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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)
ý ANNUAL REPORT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934
For The Fiscal Year Ended December 31, 2018.
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .
Commission file number 001-35854
Independent Bank Group, Inc.
(Exact name of registrant as specified in its charter)

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

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

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

Title of Each Class	Name of Each Exchange on which Registered
Common Stock, par value $0.01 per share	The Nasdaq Stock Market, LLC, Global Select Market

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ý Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨ Emerging growth company ¨

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

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

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

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

Documents Incorporated By Reference:

Portions of the Company’s Proxy Statement relating to the 2019 Annual Meeting of Shareholders, which will be filed within 120 days after December 31, 2018, are incorporated by reference into Part III, Items 10 - 14 of this Annual Report on Form 10-K.

INDEPENDENT BANK GROUP, INC. AND SUBSIDIARIES
Annual Report on Form 10-K
December 31, 2018

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PART II

PART III

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Signatures

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PART I

ITEM 1. BUSINESS

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

General

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

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

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

Business Strategy

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

Grow Organically. The Company focuses on continued organic growth through the Company’s existing footprint and business lines. The Company plans to follow a community-focused, relationship-driven customer strategy to increase loans and deposits through the Company’s existing locations. Preserving the safety and soundness of the Company’s loan portfolio is a fundamental element of the Company’s organic growth strategy. The Company has a strong and conservative credit culture, which allows the Company to maintain its asset quality as the Company grows. In addition, the Company has established an enterprise risk management function to identify and mitigate risk on a Company wide basis to support continued growth.

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

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

The acquisition of Carlile Bancshares, Inc. (Carlile), and its wholly owned subsidiary, Northstar Bank (Northstar), represented the Company's expansion in the Dallas/North Texas and Central Texas areas as well as its entry into the Fort Worth, Texas and Colorado Front Range markets. The Company acquired 42 new locations as part of the transaction. The assets acquired in this acquisition represented 82.2% of the Company's asset growth in 2017.

The Integrity Bancshares, Inc. acquisition represented the Company's continued expansion in the Houston metropolitan area. Through this acquisition, the Company added four locations in attractive sub markets in the Houston area and added approximately $852 million in assets. The assets acquired in this acquisition represented 73% of the Company's asset growth in 2018.

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

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

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

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

Independent’s Community Banking Services

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

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

The Company’s strategy is to maintain a broadly diversified loan portfolio by type and location. The Company’s loan portfolio consists of real estate loans, commercial and industrial loans, residential mortgage loans, residential construction loans, agricultural loans and consumer loans. Real estate secured loans are spread among a variety of types of borrowers, including owner occupied offices for small businesses, medical practices and offices, retail operations and multi-family properties. The Company’s loans are diversified geographically throughout the Company’s Dallas/North Texas region (approximately 49%), the Company’s Houston region (approximately 27%), the Company’s Austin/Central Texas region (approximately 18%) and the Company's Colorado Front Range region (approximately 6%). See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Loan Portfolio” for a more detailed description of the Company’s lending operations.

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

Other Services. In connection with our relationship driven approach to our customers, the Company offers residential mortgages through our mortgage brokerage division. As a mortgage broker, the Company originates residential mortgages which are sold into the secondary market shortly after closing. The Company also supports residential mortgage operations through a mortgage warehouse program. The Company provides wealth management services to its customers through Private Capital Management, LLC, a registered investment advisory firm, which became a wholly owned subsidiary of Independent Bank as part of the Guaranty acquisition.

Competition

The Company competes in the commercial banking industry solely through Independent Bank and firmly believes that Independent Bank’s long-standing presence in the community and personal service philosophy enhance the Company’s ability to attract and retain customers. This industry is highly competitive, and Independent Bank faces strong direct competition for deposits, loans and other financial-related services. The Company competes with other commercial banks, thrifts and credit unions. Although some of these competitors are situated locally, others have statewide or nationwide presence. In addition, the

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Company competes with large banks in major financial centers and other financial intermediaries, such as consumer finance companies, brokerage firms, mortgage banking companies, insurance companies, securities firms, mutual funds and certain government agencies as well as major retailers, all actively engaged in providing various types of loans and other financial services. The Company believes that its banking professionals, the range and quality of products that the Company offers, its market presence, and its emphasis on building long-lasting relationships distinguishes Independent Bank from its competitors.

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

Employees

As of December 31, 2018, the Company employed approximately 1087 persons. The Company provides extensive training to its employees in an effort to ensure that the Company’s customers receive superior customer service. None of the Company’s employees are represented by any collective bargaining unit or are parties to a collective bargaining agreement. The Company believes that the Company’s relations with the Company’s employees are good.

Available Information

The Company files reports, proxy statements and other information with the Securities and Exchange Commission, or SEC, under the Securities Exchange Act of 1934, as amended. You may read and copy this information at the SEC’s Public Reference Room, 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements and other information about issuers, like the Company, who file electronically with the SEC. The address of that site is http://www.sec.gov.

Documents filed by the Company with the SEC are available from the Company without charge (except for exhibits to the documents). You may obtain documents filed by the Company with the SEC by requesting them in writing or by telephone from the Company at the following address:

Independent Bank Group, Inc.
1600 Redbud Boulevard, Suite 400
McKinney, Texas 75069-3257
Attention: Michelle S. Hickox
Executive Vice President and Chief Financial Officer
Telephone: (972) 562-9004
www.ibtx.com

Documents filed by the Company with the SEC are also available on the Company’s website, www.ibtx.com. Information furnished by the Company and information on, or accessible through, the SEC’s or the Company’s website is not part of this Annual Report on Form 10-K.

Supervision and Regulation

General. The U.S. banking industry is highly regulated under federal and state law. Consequently, the growth and earnings performance of the Company and its subsidiaries will be affected not only by management decisions and general and local economic conditions, but also by the statutes administered by, and the regulations and policies of, various governmental regulatory authorities. These authorities include the Board of Governors of the Federal Reserve System, or Federal Reserve, the Federal Deposit Insurance Corporation, or the FDIC, the Office of the Comptroller of the Currency, or the OCC, the Texas Department of Banking, or TDB, the Consumer Financial Protection Bureau, or the CFPB, the SEC, the Internal Revenue Service and state taxing authorities. The effect of these statutes, regulations and policies, and any changes to such statutes, regulations and policies, can be significant and cannot be predicted.

The primary goals of the bank regulatory scheme are to maintain a safe and sound banking system and to facilitate the conduct of sound monetary policy. The system of supervision and regulation applicable to the Company and its subsidiaries establishes a comprehensive framework for their respective operations and is intended primarily for the protection of the FDIC's deposit

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insurance fund, the banks’ depositors and the public, rather than the Company’s shareholders or creditors. The description below summarizes certain elements of the applicable bank regulatory framework. This description is not intended to describe all laws and regulations applicable to the Company and its subsidiaries, and the description is qualified in its entirety by reference to the full text of the statutes, regulations, policies, interpretive letters and other written guidance that are described herein.

The Dodd-Frank Act. The Dodd-Frank Wall Street Reform and Consumer Protection Act, known as the Dodd-Frank Act, was signed into law on July 21, 2010. The Dodd-Frank Act has had a broad impact on the regulation and operation of financial institutions. The Dodd-Frank Act codified the “source of strength” doctrine, authorized the CFPB and implemented new mortgage lending rules, established a risk retention rule, imposed limitations on trading activities, made permanent the deposit insurance limit of $250,000 and increased the minimum Deposit Insurance Fund reserve ratio, enhanced the restrictions on transactions with affiliates, and expanded corporate governance requirements and executive compensation limitations for U.S. public companies. The changes resulting from the Dodd-Frank Act are incorporated in the discussion of supervision and regulation of the Company and Independent Bank below.

Independent Bank Group as a Bank Holding Company

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

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

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

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

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

Safe and Sound Banking Practices. Bank holding companies are not permitted to engage in unsafe and unsound banking practices. The Federal Reserve’s capital regulations and Regulation Y, for example, generally requires a bank holding company to receive prior approval of and/or provide the Federal Reserve with prior notice of any redemption or repurchase of its own equity securities. The Federal Reserve may oppose the transaction if it believes that the transaction would constitute an unsafe or unsound practice or would violate any law or regulation. In certain circumstances, the Federal Reserve could take the position that paying a dividend would constitute an unsafe or unsound banking practice.

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

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

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

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

In addition to the risk-based capital guidelines, the Federal Reserve uses a leverage ratio as an additional tool to evaluate the capital adequacy of bank holding companies. The leverage ratio is a company’s Tier 1 capital divided by its average total consolidated assets. In general, bank holding companies were required to maintain a leverage ratio of at least 4.0%.

The federal banking agencies’ risk-based and leverage capital ratios are minimum supervisory ratios generally applicable to banking organizations that meet certain specified criteria. Banking organizations not meeting these criteria are expected to operate with capital positions well above the minimum ratios. The federal bank regulatory agencies may set capital requirements for a particular banking organization that are higher than the minimum ratios when circumstances warrant. Federal Reserve guidelines also provide that banking organizations experiencing internal

growth or making acquisitions must maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets.
On July 2, 2013, the Federal Reserve approved a final rule implementing the revised capital standards issued by the Basel Committee on Banking Supervision, commonly known as "Basel III," as well as additional capital reforms required by the Dodd-Frank Act. This final rule, which became fully phased-in on January 1, 2019, requires bank holding companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity.

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

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

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

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

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

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

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

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

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

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Imposition of Liability for Undercapitalized Subsidiaries. Bank regulators are required to take prompt corrective action to resolve problems associated with insured depository institutions whose capital declines below certain levels. In the event an institution becomes undercapitalized, it must submit a capital restoration plan. The capital restoration plan will not be accepted by the regulators unless each company having control of the undercapitalized institution guarantees the subsidiary's compliance with the capital restoration plan up to a certain specified amount. Any such guarantee from a depository institution's holding company is entitled to a priority of payment in bankruptcy.
The aggregate liability of the holding company of an undercapitalized bank is limited to the lesser of 5.0% of the institution's assets at the time it became undercapitalized or the amount necessary to cause the institution to be adequately capitalized. The bank regulators have greater power in situations where an institution becomes significantly or critically undercapitalized or fails to submit a capital restoration plan. For example, a bank holding company controlling such an institution can be required to obtain prior Federal Reserve approval of proposed dividends, or might be required to consent to a consolidation or to divest the troubled institution or other affiliates.
Acquisitions by Bank Holding Companies. The BHC Act requires every bank holding company to obtain the prior approval of the Federal Reserve before it acquires all or substantially all of the assets of any bank, or ownership or control of any voting shares of any bank if after such acquisition it would own or control, directly or indirectly, more than 5% of the voting shares of such bank. In approving bank acquisitions by bank holding companies, the Federal Reserve is required to consider, among other things, the effect of the acquisition on competition, the financial condition, managerial resources and future prospects of the bank holding company and the banks concerned, the convenience and needs of the communities to be served (including the record of performance under the Community Reinvestment Act, or CRA), the effectiveness of the applicant in combating money laundering activities and the extent to which the proposed acquisition would result in greater or more concentrated risks to the stability of the U.S. banking or financial system. The Company's ability to make future acquisitions will depend on its ability to obtain approval for such acquisitions from the Federal Reserve. The Federal Reserve could deny the Company's application based on the above criteria or other considerations. For example, the Company could be required to sell banking centers as a condition to receiving regulatory approval, which condition may not be acceptable to the Company or, if acceptable, may reduce the benefit of a proposed acquisition.
Control Acquisitions. Federal and state laws, including the BHCA and the Change in Bank Control Act, or the CBCA, impose additional prior notice or approval requirements and ongoing regulatory requirements on any investor that seeks to acquire direct or indirect "control" of an FDIC-insured depository institution or bank holding company. Whether an investor "controls" a depository institution is based on all of the facts and circumstances surrounding the investment. As a general matter, an investor is deemed to control a depository institution or other company if the investor owns or controls 25% or more of any class of voting securities. Subject to rebuttal, an investor is presumed to control a depository institution or other company if the investor owns or controls 10% or more of any class of voting securities and either the depository institution or company is a public company or no other person will hold a greater percentage of that class of voting securities after the acquisition. If an investor's ownership of the Company's voting securities were to exceed certain thresholds, the investor could be deemed to "control" the Company for regulatory purposes, which could subject such investor to regulatory filings or other regulatory consequences.
Volcker Rule. Section 619 of the Dodd-Frank Act, known as the Volcker Rule, prohibits any bank, bank holding company, or affiliate (referred to collectively as "banking entities") from engaging in two types of activities: "proprietary trading" and the ownership or sponsorship of private equity or hedge funds that are referred to as "covered funds." Proprietary trading is, in general, trading in securities on a short-term basis for a banking entity's own account. In December 2013, the federal banking agencies, the SEC and the Commodity Futures Trading Commission, finalized a regulation to implement the Volcker Rule. After the enactment of the Economic Growth, Regulatory Relief, and Consumer Protection Act in May 2018, Volcker Rule limitations apply to banking entities with $10 billion or more in total consolidated assets. Under the Volcker Rule implementing regulations, banking entities have two years to conform its investments and implement the required compliance plan or in the case of the Company, January 1, 2021.

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

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Regulation of Independent Bank

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

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

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

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

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

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

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

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

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

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

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

Capital Adequacy Requirements. The FDIC has adopted regulations establishing minimum requirements for the capital adequacy of insured institutions and may establish higher minimum requirements if, for example, a bank has previously received special attention or has a high susceptibility to interest rate risk. The FDIC's risk-based capital guidelines generally require state banks to have a minimum ratio of Tier 1 capital to total risk-weighted assets of 4.0% and a ratio of total capital to total risk-weighted assets of 8.0%. The capital categories have the same definitions for Independent Bank as for the Company. The FDIC's leverage guidelines require state banks to maintain Tier 1 capital of no less than 4.0% of average total assets, except in the case of certain highly rated banks for which the requirement is 3.0% of average total assets. The TDB has issued a policy which generally requires state chartered banks to maintain a leverage ratio (defined in accordance with federal capital guidelines) of 5.0%.

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

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

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

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

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

On December 20, 2010, the FDIC raised the minimum designated reserve ratio of the deposit insurance fund to 2.00%, which exceeds the 1.35% reserve ratio that is required by the Dodd-Frank Act. The FDIC has the discretion to set the price for deposit insurance according to the risk for all insured institutions regardless of the level of the reserve ratio.

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

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

Under the Dodd-Frank Act, for institutions with $10 billion or more in assets, the FDIC uses a performance score and a loss-severity score that are used to calculate an initial assessment rate. In calculating these scores, the FDIC uses a bank's capital level and regulatory supervisory ratings and certain financial measures to assess an institution's ability to withstand asset-related stress and funding-related stress. The FDIC also has the ability to make discretionary adjustments to the total score based upon significant risk factors that are not adequately captured in the calculations. The FDIC deposit assessment will be required to use this new calculation starting in the second quarter of 2020, the fourth consecutive quarter in which the Company’s total consolidated assets are expected to exceed $10 billion.

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Brokered Deposit Restrictions. Adequately capitalized institutions cannot accept, renew or roll over brokered deposits, without receiving a waiver from the FDIC, and are subject to restrictions on the interest rates that can be paid on any deposits. Undercapitalized institutions may not accept, renew or roll over brokered deposits.
Concentrated Commercial Real Estate Lending Regulations. The federal banking agencies have promulgated guidance governing financial institutions with concentrations in commercial real estate lending. The guidance provides that a bank has a concentration in commercial real estate lending if (i) total reported loans for construction, land development and other land represent 100% or more of total capital or (ii) total reported loans secured by multifamily and nonfarm residential properties and loans for construction, land development and other land represent 300% or more of total capital and the bank's commercial real estate loan portfolio has increased 50% or more during the prior 36 months. Owner occupied loans are excluded from this second category. If a concentration is present, management must employ heightened risk management practices that address the following key elements: board and management oversight and strategic planning, portfolio management, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing, and maintenance of increased capital levels as needed to support the level of commercial real estate lending.
Cross-Guarantee Provisions. The Financial Institutions Reform, Recovery and Enforcement Act of 1989, or the FIRREA, contains a "cross-guarantee" provision, which generally makes commonly controlled insured depository institutions liable to the FDIC for any losses incurred in connection with the failure of a commonly controlled depository institution.
Community Reinvestment Act. The CRA and the regulations issued thereunder are intended to encourage banks to help meet the credit needs of their entire service area, including low and moderate income neighborhoods, consistent with the safe and sound operations of such banks. These regulations also provide for regulatory assessment of a bank's record in meeting the needs of its service area when considering applications to establish branches, merger applications and applications to acquire the assets and assume the liabilities of another bank. The FIRREA requires federal banking agencies to make public a rating of a bank's performance under the CRA. In the case of a bank holding company, the CRA performance record of the banks involved in the transaction are reviewed in connection with the filing of an application to acquire ownership or control of shares or assets of a bank or to merge with any other bank holding company. An unsatisfactory CRA record could substantially delay approval or result in denial of an application.
Consumer Laws and Regulations. In addition to the laws and regulations discussed herein, Independent Bank is also subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. While the list set forth herein is not exhaustive, these laws and regulations include the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, and the Fair Housing Act, among others. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits or making loans to such customers. Independent Bank must comply with the applicable provisions of these consumer protection laws and regulations as part of their ongoing customer relations.
The Dodd-Frank Act created a new independent Consumer Financial Protection Bureau, which has broad authority to regulate and supervise retail financial services activities of banks, such as Independent Bank, and has the authority to promulgate regulations, issue orders, guidance and policy statements, conduct examinations and bring enforcement actions with regard to consumer financial products and services. In general, banks with assets of more than $10 billion, such as Independent Bank, are to be examined for compliance with federal consumer protection laws by the CFPB. Starting in the second quarter of 2020, the fourth consecutive quarter in which the Company's total consolidated assets are expected to exceed $10 billion, Independent Bank will be subject to CFPB jurisdiction. Until that time, the Company will continue to be examined for consumer compliance by the FDIC. As a relatively new agency with evolving regulations and practices, there is uncertainty as to how the CFPB's examination and regulatory authority might impact our business.

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

Anti-Money Laundering and Anti-Terrorism Legislation. A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA PATRIOT Act of 2001, or the USA Patriot Act, substantially broadened the scope of U.S. anti-money laundering laws and regulations by imposing significant

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

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

Changes in Laws, Regulations or Policies

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

Enforcement Powers of Federal and State Banking Agencies

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

Effect on Economic Environment

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

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

ITEM 1A. RISK FACTORS

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

Risks Related to the Company's Business

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

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

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

The Company is operating in a dynamic and challenging economic environment, including uncertain global, national and local market conditions. In particular, Texas and Colorado based financial institutions are affected by volatility in the energy markets and the potential impact of that volatility on real estate and other markets. The Company is also subject to uncertain interest rate conditions. These volatile economic conditions could adversely affect borrowers and their businesses as well as the value of collateral (particularly real estate collateral) securing loans, which could adversely affect the Company's business, financial condition and results of operation.

The Company's business concentration in Texas and Colorado imposes risks and may magnify the adverse effects and consequences to the Company resulting from any regional or local economic downturn affecting Texas and Colorado.

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

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

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

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

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

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

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

As of December 31, 2018, approximately 1.7% of the Company's loan portfolio was composed of loans made to companies engaged in oil production and oilfield services. The significant decline in oil prices during 2015 adversely effected some of these borrowers' ability to repay these loans and impaired the value of collateral securing some of these loans. The Company experienced an increase in non-performing assets and loan loss provisions in 2015 and early 2016 primarily due to energy loans. Further, because energy is a material segment of the overall Texas economy, the decline and volatility in oil prices could have an impact on other segments of the Texas economy, including real estate. The Houston market economy in particular could be adversely affected. The Company’s asset quality and results of operations could be adversely impacted by the direct and indirect effects of current and future conditions in the Texas energy industry.

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The Company’s small to medium-sized business customers may have fewer financial resources than larger entities to weather a downturn in the economy, which may impair a borrower’s ability to repay a loan, and such impairment could adversely affect the Company’s results of operations and financial condition.

The Company focuses its business development and marketing strategy primarily to serve the banking and financial services needs of small to medium-sized businesses. These small to medium-sized businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities. If general economic conditions negatively impact the Dallas/North Texas, Austin/Central Texas, Houston and Colorado market areas in which the Company operates or the Texas or Colorado market generally and small to medium-sized businesses are adversely affected, the Company’s results of operations and financial condition may be negatively affected.

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

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

As of December 31, 2018, the Company’s allowance for loan losses as a percentage of total loans was 0.58% and as a percentage of total nonperforming loans was 354.73%. Additional loan losses will likely occur in the future and may occur at a rate greater than the Company has previously experienced. The Company may be required to take additional provisions for loan losses in the future to further supplement the allowance for loan losses, either due to management’s decision to do so or requirements by the Company’s banking regulators. In addition, bank regulatory agencies will periodically review the Company’s allowance for loan losses and the value attributed to nonaccrual loans or to real estate acquired through foreclosure. Such regulatory agencies may require the Company to recognize future charge-offs. These adjustments may adversely affect the Company’s business, financial condition and results of operations.

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

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

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

The Company has been pursuing a growth strategy that includes the acquisition of other financial institutions in target markets. The Company has completed several acquisitions since 2010, most recently completing the acquisitions of Integrity Bancshares, Inc. on June 1, 2018 and Guaranty Bancorp ("Guaranty") on January 1, 2019. The Company intends to continue its acquisition strategy. Such an acquisition strategy, involves significant risks, including the following:

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

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

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

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

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

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

As with any merger of banking institutions, business disruptions may occur that may cause Independent Bank to lose customers or may cause Guaranty Bank's former customers to withdraw their deposits from Independent Bank. The realization of the anticipated benefits of the merger may depend in large part on Independent's ability to integrate Guaranty Banks former operations into Independent Bank's operations, and to address differences in business models and cultures. If the Company is unable to integrate the operations of Guaranty and Guaranty Bank into the Company's and Independent Bank's operations successfully and on a timely basis, some or all of the expected benefits of the merger may not be realized. Difficulties encountered with respect to such matters could result in an adverse effect on the financial condition, results of operations, capital, liquidity or cash flows of Independent Bank and the Company.

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

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

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

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

The Company determines impairment by comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Any such adjustments are reflected in the Company's results of operations in the periods in which they become known. As of December 31, 2018, the Company's goodwill totaled $721.8 million. While the Company has not recorded any such impairment charges since the Company initially recorded the goodwill, there can be no assurance that the Company's future evaluations of goodwill will not result in findings of impairment and related write-downs, which may have a material adverse effect on the Company's financial condition and results of operations.

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

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

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

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

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

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

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

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

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

While the Company attempts to invest a significant percentage of its assets in loans (the Company’s loan to deposit ratio was 101.9% as of December 31, 2018), the Company invests a percentage of its total assets (approximately 7.0% as of December 31, 2018) in investment securities as part of its overall liquidity strategy. As of December 31, 2018, the fair value of the Company’s securities portfolio was approximately $685.4 million.

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

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

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

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

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

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

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

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

The Company conducts its operations almost exclusively in Texas and Colorado. Many of the Company's competitors offer the same, or a wider variety of, banking services within the Company's market areas. These competitors include banks with nationwide operations, regional banks and other community banks. The Company also faces competition from many other types of financial institutions, including savings and loan institutions, finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. In addition, a number of out-of-state financial intermediaries have opened production offices, or otherwise solicit deposits, in the Company's market areas. The Company's ability to successfully compete will depend on a number of factors, including its ability to maintain long-term customer relationships and customer satisfaction with the Company's products and services, the scope, relevance and pricing of the products and services the Company offers, industry and general economic trends, and the Company's ability to keep pace with technological advances and to invest in new technology. Ultimately, the Company may not be able to compete successfully against current and future competitors. If the Company is unable to attract and retain banking customers, the Company may be unable to continue to grow its loan and deposit portfolios, or may be required to increase the rates the Company pays on deposits or lower the rates it offers on loans, which could reduce the Company's profitability, and the Company's business, financial condition and results of operations may be adversely affected.

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

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

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

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

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

Many of the Company's larger competitors have substantially greater resources to invest in technological improvements. In addition, the rise of "FinTech" entities presents an additional group of competitors which provide financial services through new electronic delivery systems. As a result, these competitors may be able to offer additional or superior products to those that the Company will be able to provide, which would put the Company at a competitive disadvantage. Accordingly, the Company may not be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to its customers.

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

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

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

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

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

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

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

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

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

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

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

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

Hurricanes, tornadoes, wildfires, earthquakes and other natural disasters and severe weather events have caused, and in the future may cause, widespread property damage and significantly and negatively affect the local economies in which the Company operates. For example, in late August 2017, Hurricane Harvey, a Category 4 hurricane, caused catastrophic flooding and unprecedented damage to residences and businesses across Southeast Texas, including Houston. The Company currently operates 10 banking centers in the greater Houston area. The effect of Hurricane Harvey, and other catastrophic weather events

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

New lines of business or new products and services may subject the Company to additional risks.

From time to time, the Company may implement or may acquire new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services, the Company may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of the Company's system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on the Company's business, financial condition and results of operations.

Legal and regulatory proceedings could adversely affect the Company's business, financial condition, and results of operation.

The Company, like all financial institutions, has been and may in the future become involved in legal and regulatory proceedings. The Company considers most of these proceedings to be in the normal course of business or typical for the industry. However, it is inherently difficult to assess the outcome of these matters. Any material legal or regulatory proceeding could impose substantial cost and cause management to divert its attention from the Company's business and operations. Any adverse determination in a legal or regulatory proceeding could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company is subject to claims and litigation pertaining to intellectual property from time to time.

Banking and other financial services companies, such as the Company, rely on technology companies to provide information technology products and services necessary to support the Company's day-to-day operations. Technology companies frequently enter into litigation based on allegations of patent infringement or other violations of intellectual property rights. In addition, patent holding companies seek to monetize patents they have purchased or otherwise obtained. Competitors of the Company's vendors, or other individuals or companies, have from time to time claimed to hold intellectual property sold to the Company by its vendors. Such claims may increase in the future as the financial services sector becomes more reliant on information technology vendors. The plaintiffs in these actions frequently seek injunctions and substantial damages.

Regardless of the scope or validity of such patents or other intellectual property rights, or the merits of any claims by potential or actual litigants, the Company may have to engage in protracted litigation. Such litigation is often expensive, time-consuming, and disruptive to the Company's operations and distracting to management. If the Company is found to infringe one or more patents or other intellectual property rights, it may be required to pay substantial damages or royalties to a third-party. In certain cases, the Company may consider entering into licensing agreements for disputed intellectual property, although no assurance can be given that such licenses can be obtained on acceptable terms or that litigation will not occur. These licenses may also significantly increase the Company's operating expenses. If legal matters related to intellectual property claims were resolved against the Company or settled, the Company could be required to make payments in amounts that could have a material adverse effect on its business, financial condition and results of operations.

The Company could experience claims and litigation pertaining to fiduciary responsibility.

From time to time, customers make claims and take legal action pertaining to the Company's performance of its fiduciary responsibilities. Whether customer claims and legal action related to the Company's performance of its fiduciary responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to the Company, they may result in significant financial liability, adversely affect the market perception of the Company and its products and services and/or impact customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on the Company's business, financial condition and results of operations.

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The Company could be subject to environmental risks and associated costs on the Company's foreclosed real estate assets, which could materially and adversely affect the Company.

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

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

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

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

The Company's stock can be volatile.

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

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

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

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

The Company's primary tangible asset is Independent Bank. As such, the Company depends upon Independent Bank for cash distributions (through dividends on Independent Bank's stock) that the Company uses to pay the Company's operating expenses, satisfy the Company's obligations (including the Company's senior indebtedness, subordinated debentures, and junior subordinated indebtedness issued in connection with trust preferred securities), and to pay dividends on the Company's common stock and preferred stock. There are numerous laws and banking regulations that limit Independent Bank's ability to pay dividends to the Company. If Independent Bank is unable to pay dividends to the Company, the Company will not be able to satisfy the Company's obligations or pay dividends on the Company's common stock and preferred stock. Federal and state statutes and regulations restrict Independent Bank's ability to make cash distributions to the Company. These statutes and

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- $140.0 million of aggregate principal amount of subordinated indebtedness; and
- $31.6 million of subordinated debentures issued in connection with trust preferred securities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Federal Reserve may require the Company to commit capital resources to support Independent Bank.
The Federal Reserve, which examines the Company and Independent Bank, requires a bank holding company to act as a source of financial and managerial strength to a subsidiary bank and to commit resources to support such subsidiary bank. Under the "source of strength" doctrine, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to such a subsidiary bank. In addition, the Dodd-Frank Act directs the federal bank regulators to require that all companies that directly or indirectly control an insured depository institution serve as a source of strength for the institution. Under these requirements, in the future, the Company could be required to provide financial assistance to Independent Bank if it experiences financial distress.
A capital injection may be required at times when the Company does not have the resources to provide it, and therefore the Company may be required to borrow the funds. In the event of a bank holding company's bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the holding company's general unsecured creditors, including the holders of its note obligations. Thus, any borrowing that must be done by the holding company in order to make the required capital injection becomes more difficult and expensive and will adversely impact the holding company's cash flows, financial condition, results of operations and prospects.
Federal banking agencies periodically conduct examinations of the Company's business, including compliance with laws and regulations, and the Company's failure to comply with any supervisory actions to which the Company becomes subject as a result of such examinations could materially and adversely affect the Company.
Texas and federal banking agencies periodically conduct examinations of the Company's business, including compliance with laws and regulations. If, as a result of an examination, a Texas or federal banking agency were to determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of the Company's operations had become unsatisfactory, or that the Company or its management was in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin "unsafe or unsound" practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in the Company's capital, to restrict the Company's growth, to assess civil monetary penalties against Independent Bank, the Company's officers or directors, to remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate the Company's deposit insurance. If the Company becomes subject to such regulatory actions, the Company could be materially and adversely affected.
The Company may be required to pay significantly higher FDIC deposit insurance assessments in the future, which could materially and adversely affect the Company.
Previous economic conditions and the Dodd-Frank Act caused the FDIC to increase deposit insurance assessments and may result in increased assessments in the future. On February 7, 2011, the FDIC approved a final rule that amended the Deposit Insurance Fund restoration plan and implemented certain provisions of the Dodd-Frank Act. Effective April 1, 2011, the assessment base is determined using average consolidated total assets minus average tangible equity rather than the previous assessment base of adjusted domestic deposits. The final rule also provides the FDIC's board with the flexibility to adopt actual rates that are higher or lower than the total base assessment rates adopted on February 7, 2011 without notice and comment, if certain conditions are met. An increase in the assessment rates could materially and adversely affect the Company.
The Company faces a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.
The federal Bank Secrecy Act, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, or Patriot Act, and other laws and regulations require financial institutions, among other duties, to institute and maintain effective anti-money laundering programs and file

suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network, established by the Treasury to administer the Bank Secrecy Act, is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration and Internal Revenue Service. There is also increased scrutiny of compliance with

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the rules enforced by the Office of Foreign Assets Control. If the Company's policies, procedures and systems are deemed deficient or the policies, procedures and systems of the financial institutions that the Company has already acquired or may acquire in the future are deficient, the Company would be subject to liability, including fines and regulatory actions such as restrictions on the Company's ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of the Company's business plan (including the Company's acquisition plans), which would negatively impact the Company's business, financial condition and results of operations. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for the Company.

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company leases its corporate headquarters, which is a 62,000 square foot, four story office building located at 1600 Redbud Blvd., Suite 400, McKinney, Texas 75069, and serves as Independent Bank's home office.

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

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

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

ITEM 3. LEGAL PROCEEDINGS

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

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Independent Bank is a party to a legal proceeding inherited by Independent Bank in connection with the Company's acquisition of BOH Holdings, Inc. and its subsidiary, Bank of Houston, or BOH, that was completed on April 15, 2014. Several entities related to R. A. Stanford, or the Stanford Entities, including Stanford International Bank, Ltd., or SIBL, had deposit accounts at BOH. Certain individuals who had purchased certificates of deposit from SIBL filed a class action lawsuit against several banks, including BOH, on November 11, 2009 in the U.S. District Court Northern District of Texas, Dallas Division, in a case styled Peggy Roif Rotstain, et al. on behalf of themselves and all others similarly situated, v. Trustmark National Bank, et al., Civil Action No. 3:09-CV-02384-N-BG. The suit alleges, among other things, that the plaintiffs were victims of fraud by SIBL and other Stanford Entities and seeks to recover damages and alleged fraudulent transfers by the defendant banks.

On May 1, 2015, the plaintiffs filed a motion requesting permission to file a Second Amended Class Action Complaint in this case, which motion was subsequently granted. The Second Amended Class Action Complaint asserted previously unasserted claims, including aiding and abetting or participation in a fraudulent scheme based upon the large amount of deposits that the Stanford Entities held at BOH and the alleged knowledge of certain BOH officers. The plaintiffs seek recovery from Independent Bank and other defendants for their losses. The case was inactive due to a court-ordered discovery stay issued March 2, 2015 pending the Court's ruling on plaintiff's motion for class certification and designation of class representatives and counsel. On November 7, 2017, the Court issued an order denying the plaintiff's motion. In addition, the Court lifted the previously ordered discovery stay. On January 11, 2018, the Court entered a scheduling order providing that the case be ready for trial on January 27, 2020. However, discovery in this case has been extended and the Company now expects that the trial will be delayed until sometime after May 2020. The Company has experienced an increase in legal fees associated with the defense of this claim and anticipates further increases in legal fees as the case proceeds to trial.

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

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market for Common Stock

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

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Recent Sales of Unregistered Securities

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

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

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

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information as of December 31, 2018, regarding the Company's equity compensation plans under which the Company's equity securities are authorized for issuance:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)	
Equity compensation plans approved by security holders	—	N/A	1,581,608	(1)
Equity compensation plans not approved by security holders	—	N/A	—	

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

Share Repurchase Program

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

reestablishment of its share repurchase program. The program authorizes the purchase by the Company of up to $75 million of its common stock. The repurchase program is authorized to continue through October 1, 2019. No shares of Company stock were repurchased by the Company under this program during 2018. The Company has repurchased a total of 68,069 shares at a total cost of $3.9 million through February 26, 2019.
Purchases of Equity Securities by the Issuer and Affiliated Purchasers
None.

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Performance Graph
The following Performance Graph compares the cumulative total shareholder return on the Company's common stock for the period December 31, 2013 through December 31, 2018, with the cumulative total return of the S&P 500 Total Return Index and the KBW Nasdaq Regional Banking Index for the same period. Dividend reinvestment has been assumed. The Performance Graph assumes $100 invested on December 31, 2013, in the Company's common stock, the S&P 500 Total Return Index and KBW Nasdaq Regional Banking Index. The historical stock price performance for the Company's common stock shown on the graph below is not necessarily indicative of future stock performance.
Comparison of Cumulative Total Return
Among Independent Bank Group, Inc., the S&P 500 Index and the KBW Nasdaq Regional Banking Index

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

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ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data of the Company for, and as of, the end of each of the years in the five-year period ended December 31, 2018, is derived from and should be read in conjunction with the Company's consolidated financial statements and the notes thereto appearing elsewhere in this Annual Report on Form 10-K. You should read the following financial information relating to the Company in conjunction with other information contained in this Annual Report on Form 10-K, including the information set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" under Part II, Item 7, beginning on page 35 and the consolidated financial statements of the Company and related accompanying notes included elsewhere in this Annual Report on Form 10-K. The Company's historical results for any prior period are not necessarily indicative of results to be expected in any future period. As described elsewhere in this Annual Report on Form 10-K, the Company has consummated several acquisitions in recent fiscal periods. The results and other financial information of those acquired operations are not included in the information below for the periods prior to their respective acquisition dates and, therefore, the results for these prior periods are not comparable in all respects and may not be predictive of the Company's future results.

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

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

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	As of and for the Year Ended December 31,				
(dollars in thousands except per share data)	2018	2017	2016	2015	2014
Return on average common equity [4]	8.69	6.71	8.42	7.13	6.89
Net interest margin [5]	3.97	3.84	3.81	4.05	4.19
Efficiency ratio [6]	52.35	56.13	54.99	59.71	63.32
Dividend payout ratio [7]	12.41	13.42	11.76	14.35	12.90
Credit Quality Ratios					
Nonperforming assets to total assets	0.10 %	0.26 %	0.34 %	0.36 %	0.36 %
Nonperforming loans to total loans held for investment [8] [9]	0.16	0.24	0.39	0.37	0.32
Allowance for loan losses to nonperforming loans [8]	354.75	253.62	177.06	181.99	183.43
Allowance for loan losses to total loans held for investment [9]	0.58	0.62	0.69	0.68	0.58
Net charge-offs to average loans outstanding (unaudited)	0.06	0.01	0.12	0.02	0.03
Capital Ratios					
Common equity tier 1 capital to risk-weighted assets [10]	10.95 %	9.61 %	8.20 %	7.94 %	n/a
Tier 1 capital to average assets	9.57	8.92	7.82	8.28	8.15 %
Tier 1 capital to risk-weighted assets [10]	10.40	10.05	8.55	8.92	9.83
Total capital to risk-weighted assets [10]	12.58	12.56	11.38	11.14	12.59
Total stockholders' equity to total assets	16.31	15.38	11.49	11.94	13.09
Total common equity to total assets [11]	16.31	15.38	11.49	11.94	12.51

(1) The Company calculates its diluted earnings per share for each period shown as its net income divided by the weighted-average number of its common shares outstanding during the relevant period adjusted for the dilutive effect of its outstanding warrants to purchase shares of common stock. The increase in 2014 largely relates to shares issued in three acquisitions completed in 2014, the increase in 2015 relates to shares issued in the acquisition completed in November 2015, the increase in 2016 relates to the weighted effect of the shares issued in November 2015 along with shares issued in a private offering during 2016 and the increase in 2017 relates to shares issued in the acquisition completed in April 2017 along with shares issued in a public offering during 2017. The increase in 2018 relates to the shares issued in the acquisition completed June 1, 2018. See Note 1 to the Company's consolidated financial statements appearing elsewhere in this Annual Report on Form 10 K for more information regarding the dilutive effect of its outstanding warrants and regarding certain nonvested shares of common stock, the effect of which is anti-dilutive. Earnings per share on a basic and diluted basis were calculated using the following outstanding share amounts, which includes participating shares (those shares with dividend rights):

	For the Year Ended December 31,				
	2018	2017	2016	2015	2014
Weighted average shares outstanding-basic	29,599,119	25,636.292	18,501,663	17,321,513	15,208,544
Weighted average shares outstanding-diluted	29,599,119	25,742.362	18,588,309	17,406,108	15,306,998

(2) Book value per share equals the Company's total common stockholders' equity (excludes preferred stock) as of the date presented divided by the number of shares of its common stock outstanding as of the date presented. The number of shares of its common stock outstanding as of December 31, 2018, 2017, 2016, 2015 and 2014 was 30,600,582 shares, 28,254,893 shares, 18,870,312 shares, 18,399,194 shares and 17,032,669 shares, respectively.

(3) Each of seven wholly owned, but nonconsolidated, subsidiaries of the Company holds a series of the Company's junior subordinated debentures purchased by the subsidiary in connection with, and paid for with the proceeds of, the issuance of trust issued preferred securities by that subsidiary. The Company has guaranteed the payment of the amounts payable under each of those issues of trust preferred securities. During 2017 the Company assumed two trusts with the Carlile acquisition.

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

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

(6) Efficiency ratio for a period represents noninterest expenses, excluding the amortization of core deposit intangibles, for that period divided by the sum of net interest income and noninterest income for that period.

(7) The Company calculates its dividend payout ratio for each period presented as the dividends paid per share for such period (excluding cash distributions made to shareholders in connection with tax liabilities as described in note (3) above) divided by its basic earnings per share for such period.

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

(9) Loans held for investment excludes mortgage purchase loans

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

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

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

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

Cautionary Note Regarding Forward Looking Statements

This Annual Report on Form 10-K, our other filings with the SEC, and other press releases, documents, reports and announcements that we make, issue or publish may contain statements that we believe are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act") that are subject to risks and uncertainties and are made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are statements or projections with respect to matters such as our future results of operations, including our future revenues, income, expenses, provision for taxes, effective tax rate, earnings per share and cash flows, our future capital expenditures and dividends, our future financial condition and changes therein, including changes in our loan portfolio and allowance for loan losses, our future capital structure or changes therein, the plan and objectives of management for future operations, our future or proposed acquisitions and the integration thereof, the future or expected effect of acquisitions on our operations, results of operations and financial condition, our future economic performance and the statements of the assumptions underlying any such statement. Such statements are typically identified by the use in the statements of words or phrases such as "aim," "anticipate," "estimate," "expect," "goal," "guidance," "intend," "is anticipated," "is estima expected," "is intended," "objective," "plan," "projected," "projection," "will affect," "will be," "will continue," "will decrease "will impact," "will increase," "will incur," "will reduce," "will remain," "will result," "would be," variations of such words or phrases (including where the word "could," "may" or "would" is used rather than the word "will" in a phrase) and similar words and phrases indicating that the statement addresses some future result, occurrence, plan or objective. The forward-looking statements that we make are based on the Company's current expectations and assumptions regarding its business, the economy, and other future conditions. Because forward-looking statements relate to future results and occurrences, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. The Company's actual results may differ materially from those contemplated by the forward-looking statements, which are neither statements of historical fact nor guarantees or assurances of future performance. Many possible events or factors could affect the future financial results and performance of the Company and could cause such results or performance to differ materially from those expressed in forward-looking statements. These factors include, but are not limited to, the following:

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

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

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

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- changes in market interest rates that affect the pricing of the loans and deposits of each of Independent Bank and the financial institutions that we acquire and the net interest income of each of Independent Bank and the financial institutions that we acquire;
- fluctuations in the market value and liquidity of the securities we hold for sale, including as a result of changes in market interest rates;
- effects of competition from a wide variety of local, regional, national and other providers of financial, investment and insurance services;
- changes in economic and market conditions that affect the amount and value of the assets of Independent Bank and of financial institutions that we acquire;
- the institution and outcome of, and costs associated with, litigation and other legal proceedings against one of more of us, Independent Bank and financial institutions that we acquire or to which any of such entities is subject;
- the occurrence of market conditions adversely affecting the financial industry generally;
- the impact of recent and future legislative and regulatory changes, including changes in banking, securities and tax laws and regulations and their application by our regulators, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, and changes in federal government policies;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the SEC and the Public Company Accounting Oversight Board, as the case may be;
- governmental monetary and fiscal policies;
- changes in the scope and cost of FDIC insurance and other coverage;
- the effects of war or other conflicts, acts of terrorism (including cyber attacks) or other catastrophic events, including storms, droughts, tornadoes, hurricanes and flooding, that may affect general economic conditions;
- our actual cost savings resulting from previous or future acquisitions are less than expected, we are unable to realize those cost savings as soon as expected, or we incur additional or unexpected costs;
- our revenues after previous or future acquisitions are less than expected;
- the liquidity of, and changes in the amounts and sources of liquidity available to, us, before and after the acquisition of any financial institutions that we acquire;
- deposit attrition, operating costs, customer loss and business disruption before and after our completed acquisitions, including, without limitation, difficulties in maintaining relationships with employees, may be greater than we expected;
- the effects of the combination of the operations of financial institutions that we have acquired in the recent past or may acquire in the future with our operations and the operations of Independent Bank, the effects of the integration of such operations being unsuccessful, and the effects of such integration being more difficult, time-consuming or costly than expected or not yielding the cost savings that we expect;
- the impact of investments that we or Independent Bank may have made or may make and the changes in the value of those investments;
- the quality of the assets of financial institutions and companies that we have acquired in the recent past or may acquire in the future being different than we determined or determine in our due diligence investigation in connection with the acquisition of such financial institutions and any inadequacy of loan loss reserves relating to, and exposure to unrecoverable losses on, loans acquired;
- our ability to continue to identify acquisition targets and successfully acquire desirable financial institutions to sustain our growth, to expand our presence in our markets and to enter new markets;
- general business and economic conditions in our markets change or are less favorable than expected;
- changes occur in business conditions and inflation;
- an increase in the rate of personal or commercial customers’ bankruptcies;
- technology-related changes are harder to make or are more expensive than expected;
- attacks on the security of, and breaches of, our Independent Bank's digital information systems, the costs we or Independent Bank incur to provide security against such attacks and any costs and liability we or Independent Bank

incurs in connection with any breach of those systems;

- the potential impact of technology and "FinTech" entities on the banking industry generally; and
- the other factors that are described or referenced in Part I, Item 1A. of this Annual Report on Form 10-K under the caption "Risk Factors."

We urge you to consider all of these risks, uncertainties and other factors carefully in evaluating all such forward-looking statements that we may make. As a result of these and other matters, including changes in facts and assumptions not being realized, the actual results relating to the subject matter of any forward-looking statement may differ materially from the anticipated results expressed or implied in that forward-looking statement. Any forward-looking statement made by the Company in any report, filing, press release, document, report or announcement speaks only as of the date on which it is made.

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The Company undertakes no obligation to update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

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

Overview

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

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

The Company intends for this discussion and analysis to provide the reader with information that will assist in understanding the Company's financial statements, the changes in certain key items in those financial statements from period to period and the primary factors that accounted for those changes. This discussion relates to the Company and its consolidated subsidiaries and should be read in conjunction with the Company's consolidated financial statements as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016, and the accompanying notes, appearing elsewhere in this Annual Report on Form 10-K. The Company's year ends on December 31.

Certain Events Affect Year-over-Year Comparability

Acquisitions

The Company completed an acquisition in 2018 and in 2017. There were no acquisitions completed in 2016. These acquisitions increased total assets, gross loans and deposits on their respective acquisition date as detailed below.

(dollars in millions)	Acquisition Date	Total Assets	Gross Loans	Deposits
Carlile Bancshares, Inc.	April 1, 2017	$2,444.2	$1,384.2	$1,825.2
Integrity Bancshares, Inc.	June 1, 2018	851.9	651.8	593.1

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

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

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Discussion and Analysis of Results of Operations
The following discussion and analysis of the Company’s results of operations compares its results of operations for the years ended December 31, 2018, 2017 and 2016.
Results of Operations
The Company’s net income available to common shareholders increased by $51.7 million, or 67.6%, to $128.3 million ($4.33 per common share on a diluted basis) for the year ended December 31, 2018, from $76.5 million ($2.97 per common share on a diluted basis) for the year ended December 31, 2017. The increase resulted from a $99.4 million increase in interest income, a $937 thousand increase in noninterest income and a decrease of $13.4 million in income tax expense, partially offset by a $38.6 million increase in interest expense and a $21.8 million increase in noninterest expense. The Company’s net income for the year ended December 31, 2018, and, therefore, the Company’s return on average assets and the Company’s return on average equity, were positively impacted by the enactment of the of the Tax Cuts and Jobs Act in late 2017 and adversely affected by $6.2 million of acquisition-related expenses related to the Carlile, Integrity and Guaranty acquisitions. The Company posted returns on average common equity of 8.69% and 6.71%, returns on average assets of 1.35% and 0.96%, and efficiency ratios of 52.35% and 56.13% for the years ended December 31, 2018 and 2017, respectively. The efficiency ratio is calculated by dividing total noninterest expense (which does not include the provision for loan losses and the amortization of core deposits intangibles) by net interest income plus noninterest income. The Company’s dividend payout ratio was 12.47% and 13.42% and the equity to assets ratio was 16.31% and 15.38% for the years ended December 31, 2018 and 2017, respectively.
The Company’s net income available to common shareholders increased by $23.0 million, or 42.9%, to $76.5 million ($2.97 per common share on a diluted basis) for the year ended December 31, 2017, from $53.5 million ($2.88 per common share on a diluted basis) for the year ended December 31, 2016. The increase resulted from a $97.9 million increase in interest income and a $21.7 million increase in noninterest income, partially offset by a $16.2 million increase in interest expense, a $63.0 million increase in noninterest expense and an $18.6 million increase in income tax expense. The Company’s net income for the year ended December 31, 2017, and, therefore, the Company’s return on average assets and the Company’s return on average equity, were adversely affected by $12.9 million of acquisition-related expenses related to the Carlile acquisition as well as the one-time remeasurement charge of $5.5 million to deferred taxes as a result of the enactment of the Tax Cuts and Jobs Act in late 2017. The Company posted returns on average common equity of 6.71% and 8.42%, returns on average assets of 0.96% and 0.98%, and efficiency ratios of 56.13% and 54.99% for the years ended December 31, 2017 and 2016, respectively. The efficiency ratio is calculated by dividing total noninterest expense (which does not include the provision for loan losses and the amortization of core deposits intangibles) by net interest income plus noninterest income. The Company’s dividend payout ratio was 13.42% and 11.76% and the equity to assets ratio was 15.38% and 11.49% for the years ended December 31, 2017 and 2016, respectively.
Net Interest Income
The Company’s net interest income is its interest income, net of interest expenses. Changes in the balances of the Company’s earning assets and its deposits, FHLB advances and other borrowings, as well as changes in the market interest rates, affect the Company’s net interest income. The difference between the Company’s average yield on earning assets and its average rate paid for interest-bearing liabilities is its net interest spread. Noninterest-bearing sources of funds, such as demand deposits and stockholders’ equity, also support the Company’s earning assets. The impact of the noninterest-bearing sources of funds is reflected in the Company’s net interest margin, which is calculated as annualized net interest income divided by average earning assets.
The Company earned net interest income of $326.3 million for the year ended December 31, 2018, an increase of $60.8 million, or 22.9%, from $265.5 million for the year ended December 31, 2017. The increase in net interest income from the previous year was primarily due to increased average earning assets resulting from organic growth and the acquisition of Integrity Bancshares, as well as overall higher interest rates due to a rising rate environment. The Company’s net interest margin for 2018 increased to 3.97% from 3.84% in 2017, and the Company’s interest rate spread for 2018 decreased to 3.59% from the 3.62% interest rate spread for 2017. The average balance of

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

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

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

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Average Balance Sheet Amounts, Interest Earned and Yield Analysis. The following table presents average balance sheet information, interest income, interest expense and the corresponding average yields earned and rates paid for the years ended December 31, 2018, 2017 and 2016. The average balances are principally daily averages and, for loans, include both performing and nonperforming balances.

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

Stockholders' equity	1,476,688				1,139,573				635,864			
Total liabilities and equity	$9,478,934				$7,966,421				$5,469,542			
Net interest income		$326,252				$265,478				$183,806		
Interest rate spread			3.59	%			3.62	%			3.66	%
Net interest margin (2)			3.97				3.84				3.81	
Net interest income and margin (tax equivalent basis) (3)		$328,090	3.99			$268,235	3.88			$185,429	3.85	
Average interest earning assets to interest bearing liabilities			138.69				134.95				128.78	

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

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

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

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

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

Total interest income	$407,290	$307,914	$99,376	32.3 %	$307,914	$210,049	$97,865	46.6 %

The Company’s interest and fees on loans increased 32.5% for the year ended December 31, 2018, compared to the year ended December 31, 2017, and was primarily attributable to a $1.4 billion increase in the average balance of the Company’s loans to $7.3 billion during the year ended 2018 as compared with the average balance of $5.9 billion for the year ended 2017. The increase primarily resulted from strong organic growth in the Company’s loan portfolio of 12.0% for the year over year period as well as the $651.8 million loans held for investment that were acquired in the Integrity acquisition.

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

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

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

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

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

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

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

Interest expense on deposits for 2018 increased by $32.2 million, or 113.1%, primarily as a result of the rising rate environment in addition to a 16.5% year-over-year increase in the average balance on the Company's interest-bearing deposit accounts from $4.5 billion in 2017 to $5.2 billion in 2018 resulting from $593.1 million of interest-bearing deposits acquired in the Integrity acquisition as well as organic growth. The average rate on the Company's deposits increased by 53 basis points to 1.16% on average interest-bearing deposits for the year ended 2018, from 0.63% on average interest-bearing deposits for the year ended 2017. This increase in cost of funds for this source of funding primarily resulted from higher rates offered on commercial money market accounts and certificates of deposit due to competition in our markets but also due in part to increased interest rates on deposit products tied to Fed Funds rates. In addition, rate increases on short-term FHLB advances and junior subordinated debt impacted interest expense.

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

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

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

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

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

Provision for Loan Losses

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

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

The Company increased its allowance for loan losses to $44.8 million at December 31, 2018, by making provisions for loan losses totaling $9.9 million during the year ended December 31, 2018. This is an increase of $1.6 million, or 19.3% in provision expense compared to total provision expense of $8.3 million made by the Company in 2017. Provision expense is primarily reflective of organic loan growth and net charge-offs during the year. The increase from prior year is primarily due to additional general reserves for organic loan growth. Offsetting the increase to the allowance balance were net charge-offs totaling $4.5 million for 2018, which is 0.06% of the Company's average loans outstanding during the period. The 2018 charge-offs were primarily related to partial charge-offs of an energy loan relationship and a commercial credit.

The Company increased its allowance for loan losses to $39.4 million at December 31, 2017, by making provisions for loan losses totaling $8.3 million during the year ended December 31, 2017. This is a decrease of $1.2 million, or 12.4% in provision expense compared to total provision expense of $9.4 million made by the Company in 2016. Provision expense is primarily reflective of organic loan growth and net charge-offs during the year. The decrease from prior year primarily reflects the improved credit quality of our energy portfolio. Offsetting the increase to the allowance balance were net charge-offs totaling $454 thousand for 2017, which is 0.01% of the Company's average loans outstanding during the period.

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The balance of the provision for loan losses was made based on the Company’s assessment of the credit quality of the Company’s loan portfolio and in view of the amount of the Company’s net charge-offs in that period. The Company did not make any provision for loan losses with respect to the loans acquired in the Integrity acquisition completed on June 1, 2018 because, in accordance with acquisition accounting standards, the Company recorded the loans acquired in the acquisition at fair value without a reserve and determined that the Company’s fair value adjustments appropriately reflected the probability of losses on those loans as of the acquisition date. The Company does not believe there has been any deterioration of credit of these acquired loans since the acquisition and has not recorded a subsequent provision. The Company will begin phasing the acquired portfolio into the allowance allocation as acquired loans are renewed in 2019. As of December 31, 2018, the discount on acquired loans totaled $25.2 million.

Noninterest Income

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

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

N/M - not meaningful

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

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

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

95.4%, over the same period in 2016. This increase is primarily reflective of the retail mortgage line of business acquired with the Carlile acquisition.
Gain (Loss) on Sale of Branches. The net gain in 2017 relates to the sale of one Texas branch and nine Colorado branches to two unaffiliated institutions during third and fourth quarter of 2017 as a result of integrating and restructuring the Northstar branch system acquired in the Carlile acquisition.
Gain on Sale of Repossessed Assets. The gain in 2017 was the result of a sale of a previously charged off repossessed asset acquired in the Carlile acquisition.

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

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

Noninterest Expense

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

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

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

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

N/M - not meaningful

Salaries and Employee Benefits. Salaries and employee benefits expense, which historically has been the largest component of the Company's noninterest expense, increased $16.0 million, or 16.7%, for the year ended December 31, 2018, compared to the year ended December 31, 2017. The increase is primarily due to an increase in the number of the Company's full-time equivalent employees from 924 to 1087, which resulted from both organic growth within the Company during the year as well as the acquisition of Integrity. The increase is also a result of a full year of expense in 2018 compared to nine months in 2017 related to the Carlile acquisition in addition to severance and retention bonuses paid to Integrity employees during the year and increased 401K matching contributions resulting from a modification to the Company's plan.

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

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

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

Data Processing. Data processing fees increased $2.2 million, or 25.1%, for the year ended December 31, 2018, compared to the same period in 2017. The increase over the same prior period is reflective of increased costs due to the additional accounts, employees and locations added related to the Integrity acquisition during 2018 as well as a full year of cost related to Carlile in 2108 compared to nine months in 2017. Data processing fees increased $3.8 million, or 80.9%, for the year ended December 31, 2017, compared to the same period in 2016. The increase over the same prior period is reflective of increased costs directly related to the Carlile transaction due to the additional accounts, employees and locations added, but also due to maintaining two core systems from close until the conversion was completed in early fourth quarter 2017.

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

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

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

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

Acquisition Expense. Acquisition expense is primarily legal, advisory and accounting fees associated with services to facilitate the acquisition of other banks. Acquisition expenses also include data processing conversion costs and contract termination costs. Total acquisition expenses for the year ended December 31, 2018, decreased $6.7 million, or 52.3% over the same period in 2017. Total acquisition expenses for the year ended December 31, 2017, increased $11.4 million, or 750.2% over the same period in 2016. The change in the respective period is directly related to the acquisition activity in those periods. The Company incurred expenses related to the completed acquisitions of Integrity and Carlile which were completed in June 2018 and April 2017, respectively.

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Other. Other noninterest expense for the year ended December 31, 2018 increased by $8.0 million, or 44.6%, compared to the same period in 2017. Other noninterest expense for the year ended December 31, 2017 increased by $5.9 million, or 48.9%, compared to the same period in 2016. The majority of the increase for each period relates to general increases in operations due to organic growth within the Company as well as acquisition activity occurring in June 2018 and April 2017.

Income Tax Expense

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

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

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

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

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Quarterly Financial Information

The following table presents certain unaudited consolidated quarterly financial information regarding the Company's results of operations for the quarters ended December 31, September 30, June 30 and March 31 in the years ended December 31, 2018 and 2017. This information should be read in conjunction with the Company's consolidated financial statements as of and for the years ended December 31, 2018 and December 31, 2017 appearing elsewhere in this Annual Report on Form 10-K.

	Quarter Ended 2018			
	December 31	September 30	June 30	March 31
(dollars in thousands, except per share data)	(unaudited)			
Interest income	$112,805	$109,289	$97,082	$88,114
Interest expense	25,697	23,021	18,173	14,147
Net interest income	87,108	86,268	78,909	73,967
Provision for loan losses	2,910	1,525	2,730	2,695
Net interest income after provision for loan losses	84,198	84,743	76,179	71,272
Noninterest income	9,887	12,749	10,133	9,455
Noninterest expense	51,848	52,655	49,158	44,958
Income before income taxes	42,237	44,837	37,154	35,769
Provision for income taxes	8,273	9,141	7,519	6,805
Net income	$33,964	$35,696	$29,635	$28,964
Comprehensive income	$39,879	$31,633	$28,644	$20,518
Basic earnings per share	$1.11	$1.17	$1.02	$1.02
Diluted earnings per share	1.11	1.17	1.02	1.02

	Quarter Ended 2017			
	December 31	September 30	June 30	March 31
(dollars in thousands, except per share data)	(unaudited)			
Interest income	$87,420	$84,672	$79,883	$55,939
Interest expense	12,166	11,815	10,383	8,072
Net interest income	75,254	72,857	69,500	47,867
Provision for loan losses	1,897	1,873	2,472	2,023
Net interest income after provision for loan losses	73,357	70,984	67,028	45,844
Noninterest income	13,579	12,130	10,995	4,583
Noninterest expense	49,553	47,904	51,328	28,028
Income before income taxes	37,383	35,210	26,695	22,399
Provision for income taxes	18,190	11,696	8,561	6,728
Net income	$19,193	$23,514	$18,134	$15,671
Comprehensive income	$15,228	$23,372	$21,554	$16,971
Basic earnings per share	$0.69	$0.85	$0.65	$0.83
Diluted earnings per share	0.68	0.84	0.65	0.82

Discussion and Analysis of Financial Condition
The following discussion and analysis of the Company’s financial condition discusses and analyzes the financial condition of the Company as of December 31, 2018 and 2017 and certain changes in that financial condition from December 31, 2017 to December 31, 2018, and from December 31, 2016 to December 31, 2017.
Assets
The Company's total assets increased by $1.2 billion, or 13.4%, to $9.8 billion as of December 31, 2018 from $8.7 billion at December 31, 2017 due to the Integrity acquisition and organic growth during the period. The Company's total assets increased by $2.8 billion, or 48.4%, to $8.7 billion as of December 31, 2017 from $5.9 billion at December 31, 2016 due to the Carlile acquisition and organic growth during the period.
Loan Portfolio
The Company’s loan portfolio is the largest category of the Company’s earning assets. The following table presents the balance and associated percentage of each major category in the Company’s loan portfolio as of December 31, 2018, 2017, 2016, 2015 and 2014:

	2018		2017		2016		2015		2014	
(dollars in thousands)	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Commercial	$1,361,104	17.2 %	$1,059,984	16.3 %	$630,805	13.7 %	$731,818	18.3 %	$672,052	21.0 %
Real estate:										
Commercial	4,141,356	52.3	3,369,892	51.7	2,459,221	53.7	1,949,734	48.7	1,450,434	45.2
Commercial construction, land and land development	905,421	11.4	744,868	11.5	531,481	11.6	419,611	10.5	334,964	10.5
Residential [(1)]	1,082,248	13.7	931,495	14.3	644,340	14.1	620,289	15.5	518,478	16.2
Single family interim construction	331,748	4.2	289,680	4.4	235,475	5.1	187,984	4.7	138,278	4.3
Agricultural	66,638	0.8	82,583	1.3	53,548	1.2	50,178	1.3	38,822	1.2
Consumer	31,759	0.4	34,639	0.5	27,530	0.6	41,966	1.0	52,267	1.6
Other	253	—	304	—	166	—	124	—	242	—
	7,920,527	100.0%	6,513,445	100.0%	4,582,566	100.0%	4,001,704	100.0%	3,205,537	100.0%
Deferred loan fees	(3,303)		(2,568)		(2,117)		(1,553)		(487)	
Allowance for loan losses	(44,802)		(39,402)		(31,591)		(27,043)		(18,552)	
Total loans, net	$7,872,422		$6,471,475		$4,548,858		$3,973,108		$3,186,498	

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

As of December 31, 2018, the Company's loan portfolio, net of the allowance for loan losses and deferred fees, totaled $7.9 billion, which is an increase of 21.6% over total net loans at