

Edgar Filing: Independent Bank Group, Inc. - Form 10-Q

Independent Bank Group, Inc.  
Form 10-Q  
November 04, 2014

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

FORM 10-Q  
(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.  
For the quarterly period ended September 30, 2014.

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

Independent Bank Group, Inc.  
(Exact name of registrant as specified in its charter)  
Texas  
(State or other jurisdiction of incorporation or organization)

13-4219346  
(I.R.S. Employer Identification No.)

1600 Redbud Boulevard, Suite 400  
McKinney, Texas  
(Address of principal executive offices)  
(972) 562-9004

75069-3257  
(Zip Code)

(Registrant's telephone number, including area code)  
Not applicable  
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Check One:

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

Applicable Only to Corporate Issuers

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

Common Stock, Par Value \$0.01 Per Share – 17,017,169 shares as of November 3, 2014.

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INDEPENDENT BANK GROUP, INC. AND SUBSIDIARIES  
Form 10-Q  
September 30, 2014

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Signatures

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## Independent Bank Group, Inc. and Subsidiaries

## Consolidated Balance Sheets

September 30, 2014 and December 31, 2013 (unaudited)

(Dollars in thousands, except share information)

|   | September 30,<br>2014 | December 31,<br>2013 |
|---|-----------------------|----------------------|
| <b>Assets</b>   |                       |                      |
| Cash and due from banks   | \$121,983             | \$27,408             |
| Federal Reserve Excess Balance Account (EBA)  | 127,786               | 65,646               |
| Cash and cash equivalents   | 249,769               | 93,054               |
| Securities available for sale (amortized cost of \$233,501 and \$196,689, respectively) | 235,844               | 194,038              |
| Loans held for sale   | 1,811                 | 3,383                |
| Loans, net of allowance for loan losses of \$16,840 and \$13,960, respectively          | 2,874,084             | 1,709,200            |
| Premises and equipment, net   | 81,791                | 72,735               |
| Other real estate owned   | 4,084                 | 3,322                |
| Federal Home Loan Bank (FHLB) of Dallas stock and other restricted stock                | 15,715                | 9,494                |
| Bank-owned life insurance (BOLI)  | 39,503                | 21,272               |
| Deferred tax asset  | 2,983                 | 4,834                |
| Goodwill  | 207,607               | 34,704               |
| Core deposit intangible, net  | 10,418                | 3,148                |
| Other assets  | 23,073                | 14,800               |
| <b>Total assets</b>   | <b>\$3,746,682</b>    | <b>\$2,163,984</b>   |
| <b>Liabilities and Stockholders' Equity</b>   |                       |                      |
| <b>Deposits:</b>  |                       |                      |
| Noninterest-bearing   | \$715,843             | \$302,756            |
| Interest-bearing  | 2,097,817             | 1,407,563            |
| <b>Total deposits</b>   | <b>2,813,660</b>      | <b>1,710,319</b>     |
| FHLB advances   | 324,424               | 187,484              |
| Repurchase agreements   | 5,235                 | —                    |
| Other borrowings  | 69,410                | 4,460                |
| Other borrowings, related parties   | 3,320                 | 3,270                |
| Junior subordinated debentures  | 18,147                | 18,147               |
| Other liabilities   | 12,175                | 6,532                |
| <b>Total liabilities</b>  | <b>3,246,371</b>      | <b>1,930,212</b>     |
| <b>Commitments and contingencies</b>  |                       |                      |
| <b>Stockholders' equity:</b>  |                       |                      |
| Series A preferred stock (23,938.35 and 0 shares issued and outstanding, respectively)  | 23,938                | —                    |
| Common stock (16,370,313 and 12,330,158 shares outstanding, respectively)               | 164                   | 123                  |
| Additional paid-in capital  | 445,379               | 222,116              |
| Retained earnings   | 28,714                | 12,663               |
| Accumulated other comprehensive income (loss)   | 2,116                 | (1,130 )             |
| <b>Total stockholders' equity</b>   | <b>500,311</b>        | <b>233,772</b>       |
| <b>Total liabilities and stockholders' equity</b>                                       | <b>\$3,746,682</b>    | <b>\$2,163,984</b>   |

See Notes to Consolidated Financial Statements

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## Independent Bank Group, Inc. and Subsidiaries

## Consolidated Statements of Income

Three and Nine Months Ended September 30, 2014 and 2013 (unaudited)

(Dollars in thousands, except per share information)

|   | Three months ended<br>September 30, |          | Nine months ended<br>September 30, |          |
|---|-------------------------------------|----------|------------------------------------|----------|
|   | 2014                                | 2013     | 2014                               | 2013     |
| Interest income:  |                                     |          |                                    |          |
| Interest and fees on loans  | \$35,633                            | \$21,140 | \$93,637                           | \$62,347 |
| Interest on taxable securities  | 711                                 | 358      | 2,187                              | 999      |
| Interest on nontaxable securities                                     | 404                                 | 258      | 1,028                              | 765      |
| Interest on federal funds sold and other                              | 192                                 | 85       | 328                                | 256      |
| Total interest income   | 36,940                              | 21,841   | 97,180                             | 64,367   |
| Interest expense:   |                                     |          |                                    |          |
| Interest on deposits  | 2,530                               | 1,717    | 6,874                              | 5,178    |
| Interest on FHLB advances   | 975                                 | 819      | 2,792                              | 2,475    |
| Interest on repurchase agreements, notes payable and other borrowings | 871                                 | 253      | 1,142                              | 1,326    |
| Interest on junior subordinated debentures                            | 133                                 | 137      | 402                                | 408      |
| Total interest expense  | 4,509                               | 2,926    | 11,210                             | 9,387    |
| Net interest income   | 32,431                              | 18,915   | 85,970                             | 54,980   |
| Provision for loan losses   | 976                                 | 830      | 3,608                              | 2,939    |
| Net interest income after provision for loan losses                   | 31,455                              | 18,085   | 82,362                             | 52,041   |
| Noninterest income:   |                                     |          |                                    |          |
| Service charges on deposit accounts                                   | 1,541                               | 1,248    | 4,205                              | 3,597    |
| Mortgage fee income   | 1,080                               | 957      | 2,777                              | 3,120    |
| Gain on sale of loans   | 1,078                               | —        | 1,078                              | —        |
| Gain on sale of other real estate                                     | 20                                  | —        | 59                                 | 173      |
| (Loss) gain on sale of premises and equipment                         | (22                                 | ) 5      | (22                                | ) 4      |
| Increase in cash surrender value of BOLI                              | 281                                 | 80       | 690                                | 240      |
| Other   | 232                                 | 161      | 876                                | 475      |
| Total noninterest income  | 4,210                               | 2,451    | 9,663                              | 7,609    |
| Noninterest expense:  |                                     |          |                                    |          |
| Salaries and employee benefits  | 12,551                              | 7,976    | 37,797                             | 23,688   |
| Occupancy   | 3,435                               | 2,117    | 9,200                              | 6,562    |
| Data processing   | 472                                 | 357      | 1,420                              | 969      |
| FDIC assessment   | 426                                 | 253      | 1,246                              | 241      |
| Advertising and public relations                                      | 204                                 | 216      | 618                                | 620      |
| Communications  | 498                                 | 412      | 1,220                              | 1,090    |
| Net other real estate owned expenses (including taxes)                | 122                                 | 111      | 258                                | 368      |
| Operations of IBG Adriatica, net                                      | —                                   | 228      | 23                                 | 600      |
| Other real estate impairment  | 22                                  | 12       | 22                                 | 475      |
| Core deposit intangible amortization                                  | 361                                 | 175      | 859                                | 527      |
| Professional fees   | 828                                 | 353      | 1,792                              | 918      |
| Acquisition expense, including legal                                  | 629                                 | 474      | 2,628                              | 602      |
| Other   | 2,614                               | 1,966    | 6,498                              | 5,297    |
| Total noninterest expense   | 22,162                              | 14,650   | 63,581                             | 41,957   |

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|                            |         |         |          |          |
|----------------------------|---------|---------|----------|----------|
| Income before taxes        | 13,503  | 5,886   | 28,444   | 17,693   |
| Income tax expense         | 4,543   | 1,927   | 9,564    | 2,172    |
| Net income                 | \$8,960 | \$3,959 | \$18,880 | \$15,521 |
| Basic earnings per share   | \$0.54  | \$0.33  | \$1.26   | \$1.44   |
| Diluted earnings per share | \$0.54  | \$0.33  | \$1.25   | \$1.43   |
| Pro Forma:                 |         |         |          |          |
| Income tax expense         | n/a     | n/a     | n/a      | 5,798    |
| Net income                 | n/a     | n/a     | n/a      | \$11,895 |
| Basic earnings per share   | n/a     | n/a     | n/a      | \$1.10   |
| Diluted earnings per share | n/a     | n/a     | n/a      | \$1.10   |

See Notes to Consolidated Financial Statements

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Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

Three and Nine Months Ended September 30, 2014 and 2013 (unaudited)

(Dollars in thousands)

|   | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |          |
|---|-------------------------------------|---------|------------------------------------|----------|
|   | 2014                                | 2013    | 2014                               | 2013     |
| Net income  | \$8,960                             | \$3,959 | \$18,880                           | \$15,521 |
| Other comprehensive income (loss) before tax:   |                                     |         |                                    |          |
| Change in net unrealized gains (losses) on available for<br>sale securities during the year             | 408                                 | 1,002   | 4,994                              | (4,348 ) |
| Reclassification adjustment for loss on sale of securities<br>available for sale included in net income | —                                   | —       | —                                  | —        |
| Other comprehensive income (loss) before tax  | 408                                 | 1,002   | 4,994                              | (4,348 ) |
| Income tax expense (benefit)  | 143                                 | 351     | 1,748                              | (1,212 ) |
| Other comprehensive income (loss), net of tax   | 265                                 | 651     | 3,246                              | (3,136 ) |
| Comprehensive income  | \$9,225                             | \$4,610 | \$22,126                           | \$12,385 |

See Notes to Consolidated Financial Statements



## Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity  
 Nine Months Ended September 30, 2014 and 2013 (unaudited)  
 (Dollars in thousands, except for par value, share and per share information)

|   | Series A<br>Preferred<br>Stock<br>\$.01 Par<br>Value<br>10<br>million<br>shares<br>authorized | Common Stock<br>\$.01 Par Value<br>100 million shares<br>authorized | Additional<br>Paid in<br>Capital | Retained<br>Earnings | Treasury<br>Stock | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total       |           |
|---|---|---|----------------------------------|----------------------|-------------------|---|-------------|-----------|
| Balance, December 31, 2013  | \$—   | 12,330,158  | \$123                            | \$222,116            | \$12,663          | \$—   | \$ (1,130 ) | \$233,772 |
| Net income  | —   | —   | —                                | —                    | 18,880            | —   | —           | 18,880    |
| Other comprehensive income, net of tax                                | —   | —   | —                                | —                    | —                 | —   | 3,246       | 3,246     |
| Series A preferred stock issued                                       | 23,938  | —   | —                                | —                    | —                 | —   | —           | 23,938    |
| Stock issued for acquisition of banks, net of offering costs of \$550 | —   | 3,851,480   | 39                               | 219,928              | —                 | —   | —           | 219,967   |
| Restricted stock forfeited  | —   | (394 )  | —                                | —                    | —                 | —   | —           | —         |
| Restricted stock granted  | —   | 189,069   | 2                                | (2 )                 | —                 | —   | —           | —         |
| Stock based compensation expense                                      | —   | —   | —                                | 2,011                | —                 | —   | —           | 2,011     |
| Excess tax benefit on restricted stock vested                         | —   | —   | —                                | 1,326                | —                 | —   | —           | 1,326     |
| Preferred stock dividends   | —   | —   | —                                | —                    | (109 )            | —   | —           | (109 )    |
| Cash dividends (\$0.18 per share)                                     | —   | —   | —                                | —                    | (2,720 )          | —   | —           | (2,720 )  |
| Balance, September 30, 2014   | \$23,938  | 16,370,313  | \$164                            | \$445,379            | \$28,714          | \$—   | \$ 2,116    | \$500,311 |
| Balance, December 31, 2012  | \$—   | 8,278,354   | \$83                             | \$88,791             | \$33,290          | \$(232 )  | \$ 2,578    | \$124,510 |
| Net income  | —   | —   | —                                | —                    | 15,521            | —   | —           | 15,521    |
| Other comprehensive (loss), net of tax                                | —   | —   | —                                | —                    | —                 | —   | (3,136 )    | (3,136 )  |
| Treasury stock retired  | —   | (8,647 )  | —                                | (232 )               | —                 | 232   | —           | —         |
| Common stock issued, net of offering costs                            | —   | 3,680,000   | 37                               | 86,600               | —                 | —   | —           | 86,637    |
| Reclassification adjustment for change in taxable status              | —   | —   | —                                | 33,624               | (33,624 )         | —   | —           | —         |
| Restricted stock granted  | —   | 127,220   | 1                                | (1 )                 | —                 | —   | —           | —         |
|   | —   | —   | —                                | 9                    | —                 | —   | —           | 9         |

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|   |     |            |       |           |          |     |           |           |
|---|-----|------------|-------|-----------|----------|-----|-----------|-----------|
| Excess tax benefit on restricted stock vested |     |            |       |           |          |     |           |           |
| Stock based compensation expense              | —   | —          | —     | 1,049     | —        | —   | —         | 1,049     |
| Cash dividends (\$0.71 per share)             | —   | —          | —     | —         | (6,079 ) | —   | —         | (6,079 )  |
| Balance, September 30, 2013                   | \$— | 12,076,927 | \$121 | \$209,840 | \$9,108  | \$— | \$ (558 ) | \$218,511 |

See Notes to Consolidated Financial Statements

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## Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Cash Flows  
 Nine Months Ended September 30, 2014 and 2013 (unaudited)  
 (Dollars in thousands)

|   | Nine Months Ended September<br>30, |            |
|---|------------------------------------|------------|
|   | 2014                               | 2013       |
| Cash flows from operating activities:   |                                    |            |
| Net income  | \$18,880                           | \$15,521   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |            |
| Depreciation expense  | 3,787                              | 3,171      |
| Amortization of core deposit intangibles  | 859                                | 527        |
| Amortization of premium on securities, net  | 1,506                              | 51         |
| Stock based compensation expense  | 2,011                              | 1,049      |
| FHLB stock dividends  | (33                                | ) (20      |
| Net loss (gain) on sale of premises and equipment                                 | 22                                 | (4         |
| Gain on sale of loans   | (1,078                             | ) —        |
| Gain recognized on other real estate transactions                                 | (59                                | ) (173     |
| Impairment of other real estate   | 22                                 | 475        |
| Deferred tax expense (benefit)  | 128                                | (1,727     |
| Provision for loan losses   | 3,608                              | 2,939      |
| Increase in cash surrender value of life insurance                                | (690                               | ) (240     |
| Loans originated for sale   | (103,165                           | ) (132,897 |
| Proceeds from sale of loans   | 104,737                            | 137,805    |
| Net change in other assets  | (4,981                             | ) 317      |
| Net change in other liabilities   | (1,587                             | ) 1,575    |
| Net cash provided by operating activities   | 23,967                             | 28,369     |
| Cash flows from investing activities:   |                                    |            |
| Proceeds from maturities, calls and pay downs of securities available for sale    | 67,927                             | 142,887    |
| Purchases of securities available for sale  | (28,364                            | ) (163,918 |
| Proceeds from maturities of certificates held in other banks                      | —                                  | 7,372      |
| Proceeds from sale of loans   | 12,147                             | —          |
| Net purchases of FHLB stock   | 625                                | (139       |
| Net loans originated  | (324,030                           | ) (190,128 |
| Additions to premises and equipment   | (3,423                             | ) (6,165   |
| Proceeds from sale of premises and equipment                                      | 13                                 | 66         |
| Proceeds from sale of other real estate owned                                     | 1,923                              | 1,047      |
| Capitalized additions to other real estate  | (28                                | ) (85      |
| Cash received from acquired banks   | 167,771                            | —          |
| Cash paid in connection with acquisitions   | (44,010                            | ) —        |
| Net cash used in investing activities   | (149,449                           | ) (209,063 |
| Cash flows from financing activities:   |                                    |            |
| Net increase in demand deposits, NOW and savings accounts                         | 85,935                             | 109,341    |
| Net increase in time deposits   | 91,139                             | 40,667     |
| Net change in FHLB advances   | 41,940                             | (3,094     |
| Net change in repurchase agreements   | 1,502                              | —          |
| Repayments of notes payable and other borrowings                                  | —                                  | (28,787    |
| Proceeds from other borrowings  | 65,000                             | —          |

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|   |           |           |   |
|---|-----------|-----------|---|
| Proceeds from sale of common stock                    | —         | 86,637    |   |
| Offering costs paid in connection with acquired banks | (550      | ) —       |   |
| Dividends paid  | (2,769    | ) (6,079  | ) |
| Net cash provided by financing activities             | 282,197   | 198,685   |   |
| Net change in cash and cash equivalents               | 156,715   | 17,991    |   |
| Cash and cash equivalents at beginning of year        | 93,054    | 102,290   |   |
| Cash and cash equivalents at end of period            | \$249,769 | \$120,281 |   |

See Notes to Consolidated Financial Statements

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Independent Bank Group, Inc. and Subsidiaries

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

Note 1. Summary of Significant Accounting Policies

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

**Basis of Presentation:** The accompanying consolidated financial statements include the accounts of IBG, its wholly-owned subsidiaries, the Bank and IBG Adriatica Holdings, Inc. (Adriatica) and the Bank's wholly-owned subsidiaries, IBG Real Estate Holdings, Inc. and IBG Aircraft Acquisition, Inc. Adriatica was formed in 2011 to acquire a mixed use residential and retail real estate development in McKinney, Texas. Adriatica was dissolved during the first quarter of 2014. All material intercompany transactions and balances have been eliminated in consolidation. In addition, the Company wholly-owns IB Trust I (Trust I), IB Trust II (Trust II), IB Trust III (Trust III), IB Centex Trust I (Centex Trust I) and Community Group Statutory Trust I (CGI Trust I). The Trusts were formed to issue trust preferred securities and do not meet the criteria for consolidation.

The consolidated interim financial statements are unaudited, but include all adjustments, which, in the opinion of management, are necessary for a fair presentation of the results of the periods presented. All such adjustments were of a normal and recurring nature. These financial statements should be read in conjunction with the financial statements and the notes thereto in the Company's Annual Report of Form 10-K for the year ended December 31, 2013. The consolidated statement of condition at December 31, 2013 had been derived from the audited financial statements as of that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

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

**Pro forma statements:** Because the Company was not a taxable entity prior to April 1, 2013, pro forma amounts for income tax expense and basic and diluted earnings per share have been presented assuming the Company's effective tax rate of 32.8% for the nine months ended September 30, 2013, as if it had been a C Corporation during that period. The difference in the statutory rate of 35% and the Company's effective rate is primarily due to nontaxable income earned on municipal securities and bank owned life insurance.

**Subsequent events:** Companies are required to evaluate events and transactions that occur after the balance sheet date but before the date the financial statements are issued. They must recognize in the financial statements the effect of all events or transactions that provide additional evidence of conditions that existed at the balance sheet date, including the estimates inherent in the financial statement preparation process. Entities shall not recognize the impact of events or transactions that provide evidence about conditions that did not exist at the balance sheet date but arose after that date. The Company has evaluated subsequent events through the date of filing these financial statements with the SEC and noted no subsequent events requiring financial statement recognition or disclosure, except as disclosed in Note 13.

**Earnings per share:** Basic earnings per common share are net income available to common shareholders divided by the weighted average number of common shares outstanding during the period. The unvested share-based payment awards that contain rights to non forfeitable dividends are considered participating securities for this calculation.

Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under stock warrants. The dilutive effect of participating non vested common stock was not included as it was anti-dilutive. Proceeds from the assumed exercise of dilutive stock warrants are assumed to be used to repurchase common stock at

the average market price.

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|   | Three Months Ended |            | Nine Months Ended |            |
|---|--------------------|------------|-------------------|------------|
|   | September 30,      |            | September 30,     |            |
|   | 2014               | 2013       | 2014              | 2013       |
| Basic earnings per share:   |                    |            |                   |            |
| Net income  | \$8,960            | \$3,959    | \$18,880          | \$15,521   |
| Less: Preferred stock dividends                                   | (60                | ) —        | (109              | ) —        |
| Net income after preferred stock dividends                        | 8,900              | 3,959      | 18,771            | 15,521     |
| Less:   |                    |            |                   |            |
| Undistributed earnings allocated to participating securities      | 157                | 68         | 291               | 184        |
| Dividends paid on participating securities                        | 19                 | 15         | 49                | 119        |
| Net income available to common shareholders                       | \$8,724            | \$3,876    | \$18,431          | \$15,218   |
| Weighted-average basic shares outstanding                         | 16,046,935         | 11,823,655 | 14,657,873        | 10,588,554 |
| Basic earnings per share  | \$0.54             | \$0.33     | \$1.26            | \$1.44     |
| Diluted earnings per share:                                       |                    |            |                   |            |
| Net income available to common shareholders                       | \$8,724            | \$3,876    | \$18,431          | \$15,218   |
| Total weighted-average basic shares outstanding                   | 16,046,935         | 11,823,655 | 14,657,873        | 10,588,554 |
| Add dilutive stock warrants                                       | 98,725             | 74,229     | 100,595           | 58,874     |
| Total weighted-average diluted shares outstanding                 | 16,145,660         | 11,897,884 | 14,758,468        | 10,647,428 |
| Diluted earnings per share  | \$0.54             | \$0.33     | \$1.25            | \$1.43     |
| Pro forma earnings per share:                                     |                    |            |                   |            |
| Pro forma net income  | n/a                | n/a        | n/a               | \$11,895   |
| Less undistributed earnings allocated to participating securities | n/a                | n/a        | n/a               | 113        |
| Less dividends paid on participating securities                   | n/a                | n/a        | n/a               | 119        |
| Pro forma net income available to common shareholders after tax   | n/a                | n/a        | n/a               | \$11,663   |
| Pro forma basic earnings per share                                | n/a                | n/a        | n/a               | \$1.10     |
| Pro forma diluted earnings per share                              | n/a                | n/a        | n/a               | \$1.10     |
| Anti-dilutive participating securities                            | 73,120             | 151,674    | 122,209           | 139,416    |

Note 2. Statement of Cash Flows

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

|   | Nine Months Ended September 30, |         |
|---|---------------------------------|---------|
|   | 2014                            | 2013    |
| Cash transactions:                                      |                                 |         |
| Interest expense paid                                   | \$10,222                        | \$9,270 |
| Income taxes paid                                       | \$7,730                         | \$3,100 |
| Noncash transactions:                                   |                                 |         |
| Accrued preferred stock dividends                       | \$60                            | \$—     |
| Transfers of loans to other real estate owned           | \$1,088                         | \$2,885 |
| Loans to facilitate the sale of other real estate owned | \$48                            | \$113   |
| Writeoff of debt origination costs related to warrants  | \$—                             | \$223   |
| Securities purchased, not yet settled                   | \$—                             | \$1,000 |
| Excess tax benefit on restricted stock vested           | \$1,326                         | \$9     |
| Transfer of bank premises to other real estate          | \$356                           | \$—     |

Supplemental schedule of noncash investing activities from the Live Oak Financial Corp. and BOH Holdings acquisitions are as follows:

|  | Nine Months Ended September 30, |      |
|--|---------------------------------|------|
|  | 2014                            | 2013 |
| Noncash assets acquired  |                                 |      |
| Cash and cash equivalents  | \$167,771                       | \$—  |
| Securities available for sale  | 75,881                          | —    |
| Loans  | 856,899                         | —    |
| Premises and equipment   | 9,811                           | —    |
| Other real estate owned  | 1,224                           | —    |
| Goodwill   | 172,151                         | —    |
| Core deposit intangibles   | 8,147                           | —    |
| Other assets   | 27,804                          | —    |
| Total assets   | \$1,319,688                     | \$—  |
| Noncash liabilities assumed:   |                                 |      |
| Deposits   | \$925,762                       | \$—  |
| Repurchase agreements  | 3,733                           | —    |
| FHLB advances  | 95,000                          | —    |
| Other liabilities  | 6,728                           | —    |
| Total liabilities  | \$1,031,223                     | \$—  |
| Cash paid to shareholders of acquired banks                          | \$44,010                        | \$—  |
| Series A preferred stock exchanged in connection with acquired banks | \$23,938                        | \$—  |
| Fair value of common stock issued to shareholders of acquired banks  | \$220,517                       | \$—  |





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In addition, the following measurement-period adjustments were made during the period relating the November 30, 2013 acquisition of Collin Bank:

|                              | Nine Months Ended September<br>30, |       |
|------------------------------|------------------------------------|-------|
|                              | 2014                               | 2013  |
| Noncash assets acquired:     |                                    |       |
| Loans                        | \$(328                             | ) \$— |
| Goodwill                     | 752                                | —     |
| Core deposit intangibles     | (18                                | ) —   |
| Deferred tax asset           | 109                                | —     |
| Other assets                 | 10                                 | —     |
| Total assets                 | \$525                              | \$—   |
| Noncash liabilities assumed: |                                    |       |
| Deposits                     | \$505                              | \$—   |
| Other liabilities            | 20                                 | —     |
| Total liabilities            | \$525                              | \$—   |

Note 3. Securities Available for Sale

Securities available for sale have been classified in the consolidated balance sheets according to management's intent. The amortized cost of securities and their approximate fair values at September 30, 2014 and December 31, 2013, are as follows:

|  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|--|-------------------|------------------------------|-------------------------------|---------------|
| Securities Available for Sale  |                   |                              |                               |               |
| September 30, 2014:  |                   |                              |                               |               |
| U.S. treasuries  | \$999             | \$9                          | \$—                           | \$1,008       |
| Government agency securities   | 67,666            | 171                          | (430                          | ) 67,407      |
| Obligations of state and municipal subdivisions                                | 73,447            | 1,735                        | (545                          | ) 74,637      |
| Corporate bonds  | 1,071             | —                            | (2                            | ) 1,069       |
| Residential pass-through securities guaranteed by FNMA,<br>GNMA, FHLMC and FHR | 90,318            | 1,406                        | (1                            | ) 91,723      |
|  | \$233,501         | \$3,321                      | \$(978                        | ) \$235,844   |
| December 31, 2013:   |                   |                              |                               |               |
| U.S. treasuries  | \$3,498           | \$15                         | \$—                           | \$3,513       |
| Government agency securities   | 95,407            | 84                           | (1,076                        | ) 94,415      |
| Obligations of state and municipal subdivisions                                | 37,861            | 541                          | (1,787                        | ) 36,615      |
| Corporate bonds  | 2,079             | —                            | (27                           | ) 2,052       |
| Residential pass-through securities guaranteed by FNMA,<br>GNMA, FHLMC and FHR | 57,844            | 67                           | (468                          | ) 57,443      |
|  | \$196,689         | \$707                        | \$(3,358                      | ) \$194,038   |

Securities with a carrying amount of approximately \$177,754 and \$111,673 at September 30, 2014 and December 31, 2013, respectively, were pledged to secure public fund deposits and repurchase agreements.

There were no sales of securities during the three and nine months ended September 30, 2014 and 2013.



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The amortized cost and estimated fair value of securities available for sale at September 30, 2014, by contractual maturity, are shown below. Maturities of pass-through certificates will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

|   | September 30, 2014 |            |
|---|--------------------|------------|
|   | Amortized Cost     | Fair Value |
| Due in one year or less   | \$3,983            | \$3,990    |
| Due from one year to five years   | 57,240             | 56,927     |
| Due from five to ten years  | 42,682             | 42,911     |
| Thereafter  | 39,278             | 40,293     |
|   | 143,183            | 144,121    |
| Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC and FHR | 90,318             | 91,723     |
|   | \$233,501          | \$235,844  |

The number of securities, unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of September 30, 2014 and December 31, 2013, are summarized as follows:

| Description of Securities   | Less Than 12 Months  |                      |                   | Greater Than 12 Months |                      |                   | Total                |                   |
|---|----------------------|----------------------|-------------------|------------------------|----------------------|-------------------|----------------------|-------------------|
|   | Number of Securities | Estimated Fair Value | Unrealized Losses | Number of Securities   | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses |
| Securities Available for Sale   |                      |                      |                   |                        |                      |                   |                      |                   |
| September 30, 2014  |                      |                      |                   |                        |                      |                   |                      |                   |
| Government agency securities  | 9                    | \$13,036             | \$(58)            | 16                     | \$24,624             | \$(372)           | \$37,660             | \$(430)           |
| Obligations of state and municipal subdivisions                             | 37                   | 14,109               | (156)             | 15                     | 10,040               | (389)             | 24,149               | (545)             |
| Corporate bonds   | 1                    | 1,069                | (2)               | —                      | —                    | —                 | 1,069                | (2)               |
| Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC and FHR | 1                    | 94                   | (1)               | —                      | —                    | —                 | 94                   | (1)               |
|   | 48                   | \$28,308             | \$(217)           | 31                     | \$34,664             | \$(761)           | \$62,972             | \$(978)           |
| December 31, 2013   |                      |                      |                   |                        |                      |                   |                      |                   |
| Government agency securities  | 46                   | \$74,331             | \$(1,076)         | —                      | \$—                  | \$—               | \$74,331             | \$(1,076)         |
| Obligations of state and municipal subdivisions                             | 21                   | 11,888               | (1,139)           | 6                      | 4,047                | (648)             | 15,935               | (1,787)           |
| Corporate bonds   | 2                    | 2,052                | (27)              | —                      | —                    | —                 | 2,052                | (27)              |
| Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC and FHR | 14                   | 49,126               | (468)             | —                      | —                    | —                 | 49,126               | (468)             |

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83            \$137,397    \$(2,710 )    6            \$4,047    \$(648 )    \$141,444    \$(3,358 )

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

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## Note 4. Loans, Net and Allowance for Loan Losses

Loans, net at September 30, 2014 and December 31, 2013, consisted of the following:

|  | September 30,<br>2014 | December 31,<br>2013 |
|--|-----------------------|----------------------|
| Commercial   | \$587,488             | \$241,178            |
| Real estate:                                       |                       |                      |
| Commercial   | 1,336,416             | 843,436              |
| Commercial construction, land and land development | 290,086               | 130,320              |
| Residential  | 479,714               | 338,654              |
| Single family interim construction                 | 116,785               | 83,144               |
| Agricultural                                       | 43,575                | 40,558               |
| Consumer   | 36,967                | 45,762               |
| Other  | 161                   | 108                  |
|  | 2,891,192             | 1,723,160            |
| Deferred loan fees                                 | (268                  | ) —                  |
| Allowance for loan losses                          | (16,840               | ) (13,960            |
|  | \$2,874,084           | \$1,709,200          |

The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans. Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. The Company's management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. These cash flows, however, may not be as expected and the value of collateral securing the loans may fluctuate. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short term loans may be made on an unsecured basis. Additionally, our commercial loan portfolio includes loans made to customers in the energy industry, which is a complex, technical and cyclical industry. Experienced bankers with specialized energy lending experience originate our energy loans. Companies in this industry produce, extract, develop, exploit and explore for oil and natural gas. Loans are primarily collateralized with proven producing oil and gas reserves based on a technical evaluation of these reserves.

Commercial real estate loans are subject to underwriting standards and processes similar to commercial loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts, and the repayment of these loans is generally largely dependent on the successful operation of the property or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's commercial real estate portfolio are diverse in terms of type and geographic location. Management monitors the diversification of the portfolio on a quarterly basis by type and geographic location. Management also tracks the level of owner occupied property versus non owner occupied property.

Land and commercial land development loans are underwritten using feasibility studies, independent appraisal reviews and financial analysis of the developers or property owners. Generally, borrowers must have a proven track record of success. Commercial construction loans are generally based upon estimates of cost and value of the completed project. These estimates may not be accurate. Commercial construction loans often involve the disbursement of substantial funds with the repayment dependent on the success of the ultimate project. Sources of

repayment for these loans may be pre-committed permanent financing or sale of the developed property. The loans in this portfolio are geographically diverse and due to the increased risk are monitored closely by management and the board of directors on a quarterly basis.

Residential real estate and single family interim construction loans are underwritten primarily based on borrowers' credit scores, documented income and minimum collateral values. Relatively small loan amounts are spread across many individual

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borrowers, which minimizes risk in the residential portfolio. In addition, management evaluates trends in past dues and current economic factors on a regular basis.

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

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

Consumer loans represent less than 3% of the outstanding total loan portfolio. Collateral consists primarily of automobiles and other personal assets. Credit score analysis is used to supplement the underwriting process.

Most of the Company's lending activity occurs within the State of Texas, primarily in the north, central and southeast Texas regions. A large percentage of the Company's portfolio consists of commercial and residential real estate loans. As of September 30, 2014 and December 31, 2013, there were no concentrations of loans related to a single industry in excess of 10% of total loans.

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

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

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

Loans requiring an allocated loan loss provision are generally identified at the servicing officer level based on review of weekly past due reports and/or the loan officer's communication with borrowers. In addition, past due loans are discussed at weekly officer loan committee meetings to determine if classification is warranted. The Company's credit department has implemented an internal risk based loan review process to identify potential internally classified loans that supplements the annual independent external loan review. The external review generally covers all loans greater than \$1.5 million. These reviews include analysis of borrower's financial condition, payment histories and collateral



values to determine if a loan should be internally classified. Generally, once classified, an impaired loan analysis is completed by the credit department to determine if the loan is impaired and the amount of allocated allowance required.

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The Texas economy, specifically the Company's lending area of north, central and southeast Texas, has generally performed better and appears to be recovering faster than certain other parts of the country. However, Texas is not completely immune to the problems associated with the U.S. economy. The risk of loss associated with all segments of the loan portfolio continues to be impacted by the prolonged economic recovery. The economy and other risk factors are minimized by the Company's underwriting standards, which include the following principles: 1) financial strength of the borrower including strong earnings, high net worth, significant liquidity and acceptable debt to worth ratio, 2) managerial business competence, 3) ability to repay, 4) loan to value, 5) projected cash flow and 6) guarantor financial statements as applicable. The following is a summary of the activity in the allowance for loan losses by loan class for the three and nine months ended September 30, 2014 and 2013:

|                                       | Commercial | Real Estate, Residential<br>Land and<br>Development | Real Estate | Single-Family<br>Interim<br>Construction | Agricultural | Consumer | Other | Unallocated | Total     |
|---------------------------------------|------------|---|-------------|--|--------------|----------|-------|-------------|-----------|
| Three months ended September 30, 2014 |            |   |             |  |              |          |       |             |           |
| Balance at the beginning of period    | \$ 3,676   | \$ 9,100  | \$ 2,291    | \$ 584                                   | \$ 272       | \$ 349   | \$—   | \$ (53)     | \$ 16,219 |
| Provision for loan losses             | 427        | 706   | 4           | (26)                                     | 21           | (109)    | —     | (47)        | 976       |
| Charge-offs                           | —          | (318)   | —           | —  | —            | (76)     | —     | —           | (394)     |
| Recoveries                            | 6          | 23  | 3           | —  | —            | 7        | —     | —           | 39        |
| Balance at end of period              | \$ 4,109   | \$ 9,511  | \$ 2,298    | \$ 558                                   | \$ 293       | \$ 171   | \$—   | \$ (100)    | \$ 16,840 |
| Nine months ended September 30, 2014  |            |   |             |  |              |          |       |             |           |
| Balance at the beginning of period    | \$ 2,401   | \$ 7,872  | \$ 2,440    | \$ 577                                   | \$ 238       | \$ 363   | \$—   | \$ 69       | \$ 13,960 |
| Provision for loan losses             | 2,061      | 1,907   | (117)       | (30)                                     | 55           | (99)     | —     | (169)       | 3,608     |
| Charge-offs                           | (368)      | (339)   | (32)        | —  | —            | (118)    | —     | —           | (857)     |
| Recoveries                            | 15         | 71  | 7           | 11                                       | —            | 25       | —     | —           | 129       |
| Balance at end of period              | \$ 4,109   | \$ 9,511  | \$ 2,298    | \$ 558                                   | \$ 293       | \$ 171   | \$—   | \$ (100)    | \$ 16,840 |
| Three months ended September 30, 2013 |            |   |             |  |              |          |       |             |           |
| Balance at the beginning of period    | \$ 1,970   | \$ 7,044  | \$ 2,567    | \$ 540                                   | \$ 210       | \$ 350   | \$—   | \$ 81       | \$ 12,762 |
| Provision for loan losses             | 264        | 401   | (67)        | 46                                       | (17)         | (3)      | —     | 206         | 830       |
| Charge-offs                           | (350)      | (78)  | (21)        | —  | —            | (26)     | —     | —           | (475)     |
| Recoveries                            | 5          | 13  | 2           | —  | —            | 8        | —     | —           | 28        |
| Balance at end of period              | \$ 1,889   | \$ 7,380  | \$ 2,481    | \$ 586                                   | \$ 193       | \$ 329   | \$—   | \$ 287      | \$ 13,145 |
| Nine months ended September 30, 2013  |            |   |             |  |              |          |       |             |           |

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|                                    |          |          |          |        |        |        |     |        |          |
|------------------------------------|----------|----------|----------|--------|--------|--------|-----|--------|----------|
| Balance at the beginning of period | \$ 2,377 | \$ 4,924 | \$ 2,965 | \$ 523 | \$ 159 | \$ 278 | \$— | \$ 252 | \$11,478 |
| Provision for loan losses          | 79       | 3,068    | (405     | ) 63   | 34     | 65     | —   | 35     | 2,939    |
| Charge-offs                        | (581     | ) (634   | ) (87    | ) —    | —      | (50    | ) — | —      | (1,352 ) |
| Recoveries                         | 14       | 22       | 8        | —      | —      | 36     | —   | —      | 80       |
| Balance at end of period           | \$ 1,889 | \$ 7,380 | \$ 2,481 | \$ 586 | \$193  | \$ 329 | \$— | \$ 287 | \$13,145 |

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The following table details the amount of the allowance for loan losses and recorded investment in loans by class as of September 30, 2014 and December 31, 2013:

|   | Commercial | Commercial Real Estate, Land and Land Development | Residential Real Estate | Single-Family Interim Construction | Agricultural | Consumer  | Other  | Unallocated | Total        |
|---|------------|---|-------------------------|------------------------------------|--------------|-----------|--------|-------------|--------------|
| September 30, 2014                              |            |   |                         |                                    |              |           |        |             |              |
| Allowance for losses:                           |            |   |                         |                                    |              |           |        |             |              |
| Individually evaluated for impairment           | \$ 49      | \$ 223  | \$ 7                    | \$ —                               | \$ —         | \$ 15     | \$ —   | \$ —        | \$ 294       |
| Collectively evaluated for impairment           | 4,060      | 9,288   | 2,291                   | 558                                | 293          | 156       | —      | (100 )      | 16,546       |
| Loans acquired with deteriorated credit quality | —          | —   | —                       | —                                  | —            | —         | —      | —           | —            |
| Ending balance                                  | \$ 4,109   | \$ 9,511  | \$ 2,298                | \$ 558                             | \$ 293       | \$ 171    | \$ —   | \$ (100 )   | \$ 16,840    |
| Loans:  |            |   |                         |                                    |              |           |        |             |              |
| Individually evaluated for impairment           | \$ 135     | \$ 6,967  | \$ 3,276                | \$ —                               | \$ —         | \$ 95     | \$ —   | \$ —        | \$ 10,473    |
| Collectively evaluated for impairment           | 582,508    | 1,573,165   | 474,978                 | 116,785                            | 43,575       | 36,867    | 161    | —           | 2,828,039    |
| Acquired with deteriorated credit quality       | 4,845      | 46,370  | 1,460                   | —                                  | —            | 5         | —      | —           | 52,680       |
| Ending balance                                  | \$ 587,488 | \$ 1,626,502                                      | \$ 479,714              | \$ 116,785                         | \$ 43,575    | \$ 36,967 | \$ 161 | \$ —        | \$ 2,891,192 |
| December 31, 2013                               |            |   |                         |                                    |              |           |        |             |              |
| Allowance for losses:                           |            |   |                         |                                    |              |           |        |             |              |
| Individually evaluated for impairment           | \$ 313     | \$ 504  | \$ 14                   | \$ —                               | \$ —         | \$ 24     | \$ —   | \$ —        | \$ 855       |
| Collectively evaluated for impairment           | 2,088      | 7,368   | 2,426                   | 577                                | 238          | 339       | —      | 69          | 13,105       |
| Loans acquired with deteriorated credit quality | —          | —   | —                       | —                                  | —            | —         | —      | —           | —            |
| Ending balance                                  | \$ 2,401   | \$ 7,872  | \$ 2,440                | \$ 577                             | \$ 238       | \$ 363    | \$ —   | \$ 69       | \$ 13,960    |
| Loans:  |            |   |                         |                                    |              |           |        |             |              |
|   | \$ 501     | \$ 8,013  | \$ 3,182                | \$ 170                             | \$ —         | \$ 68     | \$ —   | \$ —        | \$ 11,934    |

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|   |            |            |            |           |           |           |        |      |              |
|---|------------|------------|------------|-----------|-----------|-----------|--------|------|--------------|
| Individually<br>evaluated for<br>impairment     |            |            |            |           |           |           |        |      |              |
| Collectively<br>evaluated for<br>impairment     | 234,103    | 959,254    | 334,770    | 82,974    | 40,558    | 45,682    | 108    | —    | 1,697,449    |
| Acquired with<br>deteriorated credit<br>quality | 6,574      | 6,489      | 702        | —         | —         | 12        | —      | —    | 13,777       |
| Ending balance                                  | \$ 241,178 | \$ 973,756 | \$ 338,654 | \$ 83,144 | \$ 40,558 | \$ 45,762 | \$ 108 | \$ — | \$ 1,723,160 |

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Nonperforming loans by loan class at September 30, 2014 and December 31, 2013, are summarized as follows:

|  | Commercial | Commercial<br>Real Estate,<br>Land and<br>Land<br>Development | Residential<br>Real Estate | Single-Family<br>Interim<br>Construction | Agricultural | Consumer | Other | Total    |
|--|------------|---|----------------------------|--|--------------|----------|-------|----------|
| September 30, 2014   |            |   |                            |  |              |          |       |          |
| Nonaccrual loans   | \$ 54      | \$ 208  | \$ 1,998                   | \$ —                                     | \$ —         | \$ 66    | \$—   | \$2,326  |
| Loans past due 90 days and still accruing  | —          | —   | —                          | —  | —            | 6        | —     | 6        |
| Troubled debt restructurings (not included in nonaccrual or loans past due and still accruing) | 80         | 4,702   | 1,262                      | —  | —            | 9        | —     | 6,053    |
|  | \$ 134     | \$ 4,910  | \$ 3,260                   | \$ —                                     | \$ —         | \$ 81    | \$—   | \$ 8,385 |
| December 31, 2013  |            |   |                            |  |              |          |       |          |
| Nonaccrual loans   | \$ 357     | \$ 253  | \$ 1,852                   | \$ 170                                   | \$ —         | \$ 43    | \$—   | \$2,675  |
| Loans past due 90 days and still accruing  | —          | —   | —                          | —  | —            | —        | —     | —        |
| Troubled debt restructurings (not included in nonaccrual or loans past due and still accruing) | 107        | 5,090   | 1,288                      | —  | —            | 1        | —     | 6,486    |
|  | \$ 464     | \$ 5,343  | \$ 3,140                   | \$ 170                                   | \$ —         | \$ 44    | \$—   | \$9,161  |

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

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



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Impaired loans by loan class at September 30, 2014 and December 31, 2013, are summarized as follows:

|  | Commercial | Commercial<br>Real Estate,<br>Land and<br>Land<br>Development | Residential<br>Real<br>Estate | Single-Family<br>Interim<br>Construction | Agricultural | Consumer | Other | Total    |
|--|------------|---|-------------------------------|--|--------------|----------|-------|----------|
| September 30, 2014                               |            |   |                               |  |              |          |       |          |
| Recorded investment in impaired loans:           |            |   |                               |  |              |          |       |          |
| Impaired loans with an allowance for loan losses | \$ 83      | \$ 2,131  | \$ 14                         | \$ —                                     | \$ —         | \$ 23    | \$—   | \$2,251  |
| Impaired loans with no allowance for loan losses | 52         | 4,836   | 3,262                         | —  | —            | 72       | —     | 8,222    |
| Total  | \$ 135     | \$ 6,967  | \$ 3,276                      | \$ —                                     | \$ —         | \$ 95    | \$—   | \$10,473 |
| Unpaid principal balance of impaired loans       | \$ 137     | \$ 7,473  | \$ 3,385                      | \$ —                                     | \$ —         | \$ 111   | \$—   | \$11,106 |
| Allowance for loan losses on impaired loans      | \$ 49      | \$ 223  | \$ 7                          | \$ —                                     | \$ —         | \$ 15    | \$—   | \$294    |
| December 31, 2013                                |            |   |                               |  |              |          |       |          |
| Recorded investment in impaired loans:           |            |   |                               |  |              |          |       |          |
| Impaired loans with an allowance for loan losses | \$ 401     | \$ 3,866  | \$ 1,135                      | \$ —                                     | \$ —         | \$ 40    | \$—   | \$5,442  |
| Impaired loans with no allowance for loan losses | 100        | 4,147   | 2,047                         | 170                                      | —            | 28       | —     | 6,492    |
| Total  | \$ 501     | \$ 8,013  | \$ 3,182                      | \$ 170                                   | \$ —         | \$ 68    | \$—   | \$11,934 |
| Unpaid principal balance of impaired loans       | \$ 501     | \$ 8,408  | \$ 3,216                      | \$ 170                                   | \$ —         | \$ 75    | \$—   | \$12,370 |
| Allowance for loan losses on impaired loans      | \$ 313     | \$ 504  | \$ 14                         | \$ —                                     | \$ —         | \$ 24    | \$—   | \$855    |
| For the three months ended September 30, 2014    |            |   |                               |  |              |          |       |          |
| Average recorded investment in impaired loans    | \$ 139     | \$ 7,538  | \$ 3,232                      | \$ —                                     | \$ —         | \$ 73    | \$—   | \$10,982 |
| Interest income recognized on impaired loans     | \$ 2       | \$ 101  | \$ 44                         | \$ —                                     | \$ —         | \$ 1     | \$—   | \$148    |
| For the nine months ended September 30, 2014     |            |   |                               |  |              |          |       |          |
| Average recorded investment in impaired loans    | \$ 257     | \$ 7,663  | \$ 3,219                      | \$ 43                                    | \$ —         | \$ 68    | \$—   | \$11,250 |
| Interest income recognized on impaired loans     | \$ 7       | \$ 302  | \$ 126                        | \$ —                                     | \$ —         | \$ 2     | \$—   | \$437    |
| For the three months ended September 30, 2013    |            |   |                               |  |              |          |       |          |
| Average recorded investment in impaired loans    | \$ 599     | \$ 8,095  | \$ 3,394                      | \$ —                                     | \$ —         | \$ 73    | \$—   | \$12,161 |
| Interest income recognized on impaired loans     | \$ 4       | \$ 112  | \$ 34                         | \$ —                                     | \$ —         | \$ 1     | \$—   | \$151    |



For the nine months ended  
September 30, 2013

|   |        |          |          |      |      |       |     |          |
|---|--------|----------|----------|------|------|-------|-----|----------|
| Average recorded investment in impaired loans | \$ 687 | \$ 8,833 | \$ 3,435 | \$ — | \$ — | \$ 83 | \$— | \$13,038 |
| Interest income recognized on impaired loans  | \$ 26  | \$ 347   | \$ 120   | \$ — | \$ — | \$ 4  | \$— | \$497    |

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

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

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

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A “troubled debt restructured” loan is identified as impaired and measured for credit impairment as of each reporting period in accordance with the guidance in Accounting Standards Codification (ASC) 310-10-35. The recorded investment in troubled debt restructurings, including those on nonaccrual, was \$7,443 and \$7,938 as of September 30, 2014 and December 31, 2013.

Following is a summary of loans modified under troubled debt restructurings during the three months and nine months ended September 30, 2014 and 2013:

|   | Commercial | Commercial Real Estate, Land and Development | Residential Real Estate | Single-Family Interim Construction | Agricultural | Consumer | Other | Total   |
|---|------------|--|-------------------------|------------------------------------|--------------|----------|-------|---------|
| Troubled debt restructurings during the three months ended September 30, 2014 |            |  |                         |                                    |              |          |       |         |
| Number of contracts   | —          | —  | —                       | —                                  | —            | 1        | —     | 1       |
| Pre-restructuring outstanding recorded investment                             | \$—        | \$—  | \$—                     | \$—                                | \$—          | \$9      | \$—   | \$9     |
| Post-restructuring outstanding recorded investment                            | \$—        | \$—  | \$—                     | \$—                                | \$—          | \$9      | \$—   | \$9     |
| Troubled debt restructurings during the nine months ended September 30, 2014  |            |  |                         |                                    |              |          |       |         |
| Number of contracts   | —          | 2  | —                       | —                                  | —            | 1        | —     | 3       |
| Pre-restructuring outstanding recorded investment                             | \$—        | \$1,108                                      | \$—                     | \$—                                | \$—          | \$9      | \$—   | \$1,117 |
| Post-restructuring outstanding recorded investment                            | \$—        | \$1,108                                      | \$—                     | \$—                                | \$—          | \$9      | \$—   | \$1,117 |
| Troubled debt restructurings during the three months ended September 30, 2013 |            |  |                         |                                    |              |          |       |         |
| Number of contracts   | —          | 1  | —                       | —                                  | —            | —        | —     | 1       |
| Pre-restructuring outstanding recorded investment                             | \$—        | \$640  | \$—                     | \$—                                | \$—          | \$—      | \$—   | \$640   |
| Post-restructuring outstanding recorded investment                            | \$—        | \$640  | \$—                     | \$—                                | \$—          | \$—      | \$—   | \$640   |

Troubled debt  
restructurings during the  
nine months ended  
September 30, 2013

|  |     |         |     |     |     |     |     |         |
|--|-----|---------|-----|-----|-----|-----|-----|---------|
| Number of contracts                                      | —   | 2       | —   | —   | —   | —   | —   | 2       |
| Pre-restructuring<br>outstanding recorded<br>investment  | \$— | \$1,460 | \$— | \$— | \$— | \$— | \$— | \$1,460 |
| Post-restructuring<br>outstanding recorded<br>investment | \$— | \$1,460 | \$— | \$— | \$— | \$— | \$— | \$1,460 |

At September 30, 2014 and 2013, there were no loans modified under troubled debt restructurings during the previous twelve month period that subsequently defaulted during the three and nine months ended September 30, 2014 and, 2013, respectively. At September 30, 2014 and 2013, the Company had no commitments to lend additional funds to any borrowers with loans whose terms have been modified under troubled debt restructurings.

Modifications primarily relate to extending the amortization periods of the loans and interest rate concessions. The majority of these loans were identified as impaired prior to restructuring; therefore, the modifications did not materially impact the Company's determination of the allowance for loan losses.

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Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. The following table presents information regarding the aging of past due loans by loan class as of September 30, 2014 and December 31, 2013:

|   | Loans<br>30-89 Days<br>Past Due | Loans<br>90 or More<br>Past Due | Total Past<br>Due Loans | Current<br>Loans | Total<br>Loans |
|---|---------------------------------|---------------------------------|-------------------------|------------------|----------------|
| September 30, 2014                                |                                 |                                 |                         |                  |                |
| Commercial  | \$505                           | \$8                             | \$513                   | \$586,975        | \$587,488      |
| Commercial real estate, land and land development | 295                             | 124                             | 419                     | 1,626,083        | 1,626,502      |
| Residential real estate                           | 1,787                           | 388                             | 2,175                   | 477,539          | 479,714        |
| Single-family interim construction                | —                               | —                               | —                       | 116,785          | 116,785        |
| Agricultural                                      | 17                              | —                               | 17                      | 43,558           | 43,575         |
| Consumer  | 168                             | 49                              | 217                     | 36,750           | 36,967         |
| Other   | —                               | —                               | —                       | 161              | 161            |
|   | \$2,772                         | \$569                           | \$3,341                 | \$2,887,851      | \$2,891,192    |
| December 31, 2013                                 |                                 |                                 |                         |                  |                |
| Commercial  | \$257                           | \$357                           | \$614                   | \$240,564        | \$241,178      |
| Commercial real estate, land and land development | 2,076                           | 73                              | 2,149                   | 971,607          | 973,756        |
| Residential real estate                           | 1,322                           | 1,603                           | 2,925                   | 335,729          | 338,654        |
| Single-family interim construction                | —                               | 170                             | 170                     | 82,974           | 83,144         |
| Agricultural                                      | 3                               | —                               | 3                       | 40,555           | 40,558         |
| Consumer  | 97                              | 1                               | 98                      | 45,664           | 45,762         |
| Other   | —                               | —                               | —                       | 108              | 108            |
|   | \$3,755                         | \$2,204                         | \$5,959                 | \$1,717,201      | \$1,723,160    |

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

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



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A summary of loans by credit quality indicator by class as of September 30, 2014 and December 31, 2013, is as follows:

|   | Pass        | Pass/<br>Watch | OAEM    | Substandard | Doubtful | Total       |
|---|-------------|----------------|---------|-------------|----------|-------------|
| September 30, 2014  |             |                |         |             |          |             |
| Commercial  | \$576,180   | \$9,355        | \$1,496 | \$457       | \$—      | \$587,488   |
| Commercial real estate, construction, land and land development | 1,599,245   | 9,381          | 6,384   | 11,492      | —        | 1,626,502   |
| Residential real estate   | 471,541     | 2,680          | 195     | 5,298       | —        | 479,714     |
| Single-family interim construction                              | 116,785     | —              | —       | —           | —        | 116,785     |
| Agricultural  | 43,510      | 58             | —       | 7           | —        | 43,575      |
| Consumer  | 36,818      | 44             | 8       | 97          | —        | 36,967      |
| Other   | 161         | —              | —       | —           | —        | 161         |
|   | \$2,844,240 | \$21,518       | \$8,083 | \$17,351    | \$—      | \$2,891,192 |
| December 31, 2013   |             |                |         |             |          |             |
| Commercial  | \$231,080   | \$7,199        | \$1,311 | \$1,453     | \$135    | \$241,178   |
| Commercial real estate, construction, land and land development | 952,863     | 10,697         | 2,982   | 7,214       | —        | 973,756     |
| Residential real estate   | 328,918     | 5,379          | 454     | 3,903       | —        | 338,654     |
| Single-family interim construction                              | 83,144      | —              | —       | —           | —        | 83,144      |
| Agricultural  | 40,328      | 210            | —       | 20          | —        | 40,558      |
| Consumer  | 45,556      | 82             | 39      | 85          | —        | 45,762      |
| Other   | 108         | —              | —       | —           | —        | 108         |
|   | \$1,681,997 | \$23,567       | \$4,786 | \$12,675    | \$135    | \$1,723,160 |

The Company has acquired certain loans which experienced credit deterioration since origination (purchased credit impaired (PCI) loans). Accretion on PCI loans is based on estimated future cash flows, regardless of contractual maturity. There are no PCI loans outstanding for acquisitions prior to 2012.

The following table summarizes the outstanding balance and related carrying amount of purchased credit impaired loans by acquired bank as of the respective acquisition date for the acquisitions occurring in 2014 and 2013:

|                          | Acquisition Date                  |                             |                                  |
|--------------------------|-----------------------------------|-----------------------------|----------------------------------|
|                          | April 15, 2014<br>Bank of Houston | January 1, 2014<br>Live Oak | November 30, 2013<br>Collin Bank |
| Outstanding balance      | \$55,718                          | \$3,583                     | \$11,897                         |
| Nonaccretable difference | (5,798)                           | (519)                       | (1,810)                          |
| Accretable yield         | (2,579)                           | (182)                       | (408)                            |
| Carrying amount          | \$47,341                          | \$2,882                     | \$9,679                          |

The carrying amount of all acquired PCI loans included in the consolidated balance sheet and the related outstanding balance at September 30, 2014 and December 31, 2013, were as follows:

|                     | September 30, 2014 | December 31, 2013 |
|---------------------|--------------------|-------------------|
| Outstanding balance | \$61,690           | \$15,768          |
| Carrying amount     | 52,680             | 13,777            |

At September 30, 2014 and December 31, 2013, there was no allocation established in the allowance for loan losses related to purchased credit impaired loans.



## Note 5. Commitments and Contingencies

## Financial Instruments with Off-Balance Sheet Risk

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

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of this instrument. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. At September 30, 2014 and December 31, 2013, the approximate amounts of these financial instruments were as follows:

|                              | September 30,<br>2014 | December 31,<br>2013 |
|------------------------------|-----------------------|----------------------|
| Commitments to extend credit | \$559,620             | \$365,575            |
| Standby letters of credit    | 7,147                 | 2,120                |
|                              | \$566,767             | \$367,695            |

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

Letters of credit are written conditional commitments used by the Company to guarantee the performance of a customer to a third party. The Company's policies generally require that letter of credit arrangements contain security and debt covenants similar to those contained in loan arrangements. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount shown in the table above. If the commitment is funded, the Company would be entitled to seek recovery from the customer. As of September 30, 2014 and December 31, 2013, no amounts have been recorded as liabilities for the Company's potential obligations under these guarantees.

## Litigation

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

## Lease Commitments

The Company leases certain branch facilities and other facilities. Rent expense related to these leases amounted to \$391 and \$907 for the three and nine months ended September 30, 2014, respectively, and \$168 and \$538 for the three and nine months ended September 30, 2013, respectively.

## Note 6. Repurchase Agreements and Other Borrowings

The Company assumed repurchase agreement accounts in the Live Oak acquisition on January 1, 2014. At September 30, 2014 and December 31, 2013, repurchase accounts totaled \$5,235 and \$0, respectively. Securities held in safekeeping totaling \$5,890 are pledged as security on these repurchase agreement accounts.



In June 2014, the Company entered into a \$35 million unsecured revolving line of credit with an unrelated bank. The line bears interest at LIBOR plus 2.50% and matures May 3, 2015. As of September 30, 2014 there is no outstanding balance on the line.

In July 2014, the Company issued \$65 million of 5.875% subordinated notes (Notes) which are due August 1, 2024. Interest on the Notes will be payable semiannually beginning February 1, 2015. The notes may not be redeemed prior to maturity and meet

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the criteria to be recognized as Tier 2 capital for regulatory purposes.

Other borrowings, including those borrowings due to related parties totaled \$72,730 and \$7,730 at September 30, 2014 and December 31, 2013, respectively.

#### Note 7. Income Taxes

In connection with the initial public offering, the Company terminated its S-Corporation status and became a taxable entity (C Corporation) on April 1, 2013. As such, any periods prior to March 31, 2013 do not reflect income tax expense.

Income tax expense for the three and nine months ended September 30, 2014 and 2013 was as follows:

|   | For the Three Months Ended |         | For the Nine Months Ended |         |   |
|---|----------------------------|---------|---------------------------|---------|---|
|   | September 30,              |         | September 30,             |         |   |
|   | 2014                       | 2013    | 2014                      | 2013    |   |
| Current income tax expense                | \$4,543                    | \$1,927 | \$9,564                   | \$3,932 |   |
| Initial recording of deferred tax benefit | —                          | —       | —                         | (1,760) | ) |
| Income tax expense for the period         | \$4,543                    | \$1,927 | \$9,564                   | \$2,172 |   |
| Effective tax rate                        | 33.6                       | % 32.7  | % 33.6                    | % 12.3  | % |

The reported income tax expense for the nine months ended September 30, 2013 reflects the initial recording of the deferred tax net asset of \$1,760, which is the result of timing differences in the recognition of income/deductions for generally accepted accounting principles (GAAP) and tax purposes. Without the initial recording of the deferred tax benefit, the effective tax rate would have been 32.8%. The effective tax rates differ from the statutory federal tax rate of 35% largely due to tax exempt interest income earned on certain investment securities and loans and the nontaxable earnings on bank owned life insurance.

#### Note 8. Fair Value Measurements

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

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

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

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



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The following table represents assets reported on the consolidated balance sheets at their fair value on a recurring basis as of September 30, 2014 and December 31, 2013 by level within the ASC Topic 820 fair value measurement hierarchy:

|   | Assets/<br>Liabilities<br>Measured at<br>Fair Value | Fair Value Measurements at Reporting Date  |   |  |
|---|---|--|---|--|
|   |   | Using<br>Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| September 30, 2014  |   |  |   |  |
| Measured on a recurring basis:  |   |  |   |  |
| Assets:   |   |  |   |  |
| Investment securities available for sale:                                   |   |  |   |  |
| U.S. treasuries   | \$1,008   | \$—  | \$1,008   | \$—  |
| Government agency securities  | 67,407  | —  | 67,407  | —  |
| Obligations of state and municipal subdivisions                             | 74,637  | —  | 74,637  | —  |
| Corporate bonds   | 1,069   | —  | 1,069   | —  |
| Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC and FHR | 91,723  | —  | 91,723  | —  |
| December 31, 2013   |   |  |   |  |
| Measured on a recurring basis:  |   |  |   |  |
| Assets:   |   |  |   |  |
| Investment securities available for sale:                                   |   |  |   |  |
| U.S. treasuries   | \$3,513   | \$—  | \$3,513   | \$—  |
| Government agency securities  | 94,415  | —  | 94,415  | —  |
| Obligations of state and municipal subdivisions                             | 36,615  | —  | 36,615  | —  |
| Corporate bonds   | 2,052   | —  | 2,052   | —  |
| Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC and FHR | 57,443  | —  | 57,443  | —  |

There were no transfers between level categorizations for the periods presented.

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

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

Contingent consideration, related to the acquisition of Town Center Bank in 2010, was reported at fair value using Level 3 inputs. The contingent consideration was remeasured on a recurring basis based on the expected present value of cash flows to be paid to the shareholders of the acquired institution using a market discount rate. In August 2013, the Company paid the final contingent payment. The following table presents the activity in the contingent consideration for the nine months ended September 30, 2013:

|                              | Nine months ended<br>September 30,<br>2013 |
|------------------------------|--|
| Balance, beginning of period | \$290                                      |

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|   |      |   |
|---|------|---|
| Settlements                             | (287 | ) |
| Change in estimated payments to be made | (3   | ) |
| Balance, end of period                  | \$—  |   |

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In accordance with ASC Topic 820, certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets carried on the consolidated balance sheet by caption and by level in the fair value hierarchy at September 30, 2014 and December 31, 2013, for which a nonrecurring change in fair value has been recorded:

|                                   | Fair Value Measurements at Reporting Date |  |   |   |                                   |
|-----------------------------------|---|--|---|---|-----------------------------------|
|                                   | Assets Measured at Fair Value             | Using Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Period Ended Total (Gains) Losses |
| September 30, 2014                |   |  |   |   |                                   |
| Measured on a nonrecurring basis: |   |  |   |   |                                   |
| Assets:                           |   |  |   |   |                                   |
| Impaired loans                    | \$2,453                                   | \$—  | \$—   | \$2,453                                   | \$(3 )                            |
| Other real estate                 | 138                                       | —  | —   | 138                                       | \$22                              |
| December 31, 2013                 |   |  |   |   |                                   |
| Measured on a nonrecurring basis: |   |  |   |   |                                   |
| Assets:                           |   |  |   |   |                                   |
| Impaired loans                    | \$1,514                                   | \$—  | \$—   | \$1,514                                   | \$497                             |
| Other real estate                 | 2,449                                     | —  | —   | 2,449                                     | 537                               |

Impaired loans (loans which are not expected to repay all principal and interest amounts due in accordance with the original contractual terms) are measured at an observable market price (if available) or at the fair value of the loan's collateral (if collateral dependent). Fair value of the loan's collateral is determined by appraisals or independent valuation, which is then adjusted for the estimated costs related to liquidation of the collateral. Management's ongoing review of appraisal information may result in additional discounts or adjustments to valuation based upon more recent market sales activity or more current appraisal information derived from properties of similar type and/or locale. Therefore, the Company has categorized its impaired loans as Level 3.

The Company has no nonfinancial assets or nonfinancial liabilities measured at fair value on a recurring basis. Other real estate is measured at fair value on a nonrecurring basis (upon initial recognition or subsequent impairment). Other real estate is classified within Level 3 of the valuation hierarchy. When transferred from the loan portfolio, other real estate is adjusted to fair value less estimated selling costs and is subsequently carried at the lower of carrying value or fair value less estimated selling costs. The fair value is determined using an external appraisal process, discounted based on internal criteria.

In addition, mortgage loans held for sale are required to be measured at the lower of cost or fair value. The fair value of mortgage loans held for sale is based upon binding quotes or bids from third party investors. As of September 30, 2014 and December 31, 2013, all mortgage loans held for sale were recorded at cost.

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

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

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

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

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

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

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

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

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

Off-balance sheet instruments: Commitments to extend credit and standby letters of credit have short maturities and therefore have no significant fair value.

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The carrying amount, estimated fair value and the level of the fair value hierarchy of the Company's financial instruments were as follows at September 30, 2014 and December 31, 2013:

|   | Carrying Amount | Estimated Fair Value | Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|-----------------|----------------------|--|---|---|
| September 30, 2014                              |                 |                      |  |   |   |
| Financial assets:                               |                 |                      |  |   |   |
| Cash and cash equivalents                       | \$249,769       | \$249,769            | \$249,769  | \$—   | \$—                                       |
| Securities available for sale                   | 235,844         | 235,844              | —  | 235,844                                       | —   |
| Loans held for sale                             | 1,811           | 1,811                | —  | 1,811   | —   |
| Loans, net                                      | 2,874,084       | 2,895,276            | —  | 2,893,319                                     | 1,957                                     |
| FHLB of Dallas stock and other restricted stock | 15,715          | 15,715               | —  | 15,715  | —   |
| Accrued interest receivable                     | 8,025           | 8,025                | —  | 8,025   | —   |
| Financial liabilities:                          |                 |                      |  |   |   |
| Deposits  | 2,813,660       | 2,816,258            | —  | 2,816,258                                     | —   |
| Accrued interest payable                        | 1,936           | 1,936                | —  | 1,936   | —   |
| FHLB advances                                   | 324,424         | 323,936              | —  | 323,936                                       | —   |
| Repurchase agreements                           | 5,235           | 5,235                | —  | 5,235   | —   |
| Other borrowings                                | 72,730          | 74,884               | —  | 74,884  | —   |
| Junior subordinated debentures                  | 18,147          | 18,127               | —  | 18,127  | —   |
| Off-balance sheet assets (liabilities):         |                 |                      |  |   |   |
| Commitments to extend credit                    | —               | —                    | —  | —   | —   |
| Standby letters of credit                       | —               | —                    | —  | —   | —   |
| December 31, 2013                               |                 |                      |  |   |   |
| Financial assets:                               |                 |                      |  |   |   |
| Cash and cash equivalents                       | \$93,054        | \$93,054             | \$93,054   | \$—   | \$—                                       |
| Securities available for sale                   | 194,038         | 194,038              | —  | 194,038                                       | —   |
| Loans held for sale                             | 3,383           | 3,383                | —  | 3,383   | —   |
| Loans, net                                      | 1,709,200       | 1,714,815            | —  | 1,710,228                                     | 4,587                                     |
| FHLB of Dallas stock and other restricted stock | 9,494           | 9,494                | —  | 9,494   | —   |
| Accrued interest receivable                     | 4,713           | 4,713                | —  | 4,713   | —   |
| Financial liabilities:                          |                 |                      |  |   |   |
| Deposits  | 1,710,319       | 1,712,654            | —  | 1,712,654                                     | —   |
| Accrued interest payable                        | 948             | 948                  | —  | 948   | —   |
| FHLB advances                                   | 187,484         | 189,092              | —  | 189,092                                       | —   |
| Other borrowings                                | 7,730           | 8,061                | —  | 8,061   | —   |
| Junior subordinated debentures                  | 18,147          | 18,099               | —  | 18,099  | —   |
| Off-balance sheet assets (liabilities):         |                 |                      |  |   |   |
| Commitments to extend credit                    | —               | —                    | —  | —   | —   |
| Standby letters of credit                       | —               | —                    | —  | —   | —   |





## Note 9. Stock Awards and Stock Warrants

The Company grants common stock awards to certain employees of the Company. The common stock issued prior to 2013 vests five years from the date the award is granted and the related compensation expense is recognized over the vesting period. In connection with the initial public offering in April 2013, the Board of Directors adopted a new 2013 Equity Incentive Plan. Under this plan, the Compensation Committee may grant awards in the form of restricted stock, restricted stock rights, restricted stock units, qualified and nonqualified stock options, performance-based share awards and other equity-based awards. The Plan reserved 800,000 shares of common stock to be awarded by the Company's compensation committee. The shares currently issued under the 2013 Plan are restricted and will vest evenly over the required employment period, ranging from three to five years. Shares granted under a previous plan prior to 2012 and those in and subsequent to 2013 under the 2013 Equity Incentive Plan were issued at the date of grant and receive dividends. Shares issued under a revised plan in 2012 are not outstanding shares of the Company until they vest and do not receive dividends.

The following table summarizes the activity in nonvested shares for the nine months ended September 30, 2014 and 2013:

|                                      | Number of<br>Shares | Weighted<br>Average<br>Grant Date<br>Fair Value |
|--------------------------------------|---------------------|---|
| Nonvested shares, December 31, 2013  | 306,524             | \$22.75   |
| Granted during the period            | 189,069             | 56.70   |
| Vested during the period             | (121,364 )          | 19.93   |
| Forfeited during the period          | (1,194 )            | 30.37   |
| Nonvested shares, September 30, 2014 | 373,035             | \$40.85   |
| Nonvested shares, December 31, 2012  | 208,608             | \$17.07   |
| Granted during the period            | 119,540             | 28.68   |
| Vested during the period             | (22,716 )           | 14.30   |
| Nonvested shares, September 30, 2013 | 305,432             | \$22.16   |

Compensation expense related to these awards is recorded based on the fair value of the award at the date of grant and totaled \$841 and \$2,011 for the three and nine months ended September 30, 2014, respectively and \$455 and \$1,049 for the three and nine months ended September 30, 2013, respectively. Compensation expense is recorded in salaries and employee benefits in the accompanying consolidated statements of income. At September 30, 2014, future compensation expense is estimated to be \$12,662 and will be recognized over a remaining weighted average period of 3.69 years.

The fair value of common stock awards that vested during the nine months ended September 30, 2014 and 2013 was \$6,288 and \$641, respectively. The Company has recorded \$1,326 and \$9 to additional paid in capital, which represents the excess tax benefit recognized on the vested shares for the nine months ended September 30, 2014 and 2013, respectively.

At September 30, 2014, the future vesting schedule of the nonvested shares is as follows:

|                        |         |
|------------------------|---------|
| First year             | 84,041  |
| Second year            | 83,920  |
| Third year             | 97,110  |
| Fourth year            | 75,364  |
| Fifth year             | 32,600  |
| Total nonvested shares | 373,035 |

The Company has issued warrants representing the right to purchase 150,544 shares of Company stock at \$17.19 per share to certain Company directors and shareholders. The warrants were issued in return for the shareholders' agreement to repurchase the subordinated debt outstanding to an unaffiliated bank in the event of Company default. The warrants expire in December 2018 and were recorded as equity at a fair value of \$475 as of the date of the

warrants issuance. The Company recorded this amount as debt origination costs and was amortizing it over the term of the debt. In April 2013, the Company paid off the subordinated debt and wrote off the remaining balance of \$223 of the debt origination costs to interest expense.

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Note 10. Regulatory Matters

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

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of September 30, 2014 and December 31, 2013, the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of September 30, 2014 and December 31, 2013, the Bank's capital ratios exceeded those levels necessary to be categorized as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Bank must maintain minimum total risk based, Tier I risk based and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The actual capital amounts and ratios of the Company and Bank as of September 30, 2014 and December 31, 2013, are presented in the following table:

|   | Actual    |       | Minimum for Capital Adequacy Purposes |       | To Be Well Capitalized Under Prompt Corrective Action Provisions |       |   |
|---|-----------|-------|---------------------------------------|-------|--|-------|---|
|   | Amount    | Ratio | Amount                                | Ratio | Amount   | Ratio |   |
| September 30, 2014                      |           |       |                                       |       |  |       |   |
| Total capital to risk weighted assets:  |           |       |                                       |       |  |       |   |
| Consolidated                            | \$384,794 | 13.36 | % \$230,356                           | 8.00  | % N/A  | N/A   |   |
| Bank                                    | 361,351   | 12.57 | 229,997                               | 8.00  | \$287,496  | 10.00 | % |
| Tier I capital to risk weighted assets: |           |       |                                       |       |  |       |   |
| Consolidated                            | 297,770   | 10.34 | 115,178                               | 4.00  | N/A  | N/A   |   |
| Bank                                    | 344,511   | 11.98 | 114,998                               | 4.00  | 172,498  | 6.00  | % |
| Tier I capital to average assets:       |           |       |                                       |       |  |       |   |
| Consolidated                            | 297,770   | 8.50  | 140,132                               | 4.00  | N/A  | N/A   |   |
| Bank                                    | 344,511   | 9.98  | 138,090                               | 4.00  | 172,613  | 5.00  | % |

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December 31, 2013

Total capital to risk weighted

assets:

|              |           |       |   |           |      |   |           |       |   |
|--------------|-----------|-------|---|-----------|------|---|-----------|-------|---|
| Consolidated | \$234,794 | 13.83 | % | \$135,801 | 8.00 | % | N/A       | N/A   |   |
| Bank         | 212,656   | 12.54 |   | 135,648   | 8.00 |   | \$169,560 | 10.00 | % |

Tier I capital to risk weighted

assets:

|              |         |       |  |        |      |  |         |      |   |
|--------------|---------|-------|--|--------|------|--|---------|------|---|
| Consolidated | 214,650 | 12.64 |  | 67,901 | 4.00 |  | N/A     | N/A  |   |
| Bank         | 198,696 | 11.72 |  | 67,824 | 4.00 |  | 101,736 | 6.00 | % |

Tier I capital to average assets:

|              |         |       |  |        |      |  |        |      |   |
|--------------|---------|-------|--|--------|------|--|--------|------|---|
| Consolidated | 214,650 | 10.71 |  | 80,204 | 4.00 |  | N/A    | N/A  |   |
| Bank         | 198,696 | 9.97  |  | 79,710 | 4.00 |  | 99,637 | 5.00 | % |

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## Note 11. Small Business Lending Fund Preferred Stock

In connection with the acquisition of BOH Holdings on April 15, 2014, the Company entered into an Assignment and Assumption Agreement with BOH Holdings to acquire all assets and assume all liabilities of BOH Holdings. BOH Holdings participated in the US Treasury's Small Business Lending Fund (SBLF) program. The SBLF is a U.S. Department of the Treasury lending program that encourages qualified community banks to partner with small businesses and entrepreneurs to create jobs and promote economic development in local communities. As a result of continued participation in the program, the Company issued 23,938.35 shares of Senior Non-Cumulative Perpetual SBLF Preferred Stock, Series A at \$1,000 par value to the US Treasury Department in exchange for the 23,938.35 shares of BOH Series C SBLF Preferred Stock.

The SBLF Preferred Stock qualifies as Tier 1 capital. The holders of SBLF Preferred Stock are entitled to receive non-cumulative dividends, payable quarterly. The dividend rate was determined based on the level of Qualified Small Business Lending at BOH Holdings and was set at 1.00% at time of acquisition. The Company qualified for the 1.00% rate continuing through January 2016, at which time the dividend rate will increase to 9.00%. During the three and nine months ended September 30, 2014, the Company recorded preferred stock dividends of \$60 and \$109, respectively.

The Series A Preferred Stock is non-voting, except in limited circumstances. The Company may redeem the shares of Series A Preferred Stock, in whole or in part, at any time at a redemption price equal to the sum of the Liquidation Amount of \$1,000 per share and the per share amount of any unpaid dividends for the then-current period, subject to any required prior approval by the Company's primary federal banking regulator.

## Note 12. Business Combinations

## Collin Bank

During the nine months ended September 30, 2014, the Company made certain measurement-period adjustments to previous purchase accounting estimates for the November 30, 2013 acquisition of Collin Bank. The differences from estimated values resulted from completion of the valuations. The following table summarizes the previously reported estimates and the measurement-period adjustments made to asset and liability accounts to derive at the final purchase accounting allocations for Collin Bank.

|                               | As Reported at<br>December 31,<br>2013 | Measurement<br>Period<br>Adjustments | Final Recorded<br>Value |
|-------------------------------|--|--------------------------------------|-------------------------|
| Assets of acquired bank:      |  |                                      |                         |
| Cash and cash equivalents     | \$22,792                               | \$—                                  | \$22,792                |
| Securities available for sale | 62,373                                 | —                                    | 62,373                  |
| Loans                         | 72,611                                 | (328)                                | )72,283                 |
| Premises and equipment        | 141                                    | —                                    | 141                     |
| Investment in FHLB stock      | 1,156                                  | —                                    | 1,156                   |
| Goodwill                      | 5,962                                  | 752                                  | 6,714                   |
| Core deposit intangible       | 600                                    | (18)                                 | )582                    |
| Deferred tax asset            | 1,385                                  | 109                                  | 1,494                   |
| Other assets                  | 775                                    | 10                                   | 785                     |
| Total assets                  | \$167,795                              | \$525                                | \$168,320               |

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Liabilities of acquired bank:

|  |            |        |            |
|--|------------|--------|------------|
| Deposits   | \$ 111,164 | \$ 505 | \$ 111,669 |
| FHLB advances                                      | 26,000     | —      | 26,000     |
| Other liabilities                                  | 358        | 20     | 378        |
| Total liabilities                                  | \$ 137,522 | \$ 525 | \$ 138,047 |
| Common stock issued in the Collin Bank transaction | \$ 11,861  | \$ —   | \$ 11,861  |
| Cash paid in the Collin Bank transaction           | \$ 18,412  | \$ —   | \$ 18,412  |

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Live Oak Financial Corp.

On January 1, 2014, the Company acquired 100% of the outstanding stock of Live Oak Financial Corp. and its wholly owned subsidiary, Live Oak State Bank, Dallas, TX (Live Oak) with one branch located east of downtown Dallas. The Company issued 235,594 shares of Company stock and paid \$10.0 million in cash for the outstanding shares of Live Oak common stock.

The Company recognized goodwill of \$6,988, which is calculated as the excess of both the consideration exchanged and liabilities assumed compared to the fair market value of identifiable assets acquired. The goodwill in this acquisition resulted from a combination of expected synergies and a desirable branch location. None of the goodwill recognized is expected to be deductible for income tax purposes.

During the nine months ended September 30, 2014, the Company made measurement-period adjustments to increase goodwill by \$32, other assets by \$18 and deposits by \$50. The Company has incurred expenses related to the acquisition of approximately \$354 and \$357 during the nine months ended September 30, 2014 and year ended December 31, 2013, respectively, which is included in acquisition expenses in the consolidated statements of income. The acquisition is not considered significant to the Company's financial statements and therefore, pro forma financial data is not included.

Non-credit impaired loans had a fair value of \$68,256 at the date of acquisition and contractual balances of \$68,351. The difference of \$95 will be recognized into interest income as an adjustment to yield over the life of the loans.

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

Assets of acquired bank:

|                               |           |
|-------------------------------|-----------|
| Cash and cash equivalents     | \$32,246  |
| Securities available for sale | 16,740    |
| Loans                         | 71,304    |
| Premises and equipment        | 2,600     |
| Goodwill                      | 6,988     |
| Core deposit intangible       | 882       |
| Other assets                  | 248       |
| Total assets                  | \$131,008 |

Liabilities of acquired bank:

|   |           |
|---|-----------|
| Deposits  | \$105,010 |
| Repurchase agreements                           | 3,733     |
| Other liabilities                               | 565       |
| Total liabilities                               | \$109,308 |
| Common stock issued in the Live Oak transaction | \$11,700  |
| Cash paid in the Live Oak transaction           | \$10,000  |



## BOH Holdings

On April 15, 2014, the Company acquired 100% of the outstanding stock of BOH Holdings, Inc. and its subsidiary, Bank of Houston (BOH), Houston, Texas. This transaction gives the Company six branches in the greater Houston area. The Company issued 3,615,886 shares of Company stock and paid \$34,010 in cash for the outstanding shares of BOH common stock. In addition, the Company issued 23,938.35 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series A to the US Treasury Department in exchange for the 23,938.35 shares of BOH Series C Preferred Stock. The preferred stock is senior to the Company's common stock with respect to dividend rights and liquidation.

The Company has recognized a provisional amount of goodwill of approximately \$165.2 million which is calculated as the excess of both the consideration exchanged and liabilities assumed compared to the fair market value of identifiable assets acquired. The goodwill in this acquisition resulted from a combination of expected synergies and entrance into a desirable Texas market. None of the goodwill recognized is expected to be deductible for income tax purposes.

The Company has incurred expenses related to the acquisition of approximately \$1,715 for the nine months ended September 30, 2014, which is included in acquisition expenses in the consolidated statements of income. The Company incurred expenses of \$592 during the year ended December 31, 2013. In addition, for the nine months ended September 30, 2014, the Company paid offering costs totaling \$550 which were recorded as a reduction to stock issuance proceeds through additional paid in capital. Provisional estimates have been recorded for the acquisition as independent valuations have not been finalized. The Company does not expect any significant differences from estimated values upon completion of the valuations.

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

|  | Initially recorded<br>at Acquisition<br>Date | Measurement<br>Period Adjustments | Adjusted Values |
|--|--|-----------------------------------|-----------------|
| Assets of acquired bank:   |  |                                   |                 |
| Cash and cash equivalents  | \$135,525                                    | \$—                               | \$135,525       |
| Securities available for sale  | 59,141                                       | —                                 | 59,141          |
| Loans  | 786,761                                      | (1,166)                           | )785,595        |
| Premises and equipment   | 7,211  | —                                 | 7,211           |
| Other real estate  | 1,191  | 33                                | 1,224           |
| Goodwill   | 164,766                                      | 397                               | 165,163         |
| Core deposit intangible  | 7,265  | —                                 | 7,265           |
| Other assets   | 27,394                                       | 162                               | 27,556          |
| Total assets acquired  | \$1,189,254                                  | \$(574)                           | )\$1,188,680    |
| Liabilities of acquired bank:  |  |                                   |                 |
| Deposits   | \$820,752                                    | \$—                               | \$820,752       |
| FHLB Advances  | 95,000                                       | —                                 | 95,000          |
| Other liabilities  | 6,737  | (574)                             | )6,163          |
| Total liabilities assumed  | \$922,489                                    | \$(574)                           | )\$921,915      |
| Common stock issued at \$57.75 per share                               | \$208,817                                    | \$—                               | \$208,817       |
| Series A Preferred Stock Exchanged in connection with<br>acquired bank | \$23,938                                     | \$—                               | \$23,938        |
| Cash paid  | \$34,010                                     | \$—                               | \$34,010        |

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Pro forma net income for the nine months ended September 30, 2014 and 2013 was \$19,519 and \$23,710, respectively and pro forma revenue was \$119,310 and \$102,424, respectively had the transaction occurred as of January 1, 2014. Pro forma after tax net income for the year ended December 31, 2013 was \$26,959 and pro forma revenue was \$139,164 had the transaction occurred on January 1, 2013.

## Note 13. Subsequent Events

## Business Combination - Houston City Bancshares

On October 1, 2014, the Company acquired 100% of the outstanding stock of Houston City Bancshares, Inc. and its wholly owned subsidiary, Houston Community Bank, Houston, TX (HCB) with six branches located in the Houston area. The Company issued 637,856 shares of Company stock and paid approximately \$16.8 million in cash for the outstanding shares of HCB common stock.

The Company recognized a provisional amount of goodwill of \$19.6 million, which is calculated as the excess of both the consideration exchanged and liabilities assumed compared to the fair market value of identifiable assets acquired. The goodwill in this acquisition resulted from a combination of expected synergies and the intent to expand our presence in the Houston market. None of the goodwill recognized is expected to be deductible for income tax purposes.

Management is still evaluating the loan portfolio but does not anticipate a significant amount of credit-impaired loans.

The Company has incurred expenses related to the acquisition of approximately \$180 and \$337 during the three and nine months ended September 30, 2014, which is included in acquisition expenses in the consolidated statements of income. The acquisition is not considered significant to the Company's financial statements and therefore, pro forma financial data is not included.

Provisional estimates have been recorded for the acquisition as independent valuations have not been finalized. The Company does not expect any significant differences from estimated values upon completion of the valuations.

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

|  |            |
|--|------------|
| Assets of acquired bank:                   |            |
| Cash and cash equivalents                  | \$ 118,825 |
| Securities available for sale              | 3,549      |
| Loans                                      | 196,791    |
| Premises and equipment                     | 8,678      |
| Goodwill                                   | 19,602     |
| Core deposit intangible                    | 1,801      |
| Other assets                               | 1,498      |
| Total assets                               | \$ 350,744 |
| Liabilities of acquired bank:              |            |
| Deposits                                   | \$ 303,092 |
| Other liabilities                          | 582        |
| Total liabilities                          | \$ 303,674 |
| Common stock issued in the HCB transaction | \$ 30,266  |
| Cash paid for the HCB transaction          | \$ 16,804  |

## Declaration of Dividends

On November 4, 2014, the Company declared a quarterly cash dividend in the amount of \$0.06 per share of common stock to the stockholders of record on November 14, 2014. The dividend will be paid on November 26, 2014.



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

### Cautionary Note Regarding Forward Looking Statements

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

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

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

• governmental monetary and fiscal policies;

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

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

our actual cost savings resulting from the acquisitions of BOH Holdings, Houston City Bancshares, Live Oak Financial Corp. and Collin Bank are less than expected, we are unable to realize those cost savings as soon as expected or we incur additional or unexpected costs;

- our revenues after the BOH Holdings, Inc., Houston City Bancshares, Live Oak Financial Corp. and Collin Bank acquisitions are less than expected;
- deposit attrition, operating costs, customer loss and business disruption before and after our completed acquisitions, including, without limitation, difficulties in maintaining relationships with employees, may be greater than we expected;
- the risk that the businesses of the Company, and financial institutions that it has or will acquire, will not be integrated successfully, or such integrations may be more difficult, time-consuming or costly than expected;
- the quality of the assets acquired from other organizations being lower than determined in our due diligence investigation and related exposure to unrecoverable losses on loans acquired;
- general business and economic conditions in our markets change or are less favorable than expected;
- changes occur in business conditions and inflation;
- personal or commercial customers' bankruptcies increase;
- technology-related changes are harder to make or are more expensive than expected; and
- the other factors that are described or referenced in Part II, Item 1A. of this Quarterly Report on Form 10-Q under the caption "Risk Factors."

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

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

#### Overview

This Management's Discussion and Analysis of Financial Condition and Results of Operations analyzes the major elements of the Company's financial condition and results of operation as reflected in the interim consolidated financial statements and accompanying notes appearing in this Quarterly Report on Form 10-Q. This section should be read in conjunction with the Company's interim consolidated financial statements and accompanying notes included elsewhere in this report and with the consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2013.

The Company was organized as a bank holding company in 2002. On January 1, 2009, we merged with Independent Bank Group Central Texas, Inc., and, since that time, we have pursued a strategy to create long-term shareholder value through organic growth of our community banking franchise in our market areas and through selective acquisitions of complementary banking institutions with operations in our market areas. On April 8, 2013, the Company consummated the initial public offering, or IPO, of its common stock which began trading on the NASDAQ Global Market on April 3, 2013. Effective January 1, 2014, the Company's common stock began trading on the NASDAQ Global Select Market.

At September 30, 2014, the Company operated 35 full service banking locations, with 22 located in the Dallas/North Texas region, 7 located in the Austin/Central Texas region and 6 in the Houston region. The Company's headquarters are located at 1600 Redbud, Suite 400, McKinney, Texas 75069, and its telephone number is (972) 562-9004. The Company's website address is [www.ibtx.com](http://www.ibtx.com). Information contained on the Company's website is not incorporated by reference into this Quarterly Report on Form 10-Q and is not part of this or any other report.

Our principal business is lending to and accepting deposits from businesses, professionals and individuals. We conduct all of our banking operations through Independent Bank, which is a Texas state banking corporation and our principal subsidiary (the Bank). We derive our income principally from interest earned on loans and, to a lesser extent, income from securities available for sale. We also derive income from non-interest sources, such as fees received in connection with various deposit services and



mortgage brokerage operations. From time to time, we also realize gains on the sale of assets and, in some instances, gains on acquisitions. Our principal expenses include interest expense on interest-bearing customer deposits, advances from the Federal Home Loan Bank of Dallas, or the FHLB, and other borrowings, operating expenses, such as salaries, employee benefits, occupancy costs, data processing and communication costs, expenses associated with other real estate owned, other administrative expenses, provisions for loan losses and our assessment for FDIC deposit insurance.

#### Certain Events Affect Year-over-Year Comparability

Acquisitions. During 2013 and the first nine months of 2014, the Company completed three acquisitions. These acquisitions increased total assets, gross loans and deposits on the respective acquisition dates as detailed below.

|                          | Acquisition Date  | Total Assets    | Gross Loans    | Deposits        |
|--------------------------|-------------------|-----------------|----------------|-----------------|
| Collin Bank              | November 29, 2013 | \$168.3 million | \$72.3 million | \$111.7 million |
| Live Oak Financial Corp. | January 1, 2014   | 131.0 million   | 71.3 million   | 105.0 million   |
| BOH Holdings             | April 15, 2014    | 1.2 billion     | 785.6 million  | 820.8 million   |

The comparability of the Company's consolidated financial condition as of December 31, 2013 and September 30, 2014 and results of operations for the three and nine months ended September 30, 2014 and 2013 are affected by these acquisitions.

In addition, as of September 30, 2014, the Company had one acquisition pending, Houston City Bancshares, which closed October 1, 2014.

#### S Corporation Status

From its formation in 2002 through March 31, 2013, the Company elected to be taxed for federal income tax purposes as an S corporation under the provisions of Section 1361 through 1379 of the Internal Revenue Code. As a result, the Company's net income was not subject to, and the Company did not pay, U.S. federal income taxes, and the Company was not required to make any provision or recognize any liability for federal income tax in its financial statements for the periods ended on or prior to March 31, 2013. The Company terminated its status as an S corporation in connection with its initial public offering. Starting April 1, 2013, the Company became subject to corporate federal income tax and the Company's net income for each subsequent fiscal year and each subsequent interim period will reflect a provision for federal income taxes. As a result of that change in the Company's status under the federal income tax laws, the net income and earnings per share data presented in the Company's historical financial statements set forth elsewhere in this report, which do not include any provision for federal income taxes, are not be comparable with the Company's net income and earnings per share in periods in which the Company is taxed as a C corporation. Deferred tax assets and liabilities are, and in future periods will be, recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of any change in tax rates will be recognized in income in the quarter such change takes place. On April 1, 2013, the Company recorded an initial net deferred tax asset of \$1.8 million to recognize the difference between the financial statement carrying amounts of assets and liabilities and their respective tax bases as of the date that the Company became a taxable corporate entity.

#### Discussion and Analysis of Results of Operations for the Three and Nine Months Ended September 30, 2014 and 2013

The following discussion and analysis of our results of operations compares our results of operations for the three and nine months ended September 30, 2014 with the three and nine months ended September 30, 2013. The results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the results of operations that may be expected for all of the year ending December 31, 2014.



## Results of Operations

For the three months ended September 30, 2014, net income was \$9.0 million (\$0.54 per common share on a diluted basis) compared with \$4.0 million (\$0.33 per common share on a diluted basis) for the three months ended September 30, 2013. The Company posted annualized returns on average common equity of 7.60% and 7.30%, returns on average assets of 0.95% and 0.81% and efficiency ratios of 60.5% and 68.6% for the three months ended September 30, 2014 and 2013, respectively. The efficiency ratio is calculated by dividing total noninterest expense (which does not include the provision for loan losses) by net interest income plus noninterest income.

For the nine months ended September 30, 2014, net income was \$18.9 million (\$1.25 per common share on a diluted basis) compared to \$15.5 million (\$1.43 per common share on a diluted basis) for the nine months ended September 30, 2013. The nine months ended September 30, 2013 includes the initial recording of the deferred tax benefit of \$1.8 million due to the Company's change in taxable status effective April 1, 2013. Pro forma net income after excluding the Company's initial deferred tax benefit was \$11.9 million (\$1.10 per common share on a diluted basis) for the nine months ended September 30, 2013. The Company posted annualized returns on average common equity of 6.54% and 10.85%, returns on average assets of 0.81% and 1.12% and efficiency ratios of 66.5% and 67.0% for the nine months ended September 30, 2014 and 2013, respectively.

### Net Interest Income

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

Net interest income was \$32.4 million for the three months ended September 30, 2014, an increase of \$13.5 million, or 75.3%, from \$18.9 million at September 30, 2013. This increase is due primarily to a \$1.4 billion increase, or 78.3%, in average interest earning assets to \$3.2 billion for the three months ended September 30, 2014 compared to \$1.8 billion for the three months ended September 30, 2013. The greatest part of the increases in interest-earning assets and interest-bearing deposits occurred as a result of the acquisitions the Company completed in November 2013, January 2014 and April 2014 but was also due in part to organic loan and deposit growth. The net interest margin for the three months ended September 30, 2014 decreased 16 basis points to 4.04% compared to 4.20% for the three months ended September 30, 2013. The decrease from the prior year is due to interest expense on subordinated debt issued in July 2014 (9 basis point effect on net interest margin for the quarter) and a decrease in loan yields of 55 basis points from the prior year. The average yield on interest earning assets decreased 25 basis points from 4.85% to 4.60%. The effect of this decrease was partially offset by a decrease in the average rate paid on interest bearing liabilities of 7 basis points from 0.80% to 0.73%. This change was due to a decrease in the cost of deposits and the repayment of notes payable and subordinated indebtedness during 2013 partially offset by the increase in other borrowings due to the new issuance of the subordinated debt.

Net interest income was \$86.0 million for the nine months ended September 30, 2014, an increase of \$30.1 million, or 56.4%, from \$55.0 million for the same period in 2013. The increase is due primarily to a \$1.1 billion increase, or 62.8%, in average interest earning assets to \$2.8 billion for the nine months ended September 30, 2014 compared to \$1.7 billion for the nine months ended September 30, 2013. The greatest part of the increases in interest-earning assets and interest-bearing deposits occurred as a result of the acquisitions the Company completed in November 2013, January 2014 and April 2014 but was also due in part to organic loan and deposit growth. The net interest margin for the nine months ended September 30, 2014 decreased 17 basis points to 4.16% compared to 4.33% for the nine months ended September 30, 2013. The average yield on interest earning assets decreased 37 basis points from 5.07% to 4.70%. The effect of this decrease was partially offset by a decrease in the average rate paid on interest bearing liabilities of 19 basis points from 0.89% to 0.70%.



Average Balance Sheet Amounts, Interest Earned and Yield Analysis. The following table presents average balance sheet information, interest income, interest expense and the corresponding average yields earned and rates paid for the three and nine months ended September 30, 2014 and 2013. The average balances are principally daily averages and, for loans, include both performing and nonperforming balances.

|   | For The Three Months Ended September 30, |          |                           |      |                             |          |                           |
|---|--|----------|---------------------------|------|-----------------------------|----------|---------------------------|
|   | 2014                                     |          |                           | 2013 |                             |          |                           |
|   | Average Outstanding Balance              | Interest | Yield/Rate <sup>(3)</sup> |      | Average Outstanding Balance | Interest | Yield/Rate <sup>(3)</sup> |
| (dollars in thousands)  |  |          |                           |      |                             |          |                           |
| Interest-earning assets:  |  |          |                           |      |                             |          |                           |
| Loans <sup>(1)</sup>  | \$2,878,566                              | \$35,633 | 4.91 %                    |      | \$1,535,460                 | \$21,140 | 5.46 %                    |
| Taxable securities  | 170,804                                  | 711      | 1.65                      |      | 91,075                      | 358      | 1.56                      |
| Nontaxable securities   | 69,784                                   | 404      | 2.30                      |      | 29,926                      | 258      | 3.42                      |
| Federal funds sold and other                                    | 67,908                                   | 192      | 1.12                      |      | 131,422                     | 85       | 0.26                      |
| Total interest-earning assets                                   | 3,187,062                                | \$36,940 | 4.60                      |      | 1,787,883                   | \$21,841 | 4.85                      |
| Noninterest-earning assets                                      | 534,261                                  |          |                           |      | 154,981                     |          |                           |
| Total assets  | \$3,721,323                              |          |                           |      | \$1,942,864                 |          |                           |
| Interest-bearing liabilities:                                   |  |          |                           |      |                             |          |                           |
| Checking accounts   | \$1,126,424                              | \$1,288  | 0.45                      |      | \$754,835                   | \$952    | 0.50                      |
| Savings accounts  | 125,027                                  | 92       | 0.29                      |      | 113,321                     | 94       | 0.33                      |
| Money market accounts   | 111,675                                  | 94       | 0.33                      |      | 56,161                      | 39       | 0.28                      |
| Certificates of deposit   | 696,272                                  | 1,056    | 0.60                      |      | 332,405                     | 632      | 0.75                      |
| Total deposits  | 2,059,398                                | 2,530    | 0.49                      |      | 1,256,722                   | 1,717    | 0.54                      |
| FHLB advances   | 303,458                                  | 975      | 1.27                      |      | 162,009                     | 819      | 2.01                      |
| Notes payable, repurchase agreements and other borrowings       | 56,413                                   | 871      | 6.13                      |      | 13,819                      | 253      | 7.26                      |
| Junior subordinated debentures                                  | 18,147                                   | 133      | 2.91                      |      | 18,147                      | 137      | 3.00                      |
| Total interest-bearing liabilities                              | 2,437,416                                | 4,509    | 0.73                      |      | 1,450,697                   | 2,926    | 0.80                      |
| Noninterest-bearing checking accounts                           | 785,054                                  |          |                           |      | 266,334                     |          |                           |
| Noninterest-bearing liabilities                                 | 10,647                                   |          |                           |      | 10,652                      |          |                           |
| Stockholders' equity  | 488,206                                  |          |                           |      | 215,181                     |          |                           |
| Total liabilities and equity                                    | \$3,721,323                              |          |                           |      | \$1,942,864                 |          |                           |
| Net interest income   |  | \$32,431 |                           |      |                             | \$18,915 |                           |
| Interest rate spread  |  |          | 3.87 %                    |      |                             |          | 4.05 %                    |
| Net interest margin <sup>(2)</sup>                              |  |          | 4.04                      |      |                             |          | 4.20                      |
| Average interest earning assets to interest bearing liabilities |  |          | 130.76                    |      |                             |          | 123.24                    |

(1) Average loan balances include nonaccrual loans.

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

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

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|  | For The Nine Months Ended September 30,<br>2014 |          |                               | 2013                              |          |                               |
|--|---|----------|-------------------------------|-----------------------------------|----------|-------------------------------|
|  | Average<br>Outstanding<br>Balance               | Interest | Yield/<br>Rate <sup>(3)</sup> | Average<br>Outstanding<br>Balance | Interest | Yield/<br>Rate <sup>(3)</sup> |
| (dollars in thousands)   |   |          |                               |                                   |          |                               |
| Interest-earning assets:   |   |          |                               |                                   |          |                               |
| Loans <sup>(1)</sup>   | \$2,454,773                                     | \$93,637 | 5.10 %                        | \$1,467,960                       | \$62,347 | 5.68 %                        |
| Taxable securities   | 177,144   | 2,187    | 1.65                          | 84,975                            | 999      | 1.57                          |
| Nontaxable securities  | 54,414  | 1,028    | 2.53                          | 31,464                            | 765      | 3.25                          |
| Federal funds sold and other                                       | 77,940  | 328      | 0.56                          | 113,906                           | 256      | 0.30                          |
| Total interest-earning assets                                      | 2,764,271                                       | \$97,180 | 4.70                          | 1,698,305                         | \$64,367 | 5.07                          |
| Noninterest-earning assets   | 323,291   |          |                               | 154,770                           |          |                               |
| Total assets   | \$3,087,562                                     |          |                               | \$1,853,075                       |          |                               |
| Interest-bearing liabilities:                                      |   |          |                               |                                   |          |                               |
| Checking accounts  | \$1,012,012                                     | \$3,522  | 0.47                          | \$723,561                         | \$2,861  | 0.53                          |
| Savings accounts   | 123,862   | 273      | 0.29                          | 113,424                           | 279      | 0.33                          |
| Money market accounts  | 101,243   | 232      | 0.31                          | 50,125                            | 103      | 0.27                          |
| Certificates of deposit  | 626,008   | 2,847    | 0.61                          | 319,001                           | 1,935    | 0.81                          |
| Total deposits   | 1,863,125                                       | 6,874    | 0.49                          | 1,206,111                         | 5,178    | 0.57                          |
| FHLB advances  | 243,232   | 2,792    | 1.53                          | 163,702                           | 2,475    | 2.02                          |
| Notes payable, repurchase agreements<br>and other borrowings       | 26,946  | 1,142    | 5.67                          | 20,826                            | 1,326    | 8.51                          |
| Junior subordinated debentures                                     | 18,147  | 402      | 2.96                          | 18,147                            | 408      | 3.01                          |
| Total interest-bearing liabilities                                 | 2,151,450                                       | 11,210   | 0.70                          | 1,408,786                         | 9,387    | 0.89                          |
| Noninterest-bearing checking accounts                              | 528,481   |          |                               | 247,330                           |          |                               |
| Noninterest-bearing liabilities                                    | 8,968   |          |                               | 5,634                             |          |                               |
| Stockholders' equity   | 398,663   |          |                               | 191,325                           |          |                               |
| Total liabilities and equity                                       | \$3,087,562                                     |          |                               | \$1,853,075                       |          |                               |
| Net interest income  |   | \$85,970 |                               |                                   | \$54,980 |                               |
| Interest rate spread   |   |          | 4.00 %                        |                                   |          | 4.18 %                        |
| Net interest margin <sup>(2)</sup>                                 |   |          | 4.16                          |                                   |          | 4.33                          |
| Average interest earning assets to<br>interest bearing liabilities |   |          | 128.48                        |                                   |          | 120.55                        |

(1) Average loan balances include nonaccrual loans.

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

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

### Provision for Loan Losses

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

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

The Company made a \$976 thousand provision for loan losses for the three months ended September 30, 2014 compared to \$830 thousand for the comparable period in 2013. Provision expense for the nine months ended September 30, 2014 was \$3.6 million compared to \$2.9 million for the same period in 2013. The increase in the provision for both periods was primarily to properly reserve for the organic growth in the Company's loan portfolio. Net charge-offs were \$355 thousand for the three months ended September 30, 2014 compared to \$447 thousand for the three months ended September 30, 2013. Net chargeoffs for the nine months ended September 30, 2014 were \$728 thousand compared to \$1.3 million in the same period in 2013. The higher level of chargeoffs for 2013 primarily relate to the \$516 thousand chargeoff of one large commercial real estate loan that was foreclosed and transferred to other real estate owned while net chargeoffs in 2014 have remained low.

### Noninterest Income

The following table sets forth the components of noninterest income for the three and nine months ended September 30, 2014 and 2013 and the period-over-period variations in such categories of noninterest income:

| (dollars in thousands)  | For the Three Months<br>Ended September 30, |                | Variance<br>2014 v.<br>2013 | For the Nine Months<br>Ended September 30, |                | Variance<br>2014 v.<br>2013 |
|---|---|----------------|-----------------------------|--|----------------|-----------------------------|
|   | 2014  | 2013           |                             | 2014                                       | 2013           |                             |
| <b>Noninterest Income</b>                                     |   |                |                             |  |                |                             |
| Service charges on deposit accounts                           | \$1,541                                     | \$1,248        | \$293                       | \$4,205                                    | \$3,597        | \$608                       |
| Mortgage fee income   | 1,080                                       | 957            | 123                         | 2,777                                      | 3,120          | (343 )                      |
| Gain on sale of loans   | 1,078                                       | —              | 1,078                       | 1,078                                      | —              | 1,078                       |
| Gain on sale of other real estate                             | 20  | —              | 20                          | 59   | 173            | (114 )                      |
| Loss on sale of premises and equipment                        | (22 )                                       | 5              | (27 )                       | (22 )                                      | 4              | (26 )                       |
| Increase in cash surrender value of bank owned life insurance | 281   | 80             | 201                         | 690  | 240            | 450                         |
| All other noninterest income                                  | 232   | 161            | 71                          | 876  | 475            | 401                         |
| <b>Total noninterest income</b>                               | <b>\$4,210</b>                              | <b>\$2,451</b> | <b>\$1,759</b>              | <b>\$9,663</b>                             | <b>\$7,609</b> | <b>\$2,054</b>              |

Total noninterest income increased \$1.8 million, or 71.8% and \$2.1 million, or 27.0% for the three and nine months ended September 30, 2014, respectively compared to the same periods in 2013. Significant changes in the components of noninterest income are discussed below.

**Service charges on deposit accounts.** Service charges on deposit accounts increased \$293 thousand, or 23.5% and \$608 thousand, or 16.9% for the three and nine months ended September 30, 2014, respectively as compared to the same periods in 2013. The increase in service charge income is due to an increase in deposit accounts due primarily to acquisition growth in late 2013 and the first nine months of 2014.

**Mortgage fee income.** Mortgage fee income for the three months ended September 30, 2014 increased \$123.0 thousand, or 12.9% but decreased \$343 thousand, or 11.0% for the nine month period ended September 30, 2014 over the same periods in





2013. This overall decrease from 2013 is directly related to a reduced level of refinancings related to an increase in mortgage rates. However, the slight increase in third quarter 2014 is due to a recent decrease in mortgage rates and increased demand of this product in our Houston branches.

Gain on sale of loans. Gain on sale of loans for the three and nine months ended September 30, 2014 totaled \$1.1 million due to the sale of a \$12.0 million SBA loan portfolio in August 2014, which was acquired in the BOH Holdings acquisition. No such sales occurred in the 2013 periods.

Gain on sale of other real estate owned. Gains on sale of other real estate were \$20 and \$59 thousand for the three and nine months ended September 30, 2014, respectively and \$0 thousand and \$173 thousand for the same periods in 2013. The 2013 sales relate to several sales of property including two sales of Adriatica property. In 2014, there were fewer sales transactions as a result of fewer other real estate properties on the books.

Increase in cash surrender value of bank owned life insurance. Increase in earnings on bank owned life insurance increased \$201 thousand, or 251.3% and \$450 thousand, or 187.5% for the three and nine months ended September 30, 2014, respectively compared to the same periods in 2013. The increase in earnings is due to additional investment in insurance policies in the fourth quarter of 2013 and insurance policies acquired in the BOH Holdings acquisition.

Other noninterest income. Other noninterest income for the three and nine months ended September 30, 2014 increased \$71 thousand, or 44.1% and \$401 thousand, or 84.4%, respectively, compared to the same periods in 2013. The increase for both periods is directly related to acquisitions completed in November 2013, January 2014 and April 2014.

#### Noninterest Expense

Noninterest expense increased \$7.5 million, or 94.2% and \$21.6 million, or 51.5%, for the three and nine months ended September 30, 2014, respectively, as compared to the same periods in 2013. The overall increase from 2013 to 2014 is primarily due to increases in salaries and benefits expenses, occupancy expenses, data processing, acquisition expenses and other noninterest expenses related to completed acquisitions in November 2013, January 2014 and April 2014. The following table sets forth the components of the Company's noninterest expense for the three and nine months ended September 30, 2014 and 2013 and the period-over-period variations in such categories of noninterest expense:

| (dollars in thousands)                      | For the Three Months<br>Ended September 30, |          | Variance<br>2014 v.<br>2013 | For the Nine Months<br>Ended September 30, |          | Variance<br>2014 v.<br>2013 |
|---|---|----------|-----------------------------|--|----------|-----------------------------|
|   | 2014  | 2013     |                             | 2014                                       | 2013     |                             |
| Noninterest Expense                         |   |          |                             |  |          |                             |
| Salaries and employee benefits              | \$12,551                                    | \$7,976  | \$4,575                     | \$37,797                                   | \$23,688 | \$14,109                    |
| Occupancy                                   | 3,435                                       | 2,117    | 1,318                       | 9,200                                      | 6,562    | 2,638                       |
| Data processing                             | 472   | 357      | 115                         | 1,420                                      | 969      | 451                         |
| FDIC assessment                             | 426   | 253      | 173                         | 1,246                                      | 241      | 1,005                       |
| Advertising and public relations            | 204   | 216      | (12)                        | 618  | 620      | (2)                         |
| Communications                              | 498   | 412      | 86                          | 1,220                                      | 1,090    | 130                         |
| Other real estate owned expense, net        | 122   | 111      | 11                          | 258  | 368      | (110)                       |
| Net expenses of operations of IBG Adriatica | —   | 228      | (228)                       | 23   | 600      | (577)                       |
| Impairment of other real estate             | 22  | 12       | 10                          | 22   | 475      | (453)                       |
| Core deposit intangible amortization        | 361   | 175      | 186                         | 859  | 527      | 332                         |
| Professional fees                           | 828   | 353      | 475                         | 1,792                                      | 918      | 874                         |
| Acquisition expense, including legal        | 629   | 474      | 155                         | 2,628                                      | 602      | 2,026                       |
| Other                                       | 2,614                                       | 1,966    | 648                         | 6,498                                      | 5,297    | 1,201                       |
| Total noninterest expense                   | \$22,162                                    | \$14,650 | \$7,512                     | \$63,581                                   | \$41,957 | \$21,624                    |

Salaries and Employee Benefits. Salaries and employee benefits expense, which historically has been the largest component of the Company's noninterest expense, increased \$4.6 million, or 57.4% and \$14.1 million, or 59.6% for the three and nine months ended September 30, 2014, compared to the same periods in 2013. The increase was

primarily attributable to an increase in the number of the Company's full-time equivalent employees, which resulted from the three acquisitions the Company completed in November 2013, January 2014 and April 2014 as well as the addition of new lending personnel in our

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growth markets. In addition, there was approximately \$4.0 million in compensation to certain Bank of Houston officers that entered into employment agreements with the Company during the second quarter of 2014.

**Occupancy Expense.** Occupancy expense increased \$1.3 million, or 62.3% and \$2.6 million, or 40.2% for the three and nine months ended September 30, 2014, respectively, compared to the same periods in 2013. The increase for both periods resulted from higher maintenance contract expense, building lease expenses and property taxes, attributable primarily to the three acquisitions completed and the establishment of the Company's new Austin building in May 2013. Seven branches were added as a result of these acquisitions.

**Data Processing.** Data processing fees increased \$115 thousand, or 32.2% and \$451 thousand, or 46.5% for the three and nine months ended September 30, 2014, respectively, compared to the same periods in 2013. The change is due to increased online banking fees and other costs related directly to an increase in accounts over the same period prior year, related both to organic growth and growth through acquisitions as well as processing fees paid for Live Oak Financial Corp. and BOH Holdings for their operational core systems prior to their conversion to the Company's platform.

**FDIC Assessment.** FDIC assessment expense increased \$173 thousand, or 68.4% and \$1.0 million, or 417.0% for the three and nine months ended September 30, 2014, respectively, compared to the same periods in 2013. The increase in both periods is due to a higher assessment associated with an increase in deposit accounts, both due to organic growth and growth through acquisitions. In addition, the increase for the nine-month period is due to a non-recurring refund of \$504 thousand of the Company's prepaid assessment during the second quarter of 2013.

**Net Expenses of Operations of IBG Adriatica.** Net Adriatica expenses decreased \$228 thousand and \$577 thousand for the three and nine months ended September 30, 2014, respectively, compared to the same period in 2013. The decrease was due to the sale of the remaining Adriatica properties in the fourth quarter of 2013. IBG Adriatica was dissolved during the first quarter of 2014.

**Other Real Estate Impairment.** Other real estate impairment totaling \$12 and \$475 thousand was recognized during the three and nine months ended September 30, 2013, while there was only \$22 thousand in impairment charges recognized for the same periods in 2014. Approximately \$225 thousand of the expense for the nine months ended June 30, 2013 was related to an ORE property located in the Austin, Texas area that was in negotiation to sell at a lower amount than the recorded book value. The remaining impairment expense for that period was recorded on two properties located in Frisco, Texas, for which the Company had obtained updated appraisals.

**Core Deposit Intangible Amortization.** Amortization expense on core deposit intangibles increased \$186 and \$332 for the three and nine months ended September 30, 2014, respectively over the same periods in 2013. The increase is due primarily to core deposit intangibles of \$8,729 acquired in the three acquisitions occurring in November 2013, January 2014 and April 2014. Core deposit intangibles are being amortized on the straight line method over 10 years.

**Professional Fees.** Professional fees increased \$475 thousand, or 134.6% and \$874 thousand, or 95.2% for the three and nine months ended September 30, 2014, respectively, over the same periods in 2013. The increase for both periods is due to an increase in attorney and accountants fees related to more SEC filings in 2014 including the Company's annual report, proxy, shelf and other registration statements.

**Acquisition Expense.** Acquisition expense is primarily legal, advisory and accounting fees associated with services to facilitate the acquisition of other banks. Acquisition expenses also include data processing conversion costs. Total acquisition expenses for the three and nine months ended September 30, 2014, increased \$155.0 thousand and \$2.0 million, respectively, over the same period in 2013. The increase is due to timing of completed acquisitions. While no acquisitions occurred in the first three or nine months of 2013, there were expenses being incurred related to the acquisition that was completed in October 2012 and also for the acquisition of Collin Bank, which had been announced and was closed October 2013. The increase in acquisition-related expenses for the three and nine months ended September 30, 2014 is due to expenses related to the Live Oak Financial Corp. transaction, which closed in January 2014, significant expenses related to the acquisition of BOH Holdings, which closed on April 15, 2014 and other expenses related to the announced acquisition of Houston City Bancshares, which subsequently closed on October 1, 2014.

**Other.** Other expense increased by \$648 thousand, or 33.0% and \$1.2 million, or 22.7% for the three and nine months ended September 30, 2014, respectively, compared to the same periods in 2013. The majority of the increases relate to

general increases in operations due to organic growth within the Company as well as acquisition activity occurring in November 2013, January 2014 and April 2014.

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#### Income Tax Expense

Income tax expense was \$4.5 million and \$9.6 million for the three and nine months ended September 30, 2014, which is an effective tax rate of 33.6% for both periods. Income tax expense was \$1.9 million and \$2.2 million for the three and nine months ended September 30, 2013, which is an effective tax rate of 32.7% and 12.3%, respectively. As a result of its prior status as an S corporation as discussed above, the Company had no federal tax expense for the periods prior to March 31, 2013 and was not subject to income tax expense until April 1, 2013, the date which it became a taxable entity. As such, tax expense for the nine month period ended September 30, 2013 was affected by this change in status as the Company did not pay income taxes for the first three months of the year. Furthermore, the Company recorded an initial deferred tax benefit of \$1.8 million in the second quarter of 2013, which resulted in reported income tax expense of \$2.2 million for the nine month period. After taking these items into consideration, it was determined that pro forma tax expense would have been \$5.8 million for the nine months ended September 30, 2013, which is an effective tax rate 32.8% on a pro forma basis.

### 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 September 30, 2014 and December 31, 2013.

#### Assets

The Company's total assets increased by \$1.6 billion, or 73.1%, to \$3.7 billion as of September 30, 2014, from \$2.2 billion at December 31, 2013. A large portion of this increase is due to the acquisitions of Live Oak Financial Corp. and BOH Holdings, which had assets of approximately \$131.0 million and \$1.2 billion at time of acquisition (January 1, 2014 and April 15, 2014, respectively).

#### Loan Portfolio

The following table presents the balance and associated percentage of each major category in our loan portfolio as of September 30, 2014 and December 31, 2013:

| (dollars in thousands)                             | September 30, 2014 |         | December 31, 2013 |         |
|--|--------------------|---------|-------------------|---------|
| Commercial   | \$587,488          | 20.3 %  | \$241,178         | 14.0 %  |
| Real estate:                                       |                    |         |                   |         |
| Commercial   | 1,336,416          | 46.2    | 843,436           | 48.9    |
| Commercial construction, land and land development | 290,086            | 10.0    | 130,320           | 7.5     |
| Residential <sup>(1)</sup>                         | 481,525            | 16.7    | 342,037           | 19.8    |
| Single family interim construction                 | 116,785            | 4.0     | 83,144            | 4.8     |
| Agricultural                                       | 43,575             | 1.5     | 40,558            | 2.3     |
| Consumer   | 36,967             | 1.3     | 45,762            | 2.7     |
| Other  | 161                | —       | 108               | —       |
|  | 2,893,003          | 100.0 % | 1,726,543         | 100.0 % |
| Deferred loan fees                                 | (268 )             |         | —                 |         |
| Allowance for loan losses                          | (16,840 )          |         | (13,960 )         |         |
| Total loans, net                                   | \$2,875,895        |         | \$1,712,583       |         |

<sup>(1)</sup> Includes mortgage loans held for sale as of September 30, 2014 and December 31, 2013 of \$1.8 million and \$3.4 million, respectively.

Our loan portfolio is the largest category of our earning assets. As of September 30, 2014 and December 31, 2013, loans, net of allowance for loan losses, totaled \$2.876 billion and \$1.713 billion, respectively, which is an increase of 67.9% between the two dates. The growth in the loan portfolio from December 31, 2013 to September 30, 2014 is primarily due to approximately \$71.3 million and \$785.6 million in acquired loans in the Live Oak Financial Corp. and BOH Holdings transactions respectively, but also due in part to organic growth.

#### Asset Quality

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

The Company discontinues accruing interest on a loan when management of the Company believes, after considering the Company's collection efforts and other factors, that the borrower's financial condition is such that collection of interest of that loan is doubtful. Loans are placed on nonaccrual status or charged-off at an earlier date if collection of

principal or interest is considered doubtful. All interest accrued but not collected for loans, including troubled debt restructurings, that are placed on nonaccrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-

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basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Real estate we have acquired as a result of foreclosure or by deed-in-lieu-of foreclosure is classified as other real estate owned until sold. The Bank's policy is to initially record other real estate at fair value less estimated costs to sell at the date of foreclosure. After foreclosure, other real estate is carried at the lower of the initial carrying amount (fair value less estimated costs to sell or lease), or at the value determined by subsequent appraisals of other real estate.

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

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

| (dollars in thousands)   | September 30,<br>2014 | December 31,<br>2013 |      |   |
|--|-----------------------|----------------------|------|---|
| Nonaccrual loans   |                       |                      |      |   |
| Commercial   | \$54                  | \$357                |      |   |
| Real estate:   |                       |                      |      |   |
| Commercial real estate, construction, land and land development      | 208                   | 253                  |      |   |
| Residential real estate  | 1,998                 | 1,852                |      |   |
| Single-family interim construction                                   |                       | 170                  |      |   |
| Consumer   | 66                    | 43                   |      |   |
| Total nonaccrual loans <sup>(1)</sup>                                | 2,326                 | 2,675                |      |   |
| Loans delinquent 90 days or more and still accruing                  |                       |                      |      |   |
| Consumer   | 6                     | —                    |      |   |
| Total loans delinquent 90 days or more and still accruing            | 6                     | —                    |      |   |
| Troubled debt restructurings, not included in nonaccrual loans       |                       |                      |      |   |
| Commercial   | 80                    | 107                  |      |   |
| Real estate:   |                       |                      |      |   |
| Commercial real estate, construction, land and land development      | 4,702                 | 5,090                |      |   |
| Residential real estate  | 1,262                 | 1,288                |      |   |
| Consumer   | 9                     | 1                    |      |   |
| Total troubled debt restructurings, not included in nonaccrual loans | 6,053                 | 6,486                |      |   |
| Total nonperforming loans  | 8,385                 | 9,161                |      |   |
| Other real estate owned (Bank only):                                 |                       |                      |      |   |
| Commercial real estate, construction, land and land development      | 4,084                 | 3,322                |      |   |
| Total other real estate owned  | 4,084                 | 3,322                |      |   |
| Total nonperforming assets   | \$12,469              | \$12,483             |      |   |
| Ratio of nonperforming loans to total loans                          | 0.29                  | %                    | 0.53 | % |
| Ratio of nonperforming assets to total assets                        | 0.33                  |                      | 0.58 |   |

(1) Nonaccrual loans include troubled debt restructurings of \$1.4 million and \$1.5 million as of September 30, 2014 and December 31, 2013, respectively.



Nonaccrual loans decreased slightly to \$2.3 million at September 30, 2014 from \$2.7 million as of December 31, 2013. Troubled debt restructurings that were also on nonaccrual status totaled \$1.4 million and \$1.5 million at September 30, 2014 and December 31, 2013, respectively.

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As of September 30, 2014, the Company had a total of 51 loans with an aggregate principal balance of \$11.4 million that were not currently nonaccrual loans, 90 days past due loans or troubled debt restructurings, but where the Company had information about possible credit problems of the borrowers that caused the Company's management to have serious concerns as to the ability of the borrowers to comply with present loan repayment terms and that could result in those loans becoming nonaccrual loans, 90 days past due loans or troubled debt restructurings in the future. The Company generally continues to use the classification of acquired loans classified nonaccrual or 90 days and accruing as of the acquisition date. The Company does not classify acquired loans as troubled debt restructurings, or TDRs, unless the Company modifies an acquired loan subsequent to acquisition that meets the TDR criteria. Reported delinquency of the Company's purchased loan portfolio is based upon the contractual terms of the loans.

**Allowance for Loan Losses.** The allowance for loan losses is established through charges to earnings in the form of a provision for loan losses. The Company's allowance for loan losses represents the Company's estimate of probable and reasonably estimable loan losses inherent in loans held for investment as of the respective balance sheet date. The Company's methodology for assessing the adequacy of the allowance for loan losses includes a general allowance for performing loans, which are grouped based on similar characteristics, and an allocated allowance for individual impaired loans. Actual credit losses or recoveries are charged or credited directly to the allowance. As of September 30, 2014, the allowance for loan losses amounted to \$16.8 million, or 0.58% of total loans, compared with \$14.0 million, or 0.81% of total loans as of December 31, 2013. The decrease in this ratio is attributable to loans acquired in the Live Oak and BOH Holdings acquisitions that are recorded at fair value and do not have an allowance as of September 30, 2014.

The allowance for loan losses to nonperforming loans has increased from 152.39% at December 31, 2013 to 200.83% at September 30, 2014 due to the combination of a slight decrease in nonperforming loans and a slight increase in the recorded level of allowance. Nonperforming loans have improved slightly to \$8.4 million at September 30, 2014 compared to \$9.2 million at December 31, 2013 and the ratio of nonperforming loans to total loans has improved significantly to 0.29% compared to 0.53% at December 31, 2013 due primarily to loan growth through acquisitions but also in part through organic loan growth.

#### Securities Available for Sale

The Company's investment strategy aims to maximize earnings while maintaining liquidity in securities with minimal credit, interest rate and duration risk. The types and maturities of securities purchased are primarily based on the Company's current and projected liquidity and interest rate sensitivity positions.

The Company had no sales of securities during the three and nine months ended September 30, 2014 and 2013.

Securities represented 6.3% and 9.0% of the Company's total assets at September 30, 2014 and December 31, 2013, respectively.

Management evaluates securities for other-than-temporary impairment (OTTI) on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation. Management does not intend to sell any debt securities it holds and believes the Company more likely than not will not be required to sell any debt securities it holds before their anticipated recovery, at which time the Company will receive full value for the securities.

Management has the ability and intent to hold the securities classified as available for sale that were in a loss position as of September 30, 2014 for a period of time sufficient for an entire recovery of the cost basis of the securities. For those securities that are impaired, the unrealized losses are largely due to interest rate changes. The fair value is expected to recover as the securities approach their maturity date. Management believes any impairment in the Company's securities at September 30, 2014 is temporary and no impairment has been realized in the Company's consolidated financial statements.

#### Capital Resources and Regulatory Capital Requirements

Total stockholder's equity was \$500.3 million at September 30, 2014 compared with \$233.8 million at December 31, 2013, an increase of approximately \$266.5 million. The increase was due primarily to the issuance of common stock

totaling \$219.9 million in connection with the Company's acquisition of Live Oak Financial Corp. and BOH Holdings and issuance of Series A preferred stock of \$23.9 million. In addition, there was stock awards amortization of \$2.0 million, \$1.3 million in excess tax benefits on vested restricted stock, an increase of \$3.2 million in unrealized gain (loss) on available for sale securities and net income of \$18.9 million earned by the Company for the nine months ended September 30, 2014, offset by dividends paid of \$2.8 million.

Banking regulators measure capital adequacy by means of the risk-based capital ratio and leverage ratio. The risk based capital rules provide for the weighting of assets and off-balance-sheet commitments and contingencies according to prescribed risk categories ranging from 0% to 100%. Regulatory capital is then divided by risk weighted assets to determine the risk adjusted capital ratios. The leverage ratio is computed by dividing shareholders' equity less intangible assets by quarter-to-date average assets less intangible assets. As of September 30, 2014, we exceeded all capital ratio requirements under prompt corrective action and other regulatory requirements, as detailed in the table below:

|  | As of September 30, 2014 |  |  |
|--|--------------------------|--|--|
|  | Actual                   | Required to be considered well capitalized Ratio | Required to be considered adequately capitalized Ratio |
| Tier 1 capital to average assets ratio       | 8.50                     | % ≥ 5.00%  | 4.00-5.00%   |
| Tier 1 capital to risk-weighted assets ratio | 10.34                    | ≥ 6.00   | 4.00-6.00  |
| Total capital to risk-weighted assets ratio  | 13.36                    | ≥ 10.00  | 8.00-10.00   |

During the nine months ended September 30, 2014, the Company issued \$65 million of 5.875% subordinated notes (Notes) which are due August 1, 2024. The notes may not be redeemed prior to maturity and meet the criteria to be recognized as Tier 2 capital for regulatory purposes.

#### Liquidity Management

The Company continuously monitors the Company's liquidity position to ensure that assets and liabilities are managed in a manner that will meet all of the Company's short-term and long-term cash requirements. The Company manages the Company's liquidity position to meet the daily cash flow needs of customers, while maintaining an appropriate balance between assets and liabilities to meet the return on investment objectives of the Company's shareholders. The Company also monitors its liquidity requirements in light of interest rate trends, changes in the economy, and the scheduled maturity and interest rate sensitivity of the investment and loan portfolios and deposits.

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

In addition to the liquidity provided by the sources described above, Independent Bank maintains correspondent relationships with other banks in order to sell loans or purchase overnight funds should additional liquidity be needed. As of September 30, 2014, the Bank had established federal funds lines of credit with five unaffiliated banks totaling \$125.0 million with no amounts advanced against those lines at that time. In addition, the Company had an unsecured line of credit totaling \$35.0 million at an unaffiliated commercial bank. Based on the values of stock, securities, and loans pledged as collateral, as of September 30, 2014, the Company had additional borrowing capacity with the FHLB of \$692.1 million.

**Contractual Obligations**

In the ordinary course of the Company's operations, the Company enters into certain contractual obligations, such as obligations for operating leases and other arrangements with respect to deposit liabilities, FHLB advances and other borrowed funds. The Company believes that it will be able to meet its contractual obligations as they come due through the maintenance of adequate cash levels. The Company expects to maintain adequate cash levels through profitability, loan and securities

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repayment and maturity activity and continued deposit gathering activities. The Company has in place various borrowing mechanisms for both short-term and long-term liquidity needs.

During the three and nine months ended September 30, 2014, the Company acquired deposit accounts and repurchase agreements in the Live Oak Financial Corp. and BOH Holdings transactions. In addition, the Company assumed leases for four of the BOH Holdings branch locations. The Company also issued \$65 million in subordinated debt in July 2014. Other than acquired accounts, subordinate debt issued and normal changes in the ordinary course of business, there have been no significant changes in the types of contractual obligations or amounts due since December 31, 2013.

#### Off-Balance Sheet Arrangements

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

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

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

Independent Bank's commitments to extend credit and outstanding standby letters of credit were \$559.6 million and \$7.1 million, respectively, as of September 30, 2014. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements. The Company manages the Company's liquidity in light of the aggregate amounts of commitments to extend credit and outstanding standby letters of credit in effect from time to time to ensure that the Company will have adequate sources of liquidity to fund such commitments and honor drafts under such letters of credit.

#### Pending Acquisition

On June 2, 2014, the Company announced the planned acquisition of Houston City Bancshares and its subsidiary, Houston Community Bank (HCB), with assets, deposits and equity capital totaling approximately \$320 million, \$291 million and \$28.3 million, respectively as of June 30, 2014. HCB currently has six locations located throughout the Houston metro area. This acquisition was completed October 1, 2014.

#### Critical Accounting Policies and Estimates

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

or conditions.

Accounting policies, as described in detail in the notes to the Company's consolidated financial statements, are an integral part of the Company's financial statements. A thorough understanding of these accounting policies is essential when reviewing the

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Company's reported results of operations and the Company's financial position. The Company believes that the critical accounting policies and estimates discussed below require the Company to make difficult, subjective or complex judgments about matters that are inherently uncertain. Changes in these estimates, that are likely to occur from period to period, or the use of different estimates that the Company could have reasonably used in the current period, would have a material impact on the Company's financial position, results of operations or liquidity.

**Acquired Loans.** The Company's accounting policies require that the Company evaluates all acquired loans for evidence of deterioration in credit quality since origination and to evaluate whether it is probable that the Company will collect all contractually required payments from the borrower.

Acquired loans from the transactions accounted for as a business combination include both loans with evidence of credit deterioration since their origination date and performing loans. The Company accounts for performing loans under ASC Paragraph 310-20, Nonrefundable Fees and Other Costs, with the related discount being adjusted for over the life of the loan and recognized as interest income. The Company accounts for the loans acquired in accordance with ASC Paragraph 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. At the date of the acquisition, acquired loans are recorded at their fair value.

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

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

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

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

**Goodwill and Core Deposit Intangible.** The excess purchase price over the fair value of net assets from acquisitions, or goodwill, is evaluated for impairment at least annually and on an interim basis if an event or circumstance indicates that it is likely an impairment has occurred. Prior to 2012, the evaluation of goodwill impairment was a two-step test. Under current accounting standards, the Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, the Company determines it is not more likely than not that the fair value of a reporting unit is less than its carrying



amount, then performing the two step impairment test is unnecessary. If the Company concludes otherwise, then it is required to perform the first step of the two step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. The Company performs its impairment test annually as of December 31. There have been no circumstances since December 31, 2013 that would indicate any impairment has occurred, therefore, management does not believe goodwill is impaired as of September 30, 2014.

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

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

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

Our interest rate risk model indicated that we were in a balanced position in terms of interest rate sensitivity as of September 30, 2014. The table below illustrates the impact of an immediate and sustained 200 and 100 basis point increase and a 100 basis point decrease in interest rates on net interest income based on the interest rate risk model as of September 30, 2014:

| Hypothetical Shift in Interest Rates (in bps) | % Change in Projected Net Interest Income |
|---|---|
| 200   | (0.7)%                                    |
| 100   | (0.6)%                                    |
| (100)   | (4.0)%                                    |

These are good faith estimates and assume that the composition of our interest sensitive assets and liabilities existing at each period-end and is based on future maturities and market pricing over the relevant twelve month measurement period and that changes in market interest rates are instantaneous and sustained across the yield curve regardless of duration of pricing characteristics of specific assets or liabilities. Also, this analysis does not contemplate any actions that we might undertake in response to changes in market interest rates. We believe these estimates are not necessarily indicative of what actually could occur in the event of immediate interest rate increases or decreases of this magnitude. As interest-bearing assets and liabilities re-price in different time frames and proportions to market interest rate movements, various assumptions must be made based on historical relationships of these variables in reaching any conclusion. Since these correlations are based on competitive and market conditions, we anticipate that our future results will likely be different from the foregoing estimates, and such differences could be material.



#### ITEM 4. CONTROLS AND PROCEDURES

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

Changes in internal control over financial reporting. There were no changes in the Company's internal control over financial reporting during the three months ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II

Item 1. LEGAL PROCEEDINGS

In the normal course of business, the Company is named or threatened to be named as a defendant in various lawsuits. Management, following consultation with legal counsel, does not expect the ultimate disposition of any or a combination of these matters to have a material adverse effect on the Company's business.

Item 1A. RISK FACTORS

In evaluating an investment in our common stock, investors should consider carefully, among other things, the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013, as well as the information contained in this Quarterly Report on Form 10-Q and our other reports and registrations statements filed with the SEC.

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

None

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

Item 4. MINE SAFETY DISCLOSURES

None

Item 5. OTHER INFORMATION

None

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### Item 6. EXHIBITS

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

- Exhibit 2.1 Agreement and Plan of Reorganization, dated as of June 2, 2014, by and among the Registrant and Houston City Bancshares, Inc., which is incorporated by reference herein to Appendix A to the proxy statement/prospectus that forms a part of the Registrant's Registration Statement on Form S-4 (Registration No. 333-197556) filed with the SEC on July 22, 2014
- Exhibit 3.1 Amended and Restated Certificate of Formation of Independent Bank Group, Inc., which is incorporated herein by reference to Exhibit 3.1 to Registration Statement on Form S-1 of Independent Bank Group, Inc. filed with the SEC on February 27, 2013 (the "S-1 Registration Statement").
- Exhibit 3.2 Certificate of Amendment to Amended and Restated Certificate of Formation of Independent Bank Group, Inc., which is incorporated herein by reference to Exhibit 3.3 to Amendment No. 2 to the S-1 Registration Statement filed with the SEC on April 1, 2013.
- Exhibit 3.3 Third Amended and Restated Bylaws of Independent Bank Group, Inc., which are incorporated herein by reference to Exhibit 3.2 to Amendment No. 1 to the S-1 Registration Statement filed with the SEC on March 18, 2013.
- Exhibit 3.4 Statement of Designations of Senior Non-Cumulative Perpetual Preferred Stock, Series A of Independent Bank Group, Inc., as filed with the Office of the Secretary of State of the State of Texas on April 15, 2014, which is incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K of Independent Bank Group, Inc. filed with the SEC on April 17, 2014.
- Exhibit 3.5 Certificate of Merger, dated January 2, 2014, of Live Oak Financial Corp. with and into Independent Bank Group, Inc., which is incorporated herein by reference to Exhibit 3.5 to Amendment No. 1 to the Registrant's Registration Statement on Form S-3 (Registration No. 333-196627) filed with the SEC on June 25, 2014 (the "S-3 Registration Statement")
- Exhibit 3.6 Certificate of Merger, dated April 15, 2014, of BOH Holdings, Inc. with and into Independent Bank Group, Inc., which is incorporated herein by reference to Exhibit 3.6 to Amendment No. 1 to the S-3 Registration Statement filed with the SEC on June 25, 2014
- Exhibit 4.1 Form of certificate representing shares of the Registrant's common stock, which is incorporated herein by reference to Exhibit 4.1 to Amendment No. 1 to the Form S-1 Registration Statement filed with the SEC on March 18, 2013
- Exhibit 4.2 Form of Common Stock Purchase Warrant, with schedules of differences, which is incorporated herein by reference to Exhibit 4.2 to the Form S-1 Registration Statement

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- Exhibit 4.3 Form of certificate representing shares of the Registrant's Series A preferred stock, which is incorporated herein by reference to Exhibit 4.3 to the S-3 Registration Statement
- Exhibit 4.4 Subordinated Debt Indenture, dated as of June 25, 2014, between Independent Bank Group, Inc. and Wells Fargo Bank, National Association, in its capacity as Indenture Trustee, which is incorporated herein by reference to Exhibit 4.6 to the Registrant's Amendment No. 1 to the S-3 Registration Statement filed with the SEC on June 25, 2014
- Exhibit 4.5 First Supplemental Indenture, dated as of July 17, 2014, between Independent Bank Group, Inc. and Wells Fargo Bank Shareowner Services, in its capacity as Indenture Trustee, which is incorporated herein by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K, dated July 17, 2014.
- Exhibit 4.6 Form of Global Note to represent the 5.875% Subordinated Notes due August 1, 2024, of the Registrant, which is incorporated herein by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K, dated July 17, 2014.
- Exhibit 4.7 Independent Bank 401(k) Profit Sharing Plan, including related Adoption Agreement, which is incorporated herein by reference to Exhibit 4.9 to the Registrant's Registration Statement on Form S-8 filed with the SEC on August 29, 2014.



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

Exhibit 10.1           Amendment No. 1 to the Credit Agreement, dated July 14, 2014, between Independent Bank Group, Inc. and U.S. Bank National Association which is incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K, dated July 17, 2014.

Exhibit 31.1\*        Chief Executive Officer Section 302 Certification

Exhibit 31.2\*        Chief Financial Officer Section 302 Certification

Exhibit 32.1\*\*       Chief Executive Officer Section 906 Certification

Exhibit 32.2\*\*       Chief Financial Officer Section 906 Certification

Exhibit 101.INS +   XBRL Instance Document

Exhibit 101.SCH  
+                    XBRL Taxonomy Extension Schema Document

Exhibit 101.CAL  
+                    XBRL Taxonomy Extension Calculation Linkbase Document

Exhibit 101.DEF  
+                    XBRL Taxonomy Extension Definition Linkbase Document

Exhibit 101.LAB  
+                    XBRL Taxonomy Extension Label Linkbase Document

Exhibit 101.PRE  
+                    XBRL Taxonomy Extension Presentation Linkbase Document

\*                    Filed herewith as an Exhibit.

\*\*                   Furnished herewith as an Exhibit.

+                    Furnished with this Quarterly Report on Form 10-Q and not deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, in accordance with Rule 406T of Regulation S-T.

Explanatory Note: Mr. Daniel W. Brooks, Vice Chairman and Chief Risk Officer of the Company, is performing the functions of the principal executive officer of the Company as of the date of this Quarterly Report on Form 10-Q and, in such capacity, is signing and providing the certifications required by paragraphs (a) and (b) of Rule 13a-14 under the Securities Exchange Act of 1934, as amended, to be provided regarding this Quarterly Report on Form 10-Q by the Company's principal executive officer or the person performing the functions thereof because Mr. David R. Brooks, the Company's Chairman and Chief Executive Officer, is traveling outside of the United States.



Signatures

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

Independent Bank Group, Inc.

Date: November 4, 2014

By: /s/ Daniel W. Brooks

Daniel W. Brooks  
Vice Chairman and Chief Risk Officer

Date: November 4, 2014

By: /s/ Michelle S. Hickox

Michelle S. Hickox  
Executive Vice President  
Chief Financial Officer