consumer	40,359	0.7	27,530	0.6
Other	295	—	166	—
	6,264,740	100.0%	4,582,566	100.0%
Deferred loan fees	(2,663)		(2,117)	
Allowance for loan losses	(35,881)		(31,591)	
Total loans, net	$6,226,196		$4,548,858	

[1] Includes mortgage loans held for sale as of June 30, 2017 and December 31, 2016 of $25.2 million and $9.8 million, respectively.

[2] Includes mortgage warehouse lines of $120,217 at June 30, 2017.

Our loan portfolio is the largest category of our earning assets. As of June 30, 2017 and December 31, 2016, total loans, net of allowance for loan losses, totaled $6.2 billion and $4.5 billion, respectively, which is an increase of 36.9% between the two dates. The increase is primarily due to $1.4 billion in loans acquired in the Carlile transaction but also due to organic loan growth during 2017.

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.

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 (excluding loans acquired with deteriorated credit quality) as nonaccrual loans, loans past due 90 days or more and still accruing interest or loans modified under restructurings as a result of the borrower experiencing financial difficulties. The balances of nonperforming loans reflect the net investment in these assets, including deductions for purchase discounts.

(dollars in thousands)	June 30, 2017		December 31, 2016	
Nonaccrual loans				
Commercial	$8,181		$ 7,718	
Real estate:				
Commercial real estate, construction, land and land development	1,665		5,885	
Residential real estate	2,319		866	
Single family interim construction	—		884	
Consumer	237		273	
Total nonaccrual loans [1]	12,402		15,626	
Loans delinquent 90 days or more and still accruing				
Commercial	11		—	
Total loans delinquent 90 days or more and still accruing	11		—	
Troubled debt restructurings, not included in nonaccrual loans				
Commercial	—		1	
Real estate:				
Commercial real estate, construction, land and land development	1,087		1,204	
Residential real estate	957		1,011	
Consumer	—		—	
Total troubled debt restructurings, not included in nonaccrual loans	2,044		2,216	
Total nonperforming loans	14,457		17,842	
Other real estate owned and other repossessed assets:				
Commercial	—		—	
Commercial real estate, construction, land and land development	9,071		783	
Residential Real Estate	1,189		1,189	
Single family interim construction	1,016		—	
Agricultural real estate	200		—	
Consumer	124		4	
Total other real estate owned and other repossessed assets	11,600		1,976	
Total nonperforming assets	$26,057		$ 19,818	
Ratio of nonperforming loans to total loans held for investment[2]	0.24	%	0.39	%
Ratio of nonperforming assets to total assets	0.30		0.34	

[1] Nonaccrual loans include troubled debt restructurings of $686 thousand and $209 thousand as of June 30, 2017 and December 31, 2016, respectively and excludes loans acquired with deteriorated credit quality of $8.8 million and

$960 thousand as of June 30, 20107 and December 31, 2016, respectively .

(2) Excluding mortgage warehouse loans of $120,217.

Nonaccrual loans decreased to $12.4 million at June 30, 2017 from $15.6 million as of December 31, 2016. Troubled debt restructurings that were not on nonaccrual status totaled $2.0 million at June 30, 2017 decreasing from $2.2 million at December 31, 2016. The decrease in nonaccrual loans was primarily due to the payoffs of two commercial real estate loans totaling $5.8 million, various smaller nonaccrual payoffs, and the foreclosure of a single-family interim construction property totaling $884 thousand offset by five loans totaling $4.0 million that were placed on nonaccrual during the six months ended June 30, 2017. The net increase in other real estate owned and repossessed assets is due to the addition of the single-family interim construction property foreclosure discussed above as well as the additions of other real estate owned totaling $10.0 million related to the Carlile acquisition offset by other real estate dispositions totaling $1.7 million during the quarter.

As of June 30, 2017, the Company had a total of 122 substandard loans with an aggregate principal balance of $44.3 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 June 30, 2017, the allowance for loan losses amounted to $35.9 million, or 0.59% of total loans, compared with $31.6 million, or 0.69% of total loans as of December 31, 2016. The dollar increases from prior periods are primarily due to additional general reserves for organic loan growth. The decrease in the allowance for loan losses as a percentage of loans reflects that loans acquired in the Carlile transaction were recorded at fair value without a reserve at acquisition date. As of June 30, 2016, the discount on acquired loans totaled $35.9 million.

The allowance for loan losses to nonperforming loans has increased from 177.06% at December 31, 2016 to 248.19% at June 30, 2017. Nonperforming loans have decreased to $14.5 million at June 30, 2017 compared to $17.8 million at December 31, 2016 primarily due to the payoff of two commercial real estate loans and the foreclosure of single-family interim construction property, offset by the nonaccrual loan additions as discussed above.

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 recognized a net gain of $52 thousand on the sale of securities for the three and six months ended June 30, 2017 and a gain of $4 thousand on the sale of securities during the three and six months ended June 30, 2016. Securities represented 8.8% and 5.4% of the Company’s total assets at June 30, 2017 and December 31, 2016, respectively.

Management evaluates securities for other-than-temporary impairment (OTTI) on at least a quarterly basis and more frequently when economic of market conditions warrant such an evaluation. Management does not intend to sell any debt securities it holds and believes the Company more likely than not will not be required to sell any debt securities it holds before their anticipated recovery, at which time the Company will receive full value for the securities. Management has the ability and intent to hold the securities classified as available for sale that were in a loss position as of June 30, 2017 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 June 30, 2017 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 $1.3 billion at June 30, 2017 compared with $672.4 million at December 31, 2016, an increase of approximately $587.2 million. The majority of the increase was due to stock issued in the Carlile acquisition for a total, net of offering costs, of $551.1 million as well as net income of $33.8 million earned by the Company during the six months ended June 30, 2017, stock based compensation of $2.2 million and an increase of $4.7 million in unrealized gain on available for sale securities offset by dividends paid of $4.7 million.

As of June 30, 2017, the Company exceeded all capital ratio requirements under prompt corrective action and other regulatory requirements, as detailed in the table below:

	As of June 30, 2017		
	Actual	Required to be considered well capitalized	Required to be considered adequately capitalized
	Ratio	Ratio	Ratio
Tier 1 capital to average assets ratio	8.23 %	≥5.00%	4.00-5.00%
Common equity tier 1 capital to risk-weighted assets ratio	9.03	≥6.50	4.50-6.50
Tier 1 capital to risk-weighted assets ratio	9.46	≥8.00	6.00-8.00
Total capital to risk-weighted assets ratio	11.60	≥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 June 30, 2017, the Bank had established federal funds lines of credit with nine unaffiliated banks totaling $270.0 million with no amounts advanced against those lines at that time. The Company also participates with an exchange that provides direct overnight borrowings with other financial institutions with a borrowing capacity of $75 million and none outstanding as of June 30, 2017. The Company has an unsecured line of credit totaling $50.0 million at two unaffiliated commercial banks. Based on the values of stock, securities, and loans pledged as collateral, as of June 30, 2017, the Company had additional borrowing capacity with the FHLB of $929.5 million. In addition, the Company maintains a secured line of credit with the Federal Reserve Bank with an availability to borrow $562.5 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.

During the three and six months ended June 30, 2017, the Company acquired deposit accounts, repurchase agreements and junior subordinated debentures in the Carlile transaction. In addition, the Company assumed operating lease commitments for several branch locations acquired. Other than acquired accounts and normal changes in the ordinary course of business, there have been no significant changes in the types of contractual obligations or amounts due since December 31, 2016.

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 $1.1 billion and $10.2 million, respectively, as of June 30, 2017. 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 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, 2016 that would indicate any impairment has occurred, therefore, management does not believe goodwill is impaired as of June 30, 2017.

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 slightly asset sensitive position as of June 30, 2017. 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 June 30, 2017:

Hypothetical Shift in Interest Rates (in bps)	% Change in Projected Net Interest Income
200	2.52%
100	1.06%
(100)	1.05%

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 June 30, 2017 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 the Company's acquisition of BOH Holdings, Inc. and its subsidiary, Bank of Houston, or BOH, that was completed on April 15, 2014. Several entities related to R. A. Stanford, or the Stanford Entities, including Stanford International Bank, Ltd., or SIBL, had deposit accounts at BOH. Certain individuals who had purchased certificates of deposit from SIBL filed a class action lawsuit against several banks, including BOH, on November 11, 2009 in the U.S. District Court Northern District of Texas, Dallas Division, 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 asserted previously unasserted claims, including aiding and abetting or participation in a fraudulent scheme based upon the large amount of deposits that the Stanford Entities held at BOH and the alleged knowledge of certain BOH officers. 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 securities, 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, 2016, in the information contained in this Quarterly Report on Form 10-Q and our other reports and registrations statements, and, with respect to our 5.875% Subordinated Notes due August 1, 2024, in the Prospectus Supplement filed pursuant to Rule 424(b)(5) on June 23, 2016, in each case as 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

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 is incorporated by reference to Exhibit 3.7 to the Registrant’s Quarterly Report on Form 10-Q, dated July 31, 2015
Exhibit 3.8	Certificate of Merger, dated March 31, 2017, of Carlile Bancshares, Inc. with and into Independent Bank Group, Inc. which is incorporated by reference to Exhibit 3.8 to the Registrant’s Quarterly Report on Form 10-Q, dated April 27, 2017
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	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 4.4	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 4.5	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
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 4.1 to the Registrant's Current Report on Form 8-K, dated June 22, 2016
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: July 27, 2017	By: /s/ David R. Brooks
	David R. Brooks Chairman, Chief Executive Officer and President
Date: July 27, 2017	By: /s/ Michelle S. Hickox
	Michelle S. Hickox Executive Vice President Chief Financial Officer