Section 1: 10-K/A (10-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K/A

(Mark One)

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

For The Fiscal Year Ended December 31, 2019.

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _______ to _________.

Commission file number 001-35854

Independent Bank Group, Inc.
(Exact name of registrant as specified in its charter)

Texas	**13-4219346**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
7777 Henneman Way	
McKinney,	
Texas	**75070-1711**
(Address of principal executive offices)	**(Zip Code)**

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

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on which Registered
Common Stock, par value $0.01 per share	**IBTX**	**NASDAQ Global Select Market**

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	☒	Accelerated Filer	☐
Non-Accelerated Filer	☐	Smaller Reporting Company	☐
		Emerging Growth Company	☐

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

The aggregate market value of the shares of common stock held by non-affiliates based on the closing price of the common stock on the Nasdaq Global Select Market on June 30, 2019 was approximately $1,944,702,826.

At February 27, 2020, the Company had outstanding 43,040,776 shares of common stock, par value $.01 per share.

Documents Incorporated By Reference:

None

EXPLANATORY NOTE

Independent Bank Group, Inc. (the “Company”) filed its Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (the “Original Filing”) with the United States Securities and Exchange Commission (the “SEC”) on March 2, 2020. The Company is filing this Amendment No. 1 to the Original Filing solely to correct inadvertent errors by RSM US LLP in the Critical Audit Matters section of its Report of Registered Public Accounting firm (the “Report”) provided with respect to the Company’s consolidated financial statements. Specifically,

(1) In the “Allowance for Loan Losses” section of the Report, the opinion previously read: “the Company’s allowance for loan losses totaled $14.8 million.” This number has been corrected to be $51.5 million; and

(2) In the “Acquisition of Guaranty Bank” section of the Report, the opinion read: “The fair value of assets acquired in the acquisition totaled $3.9 million, including $2.8 million of loans receivables.” “Million” has been changed to “billion” for both of these numbers.

In addition, the Exhibit List included in Item 15 of Part IV has been amended to contain a currently-dated consent of RSM US LLP (Exhibit 23.1) and, pursuant to the rules of the SEC, currently-dated certifications from the Company’s Principal Executive Officer and Principal Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 (Exhibit 31.1, Exhibit 31.2, Exhibit 32.1 and Exhibit 32.2). Such consent and the certifications of the Company’s Principal Executive Officer and Principal Financial Officer are attached as exhibits to this Amendment No. 1.

Except as described above, this Amendment No. 1 speaks as of the original filing date of the Original Filing and does not amend or update any other information contained in the Original Filing to reflect events that may have occurred subsequent to the original filing date. The Company has included a complete copy of the Original Filing, as amended per above, in this filing.

INDEPENDENT BANK GROUP, INC. AND SUBSIDIARIES
Annual Report on Form 10-K
December 31, 2019

PART I

ITEM 1. BUSINESS

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

General

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

As of December 31, 2019, the Company had consolidated total assets of approximately $15.0 billion, total loans of approximately $11.6 billion, total deposits of approximately $11.9 billion and total stockholders’ equity of approximately $2.3 billion.

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

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

Business Strategy

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

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

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

Acquired Institution/Market	Date of Acquisition	Fair Value of Total Assets Acquired *(dollars in thousands)*
Town Center Bank *Dallas/North Texas*	July 31, 2010	$37,451
Farmersville Bancshares, Inc. *Dallas/North Texas*	September 30, 2010	99,420
I Bank Holding Company, Inc. *Austin/Central Texas*	April 1, 2012	172,587
The Community Group, Inc. *Dallas/North Texas*	October 1, 2012	110,967
Collin Bank *Dallas/North Texas*	November 30, 2013	168,320
Live Oak Financial Corp. *Dallas/North Texas*	January 1, 2014	131,008
BOH Holdings, Inc. *Houston, Texas*	April 15, 2014	1,188,893
Houston City Bancshares, Inc. *Houston, Texas*	October 1, 2014	350,747
Grand Bank *Dallas, Texas*	November 1, 2015	620,196
Carlile Bancshares, Inc. *Dallas/North Texas, Central Texas, Colorado Front Range*	April 1, 2017	2,444,155
Integrity Bancshares, Inc. *Houston, Texas*	June 1, 2018	851,875
Guaranty Bancorp *Denver, Colorado and Colorado Front Range*	January 1, 2019	3,943,070

The acquisition of Guaranty Bancorp (Guaranty), and its subsidiary, Guaranty Bank and Trust Company (Guaranty Bank), added 32 full service branch locations along the Colorado Front Range, including locations throughout the Denver metropolitan area and along I-25 to Fort Collins expanding the Company's footprint in Colorado. The assets acquired in this acquisition represented 77% of the Company's asset growth in 2019. The acquisition is discussed in more detail in Note 22, Business Combinations, to the Company's audited consolidated financial statements included elsewhere in this report.

During 2019, the Company successfully completed the rebalancing of its retail footprint, by consolidating eight branches in Colorado and four branches in Texas. This consolidation reduced overlapping locations designed to improve efficiency, while keeping Independent Bank well-positioned to support existing customers and future growth.

Proposed Merger with Texas Capital Bancshares, Inc. The Company and Texas Capital Bancshares, Inc. (TCBI) have entered into an Agreement and Plan of Merger, dated as of December 9, 2019, which is referred to as the "merger agreement". Under the merger agreement, the Company and TCBI have agreed to combine their respective companies in an all stock-merger of equals, pursuant to which TCBI will merge with and into the Company, with the Company continuing as the surviving entity, in a transaction which is referred to as "the merger." Immediately following the merger, Texas Capital Bank will merge with and into Independent Bank, with Independent Bank as the surviving bank. As of December 31, 2019, TCBI, on a consolidated basis, reported total assets of $32.5 billion, total deposits of $26.5 billion, and total equity capital of $2.8 billion.

The name of the surviving entity will be Independent Bank Group, Inc. and the name of the surviving bank will be Texas Capital Bank. The surviving bank will be operated under the name Independent Financial in Colorado and under the name Texas Capital Bank in Texas. After the merger, the 11 banking centers of Texas Capital Bank will become banking centers of the surviving bank. The surviving entity will trade under the Independent Bank Group ticker symbol "IBTX" on the Nasdaq Global Select Market.

Under the terms of the merger agreement, each share of TCBI common stock issued and outstanding immediately prior to the effective time of the merger (other than certain shares held by the Company or TCBI) will be converted into the right to receive 1.0311 shares of Company common stock, and each share of TCBI series A preferred stock issued and outstanding immediately prior to the effective time will be converted at the effective time into the right to receive one share of the new series of Company preferred stock having substantially the same terms as the TCBI series A preferred stock (taking into account that TCBI will not be the surviving entity in the merger and any adjustment to the right of optional redemption by the Company that is reasonably necessary to obtain Tier 1 Capital treatment from the Federal Reserve Board for such preferred stock). Based upon the number of shares of TCBI common stock outstanding as of December 31, 2019, the Company expects to issue 51.9 million shares of common stock and six million shares of preferred stock pursuant to the merger.

The Board of the combined company will consist of 13 directors, seven current TCBI directors and six current Company directors, as follows:

Continuing TCBI Directors	Continuing Company Directors
Larry L. Helm	David R. Brooks (Chairman, President & CEO)
James H. Browning	William E. Fair
David S. Huntley	J. Webb Jennings III
Charles S. Hyle	Alicia K. Harrison
Robert W. Stallings	G. Stacy Smith
Dale W. Tremblay	Michael T. Viola
Patricia A. Watson	

David R. Brooks, the current Chairman, President and CEO of the Company will continue as the Chairman, President and CEO of the combined company. The executive management of the combined company will be comprised of four other Company executives and five TCBI executives.

The merger agreement was unanimously approved by each company's board of directors. The transaction is anticipated to close in mid-2020, subject to customary closing conditions, including receipt of shareholder and regulatory approvals. The transaction is discussed in more detail in Note 22, Business Combinations, to the Company's audited consolidated financial statements included elsewhere in this report.

Future Opportunities. The Company plans to explore additional opportunities for strategic transactions. Factors considered by the Company to evaluate expansion opportunities include (a) similar management and operating philosophy, (b) accretive to earnings and increase shareholder value, (c) ability to improve efficiency, (d) strategic expansion of Company footprint and (e) enhance market presence in existing markets. The Company has an experienced acquisition team and with the TCBI transaction, it will have an even more scalable infrastructure, which it believes will enable the Company to successfully integrate acquired banks. The Company intends to remain disciplined in its approach to acquisitions using appropriate valuation metrics.

Improve Efficiency and Increase Profitability. The Company employs a systematic and calculated approach to increasing the Company's profitability and improving the Company's efficiencies. The Company has established a robust integration process as part of the TCBI transaction. This process will facilitate the design of the target operating model for the combined company's lines of businesses, as well as the evaluation and development of the combined company's operating capabilities which will help create synergies within the Company in the areas of technology, data processing, finance, compliance and human resources. The Company believes that this integration process will provide the combined company with a platform to enable it to be a high performing company.

Independent Bank's Community Banking Services

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

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

The Company’s strategy is to maintain a broadly diversified loan portfolio by type and location. The Company’s loan portfolio consists of real estate loans, commercial and industrial loans, residential mortgage loans, residential construction loans, agricultural loans and consumer loans. Real estate secured loans are spread among a variety of types of borrowers, including owner-occupied offices for small businesses, medical practices and offices, retail operations and multi-family properties. The Company’s loans are diversified geographically throughout the Company’s Dallas/North Texas region (approximately 39%), the Company’s Houston region (approximately 21%), the Company’s Austin/Central Texas region (approximately 12%) and the Company's Colorado Front Range region (approximately 27%). See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Loan Portfolio” for a more detailed description of the Company’s lending operations.

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

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

Competition

The Company competes in the commercial banking industry solely through Independent Bank and firmly believes that Independent Bank’s long-standing presence in the community and personal service philosophy enhance the Company’s ability to attract and retain customers. This industry is highly competitive, and Independent Bank faces strong direct competition for deposits, loans and other financial-related services. The Company competes with other commercial banks, thrifts and credit unions. Although some of these competitors are situated locally, others have statewide or nationwide presence. In addition, the Company competes with large banks in major financial centers and other financial intermediaries, such as consumer finance companies, brokerage firms, mortgage banking companies, insurance companies, securities firms, mutual funds and certain government agencies as well as major retailers, all actively engaged in providing various types of loans and other financial services. The Company believes that its banking professionals, the range and quality of products that the Company offers, its market presence, and its emphasis on building long-lasting relationships distinguishes Independent Bank from its competitors.

According to S&P Global Market Intelligence, as of June 30, 2019, the Company had the 11th largest deposit market share in Texas and the 11th largest deposit market share in Colorado. We believe that our strong market share is a reflection of the Company’s ability to compete with more prominent banking franchises in our markets.

Employees

As of December 31, 2019, the Company employed approximately 1,469 persons. The Company provides extensive training to its employees in an effort to ensure that the Company's customers receive superior customer service. None of the Company's employees are represented by any collective bargaining unit or are parties to a collective bargaining agreement. The Company believes that the Company's relations with the Company's employees are good.

Available Information

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

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

Independent Bank Group, Inc.
7777 Henneman Way
McKinney, Texas 75070-1711
Attention: Paul Langdale
Senior Vice President, Director of Corporate Development
Telephone: (972) 562-9004
www.ibtx.com

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

Supervision and Regulation

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

The primary goals of the bank regulatory scheme are to maintain a safe and sound banking system and to facilitate the conduct of sound monetary policy. The system of supervision and regulation applicable to the Company and its subsidiaries establishes a comprehensive framework for their respective operations and is intended primarily for the protection of the FDIC's deposit insurance fund, the banks' depositors and the public, rather than the Company's shareholders or creditors. The description below summarizes certain elements of the applicable bank regulatory framework. This description is not intended to describe all laws and regulations applicable to the Company and its subsidiaries, and the description is qualified in its entirety by reference to the full text of the statutes, regulations, policies, interpretive letters and other written guidance that are described herein.

Independent Bank Group as a Bank Holding Company

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

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

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

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

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

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

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

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

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

Under the guidelines, specific categories of assets are assigned different risk weights, based generally on the perceived credit risk of the asset. These risk weights are multiplied by corresponding asset balances to determine a "risk-weighted" asset base. The guidelines required a minimum ratio of total capital to total risk-weighted assets of 8.0% (of which at least 6.0% was required to consist of Tier 1 capital elements). Total capital is the sum of Tier 1 and Tier 2 capital. Risk-weighted assets exclude intangible assets such as goodwill and core deposit intangibles.

In addition to the risk-based capital guidelines, the Federal Reserve uses a leverage ratio as an additional tool to evaluate the capital adequacy of bank holding companies. The leverage ratio is a company's Tier 1 capital divided by its average total consolidated assets. In general, bank holding companies are required to maintain a leverage ratio of at least 4.0%. Further, under what is known as the "Basel III" requirements, the Company is subject to a capital measure known as "Common Equity Tier 1", or CET1, which emphasizes the common equity component of capital adequacy.

The federal banking agencies' risk-based and leverage capital ratios are minimum supervisory ratios generally applicable to banking organizations that meet certain specified criteria. Banking organizations not meeting these criteria are expected to operate with capital positions well above the minimum ratios. The federal bank regulatory agencies may set capital requirements for a particular banking organization that are higher than the minimum ratios when circumstances warrant. Federal Reserve guidelines also provide that banking organizations experiencing internal growth or making acquisitions must maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets.

In addition to the minimum CET1, Tier 1 and total risk-based capital ratios, the Company and Independent Bank must maintain a capital conservation buffer consisting of additional CET1 capital greater than 2.5% of risk-weighted assets above the required minimum levels in order to avoid limitations on paying dividends, repurchasing shares, and paying discretionary bonuses.

Under the Federal Reserve's and FDIC's prompt corrective action standards, in order to be considered well-capitalized, the Company and Independent Bank must have a ratio of CET1 capital to risk-weighted assets of 6.5%, a ratio of Tier 1 capital to risk-weighted assets of 8%, a ratio of total capital to risk-weighted assets of 10%, and a leverage ratio of 5%; and must not be subject to any written agreement, order, capital directive, or prompt corrective action directive to meet and maintain a specific capital level for any capital measure. In order to be considered adequately capitalized, an institution must have the minimum capital ratios described above. As of December 31, 2019, the Company and Independent Bank each were "well-capitalized." An institution that is not well capitalized is subject to certain restrictions on brokered deposits and interest rates on deposits.

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

Interchange Fees. The Durbin Amendment to the Dodd-Frank Act limits the amount of interchange fees that banks with assets of $10 billion or more may charge to process electronic debit transactions. An issuer must begin complying with the Durbin Amendment no later than July 1 of the next calendar year after the issuer crosses the $10 billion threshold. The Company and Independent Bank exceeded $10 billion in total consolidated assets upon consummation of the merger of the Company with Guaranty Bancorp and the merger of Independent Bank with Guaranty Bank and Trust Company, both on January 1, 2019. Thus, Independent Bank will become subject to the rule on July 1, 2020. Under the Durbin Amendment and the Federal Reserve's implementing regulations, bank issuers who are not exempt may only receive an interchange fee from merchants that is reasonable and proportional to the cost of clearing the transaction. The maximum permissible interchange fee is equal to no more than $0.21 plus 5 basis points of the transaction value for many types of debit interchange transactions. A debit card issuer may also recover $0.01 per transaction for fraud prevention purposes if the issuer complies with certain fraud-related requirements required by the Federal Reserve. In addition, the Federal Reserve has rules governing routing and exclusivity that require issuers to offer two unaffiliated networks for routing transactions on each debit or prepaid product.

Imposition of Liability for Undercapitalized Subsidiaries. Bank regulators are required to take prompt corrective action to resolve problems associated with insured depository institutions whose capital declines below certain levels. In the event an institution becomes undercapitalized, it must submit a capital restoration plan. The capital restoration plan will not be accepted by the regulators unless each company having control of the undercapitalized institution guarantees the subsidiary's compliance with the capital restoration plan up to a certain specified amount. Any such guarantee from a depository institution's holding company is entitled to a priority of payment in bankruptcy.

The aggregate liability of the holding company of an undercapitalized bank is limited to the lesser of 5.0% of the institution's assets at the time it became undercapitalized or the amount necessary to cause the institution to be adequately capitalized. The bank regulators have greater power in situations where an institution becomes significantly or critically undercapitalized or fails to submit a capital restoration plan. For example, a bank holding company controlling such an institution can be required to obtain prior Federal Reserve approval of proposed dividends, or might be required to consent to a consolidation or to divest the troubled institution or other affiliates.

Acquisitions by Bank Holding Companies. The BHC Act requires every bank holding company to obtain the prior approval of the Federal Reserve before it acquires all or substantially all of the assets of any bank, or ownership or control of any voting shares of any bank if after such acquisition it would own or control, directly or indirectly, more than 5% of the voting shares of such bank. In approving bank acquisitions by bank holding companies, the Federal Reserve is required to consider, among other things, the effect of the acquisition on competition, the financial condition, managerial resources and future prospects of the bank holding company and the banks concerned, the convenience and needs of the communities to be served (including the record of performance under the Community Reinvestment Act, or CRA), the effectiveness of the applicant in combating money laundering activities and the extent to which the proposed acquisition would result in greater or more concentrated risks to the stability of the U.S. banking or financial system. The Company's ability to make future acquisitions will depend on its ability to obtain approval for such acquisitions from the Federal Reserve. The Federal Reserve could deny the Company's application based on the above criteria or other considerations. For example, the Company could be required to sell banking centers as a condition to receiving regulatory approval, which condition may not be acceptable to the Company or, if acceptable, may reduce the benefit of a proposed acquisition.

Control Acquisitions. Federal and state laws, including the BHCA and the Change in Bank Control Act, or the CBCA, impose additional prior notice or approval requirements and ongoing regulatory requirements on any investor that seeks to acquire direct or indirect "control" of an FDIC-insured depository institution or bank holding company. Whether an investor "controls" a depository institution is based on all of the facts and circumstances surrounding the investment. As a general matter, an investor is deemed to control a depository institution or other company if the investor owns or controls 25% or more of any class of voting securities. Subject to rebuttal, an investor is presumed to control a depository institution or other company if the investor owns or controls 10% or more of any class of voting securities and either the depository institution or company is a public company or no other person will hold a greater percentage of that class of voting securities after the acquisition. If an investor's ownership of the Company's voting securities were to exceed certain thresholds, the investor could be deemed to "control" the Company for regulatory purposes, which could subject such investor to regulatory filings or other regulatory consequences.

Volcker Rule. Section 619 of the Dodd-Frank Act, known as the Volcker Rule, prohibits any bank, bank holding company, or affiliate (referred to collectively as "banking entities") from engaging in two types of activities: "proprietary trading" and the ownership or sponsorship of private equity or hedge funds that are referred to as "covered funds." Proprietary trading is, in general, trading in securities on a short-term basis for a banking entity's own account. In December 2013, the federal banking agencies, the SEC and the Commodity Futures Trading Commission, finalized a regulation to implement the Volcker Rule. After the enactment of the Economic Growth, Regulatory Relief, and Consumer Protection Act in May 2018, Volcker Rule limitations apply to banking entities with $10 billion or more in total consolidated assets. Under the Volcker Rule implementing regulations, banking entities have two years to conform its investments and implement the required compliance plan or in the case of the Company, January 1, 2021.

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

Regulation of Independent Bank

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

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

Financial Modernization. Under the GLB Act, a national bank may establish a financial subsidiary and engage, subject to limitations on investment, in activities that are financial in nature, other than insurance underwriting as principal, insurance company portfolio investment, real estate development, real estate investment, annuity issuance and merchant banking activities. To do so, a bank must be well capitalized, well managed and have a Community Reinvestment Act, or CRA, rating from the FDIC of satisfactory or better. Subsidiary banks of a financial holding company or national banks with financial subsidiaries must remain well capitalized and well managed in order to continue to engage in activities that are financial in nature without regulatory actions or restrictions. Such actions or restrictions could include divestiture of the "financial in nature" subsidiary or subsidiaries. In addition, a financial holding company or a bank may not acquire a company that is engaged in activities that are financial in nature unless each of the subsidiary banks of the financial holding company or the bank has a CRA rating of satisfactory of better.

Although the powers of state chartered banks are not specifically addressed in the GLB Act, Texas-chartered banks such as Independent Bank will have the same if not greater powers as national banks through the parity provisions contained in the Texas Constitution and other Texas statutes.

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

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

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

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

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

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

Examinations. The Company is subject to a continuous program of examination by the FDIC and TDB concerning, among other things, lending practices, reserve methodology, compliance with regulations, BSA/AML compliance, and management of risk related to interest rate, liquidity, capital and operations, overall enterprise risk management, internal audit program, financial accounting practice, and other related matters. The Company devotes a significant amount of time and resources to the compliance function.

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

Capital Adequacy Requirements. The FDIC has adopted regulations establishing minimum requirements for the capital adequacy of insured institutions and may establish higher minimum requirements if, for example, a bank has previously received special attention or has a high susceptibility to interest rate risk. The FDIC's risk-based capital guidelines, under the fully phased-in Basel III Capital Rules, generally require state banks to have a minimum ratio of Tier 1 capital to total risk-weighted assets of 8.5% and a ratio of total capital to total risk-weighted assets of 10.5%. The capital categories have the same definitions for Independent Bank as for the Company. The FDIC's leverage guidelines require state banks to maintain Tier 1 capital of no less than 4.0% of average total assets, except in the case of certain highly rated banks for which the requirement is 3.0% of average total assets. The TDB has issued a policy which generally requires state chartered banks to maintain a leverage ratio (defined in accordance with federal capital guidelines) of 5.0%.

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

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

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

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

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

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

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

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

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

Brokered Deposit Restrictions. Adequately capitalized institutions cannot accept, renew or roll over brokered deposits, without receiving a waiver from the FDIC, and are subject to restrictions on the interest rates that can be paid on any deposits. Undercapitalized institutions may not accept, renew or roll over brokered deposits.

Concentrated Commercial Real Estate Lending Regulations. The federal banking agencies have promulgated guidance governing financial institutions with concentrations in commercial real estate lending. The guidance provides that a bank has a concentration in commercial real estate lending if (i) total reported loans for construction, land development and other land represent 100% or more of total capital or (ii) total reported loans secured by multifamily and nonfarm residential properties and loans for construction, land development and other land represent 300% or more of total capital and the bank’s commercial real estate loan portfolio has increased 50% or more during the prior 36 months. Owner-occupied loans are excluded from this second category. If a concentration is present, management must employ heightened risk management practices that address the following key elements: board and management oversight and strategic planning, portfolio management, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing, and maintenance of increased capital levels as needed to support the level of commercial real estate lending.

Community Reinvestment Act. The CRA and the regulations issued thereunder are intended to encourage banks to help meet the credit needs of their entire service area, including low and moderate income neighborhoods, consistent with the safe and sound operations of such banks. These regulations also provide for regulatory assessment of a bank’s record in meeting the needs of its service area when considering applications to establish branches, merger applications and applications to acquire the assets and assume the liabilities of another bank. The FIRREA requires federal banking agencies to make public a rating of a bank’s performance under the CRA. In the case of a bank holding company, the CRA performance record of the banks involved in the transaction are reviewed in connection with the filing of an application to acquire ownership or control of shares or assets of a bank or to merge with any other bank holding company. An unsatisfactory CRA record could substantially delay approval or result in denial of an application.

Consumer Laws and Regulations. In addition to the laws and regulations discussed herein, Independent Bank is also subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. While the list set forth herein is not exhaustive, these laws and regulations include the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, and the Fair Housing Act, among others. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits or making loans to such customers. Independent Bank must comply with the applicable provisions of these consumer protection laws and regulations as part of their ongoing customer relations.

The Dodd-Frank Act created a new independent Consumer Financial Protection Bureau, which has broad authority to regulate and supervise retail financial services activities of banks, such as Independent Bank, and has the authority to promulgate regulations, issue orders, guidance and policy statements, conduct examinations and bring enforcement actions with regard to consumer financial products and services. In general, banks with assets of more than $10 billion, such as Independent Bank, are to be examined for compliance with federal consumer protection laws by the CFPB. Starting in the first quarter of 2020, the fourth consecutive quarter in which the Company’s total consolidated assets are expected to exceed $10 billion, Independent Bank will be subject to CFPB jurisdiction. As a relatively new agency with evolving regulations and practices, there is uncertainty as to how the CFPB’s examination and regulatory authority might impact our business.

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

Federal regulators have issued advisory statements regarding cybersecurity. Generally, federal regulators expect that financial institutions should design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing internet-based services of the financial institution. In addition, a financial institution’s management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution’s operations after a cyber-attack involving destructive malware. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber-attack. If the Company fails to observe the regulatory guidance, the Company could be subject to various regulatory sanctions, including financial penalties.

State regulators have also been increasingly active in implementing privacy and cybersecurity standards and regulations. Recently, several states have adopted regulations requiring certain financial institutions to implement cybersecurity programs and providing detailed requirements with respect to these programs, including data encryption requirements. Many states have also recently implemented or modified their data breach notification and data privacy requirements. The Company expects this trend of state-level activity in those areas to continue, and is continually monitoring developments in the states in which its customers are located.

Limits on Compensation. The Federal Reserve, OCC and FDIC in 2010 issued comprehensive final guidance on incentive compensation policies for executive management of banks and bank holding companies. This guidance was intended to ensure that the incentive compensation policies of banking organizations do not undermine their safety and soundness by encouraging excessive risk-taking. The objective of the guidance is to assure that incentive compensation arrangements (i) provide incentives that do not encourage excessive risk-taking, (ii) are compatible with effective internal controls and risk management and (iii) are supported by strong corporate governance, including oversight by the board of directors. In 2016, the Federal Reserve and the FDIC proposed rules that would, depending upon the assets of the institution, directly regulate incentive compensation arrangements and would require enhanced oversight and recordkeeping. As of December 31, 2019, these rules have not been implemented.

Anti-Money Laundering and Anti-Terrorism Legislation. A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA PATRIOT Act of 2001, or the USA Patriot Act, substantially broadened the scope of U.S. anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The U.S. Treasury Department has issued and, in some cases, proposed a number of regulations that apply various requirements of the USA Patriot Act to financial institutions. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. The USA Patriot Act requires, among other things, financial institutions to comply with certain due diligence requirements in connection with correspondent or private banking relationships with non-U.S. financial institutions or persons, establish an anti-money laundering program that includes employee training and an independent audit, follow minimum standards for identifying customers and maintaining records of the identification information and make regular comparisons of customers against agency lists of suspected terrorists, their organizations and money launderers. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution.

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

Changes in Laws, Regulations or Policies

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

Enforcement Powers of Federal and State Banking Agencies

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

Effect on Economic Environment

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

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

ITEM 1A. RISK FACTORS

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

Risks Related to the Company's Business

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

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

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

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

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

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

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

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

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

As of December 31, 2019, approximately 59% of the Company's loan portfolio was comprised of loans with real estate as a primary or secondary component of collateral, excluding agricultural loans secured by real estate. As a result, adverse developments affecting real estate values in the Company's market areas could increase the credit risk associated with the Company's real estate loan portfolio. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the area in which the real estate is located. Adverse changes affecting real estate values and the liquidity of real estate in one or more of the Company's markets could increase the credit risk associated with the Company's loan portfolio, and could result in losses that would adversely affect credit quality, financial condition, and results of operation. Negative changes in the economy affecting real estate values and liquidity in the Company's market areas could significantly impair the value of property pledged as collateral on loans and affect the Company's ability to sell the collateral upon foreclosure without a loss or additional losses. Collateral may have to be sold for less than the outstanding balance of the loan, which could result in losses on such loans. Such declines and losses would have a material adverse impact on the Company's business, results of operations and growth prospects. If real estate values decline, it is also more likely that the Company would be required to increase the Company's allowance for loan losses, which could adversely affect the Company's financial condition, results of operations and cash flows.

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

As of December 31, 2019, approximately 1.7% of the Company's loan portfolio was composed of loans made to companies engaged in oil production and oilfield services. The significant decline in oil prices during 2015 adversely effected some of these borrowers' ability to repay these loans and impaired the value of collateral securing some of these loans. The Company experienced an increase in nonperforming assets and loan loss provisions in 2015 and early 2016 primarily due to energy loans. Further, because energy is a material segment of the overall Texas economy, the decline and volatility in oil prices could have an impact on other segments of the Texas economy, including real estate. The Houston market economy in particular could be adversely affected. The Company's asset quality and results of operations could be adversely impacted by the direct and indirect effects of current and future conditions in the Texas energy industry.

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

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

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

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

As of December 31, 2019, the Company's allowance for loan losses as a percentage of total loans was 0.47% and as a percentage of total nonperforming loans was 193.35%. Additional loan losses will likely occur in the future and may occur at a rate greater than the Company has previously experienced. The Company may be required to take additional provisions for loan losses in the future to further supplement the allowance for loan losses, either due to management's decision to do so or requirements by the Company's banking regulators. In addition, bank regulatory agencies will periodically review the Company's allowance for loan losses and the value attributed to nonaccrual loans or to real estate acquired through foreclosure. Such regulatory agencies may require the Company to recognize future charge-offs. These adjustments may adversely affect the Company's business, financial condition and results of operations.

A new accounting standard will replace the Company's current "incurred loss" model for recognizing credit losses to an "expected loss" model and may have a material adverse effect on the Company's financial condition and results of operations.

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2016-13, "Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments." This new accounting standard, known as Current Expected Credit Loss ("CECL"), applies to both the Company and Independent Bank and is intended to address delayed recognition of credit losses resulting in insufficient funding of allowance accounts. Under current GAAP, credit losses are recognized when the occurrence of the loss is probable (this is known as the "incurred loss" approach). As a result of the implementation of CECL, however, the Company will be required to implement controls and procedures to measure and estimate lifetime expected credit loss at the time a financial asset is initially added to the balance sheet and periodically thereafter.

The Company is currently using both in-house and third party resources to determine the effect of implementing CECL on existing allowances for credit losses. The Company's effort to implement CECL requires a coordinated response from different units within the Company and Independent Bank, including governance, credit analysis, finance, risk, and information technology. Even though the Company believes the internal and external resources it is devoting to compliance with CECL are adequate, the Company may fail to develop appropriate policies and controls to ensure compliance with CECL. The Company has determined that the implementation of CECL will result in an increase in its combined allowance for loan losses and reserves for unfunded commitments (the "ALLL"). See "Part IV Item 15 Exhibits and Financial Statements - Note 2, Recent Accounting Pronouncements - ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*" for the Company's current estimate of the range of expected increase in the ALLL resulting from the implementation of CECL. The ultimate impact of the implementation of CECL could differ from the expectation.

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

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

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

The Company has been pursuing a growth strategy that includes the acquisition of other financial institutions in target markets. The Company has completed several acquisitions since 2010, most recently completing the acquisitions of Integrity Bancshares, Inc. on June 1, 2018 and Guaranty Bancorp on January 1, 2019. In addition, the Company announced a “merger of equals” transaction with Texas Capital Bancshares, Inc. (“TCBI”) on December 9, 2019 and expects to close the TCBI transaction in mid-2020, subject to customary closing conditions, including receipt of shareholder and regulatory approvals. The Company intends to continue its acquisition strategy. Such an acquisition strategy, involves significant risks, including the following:

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

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

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

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

The proposed merger transaction with TCBI may not be completed.

Completion of the merger with TCBI is subject to a number of conditions, including shareholder and regulatory approvals. If the conditions are not satisfied or waived, the merger could not be completed.

The Company is expected to incur substantial costs related to the merger and integration.

The Company has incurred and expects to incur a number of non-recurring costs associated with the merger. These costs include legal, financial advisory, accounting, consulting and other advisory fees, severance/employee benefit-related costs, public company filing fees and other regulatory fees, financial printing and other printing costs and other related costs. Some of these costs are payable by the Company regardless of whether or not the merger is completed.

The combined company is expected to incur substantial costs in connection with the related integration. There are a large number of processes, policies, procedures, operations, technologies and systems that may need to be integrated, including purchasing, accounting and finance, payroll, compliance, treasury management, branch operations, vendor management, risk management, lines of business, pricing and benefits. While TCBI and the Company have assumed that a certain level of costs will be incurred, there are many factors beyond their control that could affect the total amount or the timing of the integration costs. Moreover, many of the costs that will be incurred are, by their nature, difficult to estimate accurately. These integration costs may result in the combined company taking charges against earnings following the completion of the merger, and the amount and timing of such charges are uncertain at present.

Combining the Company and TCBI may be more difficult, costly or time consuming than expected and the combined company may fail to realize the anticipated benefits of the merger.

The success of the merger will depend, in part, on the ability to realize the anticipated cost savings from combining the businesses of the Company and TCBI. To realize the anticipated benefits and cost savings from the merger, the Company and TCBI must successfully integrate and combine their businesses in a manner that permits those cost savings to be realized. If the Company and TCBI are not able to successfully achieve these objectives, the anticipated benefits of the merger may not be realized fully or at all or may take longer to realize than expected. In addition, the actual cost savings and anticipated benefits of the merger could be less than anticipated, and integration may result in additional unforeseen expenses.

The Company and TCBI have operated and, until the completion of the merger, must continue to operate, independently. It is possible that the integration process could result in the loss of key employees, the disruption of each company’s ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the companies’ ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits and cost savings of the merger. Integration efforts between the two companies may also divert management attention and resources. These integration matters could have an adverse effect on the Company during this transition period and for an undetermined period after completion of the merger on the combined company.

The future results of the combined company following the merger may suffer if the combined company does not effectively manage its expanded operations.

Following the merger, the size of the business of the combined company will increase significantly beyond the current size of either the Company’s or TCBI’s business. The combined company’s future success will depend, in part, upon its ability to manage this expanded business, which may pose challenges for management, including challenges related to the management and monitoring of new operations and associated increased costs and complexity. The combined company may also face increased scrutiny from governmental authorities as a result of the significant increase in the size of its business. There can be no assurances that the combined company will be successful or that it will realize the expected operating efficiencies, cost savings, revenue enhancements or other benefits currently anticipated from the merger.

The combined company may be unable to retain the Company or TCBI personnel successfully after the merger is completed.

The success of the merger will depend in part on the combined company’s ability to retain the talents and dedication of key employees currently employed by the Company and TCBI. It is possible that these employees may decide not to remain with the Company or TCBI, as applicable, while the merger is pending or with the combined company after the merger is consummated. If the Company and TCBI are unable to retain key employees, including management, who are critical to the successful integration and future operations of the companies, the Company and TCBI could face disruptions in their operations, loss of existing customers, loss of key information, expertise or know-how and unanticipated additional recruitment costs. In addition, if key employees terminate their employment, the combined company’s business activities may be adversely affected and management’s attention may be diverted from successfully integrating the Company and TCBI to hiring suitable replacements, all of which may cause the combined company’s business to suffer. In addition, the Company and TCBI may not be able to locate or retain suitable replacements for any key employees who leave either company.

Termination of the merger agreement could negatively affect the Company.

If the merger agreement is not completed for any reason, including as a result of the Company shareholders or TCBI shareholders failing to approve the merger, there may be various adverse consequences and the Company may experience negative reactions from the financial markets and from their respective customers and employees. For example, the Company’s businesses may have been affected adversely by the failure to pursue other beneficial opportunities due to the focus of management on the merger, without realizing any of the anticipated benefits of completing the merger. Additionally, if the merger agreement is terminated, the market price of the Company's common stock could decline to the extent that the current market prices reflect a market assumption that the merger will be completed. If the merger agreement is terminated under certain circumstances, the Company may be required to pay a termination fee of $115 million to TCBI.

The completion of the Company's merger with TCBI will result in the immediate dilution of the Company's existing shareholders' ownership percentages in the Company's common stock and their voting power, which could adversely affect the market for the Company's common stock.

The merger of TCBI with and into the Company will result in the issuance of a substantial number of additional shares of the Company's common stock. That issuance would result in the immediate dilution of the percentage ownership and voting power of the existing holders of the Company's common stock. Based on the number of shares of the Company and TCBI common stock outstanding on the date that the merger was announced, and based on the number of shares of Company common stock expected to be issued in the merger, the current holders of the Company common stock, as a group, are estimated to own approximately forty-five percent (45%) of the fully diluted shares of the combined company immediately after the merger. Because of this, holders of Company common stock may have less influence on the management and policies of the combined company than they now have on the management and policies of the Company.

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

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

The Company determines impairment by comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Any such adjustments are reflected in the Company's results of operations in the periods in which they become known. As of December 31, 2019, the Company's goodwill totaled $994.0 million. While the Company has not recorded any such impairment charges since the Company initially recorded the goodwill, there can be no assurance that the Company's future evaluations of goodwill will not result in findings of impairment and related write-downs, which may have a material adverse effect on the Company's financial condition and results of operations.

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

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

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

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

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

There may be adverse impact resulting from the changes in the method of determining the London Interbank Offered Rate (“LIBOR”) or the replacement of LIBOR with an alternative reference rate, for our variable rate loans, derivative contracts and other financial assets and liabilities.

The Company’s business relies upon a large number of business transactions which are directly or independently dependent on LIBOR to establish their interest rate and/or value. The U.K. Financial Conduct Authority announced in 2017 that it would no longer compel banks to submit rates for the calculation of LIBOR after 2021. It is not possible to predict whether banks will continue to provide LIBOR submissions to the administrator of LIBOR, whether LIBOR rates will cease to be published or supported before or after 2021 or whether any additional reforms to LIBOR may be enacted in the United Kingdom or elsewhere. It is expected that a transition away from the widespread use of LIBOR to alternative rates is likely to occur during the next several years. The impact of these developments on the Company’s business and financial results is not yet known. The transition from LIBOR may cause the Company to incur increased costs and additional risk. Uncertainty as to the nature of alternative reference rates and as to potential changes in or other reforms to LIBOR may adversely affect LIBOR rates and the value of LIBOR-based loans originated prior to 2021. If LIBOR rates are no longer available, any successor or replacement interest rates may perform differently, which may affect net interest income, change market risk profile and require changes to risk, pricing and hedging strategies. Any failure to adequately manage this transition could adversely affect impact the Company’s reputation.

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

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

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

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

While the Company attempts to invest a significant percentage of its assets in loans (the Company’s loan to deposit ratio was 97.3% as of December 31, 2019), the Company invests a percentage of its total assets (approximately 7.3% as of December 31, 2019) in investment securities as part of its overall liquidity strategy. As of December 31, 2019, the fair value of the Company’s securities portfolio was approximately $1.1 billion.

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

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

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

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

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

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

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

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

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

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

The Company relies on customer deposits as a significant source of funding. Competition among U.S. banks for customer deposits is intense, and may increase the cost of deposits or prevent new deposits, and may otherwise negatively affect the Company's ability to grow its deposit base. The Company's deposit accounts may decrease in the future, and any such decrease could have an adverse impact on the Company's sources of funding, which impact could be material. Any changes the Company makes to the rates offered on its deposit products to remain competitive with other financial institutions may adversely affect the Company's profitability and liquidity. The demand for the deposit products the Company offers may also be reduced due to a variety of factors such as demographic patterns, changes in customer preferences, reductions in consumers' disposable income, regulatory actions that decrease customer access to particular products or the availability of competing products. In addition, a portion of the Company's deposits are brokered deposits and FDIC uninsured deposits. The levels of these types of deposits that the Company holds may be more volatile during changing economic conditions. As of December 31, 2019, approximately $0.9 billion, or 7.49%, of the Company's deposits consisted of brokered deposits.

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

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

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

System failure, cybersecurity breaches, cyberattacks or other security breaches could have a material adverse effect on the Company's operations and could subject the Company to increased operating costs, litigation, other liabilities and reputational damage.

The Company is highly dependent on its computer systems and network infrastructure to conduct its operations, including the secure processing, storage and transmission of vital and sensitive data, exposing the Company to potential cyber incidents resulting from deliberate attacks or unintentional events. As a financial institution, the Company processes, stores and transmits a significant amount of personal customer information. The Company also maintains important internal data such as personally identifiable information about employees and information relating to the Company's operations. The Company relies on third-party service providers for significant portions of its computer systems, network infrastructure and information security, and failure or misconduct by any of those third parties or their systems could have a material adverse effect on the Company. The secure maintenance and transmission of confidential information, as well as execution of transactions over the Company's computer systems, are essential to protect the Company and its customers against fraud and cybersecurity breaches and for the Company to maintain customer confidence. The computer systems and network infrastructure the Company uses could fail or be subject to unforeseen problems. The Company's operations are dependent upon its ability to protect its computer systems and network against damage from physical theft, fire, power loss, telecommunications failure or a similar catastrophic event, as well as from cybersecurity breaches, cyberattacks, denial of service attacks, viruses, worms, and other unauthorized or hostile acts which are becoming increasingly diverse and sophisticated. Any action, damage or failure that causes or results in breakdowns, disruptions, or unauthorized activities in the Company's computer systems or network infrastructure, including customer relationship management, general ledger, deposit, loan or other systems, could disrupt the Company's ability to properly operate its business, damage the Company's reputation, result in a loss of customer business, subject the Company to additional regulatory scrutiny, investigations or fines, violate privacy or other applicable laws or expose the Company to civil litigation and possible financial liability, any of which could have a material adverse effect on the Company. External or internal actors could obtain unauthorized access to the Company's computer systems or network infrastructure or information stored in and transmitted through the Company's computer systems and network infrastructure, which may result in the theft or unauthorized use of personal information, which could cause significant liability to the Company and may cause existing and potential customers to refrain from doing business with the Company. The pervasiveness of cybersecurity incidents in general and the risks of cybersecurity breaches are complex and continue to evolve as technology and reliance on these systems continue to evolve. In addition, advances in computer capabilities and the increased sophistication of fraudsters and hackers could result in a compromise or breach of the systems the Company and the Company's third-party service providers use to encrypt and protect customer data and transactions. A failure or compromise of such security measures could have a material adverse effect on the Company's financial condition and results of operations.

As of February 27, 2020, the Company has not experienced any known breaches of its computer systems or network infrastructure.

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

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

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

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

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

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

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

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

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

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

Hurricanes, tornadoes, wildfires, earthquakes and other natural disasters and severe weather events have caused, and in the future may cause, widespread property damage and significantly and negatively affect the local economies in which the Company operates. For example, in late August 2017, Hurricane Harvey, a Category 4 hurricane, caused catastrophic flooding and unprecedented damage to residences and businesses across Southeast Texas, including Houston. The Company currently operates 10 banking centers in the greater Houston area. The effect of Hurricane Harvey, and other catastrophic weather events if they were to occur, could have a materially adverse impact on the Company's financial condition, results of operations and business, as well as potentially increase the Company's exposure to credit losses and liquidity risks.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company's stock can be volatile.

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

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

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

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

The Company's primary tangible asset is Independent Bank. As such, the Company depends upon Independent Bank for cash distributions (through dividends on Independent Bank's stock) that the Company uses to pay the Company's operating expenses, satisfy the Company's obligations (including the Company's senior indebtedness, subordinated debentures, and junior subordinated indebtedness issued in connection with trust preferred securities), and to pay dividends on the Company's common stock and preferred stock. There are numerous laws and banking regulations that limit Independent Bank's ability to pay dividends to the Company. If Independent Bank is unable to pay dividends to the Company, the Company will not be able to satisfy the Company's obligations or pay dividends on the Company's common stock and preferred stock. Federal and state statutes and regulations restrict Independent Bank's ability to make cash distributions to the Company. These statutes and regulations require, among other things, that Independent Bank maintain certain levels of capital in order to pay a dividend. Further, state and federal banking authorities have the ability to restrict the payment of dividends by supervisory action.

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

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

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

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

Collectively, as of February 27, 2020, Messrs. Vincent Viola and David Brooks owned 12.5% of the Company's outstanding common stock on a fully diluted basis. Vincent Viola, the largest shareholder of the Company, currently owns 10.3% of the Company's outstanding common stock, and David Brooks, the Company's Chairman of the Board and Chief Executive Officer, currently owns 2.2% of the Company's common stock, each calculated on a fully diluted basis. Further, as of the date hereof, the Company's other directors and executive officers currently own collectively approximately 2.3% of the Company's outstanding common stock. While these ownership percentages will be significantly diluted as a result of the merger with TCBI, these individuals have historically, and currently, exert controlling influence in the Company's management and policies.

In addition, Michael Viola, a director of the Company, is the son of Vincent Viola. Further, David Brooks, the Company's Chairman and Chief Executive Officer, has a 31 year history of ownership and operation of Independent Bank with Vincent Viola; and he has a joint investment with Mr. Viola outside of the Company. Given these close relationships, even though he does not serve on the Company's board, Mr. Viola has and will continue to have an influence over the direction and operation of the Company.

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

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

- staggered terms for directors;
- a provision that directors cannot be removed except for cause;
- a provision that any special meeting of the Company's shareholders may be called only by a majority of the Company's board of directors, the Chairman or a holder or group of holders of at least 20% of the Company's shares entitled to vote at such special meeting; and
- a provision establishing certain advance notice procedures for nomination of candidates for election as directors and for shareholder proposals to be considered only at an annual or special meeting of shareholders.

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

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

In the event of any winding up and termination of the Company, the Company common stock would rank below all claims of the holders of the Company’s debt and any preferred stock then outstanding. The Company has a senior, revolving credit facility under which the Company may borrow up to $100 million. As of December 31, 2019, the Company has $24.5 million drawn upon this credit facility. Further, as of December 31, 2019, the Company had outstanding

- $180 million of aggregate principal amount of subordinated indebtedness; and
- $57.3 million of subordinated debentures issued in connection with trust preferred securities

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

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

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

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

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

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

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

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

Because the Company's total assets exceeded $10 billion as of January 1, 2019, the Company is subject to additional regulatory requirements, which could have a material adverse effect on the Company's financial condition and results of operations.

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

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

In addition, the Company and Independent Bank will be subject to the Durbin Amendment to the Dodd-Frank Act regarding limits on debit card interchange fees. The Durbin Amendment gives the Federal Reserve Board the authority to establish rules regarding interchange fees charged for electronic debit transactions by a payment card issuer that, together with its affiliates, has assets of $10 billion or more and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer. The Federal Reserve Board has adopted rules under this provision that limit the swipe fees that a debit card issuer can charge a merchant for a transaction to the sum of 21 cents and five basis points times the value of the transaction, plus up to one cent for fraud prevention costs. Accordingly, deposit insurance assessments and expenses related to regulatory compliance may increase, while any decrease in the amount of interchange fees that the Company receives would reduce the Company's revenue.

The imposition of these regulatory requirements and increased supervision has and will continue to require commitment of additional financial resources for regulatory compliance, which has increased the Company's cost of operations, and has and will continue to otherwise have an impact on the Company's financial condition and results of operations.

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

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

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

The Federal Reserve may require the Company to commit capital resources to support Independent Bank.

The Federal Reserve, which examines the Company and Independent Bank, requires a bank holding company to act as a source of financial and managerial strength to a subsidiary bank and to commit resources to support such subsidiary bank. Under the "source of strength" doctrine, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to such a subsidiary bank. In addition, the Dodd-Frank Act directs the federal bank regulators to require that all companies that directly or indirectly control an insured depository institution serve as a source of strength for the institution. Under these requirements, in the future, the Company could be required to provide financial assistance to Independent Bank if it experiences financial distress.

A capital injection may be required at times when the Company does not have the resources to provide it, and therefore the Company may be required to borrow the funds. In the event of a bank holding company's bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the holding company's general unsecured creditors, including the holders of its note obligations. Thus, any borrowing that must be done by the holding company in order to make the required capital injection becomes more difficult and expensive and will adversely impact the holding company's cash flows, financial condition, results of operations and prospects.

Federal banking agencies periodically conduct examinations of the Company's business, including compliance with laws and regulations, and the Company's failure to comply with any supervisory actions to which the Company becomes subject as a result of such examinations could materially and adversely affect the Company.

Texas and federal banking agencies periodically conduct examinations of the Company's business, including compliance with laws and regulations. If, as a result of an examination, a Texas or federal banking agency were to determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of the Company's operations had become unsatisfactory, or that the Company or its management was in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin "unsafe or unsound" practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in the Company's capital, to restrict the Company's growth, to assess civil monetary penalties against Independent Bank, the Company's officers or directors, to remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate the Company's deposit insurance. If the Company becomes subject to such regulatory actions, the Company could be materially and adversely affected.

The Company may be required to pay significantly higher FDIC deposit insurance assessments in the future, which could materially and adversely affect the Company.

Previous economic conditions and the Dodd-Frank Act caused the FDIC to increase deposit insurance assessments and may result in increased assessments in the future. On February 7, 2011, the FDIC approved a final rule that amended the Deposit Insurance Fund restoration plan and implemented certain provisions of the Dodd-Frank Act. Effective April 1, 2011, the assessment base is determined using average consolidated total assets minus average tangible equity rather than the previous assessment base of adjusted domestic deposits. The final rule also provides the FDIC's board with the flexibility to adopt actual rates that are higher or lower than the total base assessment rates adopted on February 7, 2011 without notice and comment, if certain conditions are met. An increase in the assessment rates could materially and adversely affect the Company.

The Company faces a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The federal Bank Secrecy Act, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, or Patriot Act, and other laws and regulations require financial institutions, among other duties, to institute and maintain effective anti-money laundering programs and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network, established by the Treasury to administer the Bank Secrecy Act, is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration and Internal Revenue Service. There is also increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control. If the Company's policies, procedures and systems are deemed deficient or the policies, procedures and systems of the financial institutions that the Company has already acquired or may acquire in the future are deficient, the Company would be subject to liability, including fines and regulatory actions such as restrictions on the Company's ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of the Company's business plan (including the Company's acquisition plans), which would negatively impact the Company's business, financial condition and results of operations. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for the Company.

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company owns its corporate headquarters, which is an approximately 165,000 square foot, six story office building located at 7777 Henneman Way, McKinney, Texas 75070, and serves as Independent Bank’s home office.

As of December 31, 2019, the Company had 93 full-service branches. The Company believes that its facilities are in good condition and are adequate to meet the Company’s operating needs for the foreseeable future. At December 31, 2019, the Company owns 72 of the branches, and leases the remaining facilities. The majority of our branches are located in the Dallas/North Texas area, including McKinney, Dallas, Fort Worth, and Sherman/Denison, the Austin/Central Texas area, including Austin and Waco, the Houston Texas metropolitan area and along the Colorado Front Range area, including Denver, Colorado Springs and Fort Collins.

For more information about premises and equipment and lease commitments, see Note 7, Premises and Equipment, Net, and Note 13, Leases, respectively, to the Company's audited consolidated financial statements included elsewhere in this report.

ITEM 3. LEGAL PROCEEDINGS

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

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

On May 1, 2015, the plaintiffs filed a motion requesting permission to file a Second Amended Class Action Complaint in this case, which motion was subsequently granted. The Second Amended Class Action Complaint asserted previously unasserted claims, including aiding and abetting or participation in a fraudulent scheme based upon the large amount of deposits that the Stanford Entities held at BOH and the alleged knowledge of certain BOH officers. The plaintiffs seek recovery from Independent Bank and other defendants for their losses. The case was inactive due to a court-ordered discovery stay issued

March 2, 2015 pending the Court’s ruling on plaintiff’s motion for class certification and designation of class representatives and counsel. On November 7, 2017, the Court issued an order denying the plaintiff’s motion. In addition, the Court lifted the previously ordered discovery stay. On January 11, 2018, the Court entered a scheduling order providing that the case be ready for trial on January 27, 2020. However, due to agreed upon extensions of discovery on July 25, 2019, the Court amended the scheduling order to now provide that the case be ready for trial on January 11, 2021. The Company has experienced an increase in legal fees associated with the defense of this claim and anticipates further increases in legal fees as the case proceeds to trial.

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

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market for Common Stock

Since January 2, 2014, the Company's common stock has traded on the Nasdaq Global Select Market under the symbol “IBTX.” Quotations of the sales volume and the closing sales prices of the common stock of the Company are listed daily in the Nasdaq Global Select Market’s listings. As of February 27, 2020, there were 658 holders of record for the Company's common stock.

Recent Sales of Unregistered Securities

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

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

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

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information as of December 31, 2019, regarding the Company’s equity compensation plans under which the Company’s equity securities are authorized for issuance:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	—	N/A	1,452,124 (1)
Equity compensation plans not approved by security holders	—	N/A	—

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

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Share Repurchase Program The Company established share repurchase programs in prior years which would allow the Company to purchase its common stock in the open market or in privately negotiated transactions. In general, share repurchase programs allow the Company to proactively manage its capital position and return excess capital to shareholders. On October 24, 2018, the Company announced the reestablishment of its share repurchase program. The program authorizes the purchase by the Company of up to $75 million of its common stock and was authorized to continue through October 1, 2019. On October 17, 2019, the repurchase program was renewed and authorized to continue through December 31, 2020. As of December 31, 2019, the Company repurchased a total of 897,738 shares of Company stock at a total cost of $49 million under this program.

The following table summarizes the Corporation's repurchase activity during the year ended December 31, 2019.

	Total Number of Shares Purchased [1]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Repurchase Plan	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plan (thousands)
Total first quarter 2019	225,903	$ 55.37	172,738	$ 65,000
Total second quarter 2019	726,002	53.86	725,000	25,952
Total third quarter 2019	776	52.43	—	25,952
October 2019	163	52.34	—	25,952
November 2019	—	—	—	25,952
December 2019	—	—	—	25,952
Total fourth quarter 2019	163	52.34	—	25,952
Total 2019 year-to-date	952,844	$ 54.22	897,738	$ 25,952

(1) Includes 55,106 shares purchased in connection with the vesting of restricted stock replacement awards acquired with the Guaranty merger. These transactions are not considered part of the Corporation's repurchase program.

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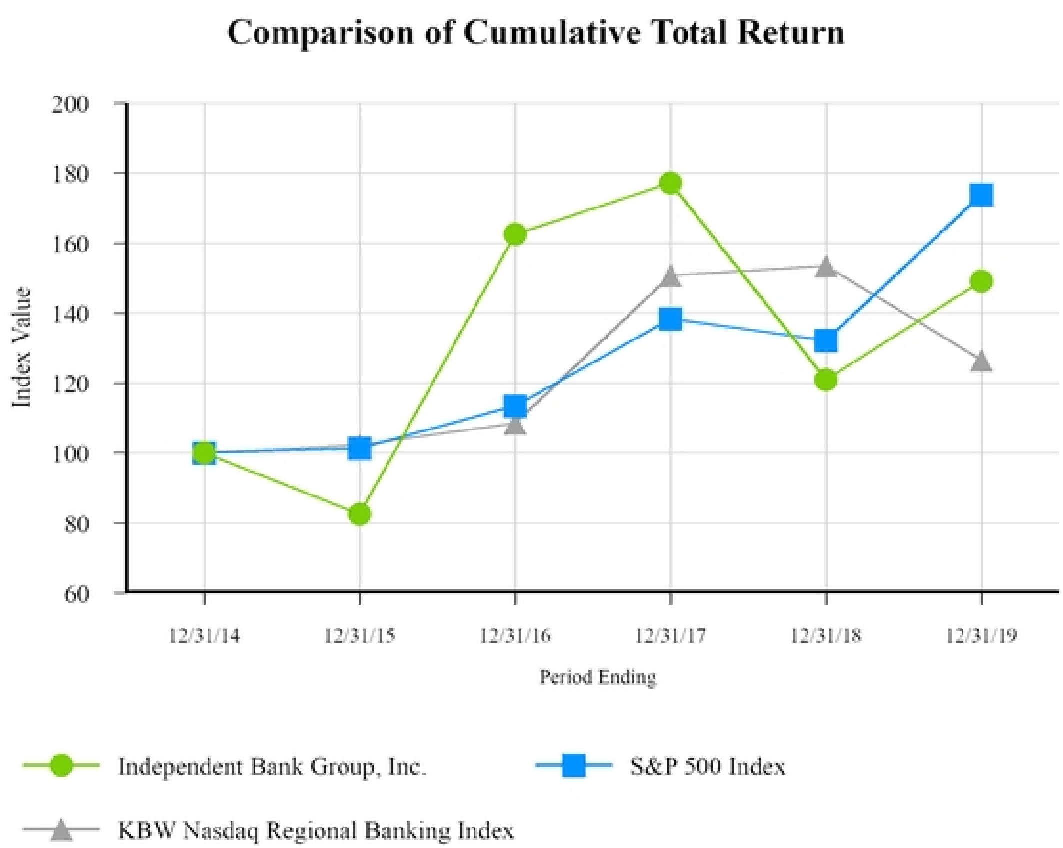
Performance Graph

The following Performance Graph compares the cumulative total shareholder return on the Company's common stock for the period December 31, 2014 through December 31, 2019, with the cumulative total return of the S&P 500 Total Return Index and the KBW Nasdaq Regional Banking Index for the same period. Dividend reinvestment has been assumed. The Performance Graph assumes $100 invested on December 31, 2014, in the Company's common stock, the S&P 500 Total Return Index and KBW Nasdaq Regional Banking Index. The historical stock price performance for the Company's common stock shown on the graph below is not necessarily indicative of future stock performance.

Comparison of Cumulative Total Return

Among Independent Bank Group, Inc., the S&P 500 Index and the KBW Nasdaq Regional Banking Index



	December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2017	December 31, 2018	December 31, 2019
Independent Bank Group, Inc.	$ 100.00	$ 82.58	$ 162.50	$ 177.17	$ 120.94	$ 149.19
S&P 500 Index	100.00	101.38	113.51	138.29	132.23	173.86
KBW Nasdaq Regional Banking Index	100.00	102.42	108.48	150.80	153.45	126.59

(Source: S&P Global, Inc.)

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data of the Company for, and as of, the end of each of the years in the five-year period ended December 31, 2019, is derived from and should be read in conjunction with the Company's consolidated financial statements and the notes thereto appearing elsewhere in this Annual Report on Form 10-K.

You should read the following financial information relating to the Company in conjunction with other information contained in this Annual Report on Form 10-K, including the information set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" under Part II, Item 7, beginning on page 38 and the consolidated financial statements of the Company and related accompanying notes included elsewhere in this Annual Report on Form 10-K. The Company's historical results for any prior period are not necessarily indicative of results to be expected in any future period. As described elsewhere in this Annual Report on Form 10-K, the Company has consummated several acquisitions in recent fiscal periods. The results and other financial information of those acquired operations are not included in the information below for the periods prior to their respective acquisition dates and, therefore, the results for these prior periods are not comparable in all respects and may not be predictive of the Company's future results.

	As of and for the Year Ended December 31,				
(dollars in thousands except per share data)	2019	2018	2017	2016	2015
Selected Income Statement Data					
Interest income	$ 652,932	$ 407,290	$ 307,914	$ 210,049	$ 174,027
Interest expense	148,175	81,038	42,436	26,243	19,929
Net interest income	504,757	326,252	265,478	183,806	154,098
Provision for loan losses	14,805	9,860	8,265	9,440	9,231
Net interest income after provision for loan losses	489,952	316,392	257,213	174,366	144,867
Noninterest income	78,176	42,224	41,287	19,555	16,128
Noninterest expense	321,864	198,619	176,813	113,790	103,198
Income tax expense	53,528	31,738	45,175	26,591	19,011
Net income	192,736	128,259	76,512	53,540	38,786
Preferred stock dividends	—	—	—	8	240
Net income available to common shareholders	192,736	128,259	76,512	53,532	38,546
Per Share Data (Common Stock)					
Earnings:					
Basic	$ 4.46	$ 4.33	$ 2.98	$ 2.89	$ 2.23
Diluted (1)	4.46	4.33	2.97	2.88	2.21
Dividends	1.00	0.54	0.40	0.34	0.32
Book value (2)	54.48	52.50	47.28	35.63	32.79
Selected Period End Balance Sheet Data					
Total assets	$ 14,958,207	$ 9,849,965	$ 8,684,463	$ 5,852,801	$ 5,055,000
Cash and cash equivalents	565,170	130,779	431,102	505,027	293,279
Securities available for sale	1,085,936	685,350	763,002	316,435	273,463
Loans, held for sale	35,645	32,727	39,202	9,795	12,299
Loans, held for investment, excluding mortgage warehouse purchase	10,928,653	7,717,510	6,309,549	4,572,771	3,989,405
Mortgage warehouse purchase loans	687,317	170,290	164,694	—	—
Allowance for loan losses	51,461	44,802	39,402	31,591	27,043
Goodwill and other intangible assets	1,094,762	766,839	664,702	272,496	275,000
Other real estate owned	4,819	4,200	7,126	1,972	2,168
Noninterest-bearing deposits	3,240,185	2,145,930	1,907,770	1,117,927	1,071,656
Interest-bearing deposits	8,701,151	5,591,864	4,725,052	3,459,182	2,956,623
Borrowings (other than junior subordinated debentures)	527,251	427,316	667,578	568,045	371,283
Junior subordinated debentures (3)	53,824	27,852	27,654	18,147	18,147
Series A Preferred Stock	—	—	—	—	23,938
Total stockholders' equity	2,339,773	1,606,433	1,336,018	672,365	603,371
Selected Performance Metrics					
Return on average assets (4)	1.32%	1.35%	0.96%	0.98%	0.88%
Return on average equity (4)	8.50	8.69	6.71	8.42	6.83

(dollars in thousands except per share data)	As of and for the Year Ended December 31, 2019	2018	2017	2016	2015
Return on average common equity [4]	8.50	8.69	6.71	8.42	7.13
Net interest margin [5]	3.95	3.97	3.84	3.81	4.05
Efficiency ratio [6]	53.01	52.35	56.13	54.99	59.71
Dividend payout ratio [7]	22.42	12.47	13.42	11.76	14.35
Credit Quality Ratios [8][9]					
Nonperforming assets to total assets	0.21%	0.17%	0.26%	0.34%	0.36%
Nonperforming loans to total loans held for investment	0.24	0.16	0.24	0.39	0.37
Allowance for loan losses to nonperforming loans	193.35	354.73	255.62	177.06	181.99
Allowance for loan losses to total loans held for investment	0.47	0.58	0.62	0.69	0.68
Net charge-offs to average loans outstanding (unaudited)	0.07	0.06	0.01	0.12	0.02
Capital Ratios					
Common equity tier 1 capital to risk-weighted assets	9.76%	10.05%	9.61%	8.20%	7.94%
Tier 1 capital to average assets	9.32	9.57	8.92	7.82	8.28
Tier 1 capital to risk-weighted assets	10.19	10.41	10.05	8.55	8.92
Total capital to risk-weighted assets	11.83	12.58	12.56	11.38	11.14
Total stockholders’ equity to total assets	15.64	16.31	15.38	11.49	11.94
Total common equity to total assets [10]	15.64	16.31	15.38	11.49	11.94

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(1) The Company calculates its diluted earnings per share for each period shown as its net income divided by the weighted-average number of its common shares outstanding during the relevant period adjusted for the dilutive effect of its outstanding warrants to purchase shares of common stock. The increase in 2016 relates to the weighted effect of the shares issued in November 2015 along with shares issued in a private offering during 2016, the increase in 2017 relates to shares issued in the acquisition completed in April 2017 along with shares issued in a public offering during 2017, the increase in 2018 relates to the shares issued in the acquisition completed June 1, 2018 and the increase in 2019 relates to the shares issued in the acquisition completed January 1, 2019. See Note 1 to the Company’s consolidated financial statements appearing elsewhere in this Annual Report on Form 10 K for more information regarding the dilutive effect of its outstanding warrants and regarding certain nonvested shares of common stock, the effect of which is anti-dilutive. Earnings per share on a basic and diluted basis were calculated using the following outstanding share amounts, which includes participating shares (those shares with dividend rights):

	For the Year Ended December 31, 2019	2018	2017	2016	2015
Weighted average shares outstanding-basic	43,245,418	29,599,119	25,636,292	18,501,663	17,321,513
Weighted average shares outstanding-diluted	43,245,418	29,599,119	25,742,362	18,588,309	17,406,108

(2) Book value per share equals the Company’s total common stockholders’ equity (excludes preferred stock) as of the date presented divided by the number of shares of its common stock outstanding as of the date presented. The number of shares of its common stock outstanding as of December 31, 2019, 2018, 2017, 2016 and 2015 was 42,950,228 shares, 30,600,582 shares, 28,254,893 shares, 18,870,312 shares and 18,399,194 shares, respectively.

(3) Each of nine wholly owned, but nonconsolidated, subsidiaries of the Company holds a series of the Company’s junior subordinated debentures purchased by the subsidiary in connection with, and paid for with the proceeds of, the issuance of trust issued preferred securities by that subsidiary. The Company has guaranteed the payment of the amounts payable under each of those issues of trust preferred securities. During 2019 the Company assumed two trusts with the acquisition of Guaranty and during 2017 the Company assumed two trusts with the Carlile acquisition.

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

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

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

(7) The Company calculates its dividend payout ratio for each period presented as the dividends paid per share for such period divided by its basic earnings per share for such period.

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

(9) Loans held for investment excludes mortgage warehouse purchase loans.

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

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

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

Cautionary Note Regarding Forward Looking Statements

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

- our ability to sustain our current internal growth rate and total growth rate;
- changes in geopolitical, business and economic events, occurrences and conditions, including changes in rates of inflation or deflation, nationally, regionally and in our target markets, particularly in Texas and Colorado;
- worsening business and economic conditions nationally, regionally and in our target markets, particularly in Texas and Colorado, and the geographic areas in those states in which we operate;
- our dependence on our management team and our ability to attract, motivate and retain qualified personnel;
- the concentration of our business within our geographic areas of operation in Texas and Colorado;
- changes in asset quality, including increases in default rates on loans and higher levels of nonperforming loans and loan charge-offs;
- concentration of the loan portfolio of Independent Bank, before and after the completion of acquisitions of financial institutions, in commercial and residential real estate loans and changes in the prices, values and sales volumes of commercial and residential real estate;
- the ability of Independent Bank to make loans with acceptable net interest margins and levels of risk of repayment and to otherwise invest in assets at acceptable yields and presenting acceptable investment risks;
- inaccuracy of the assumptions and estimates that the managements of our Company and the financial institutions that we acquire make in establishing reserves for probable loan losses and other estimates;
- lack of liquidity, including as a result of a reduction in the amount of sources of liquidity we currently have;
- material increases or decreases in the amount of deposits held by Independent Bank or other financial institutions that we acquire and the cost of those deposits;
- our access to the debt and equity markets and the overall cost of funding our operations;

- regulatory requirements to maintain minimum capital levels or maintenance of capital at levels sufficient to support our anticipated growth;
- changes in market interest rates that affect the pricing of the loans and deposits of each of Independent Bank and the financial institutions that we acquire and that affect the net interest income, other future cash flows, or the market value of the assets of each of Independent Bank and the financial institutions that we acquire, including investment securities;
- fluctuations in the market value and liquidity of the securities we hold for sale, including as a result of changes in market interest rates;
- effects of competition from a wide variety of local, regional, national and other providers of financial, investment and insurance services;
- changes in economic and market conditions that affect the amount and value of the assets of Independent Bank and of financial institutions that we acquire;
- the institution and outcome of, and costs associated with, litigation and other legal proceedings against one of more of the Company, Independent Bank and financial institutions that we acquire or to which any of such entities is subject;
- the occurrence of market conditions adversely affecting the financial industry generally;
- the impact of recent and future legislative regulatory changes, including changes in banking, securities, and tax laws and regulations and their application by the Company’s regulators, and changes in federal government policies, as well as regulatory requirements applicable to, and resulting from regulatory supervision of, the Company and Independent Bank as a financial institution with total assets greater than $10 billion;
- changes in accounting policies, practices, principles and guidelines, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the SEC and the Public Company Accounting Oversight Board, as the case may be;
- governmental monetary and fiscal policies, including changes resulting from the implementation of the new Current Expected Credit Loss accounting standard;
- 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 natural disasters such as storms, droughts, tornadoes, hurricanes and flooding, that may affect general economic conditions;
- our actual cost savings resulting from previous or future acquisitions are less than expected, we are unable to realize those cost savings as soon as expected, or we incur additional or unexpected costs;
- our revenues after previous or future acquisitions are less than expected;
- the liquidity of, and changes in the amounts and sources of liquidity available to, us, before and after the acquisition of any financial institutions that we acquire;
- deposit attrition, operating costs, customer loss and business disruption before and after our completed acquisitions, including, without limitation, difficulties in maintaining relationships with employees, may be greater than we expected;
- the effects of the combination of the operations of financial institutions that we have acquired in the recent past or may acquire in the future with our operations and the operations of Independent Bank, the effects of the integration of such operations being unsuccessful, and the effects of such integration being more difficult, time-consuming or costly than expected or not yielding the cost savings that we expect, including but not limited to those identified below for the merger between the Company and TCBI;
- the impact of investments that the Company or Independent Bank may have made or may make and the changes in the value of those investments;
- the quality of the assets of financial institutions and companies that we have acquired in the recent past or may acquire in the future being different than we determined or determine in our due diligence investigation in connection with the acquisition of such financial institutions and any inadequacy of loan loss reserves relating to, and exposure to unrecoverable losses on, loans acquired;
- our ability to continue to identify acquisition targets and successfully acquire desirable financial institutions to sustain our growth, to expand our presence in our markets and to enter new markets;
- general business and economic conditions in our markets change or are less favorable than expected;
- changes occur in business conditions and inflation;
- an increase in the rate of personal or commercial customers’ bankruptcies;
- technology-related changes are harder to make or are more expensive than expected;
- attacks on the security of, and breaches of, the Company's and Independent Bank's digital information systems, the costs the Company or Independent Bank incur to provide security against such attacks and any costs and liability we or Independent Bank incurs in connection with any breach of those systems;
- the potential impact of technology and “FinTech” entities on the banking industry generally;

- the other factors that are described or referenced in Part I, Item 1A. of this Annual Report on Form 10-K under the caption “Risk Factors.”; and
- other economic, competitive, governmental, regulatory, technological and geopolitical factors affecting the Company’s operations, pricing and services.

In addition to the general factors listed above, additional factors specifically pertaining to the ongoing merger between the Company and TCBI that could also cause the results of performance to differ materially from those expressed in forward looking statements include the following:

- the occurrence of any event, change or other circumstances that could give rise to the right of one or both of the parties to terminate the merger agreement;
- the outcome of pending or threatened litigation, or of matters before regulatory agencies, whether currently existing or commencing in the future, including litigation related to the merger;
- delays in completing the transaction;
- the failure to obtain necessary regulatory approvals (and the risk that such approvals may result in the imposition of conditions that could adversely affect the combined company or the expected benefits of the transaction) and shareholder approvals or to satisfy any of the other conditions to the closing of the merger on a timely basis or at all;
- the possibility that the anticipated benefits of the transaction are not realized when expected or at all, including as a result of the impact of, or problems arising from, the integration of the two companies or as a result of the strength of the economy and competitive factors in the areas where the Company and TCBI do business;
- the possibility that the transaction may be more expensive to complete than anticipated, including as a result of unexpected factors or events;
- the impact of purchase accounting with respect to the merger, or any change in assumptions used regarding the assets purchased and liabilities assumed to determine their fair value;
- diversion of management’s attention from ongoing business operations and opportunities;
- potential adverse reactions or changes to business or employee relationships, including those resulting from the announcement or completion of the transition;
- the ability to complete the transaction and integration of the Company and TCBI successfully, which may take longer than anticipated or be more costly than anticipated or have unanticipated adverse results relating to the Company or TCBI’s existing businesses;
- the challenges of integrating, retaining, and hiring key personnel;
- failure to attract new customers and retain existing customers in the manner anticipated;
- any interruption or breach of security as a result of systems integration, resulting in failures or disruption in customer account management, general ledger, deposit, loan or other systems;
- changes in the Company’s stock price before closing, including as a result of the financial performance of TCBI prior to closing;
- the dilution caused by the Company’s issuance of additional shares of its capital stock in connections with the transaction;
- operational issues stemming from, and/or capital spending necessitated by, the potential need to adapt to industry changes in information technology systems, on which the Company and TCBI are highly dependent; and
- changes in the Company’s credit ratings or in the Company's ability to access the capital markets.

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

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

Overview

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

The Company's principal business is lending to and accepting deposits from businesses, professionals and individuals. The Company conducts all of the Company's banking operations through Independent Bank, which is a Texas state banking corporation and the Company's principal subsidiary (the Bank). The Company derives its income principally from interest earned on loans and, to a lesser extent, income from securities available for sale. The Company also derives income from non-interest sources, such as fees received in connection with various deposit services, mortgage banking operations and investment advisory services. From time to time, the Company also realizes gains on the sale of assets. The Company's principal expenses include interest expense on interest-bearing customer deposits, advances from the Federal Home Loan Bank of Dallas (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, amortization of intangibles, acquisition expenses, provisions for loan losses and the Company's assessment for FDIC deposit insurance.

The Company intends for this discussion and analysis to provide the reader with information that will assist in understanding the Company's financial statements, the changes in certain key items in those financial statements from period to period and the primary factors that accounted for those changes. This discussion relates to the Company and its consolidated subsidiaries and should be read in conjunction with the Company's consolidated financial statements as of December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017, and the accompanying notes, appearing elsewhere in this Annual Report on Form 10-K. The Company's year ends on December 31. The following discussion and analysis presents the more significant factors that affected our financial condition as of December 31, 2019 and 2018 and results of operations for each of the years then ended. Refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2018 Annual Report on Form 10K filed with the SEC on February 28, 2019, for discussion of our results of operations for the years ended December 31, 2018 and 2017.

Certain Events Affect Year-over-Year Comparability

Acquisitions

The Company completed an acquisition in 2019, 2018 and 2017. These acquisitions increased total assets, gross loans and deposits on their respective acquisition date as detailed below.

(dollars in millions)	**Acquisition Date**	**Total Assets**	**Gross Loans**	**Deposits**
Carlile Bancshares, Inc.	April 1, 2017	$2,444	$1,384	$1,825
Integrity Bancshares, Inc.	June 1, 2018	852	652	593
Guaranty Bancorp	January 1, 2019	3,943	2,790	3,109

The Company issued an aggregate 24,056,428 shares of common stock in connection with these acquisitions. In addition, the Company issued 448,500 shares of common stock in 2017 to enhance our capital position. The comparability of the Company's consolidated results of operations for the years ended December 31, 2019, 2018 and 2017 are affected by these acquisitions and stock issuances.

Discussion and Analysis of Results of Operations

The following discussion and analysis of the Company's results of operations compares its results of operations for the years ended December 31, 2019 and 2018.

Results of Operations

The Company’s net income available to common shareholders increased by $64.5 million, or 50.3%, to $192.7 million ($4.46 per common share on a diluted basis) for the year ended December 31, 2019, from $128.3 million ($4.33 per common share on a diluted basis) for the year ended December 31, 2018. The increase resulted from a $245.6 million increase in interest income, a $36.0 million increase in noninterest income partially offset by a $21.8 million increase in income tax expense, a $67.1 million increase in interest expense and a $123.2 million increase in noninterest expense. The Company’s net income for the year ended December 31, 2019, and, therefore, the Company’s return on average assets and the Company’s return on average equity, were adversely affected by $33.4 million of acquisition-related expenses primarily related to the Guaranty acquisition. The Company posted returns on average common equity of 8.50% and 8.69%, returns on average assets of 1.32% and 1.35%, and efficiency ratios of 53.01% and 52.35% for the years ended December 31, 2019 and 2018, respectively. The efficiency ratio is calculated by dividing total noninterest expense (which does not include the provision for loan losses and the amortization of core deposits intangibles) by net interest income plus noninterest income. The Company’s dividend payout ratio was 22.42% and 12.47% and the equity to assets ratio was 15.64% and 16.31% for the years ended December 31, 2019 and 2018, respectively.

Net Interest Income

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

The Company earned net interest income of $504.8 million for the year ended December 31, 2019, an increase of $178.5 million, or 54.7%, from $326.3 million for the year ended December 31, 2018. The increase in net interest income from the previous year was primarily due to increased average earning assets and acquired loan accretion resulting primarily from the acquisition of Guaranty Bancorp, as well as organic earning assets growth and overall higher interest rates for the year over year period. The Company’s net interest margin for 2019 decreased to 3.95% from 3.97% in 2018, and the Company’s interest rate spread for 2019 decreased to 3.47% from the 3.59% interest rate spread for 2018. The average balance of interest-earning assets for 2019 increased by $4.6 billion, or 55.6%, to $12.8 billion from an average balance of $8.2 billion for 2018. The increase from the prior year was primarily due to $3.4 billion in earning assets acquired in the Guaranty transaction as well as organic growth. The Company’s net interest margin for the year ended December 31, 2019 was positively impacted by a 15 basis point increase in the weighted-average yield on interest-earning assets to 5.11% for the year ended December 31, 2019, from 4.96% for the year ended December 31, 2018. The increase from the prior year is due primarily to higher loan yields resulting from increased acquired loan accretion mainly resulting from the Guaranty transaction. The year ended December 31, 2019 includes $46.1 million of loan accretion compared to $13.5 million included as of December 31, 2018. In addition, higher taxable securities yields contributed to the increase in the net interest margin. The cost of interest bearing liabilities, including borrowings, was 1.64% for the year ended December 31, 2019 compared to 1.37% for the year ended December 31, 2018. The increase from the prior year is primarily due to higher rates offered on our deposits, primarily related to commercial money market accounts and promotional certificates of deposit, resulting from both market competition as well as overall higher deposit rates which were tied to higher Fed Fund rates in effect for the year over year period due to the Fed rate 100 basis point increase during 2018. In addition, the cost of interest bearing liabilities were adversely impacted by higher average rates on short-term FHLB advances used for liquidity.

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Average Balance Sheet Amounts, Interest Earned and Yield Analysis. The following table presents average balance sheet information, interest income, interest expense and the corresponding average yields earned and rates paid for the years ended December 31, 2019, 2018 and 2017. The average balances are principally daily averages and, for loans, include both performing and nonperforming balances.

	For the Years Ended December 31,								
	2019			2018			2017		
(dollars in thousands)	Average Outstanding Balance	Interest	Yield/ Rate	Average Outstanding Balance	Interest	Yield/ Rate	Average Outstanding Balance	Interest	Yield/ Rate
Interest-earning assets:									
Loans [1]	$ 11,179,161	$ 611,589	5.47%	$ 7,254,635	$ 384,791	5.30%	$ 5,871,990	$ 290,357	4.94%
Taxable securities	770,927	21,324	2.77	603,474	14,007	2.32	481,323	8,229	1.71%
Nontaxable securities	329,687	8,482	2.57	177,348	4,580	2.58	157,086	3,877	2.47%
Interest bearing deposits and other	504,309	11,537	2.29	179,411	3,912	2.18	409,976	5,451	1.33%
Total interest-earning assets	12,784,084	$ 652,932	5.11	8,214,868	$ 407,290	4.96	6,920,375	$ 307,914	4.45%
Noninterest-earning assets	1,771,231			1,264,066			1,046,046		
Total assets	$ 14,555,315			$ 9,478,934			$ 7,966,421		
Interest-bearing liabilities:									
Checking accounts	$ 3,953,986	$ 44,171	1.12%	$ 2,943,519	$ 26,593	0.90%	$ 2,630,477	$ 13,305	0.51%
Savings accounts	540,741	1,335	0.25	290,325	703	0.24	263,381	380	0.14
Money market accounts	2,047,554	40,837	1.99	998,916	19,043	1.91	605,064	6,168	1.02
Certificates of deposit	1,795,391	37,041	2.06	1,009,644	14,428	1.43	1,002,753	8,665	0.86
Total deposits	8,337,672	123,384	1.48	5,242,404	60,767	1.16	4,501,675	28,518	0.63
FHLB advances	464,404	10,173	2.19	515,479	10,264	1.99	483,923	5,858	1.21
Other borrowings and repurchase agreements	201,066	11,590	5.76	137,549	8,398	6.11	117,162	6,898	5.89
Junior subordinated debentures	53,733	3,028	5.64	27,761	1,609	5.80	25,252	1,162	4.60
Total interest-bearing liabilities	9,056,875	148,175	1.64	5,923,193	81,038	1.37	5,128,012	42,436	0.83
Noninterest-bearing checking accounts	3,139,805			2,052,675			1,671,872		
Noninterest-bearing liabilities	91,532			26,378			26,964		
Stockholders' equity	2,267,103			1,476,688			1,139,573		
Total liabilities and equity	$ 14,555,315			$ 9,478,934			$ 7,966,421		
Net interest income		$ 504,757			$ 326,252			$ 265,478	
Interest rate spread			3.47%			3.59%			3.62%
Net interest margin [2]			3.95			3.97			3.84
Net interest income and margin (tax equivalent basis) [3]		$ 508,498	3.98		$ 328,090	3.99		$ 268,235	3.88
Average interest earning assets to interest bearing liabilities			141.15			138.69			134.95

(1) Average loan balances include nonaccrual loans.

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

(3) A tax-equivalent adjustment has been computed using a federal income tax rate of 21% for the years ended December 31, 2019 and 2018 and 35% for the year ended December 31, 2017.

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

	For the Year Ended December 31, 2019 v. 2018			For the Year Ended December 31, 2018 v. 2017		
	Increase (Decrease) Due to		Total Increase (Decrease)	Increase (Decrease) Due to		Total Increase (Decrease)
(dollars in thousands)	Volume	Rate		Volume	Rate	
Interest-earning assets						
Loans	$ 214,103	$ 12,695	$ 226,798	$ 72,165	$ 22,269	$ 94,434
Taxable securities	4,306	3,011	7,317	2,398	3,380	5,778
Nontaxable securities	3,920	(18)	3,902	517	186	703
Interest bearing deposits and other	7,419	206	7,625	(3,983)	2,444	(1,539)
Total interest-earning assets	$ 229,748	$ 15,894	$ 245,642	$ 71,097	$ 28,279	$ 99,376
Interest-bearing liabilities						
Checking accounts	$ 10,267	$ 7,311	$ 17,578	$ 1,747	$ 11,541	$ 13,288
Savings accounts	603	29	632	42	281	323
Limited access money market accounts	20,958	836	21,794	5,510	7,365	12,875
Certificates of deposit	14,439	8,174	22,613	60	5,703	5,763
Total deposits	46,267	16,350	62,617	7,359	24,890	32,249
FHLB advances	(1,069)	978	(91)	405	4,001	4,406
Other borrowings and repurchase agreements	3,696	(504)	3,192	1,237	263	1,500
Junior subordinated debentures	1,464	(45)	1,419	124	323	447
Total interest-bearing liabilities	50,358	16,779	67,137	9,125	29,477	38,602
Net interest income	$ 179,390	$ (885)	$ 178,505	$ 61,972	$ (1,198)	$ 60,774

Interest Income. The Company's total interest income increased $245.6 million, or 60.3%, to $652.9 million for the year ended December 31, 2019, from $407.3 million for the year ended December 31, 2018. The following tables set forth the major components of the Company's interest income for the years ended December 31, 2019 and 2018 and the period-over-period variations in such categories of interest income:

	For the Years Ended December 31,		Variance		For the Years Ended December 31,		Variance	
(dollars in thousands)	2019	2018	2019 v. 2018		2018	2017	2018 v. 2017	
Interest income								
Interest and fees on loans	$ 611,589	$ 384,791	$ 226,798	58.9%	$ 384,791	$ 290,357	$ 94,434	32.5 %
Interest on taxable securities	21,324	14,007	7,317	52.2	14,007	8,229	5,778	70.2
Interest on nontaxable securities	8,482	4,580	3,902	85.2	4,580	3,877	703	18.1
Interest on interest-bearing deposits and other	11,537	3,912	7,625	194.9	3,912	5,451	(1,539)	(28.2)
Total interest income	$ 652,932	$ 407,290	$ 245,642	60.3%	$ 407,290	$ 307,914	$ 99,376	32.3 %

The Company's interest and fees on loans increased 58.9% for the year ended December 31, 2019, compared to the year ended December 31, 2018, and was primarily attributable to a $3.9 billion increase in the average balance of the Company's loans to $11.2 billion during the year ended 2019 as compared with the average balance of $7.3 billion for the year ended 2018. The increase primarily resulted from $2.8 billion in loans held for investment acquired with the Guaranty transaction as well as disciplined organic growth in the Company's loan portfolio of 4.8% for the year over year period.

The interest the Company earned on taxable securities, which consists primarily of government agency and residential pass-through securities, increased 52.2% for the year ended December 31, 2019 from the year ended December 31, 2018 as a result of an increase in the average portfolio balance from $603.5 million for the year ended December 31, 2018 to $770.9 million for

the year ended December 31, 2019. This increase was primarily attributable to taxable securities acquired through the Guaranty acquisition.

The interest the Company earned on nontaxable securities increased 85.2% for the year ended December 31, 2019 as a result of an 85.9% increase in the average balance of nontaxable securities from $177.3 million for the year ended December 31, 2018 to $329.7 million for the year ended December 31, 2019, primarily related to additions from the Guaranty transaction.

The 194.9% increase in the Company's interest on interest-bearing deposits and other for the year ended December 31, 2019, from the year ended December 31, 2018 was primarily attributable to a 181.1% increase in the average balance from $179.4 million for the year ended December 31, 2018 to $504.3 million for the year ended December 31, 2019. The higher average balance in 2019 was primarily due to a favorable liquidity position resulting from slower loan growth and an increase in our organic deposit growth during the year.

Interest Expense. Total interest expense on the Company’s interest-bearing liabilities increased $67.1 million, or 82.8%, to $148.2 million for the year ended December 31, 2019, from $81.0 million in the prior year. The following table sets forth the major components of the Company’s interest expense for the years ended December 31, 2019 and 2018 and the period-over-period variations in such categories of interest expense:

	For the Years Ended December 31,		Variance		For the Years Ended December 31,		Variance	
(dollars in thousands)	**2019**	**2018**	**2019 v. 2018**		**2018**	**2017**	**2018 v. 2017**	
Interest Expense								
Interest on deposits	$ 123,384	$ 60,767	$ 62,617	103.0 %	$ 60,767	$ 28,518	$ 32,249	113.1%
Interest of FHLB advances	10,173	10,264	(91)	(0.9)	10,264	5,858	4,406	75.2
Interest on other borrowings and repurchase agreements	11,590	8,398	3,192	38.0	8,398	6,898	1,500	21.7
Interest on junior subordinated debentures	3,028	1,609	1,419	88.2	1,609	1,162	447	38.5
Total interest expense	$ 148,175	$ 81,038	$ 67,137	82.8 %	$ 81,038	$ 42,436	$ 38,602	91.0%

Interest expense on deposits increased by $62.6 million, or 103.0% for the year over year period, primarily due to increased average deposit balances as well as the rising rate environment during 2019. Average interest-bearing deposit balances increased 59.0% year-over-year from $5.2 billion in 2018 to $8.3 billion in 2019 primarily due to $2.1 billion of interest-bearing deposits acquired in the Guaranty acquisition as well as strong organic growth of 10.4% during 2019. The average rate on the Company’s deposits increased by 32 basis points to 1.48% for 2019 compared to 1.16% for 2018. This increase in cost of funds primarily resulted from higher rates offered on commercial money market accounts, checking accounts and promotional certificates of deposit during the majority of 2019 due to competition in our markets but also due in part to increased interest rates on deposit products tied to Fed Funds rates.

Interest expense on FHLB advances for 2019 decreased by $91 thousand, or 0.9%, due primarily to a decrease in average balance of such advances over the period, from $515.5 million in 2018 to $464.4 million in 2019, resulting from the use of short-term FHLB advances as needed for liquidity and to fund mortgage warehouse purchase loans as well as rate decreases during the last half of 2019 on short-term FHLB advances.

Interest expense on other borrowings and repurchase agreements for 2019 increased by $3.2 million, or 38.0% from 2018, primarily as a result of the interest expense recognized on $40 million subordinated debentures acquired in the Guaranty transaction as well as interest expense related to the Company's revolving line of credit with an average year to date outstanding balance of $21.6 million.

Interest expense on junior subordinated debentures increased $1.4 million, or 88.2% from the prior year due to $25.8 million in junior subordinated debentures assumed in the Guaranty transaction offset by lower effective interest rates on these instruments in 2019.

Provision for Loan Losses

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

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

The Company increased its allowance for loan losses to $51.5 million at December 31, 2019, by making provisions for loan losses totaling $14.8 million during the year ended December 31, 2019. This is an increase of $4.9 million, or 50.2% in provision expense compared to total provision expense of $9.9 million made by the Company in 2018. Provision expense is primarily reflective of organic loan growth and net charge-offs during the year. The increased provision from prior year was due to higher net charge-offs totaling $8.1 million in 2019, which is 0.07% of the Company's average loans outstanding during the period. The 2019 charge-offs were primarily related to partial charge-offs of two commercial credit relationships totaling $5.6 million.

The balance of the provision for loan losses was made based on the Company's assessment of the credit quality of the Company's loan portfolio and in view of the amount of the Company's net charge-offs in that period. The Company did not make any provision for loan losses with respect to the loans acquired in the Guaranty acquisition completed on January 1, 2019 because, in accordance with acquisition accounting standards, the Company recorded the loans acquired in the acquisition at fair value without a reserve and determined that the Company's fair value adjustments appropriately reflected the probability of losses on those loans as of the acquisition date. Company does not believe there has been any material deterioration of credit of these acquired loans since the acquisition. As of December 31, 2019, the discount on acquired loans totaled $93.6 million.

See Note 1, Summary of Significant Accounting Policies, and Note 6, Loans, net and Allowance for Loan Losses, in the accompanying notes to the consolidated financial statements included elsewhere in this report.

Noninterest Income

The following table sets forth the major components of noninterest income for the years ended December 31, 2019 and 2018 and the period-over-period variations in such categories of noninterest income:

	For the Years Ended December 31,		Variance		For the Years Ended December 31,		Variance	
(dollars in thousands)	2019	2018	2019 v. 2018		2018	2017	2018 v. 2017	
Noninterest income:								
Service charges on deposit accounts	$ 24,500	$ 14,224	$ 10,276	72.2 %	$ 14,224	$ 12,955	$ 1,269	9.8 %
Investment management and trust	9,330	—	9,330	100.0	—	—	—	—
Mortgage banking revenue	15,461	15,512	(51)	(0.3)	15,512	13,755	1,757	12.8
Gain on sale of loans	6,779	—	6,779	100.0	—	351	(351)	(100.0)
Gain on sale of branches	1,549	—	1,549	100.0	—	2,917	(2,917)	(100.0)
Gain on sale of trust business	1,319	—	1,319	100.0	—	—	—	—
Gain (loss) on sale of other real estate	875	269	606	N/M	269	(160)	429	N/M
Gain on sale of repossessed assets	—	—	—	—	—	1,010	(1,010)	(100.0)
Gain (loss) on sale of securities available for sale	275	(581)	856	N/M	(581)	124	(705)	N/M
(Loss) gain on sale of premises and equipment	(585)	123	(708)	N/M	123	(21)	144	N/M
Increase in cash surrender value of BOLI	5,525	3,170	2,355	74.3	3,170	2,748	422	15.4
Other	13,148	9,507	3,641	38.3	9,507	7,608	1,899	25.0
Total noninterest income	$ 78,176	$ 42,224	$ 35,952	85.1 %	$ 42,224	$ 41,287	$ 937	2.3 %

N/M - Not meaningful

Noninterest income increased $36.0 million, or 85.1%, to $78.2 million for the year ended 2019 from $42.2 million for the year ended 2018. Significant changes in the components of noninterest income are discussed below.

Service charges. Service charges on deposit accounts increased $10.3 million, or 72.2%, for the year ended December 31, 2019, as compared to the same period in 2018. The increase in service charges reflects an increase in deposit accounts due to the acquisition of Guaranty in January 2019 as well as a full year of service charges on the deposits acquired in the 2018 Integrity acquisition.

Investment management and trust. The wealth management subsidiary and trust division were acquired in the Guaranty transaction on January 1, 2019.

Gain on sale of loans. The Company recognized a net gain of $6.8 million for the year ended December 31, 2019 resulting from sales of consumer and residential mortgage loan pools acquired in the Guaranty transaction.

Gain on sale of branch. The Company recognized a net gain of $1.5 million for the year ended December 31, 2019 resulting from the sale of a branch during third quarter 2019.

Gain on sale of trust business. The Company recognized a net gain of $1.3 million for the year ended December 31, 2019 from the sale of the trust business in October 2019. The trust business was acquired with the Guaranty transaction.

Increase in cash surrender value of bank owned life insurance. The cash surrender value of bank owned life insurance increased $2.4 million, or 74.3% from $3.2 million in 2018 to $5.5 million in 2019. The increase is a result of $81 million in policies acquired in the Guaranty transaction as well as a full year of income on policies from the 2018 Integrity acquisition.

Other noninterest income. Other noninterest income increased $3.6 million, or 38.3%, for the year ended December 31, 2019 compared to the same period in 2018. The net increase is primarily due to the additional accounts acquired in the Guaranty transaction as well as an increase in acquired loan recoveries, swap dealer income and mortgage warehouse fees during 2019 offset by lower earnings credits on correspondent bank accounts.

Noninterest Expense

Noninterest expense increased $123.2 million, or 62.1%, to $321.9 million for the year ended 2019 from $198.6 million for the year ended 2018. The increase from 2018 to 2019 is primarily due to increases in salaries and benefits expenses, occupancy, data processing expenses, communications expense, impairment of other real estate, amortization of intangibles, acquisition expense and other noninterest expenses. The increases primarily reflect increased expenses related to the Guaranty acquisition completed on January 1, 2019, a full year of expenses related to the Integrity acquisition completed on June 1, 2018 as well as organic growth within the Company.

The following table sets forth the major components of the Company’s noninterest expense for the years ended December 31, 2019 and 2018 and the period-over-period variations in such categories of noninterest expense:

(dollars in thousands)	For the Years Ended December 31, 2019	For the Years Ended December 31, 2018	Variance 2019 v. 2018		For the Years Ended December 31, 2018	For the Years Ended December 31, 2017	Variance 2018 v. 2017	
Noninterest expense:								
Salaries and employee benefits	$ 162,683	$ 111,697	$ 50,986	45.6 %	$ 111,697	$ 95,741	$ 15,956	16.7 %
Occupancy	37,654	24,786	12,868	51.9	24,786	22,079	2,707	12.3
Data processing	17,103	10,754	6,349	59.0	10,754	8,597	2,157	25.1
FDIC assessment	1,065	3,306	(2,241)	(67.8)	3,306	4,311	(1,005)	(23.3)
Advertising and public relations	2,527	1,907	620	32.5	1,907	1,452	455	31.3
Communications	5,145	3,353	1,792	53.4	3,353	2,860	493	17.2
Other real estate owned expenses, net	418	318	100	31.4	318	304	14	4.6
Impairment of other real estate	1,801	85	1,716	N/M	85	1,412	(1,327)	(94.0)
Amortization of other intangible assets	12,880	5,739	7,141	124.4	5,739	4,639	1,100	23.7
Professional fees	7,936	4,556	3,380	74.2	4,556	4,564	(8)	(0.2)
Acquisition expense, including legal	33,445	6,157	27,288	443.2	6,157	12,898	(6,741)	(52.3)
Other	39,207	25,961	13,246	51.0	25,961	17,956	8,005	44.6
Total noninterest expense	$ 321,864	$ 198,619	$ 123,245	62.1 %	$ 198,619	$ 176,813	$ 21,806	12.3 %

N/M - not meaningful

Salaries and employee benefits. Salaries and employee benefits expense, which historically has been the largest component of the Company’s noninterest expense, increased $51.0 million, or 45.6%, for the year ended December 31, 2019, compared to the year ended December 31, 2018. The increase is primarily due to additional headcount related to the Guaranty acquisition as well as organic growth during the year. Additionally, severance and retention payments were made totaling $5.7 million related primarily to the Guaranty transaction but also related to our branch restructuring and trust business sale. In addition, there was a $3.0 million expense related to the separation arrangement with a former executive officer that occurred during the fourth quarter of 2019. The increase is also a result of a full year of expense in 2019 compared to seven months in 2018 related to the Integrity acquisition as well as a full year of expense related to the increase in 401(k) contribution match, which changed mid-year 2018 resulting from a modification to the Company's plan.

Occupancy expense. Occupancy expense increased $12.9 million, or 51.9%, for the year ended December 31, 2019, compared to the year ended December 31, 2018. The increase is primarily reflective of 32 additional branches acquired in the Guaranty transaction as well as the new corporate headquarters being placed into service during the second quarter of 2019.

Data processing. Data processing fees increased $6.3 million, or 59.0%, for the year ended December 31, 2019, compared to the same period in 2018. The increase over the same prior period is reflective of increased costs due to the additional accounts, employees and locations added related to the Guaranty acquisition during 2019 as well as a full year of cost related to Integrity in 2019 compared to seven months in 2018.

FDIC assessment. FDIC assessment expense decreased $2.2 million, or 67.8%, for the year ended December 31, 2019, compared to the same period in 2018. The decrease is due to primarily as a result of a $3.2 million Small Bank Assessment Credit recorded in third quarter 2019.

Communications. Communications expense increased $1.8 million, or 53.4% for the year ended December 31, 2019 over the same period in 2018. The increase was primarily due to higher data line expense related to the additional branches and accounts acquired in the Guaranty acquisition.

Impairment of other real estate. Other real estate impairments were higher in 2019 primarily due to writedowns taken on branch locations closed and moved to other real estate owned as part of our branch restructuring in 2019.

Other intangible assets amortization. Other intangible assets amortization increased $7.1 million, or 124.4%, for the year ended December 31, 2019 compared to the same period in 2018. The increase is due to the increase of $71.5 million in core deposit and customer intangibles recorded in connection with the acquisition of Guaranty.

Professional fees. Professional fees increased $3.4 million, or 74.2%, for the year ended December 31, 2019 compared to the same period in 2018. The increase is primarily due to higher audit costs, higher legal expenses related to ongoing acquired litigation and increased consulting expenses related to various projects and new system implementations.

Acquisition expense. Acquisition expense is primarily legal, advisory and accounting fees associated with services to facilitate the acquisition of other banks. Acquisition expenses also include data processing conversion costs and contract termination costs. Total acquisition expenses for the year ended December 31, 2019, increased $27.3 million, or 443.2% over the same period in 2018. The increase in acquisition expenses is primarily due to $8.7 million in change in control payments to Guaranty executives in the first quarter of 2019 as well as an increase in professional fees, Guaranty conversion-related expenses and contract termination fees, including $6.9 million related to Guaranty's debit card provider expensed in the third quarter of 2019 and $5.8 million related to the announced merger of equals with Texas Capital Bancshares, Inc., primarily for investment banker and due diligence-related costs.

Other. Other noninterest expense for the year ended December 31, 2019 increased by $13.2 million, or 51.0%, compared to the same period in 2018. The increase in noninterest expense primarily reflects the additional headcount, branch locations and accounts acquired in the Guaranty transaction but also due to higher deposit- and loan-related expenses for the year over year period. In addition, we recorded a $1.4 million loss contingency reserve related to chargebacks on a merchant card deposit account acquired with Guaranty during second quarter 2019 as well as $1.2 million in impairments on other assets related to a CRA SBIC fund and a lease right of use asset on a closed branch recorded in third quarter 2019.

Income Tax Expense

Income tax expense was $53.5 million for the year ended December 31, 2019, which is an effective tax rate of 21.7%. Income tax expense was $31.7 million for the year ended December 31, 2018, which is an effective tax rate of 19.8%. The higher effective tax rates in 2019 are due to $1.4 million in deductibility limitations related to the change in control payments made to Guaranty employees and nondeductible acquisition expenses in addition to increased state income tax expense.

No valuation allowance for deferred tax assets was recorded at December 31, 2019 and 2018, as management believes it is more likely than not that all of the deferred tax assets will be realized.

Quarterly Financial Information

The following table presents certain unaudited consolidated quarterly financial information regarding the Company's results of operations for the quarters ended December 31, September 30, June 30 and March 31 in the years ended December 31, 2019 and 2018. This information should be read in conjunction with the Company's consolidated financial statements as of and for the years ended December 31, 2019 and 2018 appearing elsewhere in this Annual Report on Form 10-K.

	Quarter Ended 2019			
	December 31	September 30	June 30	March 31
(dollars in thousands, except per share data)	(unaudited)			
Interest income	$ 164,386	$ 165,307	$ 167,663	$ 155,576
Interest expense	36,317	39,914	38,020	33,924
Net interest income	128,069	125,393	129,643	121,652
Provision for loan losses	1,609	5,233	4,739	3,224
Net interest income after provision for loan losses	126,460	120,160	124,904	118,428
Noninterest income	18,229	27,324	16,199	16,424
Noninterest expense	80,343	76,948	77,978	86,595
Income before income taxes	64,346	70,536	63,125	48,257
Provision for income taxes	14,110	14,903	13,389	11,126
Net income	$ 50,236	$ 55,633	$ 49,736	$ 37,131
Comprehensive income	$ 49,606	$ 58,450	$ 63,388	$ 48,907
Basic earnings per share	$ 1.17	$ 1.30	$ 1.15	$ 0.85
Diluted earnings per share	1.17	1.30	1.15	0.85

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

Discussion and Analysis of Financial Condition

The following discussion and analysis of the Company's financial condition discusses and analyzes the financial condition of the Company as of December 31, 2019 and 2018 and certain changes in that financial condition from December 31, 2018 to December 31, 2019.

Assets

The Company's total assets increased by $5.1 billion, or 51.9%, to $15.0 billion as of December 31, 2019 from $9.8 billion at December 31, 2018 due to the Guaranty acquisition and organic growth during the period.

Loan Portfolio

The Company's loan portfolio is the largest category of the Company's earning assets. The following table presents the balance and associated percentage of each major category in the Company's loan portfolio as of December 31, 2019, 2018, 2017, 2016 and 2015:

	2019		2018		2017		2016		2015	
(dollars in thousands)	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Commercial [1]	$ 2,482,356	21.3%	$ 1,361,104	17.2%	$ 1,059,984	16.3%	$ 630,805	13.7%	$ 731,818	18.3%
Real estate:										
Commercial	5,872,653	50.4	4,141,356	52.3	3,369,892	51.7	2,459,221	53.7	1,949,734	48.7
Commercial construction, land and land development	1,236,623	10.6	905,421	11.4	744,868	11.5	531,481	11.6	419,611	10.5
Residential [2]	1,550,872	13.3	1,082,248	13.7	931,495	14.3	644,340	14.1	620,289	15.5
Single-family interim construction	378,120	3.2	331,748	4.2	289,680	4.4	235,475	5.1	187,984	4.7
Agricultural	97,767	0.9	66,638	0.8	82,583	1.3	53,548	1.2	50,178	1.3
Consumer	32,603	0.3	31,759	0.4	34,639	0.5	27,530	0.6	41,966	1.0
Other	621	—	253	—	304	—	166	—	124	—
	11,651,615	100.0%	7,920,527	100.0%	6,513,445	100.0%	4,582,566	100.0%	4,001,704	100.0%
Deferred loan fees	(1,695)		(3,303)		(2,568)		(2,117)		(1,553)	
Allowance for loan losses	(51,461)		(44,802)		(39,402)		(31,591)		(27,043)	
Total loans, net	$ 11,598,459		$ 7,872,422		$ 6,471,475		$ 4,548,858		$ 3,973,108	

(1) Includes mortgage warehouse purchase loans of $687.3 million, $170.3 million $164.7 million, $0 and $0 at December 31, 2019, 2018, 2017, 2016 and 2015, respectively.

(2) Includes loans held for sale of $35.6 million, $32.7 million, $39.2 million, $9.8 million and $12.3 million at December 31, 2019, 2018, 2017, 2016 and 2015, respectively.

As of December 31, 2019, the Company's loan portfolio, net of the allowance for loan losses and deferred fees, totaled $11.6 billion, which is an increase of 47.3% over total net loans at December 31, 2018 and for which the majority of the increase was due to $2.8 billion acquired in the Guaranty acquisition and the remaining was organic loan growth during the year.

The principal categories of the Company's loan portfolio are discussed below:

Commercial loans. The Company provides a mix of variable and fixed rate commercial loans. The loans are typically made to small-and medium-sized manufacturing, wholesale, retail, energy related service businesses and medical practices for working capital needs and business expansions. Commercial loans generally include lines of credit and loans with maturities of five years or less. The loans are generally made with operating cash flows as the primary source of repayment, but may also include collateralization by inventory, accounts receivable, equipment and/or personal guarantees. Additionally, our commercial loan portfolio includes loans made to customers in the energy industry, which is a complex, technical and cyclical industry. Experienced bankers with specialized energy lending experience originate our energy loans. Companies in this industry produce, extract, develop, exploit and explore for oil and natural gas. Loans are primarily collateralized with proven producing oil and gas reserves based on a technical evaluation of these reserves. The Company has a mortgage warehouse purchase program providing mortgage inventory financing for residential mortgage loans originated by mortgage banker clients across a broad geographic scale. Proceeds from the sale of mortgages is the primary source of repayment for warehouse inventory financing via approved investor takeout commitments. These loans are reported as commercial loans since the loans are secured

by notes receivable, not real estate. The mortgage warehouse purchase loans outstanding totaled $687.3 million, as of December 31, 2019 and $170.3 million, as of December 31, 2018.

The Company's commercial loan portfolio increased $1.1 billion, or 82.4%, to $2.5 billion as of December 31, 2019, from $1.4 billion as of December 31, 2018. The increase in this portfolio type for the current year is primarily due to loans acquired in the Guaranty acquisition as well as organic loan growth, including an increase in the warehouse portfolio for the year over year period.

Commercial real estate loans. The Company's commercial real estate loans generally are used by customers to finance their purchase of office buildings, retail centers, medical facilities and mixed-use buildings. Approximately 30% and 33% of the Company's commercial real estate loans as of December 31, 2019 and 2018, respectively, were owner-occupied. Such loans generally involve less risk than loans on investment property. The Company expects that commercial real estate loans will continue to be a significant portion of the Company's total loan portfolio and an area of emphasis in the Company's lending operations.

Commercial real estate loans increased $1.7 billion, or 41.8%, to $5.9 billion as of December 31, 2019 from $4.1 billion as of December 31, 2018. The increase was due to the loans added in the Guaranty acquisition as well as organic loan growth in this loan type during the year.

Commercial construction, land and land development loans. The Company's commercial construction, land and land development loans comprise loans to fund commercial construction, land acquisition and real estate development construction. Although the Company continues to make commercial construction loans, land acquisition and land development loans on a selective basis, the Company does not expect the Company's lending in this area to result in this category of loans being a significantly greater portion of the Company's total loan portfolio.

Commercial construction, land and land development loans increased $331.2 million, or 36.6% to $1.2 billion at December 31, 2019 from $905.4 million at December 31, 2018, due to the addition of the loans acquired through Guaranty and through organic loan growth in this type of loan.

Residential Real Estate Loans. The Company's residential real estate loans, excluding mortgage loans held for sale, are primarily made with respect to and secured by single-family homes, which are both owner-occupied and investor owned and include a limited amount of home equity loans, with a relatively small average loan balance spread across many individual borrowers. The Company offers a variety of mortgage loan portfolio products which generally are amortized over five to thirty years. Loans collateralized by 1-4 family residential real estate generally have been originated in amounts of no more than 80% of appraised value. The Company requires mortgage title insurance and hazard insurance. The Company retains the majority of these portfolio loans for its own account rather than selling them into the secondary market. By doing so, the Company incurs interest rate risk as well as the risks associated with nonpayments on such loans. The Company's loan portfolio also includes a number of multi-family housing real estate loans. The Company expects that the Company will continue to make residential real estate loans, with an emphasis on single-family housing loans, so long as housing values in the Company's markets do not deteriorate from current prevailing levels and the Company is able to make such loans consistent with the Company's current credit and underwriting standards.

The Company's residential real estate loan portfolio grew by $468.6 million, or 43.3%, to a balance of $1.6 billion as of December 31, 2019 from $1.1 billion as of December 31, 2018. The increase in this category was due to both organic loan growth and loans acquired in the Guaranty transaction.

Single-Family Interim Construction Loans. The Company makes single-family interim construction loans to home builders and individuals to fund the construction of single-family residences with the understanding that such loans will be repaid from the proceeds of the sale of the homes by builders or, in the case of individuals building their own homes, with the proceeds of a permanent mortgage loan. Such loans are secured by the real property being built and are made based on the Company's assessment of the value of the property on an as-completed basis. The Company expects to continue to make single-family interim construction loans so long as demand for such loans continues and the market for single-family housing and the values of such properties remain stable or continue to improve in the Company's markets.

The balance of single-family interim construction loans in the Company's loan portfolio increased by $46.4 million, or 14.0%, to $378.1 million as of December 31, 2019 from $331.7 million as of December 31, 2018. The increase during the year was due to both organic growth and loans acquired in the Guaranty transaction.

Other Categories of Loans. Other categories of loans included in the Company's loan portfolio include agricultural loans made to farmers and ranchers relating to their operations and consumer loans made to individuals for personal purposes, including automobile purchase loans and personal loans. None of these categories of loans represents more than 1% of the Company's total loan portfolio as of December 31, 2019 and 2018 and such categories continue to be a very small percentage of the Company's total loan portfolio.

The following table sets forth the contractual maturities, including scheduled principal repayments, of the Company's loan portfolio (which includes balloon notes) and the distribution between fixed and adjustable interest rate loans as of December 31, 2019:

	Within One Year		One Year to Five Years		After Five Years		Total	
(dollars in thousands)	Fixed Rate	Adjustable Rate	Fixed Rate	Adjustable Rate	Fixed Rate	Adjustable Rate	Fixed Rate	Adjustable Rate
Commercial	$ 831,364	$ 431,455	$ 358,848	$ 521,844	$ 137,841	$ 201,004	$ 1,328,053	$ 1,154,303
Real estate:								
Commercial real estate	443,549	117,668	2,246,171	722,085	702,946	1,640,234	3,392,666	2,479,987
Commercial construction, land and land development	96,172	161,856	321,541	384,541	43,447	229,066	461,160	775,463
Residential real estate	103,287	34,314	496,798	43,790	404,976	467,707	1,005,061	545,811
Single-family interim construction	60,926	190,582	17,604	33,982	57,930	17,096	136,460	241,660
Agricultural	12,929	14,805	33,486	5,379	8,312	22,856	54,727	43,040
Consumer	6,015	7,744	14,779	2,798	816	451	21,610	10,993
Other	621	—	—	—	—	—	621	—
Total loans	$ 1,554,863	$ 958,424	$ 3,489,227	$ 1,714,419	$ 1,356,268	$ 2,578,414	$ 6,400,358	$ 5,251,257

Asset Quality

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

The Company discontinues accruing interest on a loan when management of the Company believes, after considering the Company's collection efforts and other factors, that the borrower's financial condition is such that collection of interest of that loan is doubtful. Loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans, including troubled debt restructurings, that are placed on nonaccrual status or charged off is reversed against interest income. Cash collections on nonaccrual loans are generally credited to the loan receivable balance, and no interest income is recognized on those loans until the principal balance has been collected. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. The Company did not make any changes in the Company's nonaccrual policy during the years of 2019 or 2018.

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

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

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

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

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

	As of December 31,				
(dollars in thousands)	2019	2018	2017	2016	2015
Nonaccrual loans					
Commercial	$ 3,130	$ 5,224	$ 10,304	$ 7,718	$ 7,366
Real estate:					
Commercial real estate, construction, land and land development	6,461	1,329	2,716	5,885	591
Residential real estate	1,820	1,775	998	866	552
Single-family interim construction	—	3,578	—	884	—
Agricultural	114	—	—	—	170
Consumer	22	32	55	273	111
Total nonaccrual loans (1)	11,547	11,938	14,073	15,626	8,790
Loans delinquent 90 days or more and still accruing					
Commercial	14,529	—	8	—	—
Real estate:					
Commercial real estate, construction, land and land development	—	—	120	—	—
Residential real estate	—	—	8	—	—
Consumer	—	5	—	—	—
Total loans delinquent 90 days or more and still accruing	14,529	5	136	—	—
Troubled debt restructurings, not included in nonaccrual loans					
Commercial	—	114	—	1	16
Real estate:					
Commercial real estate, construction, land and land development	352	405	455	1,204	3,480
Residential real estate	188	168	730	1,011	2,574
Consumer	—	—	20	—	—
Total troubled debt restructurings, not included in nonaccrual loans	540	687	1,205	2,216	6,070
Total nonperforming loans	26,616	12,630	15,414	17,842	14,860
Other real estate owned and other repossessed assets (Bank only):					
Commercial	—	—	—	—	1,050
Commercial real estate, construction, land and land development	4,819	4,200	5,400	783	2,168
Residential real estate	—	—	764	1,189	—
Single-family interim construction	—	—	963	—	—
Consumer	114	114	114	4	14
Total other real estate owned and other repossessed assets	4,933	4,314	7,241	1,976	3,232
Total nonperforming assets	$ 31,549	$ 16,944	$ 22,655	$ 19,818	$ 18,092
Ratio of nonperforming loans to total loans (2)	0.24%	0.16%	0.24%	0.39%	0.37%
Ratio of nonperforming assets to total assets	0.21	0.17	0.26	0.34	0.36

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(1) Nonaccrual loans include troubled debt restructurings of $668 thousand, $506 thousand, $1.0 million, $209 thousand and $621 thousand as of December 31, 2019, 2018, 2017, 2016 and 2015, respectively and excludes loans acquired with deteriorated credit quality of $10.9 million, $7.0 million $7.9 million, $1.0 million and $0 as of December 31, 2019, 2018, 2017, 2016 and 2015, respectively.

(2) Excluding mortgage warehouse purchase loans of $687.3 million, $170.3 million, $164.7 million, $0 and $0 as of December 31, 2019, 2018 and 2017, 2016 and 2015, respectively.

The Company had $11.5 million and $11.9 million in loans on nonaccrual status (excluding loans acquired with deteriorated credit quality) as of December 31, 2019 and 2018, respectively. The decrease from December 31, 2018 to December 31, 2019 was primarily due to a $2.9 million partial charge-off on a commercial energy loan relationship and a $3.2 million pay-off of a

single-family interim construction loan offset by nonaccrual loan additions of three commercial real estate loans totaling $5.3 million during the year.

The Company did not recognize any interest income on nonaccrual loans during 2019 or 2018 while the loans were in nonaccrual status. The amount of interest the Company included in the Company's net interest income for the years ended 2019 and 2018 with respect to nonperforming loans was $901 thousand and $248 thousand, respectively. Additional interest income that the Company would have recognized on these nonperforming loans had they been current in accordance with their original terms was $481 thousand and $707 thousand during the years ended 2019 and 2018, respectively.

Loans delinquent 90 days or more and still accruing increased to $14.5 million as of December 31, 2019. The increase was due to a $14.5 million commercial energy loan that had matured and was pending workout at the end of fourth quarter 2019.

As of December 31, 2019, the Company had a total of 84 substandard and doubtful loans with an aggregate principal balance of $53.5 million that were not currently impaired loans or purchase credit impaired loans, nonaccrual loans, 90 days past due loans or troubled debt restructurings, but where the Company had information about possible credit problems of the borrowers that caused the Company's management to have serious concerns as to the ability of the borrowers to comply with present loan repayment terms and that could result in those loans becoming nonaccrual loans, 90 days past due loans or troubled debt restructurings in the future.

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

As of December 31, 2019, the Company had other real estate owned and other repossessed assets of $4.9 million, which is an increase from the balance of $4.3 million for prior year. The increase is primarily due to $3.1 million of additions related to three former branch properties closed in second quarter as part of the announced footprint consolidation, offset by the dispositions of two properties totaling $2.2 million from the year over year period.

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

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

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

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

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

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

	As of December 31,									
	2019		2018		2017		2016		2015	
(dollars in thousands)	Amount	% of Total Loans (1)	Amount	% of Total Loans (1)	Amount	% of Total Loans (1)	Amount	% of Total Loans (1)	Amount	% of Total Loans (1)
Commercial loans	$ 12,844	21.3%	$ 11,793	17.2%	$ 10,599	16.3%	$ 8,593	13.7%	$ 10,573	18.3%
Real estate:										
Commercial real estate, construction, land and land development	33,085	61.0	27,795	63.7	23,301	63.2	18,399	65.3	13,007	59.2
Residential real estate	3,678	13.3	3,320	13.7	3,447	14.3	2,760	14.1	2,339	15.5
Single-family interim construction	1,606	3.2	1,402	4.2	1,583	4.4	1,301	5.1	769	4.7
Agricultural	332	0.9	241	0.8	250	1.3	207	1.2	215	1.3
Consumer	226	0.3	186	0.4	205	0.5	242	0.6	164	1.0
Other	5	—	3	—	(32)	—	29	—	8	—
Unallocated	(315)	—	62	—	49	—	60	—	(32)	—
Total allowance for loan losses	$ 51,461	100.0%	$ 44,802	100.0%	$ 39,402	100.0%	$ 31,591	100.0%	$ 27,043	100.0%

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

As of December 31, 2019, the allowance for loan losses amounted to $51.5 million, or 0.47%, of total loans held for investment, excluding mortgage warehouse purchase loans, compared with $44.8 million, or 0.58%, as of December 31, 2018. The dollar increase during 2019 is primarily due to additional general reserves for organic loan growth. The decrease in the allowance for loan losses as a percentage of loans from prior year reflects loans acquired in the Guaranty transaction that were recorded at fair value without an allowance at acquisition. As of December 31, 2019, the discount on acquired loans totaled $93.6 million compared to $25.2 million as of December 31, 2018.

The allowance for loan losses as a percentage of nonperforming loans decreased from 354.73% at December 31, 2018, to 193.35% at December 31, 2019, due to increase in total nonperforming loans primarily resulting from the $14.5 million commercial energy loan that had matured and pending workout as of year-end as discussed above under the nonperforming asset section. As of December 31, 2019, the Company had made a specific allowance for loan losses of $358 thousand for impaired loans totaling $12.1 million, compared with a specific allowance of $2.7 million for impaired loans totaling $14.6 million as of December 31, 2018. The decrease in specific reserves was due primarily to a partial charge-off of $1.5 million on a commercial energy loan relationship in addition to the removal of a $1.0 million specific reserve on another commercial energy loan due to a settlement pay-off and resulting $827 thousand charge-off. The decrease in impaired loans during 2019 was primarily due to a $2.9 million partial charge-off on the energy relationship noted above with the specific reserve of $1.5 million, the settlement pay-off of a $1.9 million energy loan noted above, as well as pay-offs totaling $4 million for a single-family interim construction loan and a commercial loan, offset by the additions of a commercial loan and two commercial real estate loans totaling $6.3 million.

Although the allowance for loan losses to nonperforming loans has decreased significantly over the periods presented in the Company's consolidated financial statements appearing in this Annual Report on Form 10-K, the Company believes the allowance is appropriate and has been derived from consistent application of its methodology. The allowance is primarily related to loans evaluated collectively and will continue to increase as the Company's loan portfolio grows. Additional provision expense will vary depending on future credit quality trends within the portfolio. Refer to Note 1, Summary of

Significant Accounting Policies, and Note 6, Loans, Net and Allowance for Loan Losses, in the notes to the Company's audited consolidated financial statements included elsewhere in this report for additional details of the allowance for loan losses.

The following table provides an analysis of the provisions for loan losses, net charge-offs and recoveries for the years ended December 31, 2019, 2018, 2017, 2016 and 2015 and the effects of those items on the Company’s allowance for loan losses:

	As of and for the Years Ended December 31,				
(dollars in thousands)	2019	2018	2017	2016	2015
Allowance for loan losses-balance at beginning of year	$ 44,802	$ 39,402	$ 31,591	$ 27,043	$ 18,552
Charge-offs					
Commercial	(7,709)	(3,863)	(81)	(4,384)	(606)
Real estate:					
Commercial real estate, construction, land and land development	(3)	(435)	(15)	(54)	(69)
Residential real estate	(140)	(6)	—	(401)	(9)
Single-family interim construction	(3)	—	(134)	—	—
Consumer	(79)	(93)	(182)	(27)	(52)
Other	(430)	(228)	(190)	(104)	(124)
Total charge-offs	(8,364)	(4,625)	(602)	(4,970)	(860)
Recoveries					
Commercial	90	84	28	13	28
Real estate:					
Commercial real estate, construction, land and land development	4	20	31	10	42
Residential real estate	—	3	4	12	5
Consumer	48	5	46	8	14
Other	76	53	39	35	31
Total recoveries	218	165	148	78	120
Net charge-offs	(8,146)	(4,460)	(454)	(4,892)	(740)
Provision for loan losses	14,805	9,860	8,265	9,440	9,231
Allowance for loan losses-balance at end of year	$ 51,461	$ 44,802	$ 39,402	$ 31,591	$ 27,043
Ratios					
Net charge-offs to average loans outstanding	**0.07%**	**0.06%**	**0.01%**	**0.12%**	**0.02%**
Allowance for loan losses to nonperforming loans at end of year	**193.35**	**354.73**	**255.62**	**177.06**	**181.99**
Allowance for loan losses to total loans at end of year [1]	**0.47**	**0.58**	**0.62**	**0.69**	**0.68**

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

The Company’s ratio of allowance to loan losses to total loans as of December 31, 2019 was 0.47%, down slightly from 0.58% at December 31, 2018. The decrease in the allowance for loan losses as a percentage of loans from prior year reflects that loans acquired in the Guaranty transaction were recorded at fair value without an allowance at acquisition date. The ratio of net charge-offs to average loans outstanding during the year ended December 31, 2019 increased to 0.07% from 0.06% for the year ended December 31, 2018. The increase in charge-offs during 2019 was primarily related to energy charge-offs.

Securities Available for Sale

The Company's investment strategy aims to maximize earnings while maintaining liquidity in securities with minimal credit, interest rate and duration risk. The types and maturities of securities purchased are primarily based on the Company's current and projected liquidity and interest rate sensitivity positions. The following table sets forth the book value, which is equal to fair market value because all investment securities the Company held were classified as available for sale as of the applicable date, and the percentage of each category of securities as of December 31, 2019, 2018 and 2017:

	As of December 31,					
	2019		2018		2017	
(dollars in thousands)	Book Value	% of Total	Book Value	% of Total	Book Value	% of Total
Securities available for sale						
U.S. Treasury securities	$ 48,796	4.5%	$ 29,643	4.3%	$ 37,154	4.9%
Government agency securities	179,296	16.5	150,230	21.9	211,509	27.7
Obligations of state and municipal subdivisions	343,859	31.7	185,007	27.0	229,613	30.1
Corporate bonds	7,218	0.7	—	—	—	—
Residential pass-through securities	505,567	46.5	320,470	46.8	274,377	35.9
Other securities	1,200	0.1	—	—	10,349	1.4
Total securities available for sale	$ 1,085,936	100.0%	$ 685,350	100.0%	$ 763,002	100.0%

The Company recognized net gains on the sale of securities of $275 thousand for the year ended December 31, 2019 and net losses on the sale of securities of $581 thousand for the year ended December 31, 2018. Securities represented 7.3% and 7.0% of the Company's total assets at December 31, 2019 and 2018, respectively.

Certain investment securities are valued at less than their historical cost. Management evaluates securities for other-than-temporary impairment (OTTI) on at least a quarterly basis and more frequently when economic 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 December 31, 2019 for a period of time sufficient for an entire recovery of the cost basis of the securities. For those securities that are impaired, the unrealized losses are largely due to interest rate changes. The fair value is expected to recover as the securities approach their maturity date. Management believes any impairment in the Company's securities at December 31, 2019 is temporary and no other-than-temporary impairment has been realized in the Company's consolidated financial statements.

The following table sets forth the book value, scheduled maturities and weighted average yields for the Company's investment portfolio as of December 31, 2019:

(dollars in thousands)	Book Value	% of Total Investment Securities	Weighted Average Yield
U.S. Treasury securities			
Maturing within one year	$ 5,037	0.5%	1.54%
Maturing in one to five years	43,759	4.0	2.30
Maturing in five to ten years	—	—	—
Maturing after ten years	—	—	—
Total U.S. Treasury securities	$ 48,796	4.5%	2.22%
Government agency securities			
Maturing within one year	$ 17,114	1.6%	1.87%
Maturing in one to five years	55,782	5.1	2.03
Maturing in five to ten years	60,070	5.5	2.69
Maturing after ten years	46,330	4.3	2.62
Total government agency securities	$ 179,296	16.5%	2.39%
Obligations of state and municipal subdivisions			
Maturing within one year	$ 9,922	0.9%	2.16%
Maturing in one to five years	79,710	7.4	2.31
Maturing in five to ten years	105,517	9.7	2.49
Maturing after ten years	148,710	13.7	2.92
Total obligations of state and municipal subdivisions	$ 343,859	31.7%	2.62%
Corporate bonds			
Maturing within one year	$ 2,015	0.2%	3.20%
Maturing in one to five years	5,203	0.5%	3.82
Maturing in five to ten years	—	—%	—
Maturing after ten years	—	—%	—
Total corporate bonds	$ 7,218	0.7%	3.64%
Residential pass through securities			
Maturing within one year	$ —	—%	—%
Maturing in one to five years	28,561	2.6	3.00
Maturing in five to ten years	111,626	10.3	2.55
Maturing after ten years	365,380	33.6	3.08
Total residential pass through securities	$ 505,567	46.5%	2.96%
Other securities			
Maturing within one year	$ —	—%	—%
Maturing in one to five years	450	—	2.44
Maturing in five to ten years	750	0.1	2.07
Maturing after ten years	—	—	—
Total other securities	$ 1,200	0.1%	2.25%
Total investment securities	$ 1,085,936	100.0%	2.73%

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

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale				
As of December 31, 2019				
U.S. treasuries	$ 48,060	$ 743	$ (7)	$ 48,796
Government agency securities	178,953	926	(583)	179,296
Obligations of state and municipal subdivisions	332,715	11,150	(6)	343,859
Corporate bonds	7,011	207	—	7,218
Mortgage-backed securities guaranteed by FHLMC, FNMA and GNMA	493,915	11,981	(329)	505,567
Other securities	1,200	—	—	1,200
	$ 1,061,854	$ 25,007	$ (925)	$ 1,085,936
As of December 31, 2018				
U.S. treasuries	$ 30,110	$ —	$ (467)	$ 29,643
Government agency securities	152,969	80	(2,819)	150,230
Obligations of state and municipal subdivisions	187,366	727	(3,086)	185,007
Mortgage-backed securities guaranteed by FHLMC, FNMA and GNMA	326,168	128	(5,826)	320,470
	$ 696,613	$ 935	$ (12,198)	$ 685,350
As of December 31, 2017				
U.S. treasuries	$ 37,480	$ —	$ (326)	$ 37,154
Government agency securities	213,649	83	(2,223)	211,509
Obligations of state and municipal subdivisions	228,782	2,118	(1,287)	229,613
Residential pass through securities guaranteed by FNMA, GNMA and FHLMC	274,356	1,229	(1,208)	274,377
Other securities	10,397	—	(48)	10,349
	$ 764,664	$ 3,430	$ (5,092)	$ 763,002

The Company’s available for sale securities, carried at fair value, increased $400.6 million, or 58.4%, during 2019. The increase in 2019 was primarily due to the investments acquired in the Guaranty transaction.

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

Cash and Cash Equivalents

Cash and cash equivalents increased by $434.4 million, or 332.2% to $565.2 million at December 31, 2019 from $130.8 million at December 31, 2018. Cash and cash equivalent balances can vary due to cash needs and volatility of several large title company and commercial accounts. In addition, during the fourth quarter of 2018, the Company intentionally deployed its cash in an effort to limit growth and manage total assets under $10 billion through the end of 2018, thereby delaying the impact of the Durbin Amendment limitation on interchange income.

Goodwill

Goodwill represents the excess of the consideration paid over the fair value of the net assets acquired. The Company’s total goodwill was $994.0 million at December 31, 2019 and $721.8 million as of December 31, 2018. The increase in the goodwill balance from December 31, 2018 to December 31, 2019 is a result of $272.2 million in goodwill recognized from the acquisition of Guaranty.

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Liabilities

Total liabilities increased $4.4 billion, or 53.1%, to $12.6 billion as of December 31, 2019, from $8.2 billion as of December 31, 2018, primarily due to $3.1 billion in deposit accounts, $142.7 million in FHLB advances and $40.0 million in subordinated debt acquired in the Guaranty transaction in addition to $24.5 million in borrowings against the Company's unsecured revolving line of credit with an unrelated commercial bank and organic deposit growth of $1.1 billion.

Deposits

Deposits represent Independent Bank’s primary source of funds. The Company continues to focus on growing core deposits through the Company’s relationship driven banking philosophy and community-focused marketing programs.

Total deposits increased $4.2 billion, or 54.3%, to $11.9 billion as of December 31, 2019 from $7.7 billion as of December 31, 2018. The increase is primarily due to organic growth as well as $3.1 billion in deposit accounts acquired in the Guaranty transaction. Brokered deposits totaled $894.1 million and $356.3 million at December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, noninterest-bearing demand, interest-bearing checking, savings deposits and limited access money market accounts accounted for 84.7% and 85.5%, respectively, of the Company’s total deposits, while individual retirement accounts and certificates of deposit made up 15.3% and 14.5%, respectively, of total deposits. Noninterest-bearing demand deposits totaled $3.2 billion, or 27.1% of total deposits, as of December 31, 2019, compared with $2.1 billion, or 27.7% of total deposits, as of December 31, 2018. The total cost of deposits increased 25 basis points from 0.83% at December 31, 2018 to 1.08% at December 31, 2019. The average cost of interest-bearing deposits was 1.48% per annum for 2019 compared with 1.16% for 2018. The increase in cost of funds was due to higher rates offered on our deposits products which were tied to higher Fed Funds rates from the year over year period.

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

	As of December 31,					
	2019		2018		2017	
(dollars in thousands)	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate
Deposit Type						
Noninterest-bearing demand accounts	$ 3,139,805	—%	$ 2,052,675	—%	$ 1,671,872	—%
Interest-bearing checking accounts	3,953,986	1.12	2,943,519	0.90	2,630,477	0.51
Savings accounts	540,741	0.25	290,325	0.24	263,381	0.14
Limited access money market accounts	2,047,554	1.99	998,916	1.91	605,064	1.02
Certificates of deposit, including individual retirement accounts (IRA)	1,795,391	2.06	1,009,644	1.43	1,002,753	0.86
Total deposits	$11,477,477	1.08%	$ 7,295,079	0.83%	$ 6,173,547	0.46%

The following table sets forth the maturity of time deposits (including IRA deposits) of $100,000 or more as of December 31, 2019:

	Maturity within:				
(dollars in thousands)	Three Months	Three to Six Months	Six to Twelve Months	After Twelve Months	Total
Individual retirement accounts	$ 7,549	$ 7,112	$ 12,856	$ 9,572	$ 37,089
Certificates of deposit (excluding CDARS)	283,137	298,348	586,626	223,866	1,391,977
CDARS	13,562	16,563	5,622	9,282	45,029
Total	$ 304,248	$ 322,023	$ 605,104	$ 242,720	$ 1,474,095

Short-Term Borrowings

The Company’s deposits have historically provided the Company with a major source of funds to meet the daily liquidity needs of the Company’s customers and fund growth in earning assets. However, from time to time the Company may also engage in short-term borrowings. At December 31, 2019 and 2018, the Company had $124.5 million and $50.0 million, respectively, in short-term borrowings outstanding, of which $100.0 million and $50.0 million, at December 31, 2019 and 2018, respectively, were short-term FHLB advances and $24.5 million of which were borrowings against its revolving line of credit at December 31, 2019. These were recorded on the balance sheet under FHLB advances and other borrowings. The Company has not historically needed to engage in significant short-term borrowing through sources such as federal funds purchased, securities sold under agreements to repurchase or Federal Reserve Discount Window advances to meet the daily liquidity needs of the Company's customers or fund growth in earning assets.

FHLB Advances

In addition to deposits, the Company utilizes FHLB advances either as a short-term funding source or a longer-term funding source and to manage the Company's interest rate risk on the Company's loan portfolio. FHLB advances can be particularly attractive as a longer-term funding source to balance interest rate sensitivity and reduce interest rate risk.

The Company's FHLB borrowings totaled $325.0 million as of December 31, 2019, compared with $290.0 million as of December 31, 2018. The change in FHLB borrowings from prior year reflects the use of short-term FHLB advances as needed for liquidity and to fund mortgage warehouse purchase loans. As of December 31, 2019 and 2018, the Company had $3.7 billion and $2.0 billion, respectively, in unused and available advances from the FHLB. At December 31, 2019, the Company's FHLB advances are collateralized by assets, including a blanket pledge of certain loans with a carrying value of $4.5 billion and FHLB stock. As of December 31, 2019 and 2018, the Company had $1.1 billion and $729.9 million, respectively, in undisbursed advance commitments (letters of credit) with the FHLB. The FHLB letters of credit were obtained in lieu of pledging securities to secure public fund deposits that are over the FDIC insurance limit. There were no disbursements against the advance commitments as of December 31, 2019 or 2018.

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

	As of December 31,		
(dollars in thousands)	2019	2018	2017
Fixed-rate, fixed term, at rates from 1.33% to 2.59%, with a weighted-average of 2.17% (maturing January 2020 through July 2021)	$ 325,000	$ —	$ —
Fixed-rate, fixed term, at rates from 1.02% to 2.59%, with a weighted-average of 2.17% (maturing January 2019 through July 2021)	—	290,000	—
Fixed-rate, fixed term, at rates from 1.02% to 5.57%, with a weighted-average of 1.43% (maturing January 2018 through January 2026)	—	—	530,667

As of December 31, 2019, the scheduled maturities of the Company's FHLB advances were as follows (dollars in thousands):

	Principal Amount to Mature
Maturing Within	As of December 31, 2019
First Year	$ 300,000
Second Year	25,000
Third Year	—
Fourth Year	—
Fifth Year	—
Thereafter	—
	$ 325,000

Other Long-Term Indebtedness

As of December 31, 2019 and 2018, the Company had $177.8 million and $137.3 million, respectively, of long-term indebtedness (other than FHLB advances and junior subordinated debentures) outstanding, which included subordinated debentures. The increase from December 31, 2018 to December 31, 2019 was due to $40.0 million of subordinated debentures acquired in the Guaranty transaction as well as the discount accretion and origination fee amortization on the debentures.

As of December 31, 2019, the Company's long-term gross indebtedness of $110 million, $40 million and $30 million will mature on August 1, 2024, July 20, 2026 and December 31, 2027, respectively, with the $40 million and $30 million debentures having an optional redemption date of July 20, 2021 and December 31, 2022, respectively.

Junior Subordinated Debentures

As of December 31, 2019 and 2018, the Company had outstanding an aggregate principal amount of $57.3 million and $31.6 million, respectively, of nine series of junior subordinated securities issued to nine unconsolidated subsidiary trusts. Each series of debentures was purchased by one of the trusts with the net proceeds of the issuance by such trust of floating rate trust preferred securities. These junior subordinated debentures are unsecured and will mature between March 2033 and September 2037. Each of the series of debentures bears interest at a per annum rate equal to three-month LIBOR plus a spread that ranges from 1.60% to 3.25%, with a weighted average rate of 4.46%. Interest on each series of these debentures is payable quarterly, although the Company may, from time to time defer the payment of interest on any series of these debentures. A deferral of interest payments would, however, restrict the Company's right to declare and pay cash distributions, including dividends on the Company's common stock, or making distributions with respect to any of the Company's future debt instruments that rank equally or are junior to such debentures. The Company may redeem the debentures, which are intended to qualify as Tier 1 capital, at the Company's option, subject to approval of the Federal Reserve.

Capital Resources and Liquidity Management

Capital Resources

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

Total stockholder's equity was $2.3 billion at December 31, 2019, compared with $1.6 billion at December 31, 2018, an increase of approximately $733.3 million. The increase was primarily due to stock issued in the Guaranty acquisition for a total, net of offering costs, of $601.1 million. In addition, net income earned for the year totaling $192.7 million, stock based compensation of $7.8 million and an increase of $27.6 million in unrealized gain on available for sale securities offset by a cumulative adjustment for change in accounting principles of $926 thousand, stock repurchased by the Company totaling $51.7 million and dividends paid of $43.3 million.

Liquidity Management

Liquidity refers to the measure of the Company's ability to meet the cash flow requirements of depositors and borrowers, while at the same time meeting the Company's operating, capital and strategic cash flow needs, all at a reasonable cost. The Company's asset and liability management policy is intended to maintain adequate liquidity and, therefore, enhance the Company's ability to raise funds to support asset growth, meet deposit withdrawals and lending needs, maintain reserve requirements, and otherwise sustain operations. The Company accomplishes this through management of the maturities of the Company's interest-earning assets and interest-bearing liabilities. The Company believes that the Company's present position is adequate to meet the Company's current and future liquidity needs.

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

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

In addition to the liquidity provided by the sources described above, the Company maintains correspondent relationships with other banks in order to sell loans or purchase overnight funds should additional liquidity be needed. As of December 31, 2019 and 2018 the Company had established federal funds lines of credit with various unaffiliated banks totaling $375 million and $365 million, respectively. Based on the values of stock, securities, and loans pledged as collateral, as of December 31, 2019 and 2018, the Company had additional borrowing capacity with the FHLB of $3.7 billion and $2.0 billion, respectively.

The Company also maintains a secured line of credit with the Federal Reserve Bank with an availability to borrow approximately $895.1 million and $738.9 million at December 31, 2019 and 2018, respectively. Approximately $1.2 billion and $978.3 million of commercial loans were pledged as collateral at December 31, 2019 and 2018, respectively. There were no borrowings against this line as of December 31, 2019 or 2018.

The Company also participates in an exchange that provides direct overnight borrowings with other financial institutions. The funds are provided on an unsecured basis. Borrowing availability totaled $484.0 million and $204.0 million at December 31, 2019 and 2018, respectively. There were no borrowings as of December 31, 2019 and 2018.

The Company has a $100 million unsecured revolving line of credit with an unrelated commercial bank. The line bears interest at LIBOR plus 1.75% and matured on January 17, 2020. As of December 31, 2019, the line had $24.5 million outstanding. As of December 31, 2018, there was no borrowings against the line. The Company is required to meet certain financial covenants on a quarterly basis, which includes maintaining $5 million in cash at Independent Bank Group and meeting minimum capital ratios and bears a non-usage fee of 0.30% per year on the unused commitment at the end of each fiscal quarter. On January 17, 2020, the line of credit was renewed. As of March 2, 2020, the Company had no borrowings against this line.

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

Regulatory Capital Requirements

The Company’s capital management consists of providing equity to support the Company’s current and future operations. The Company is subject to various regulatory capital requirements administered by state and federal banking agencies, including the TDB, Federal Reserve and the FDIC. Failure to meet minimum capital requirements may prompt certain actions by regulators that, if undertaken, could have a direct material adverse effect on the Company’s financial condition and results of operations. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company’s assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company’s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Tier 2 capital for the Company includes permissible portions of the Company's subordinated notes. The permissible portion of qualified subordinated notes decreases 20% per year during the final five years of the term of the notes.

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

In connection with the adoption of the Basel III Capital Rules, we elected to opt-out of the requirement to include most components of accumulated other comprehensive income in regulatory capital. Accordingly, amounts reported as accumulated other comprehensive income/loss related to securities available for sale do not increase or reduce regulatory capital and are not included in the calculation of risk-based capital and leverage ratios. Regulatory agencies for banks and bank holding companies utilize capital guidelines designed to measure capital and take into consideration the risk inherent in both on-balance sheet and off-balance sheet items. Please refer to Note 21, Regulatory Matters, in the notes to the Company's audited consolidated financial statements included elsewhere in this report for additional details.

The FDIC has promulgated regulations setting the levels at which an insured institution such as Independent Bank would be considered well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Independent Bank is considered well-capitalized for purposes of the applicable prompt corrective action regulations.

As of December 31, 2019 and 2018, the Company and Bank exceeded all capital ratio requirements under prompt corrective action and other regulatory requirements, as detailed in the table below. The minimum required capital amounts presented as of December 31, 2019 include the minimum required capital levels as of January 1, 2019 when the Basel III Capital Rules have been fully phased-in.

	As of December 31, 2019			
	Actual Consolidated	Actual Bank	Required Minimum Capital - Basel III Fully Phased-In	Required to be Considered Well Capitalized (Bank Only)
	Ratio	Ratio	Ratio	Ratio
Tier 1 capital to average assets ratio	9.32%	10.70%	4.00%	≥5.00%
Common equity tier 1 to risk-weighted assets ratio	9.76	11.70	7.00	≥6.50
Tier 1 capital to risk-weighted assets ratio	10.19	11.70	8.50	≥8.00
Total capital to risk-weighted assets ratio	11.83	12.11	10.50	≥10.00

	As of December 31, 2018			
	Actual Consolidated	Actual Bank	Required Minimum Capital	Required to be Considered Well Capitalized (Bank Only)
	Ratio	Ratio	Ratio	Ratio
Tier 1 capital to average assets ratio	9.57%	10.91%	4.00%	≥5.00%
Common equity tier 1 to risk-weighted assets ratio	10.05	11.86	4.50	≥6.50
Tier 1 capital to risk-weighted assets ratio	10.41	11.86	6.00	≥8.00
Total capital to risk-weighted assets ratio	12.58	12.39	8.00	≥10.00

Share Repurchase Program. On October 24, 2018, the Company announced the reestablishment of its share repurchase program. The program authorizes the purchase by the Company of up to $75 million of its common stock and was authorized to continue through October 1, 2019. On October 17, 2019, the repurchase program was renewed and authorized to continue through December 31, 2020. Under the Basel III Capital Rules, the Company may not repurchase its common stock (or repurchase or redeem any of its preferred stock or subordinated notes) without the prior approval of the Federal Reserve Board. The Company has repurchased a total of 897,738 shares at a total cost of $49.0 million through March 2, 2020. Shares of Company stock repurchased to settle employee tax withholding related to vesting of stock awards during the period ended December 31, 2019 totaled 55,106 at a total cost of $2.6 million and were not included under this program. See Part II, Item 5 - Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities, in this report for additional information.

Contractual Obligations

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

The following table contains supplemental information regarding the Company’s total contractual obligations as of December 31, 2019:

	Payments Due				
(dollars in thousands)	Within One Year	One to Three Years	Three to Five Years	After Five Years	Total
Deposits without a stated maturity	$ 10,111,420	$ —	$ —	$ —	$ 10,111,420
Time deposits	1,531,507	277,555	20,854	—	1,829,916
FHLB advances	300,000	25,000	—	—	325,000
Subordinated debt	—	—	110,000	70,000	180,000
Junior subordinated debentures	—	—	—	57,324	57,324
Operating leases	5,964	10,774	7,650	8,454	32,842
Total contractual obligations	$ 11,948,891	$ 313,329	$ 138,504	$ 135,778	$ 12,536,502

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

Other than normal changes in the ordinary course of business and the items mentioned above, there have been no significant changes in the types of contractual obligations or amounts due since December 31, 2018.

See Note 13, Leases, in the accompanying notes to the Company's audited consolidated financial statements included elsewhere in this report for details of contractual lease obligations.

Off-Balance Sheet Arrangements

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

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

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

Commitments to extend credit were $2.3 billion and $1.8 billion, as of December 31, 2019 and 2018, respectively. Outstanding standby letters of credit were $23.4 million and $15.0 million, as of December 31, 2019 and 2018, respectively. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements. The Company manages the Company’s liquidity in light of the aggregate amounts of commitments to extend credit and outstanding standby letters of credit in effect from time to time to ensure that the Company will have adequate sources of liquidity to fund such commitments and honor drafts under such letters of credit.

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

Asset/Liability Management and Interest Rate Risk

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

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

Instantaneous parallel rate shift scenarios are modeled and utilized to evaluate risk and establish exposure limits for acceptable changes in net interest margin. These scenarios, known as rate shocks, simulate an instantaneous change in interest rates and use various assumptions, including, but not limited to, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, reinvestment and replacement of asset and liability cash flows.

The Company also analyzes the economic value of equity as a secondary measure of interest rate risk. This is a complementary measure to net interest income where the calculated value is the result of the market value of assets less the market value of liabilities. The economic value of equity is a longer term view of interest rate risk because it measures the present value of the future cash flows. The impact of changes in interest rates on this calculation is analyzed for the risk to the Company's future earnings and is used in conjunction with the analyses on net interest income.

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

The Company's interest rate risk model indicated that it was in a slightly asset sensitive position in terms of interest rate sensitivity as of December 31, 2019. The table below illustrates the impact of an immediate and sustained 200 and 100 basis point increase and a 100 basis point decrease in interest rates on net interest income based on the interest rate risk model as of December 31, 2019:

Hypothetical Shift in Interest Rates (in bps)	% Change in Projected Net Interest Income
200	2.34%
100	1.07
(100)	0.28

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

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

As part of the Company's asset/liability management strategy, the Company's management has emphasized the origination of shorter duration loans to limit the negative exposure to rate changes. The average duration of the loan portfolio is less than four years. The Company's strategy with respect to liabilities has been to emphasize transaction accounts, particularly noninterest or low interest-bearing nonmaturing deposit accounts, which are less sensitive to changes in interest rates. In response to this strategy, nonmaturing deposit accounts have been a large portion of total deposits and totaled 84.7% and 85.5% of total deposits as of December 31, 2019 and 2018, respectively. The Company had brokered deposits, including CDARS totaling $894.1 million and $356.3 million, at December 31, 2019 and 2018, respectively. The Company intends to focus on the Company's strategy of increasing noninterest or low interest-bearing nonmaturing deposit accounts, but may consider the use brokered deposits as a stable source of lower cost funding.

Inflation and Changing Prices

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

Critical Accounting Policies and Estimates

The preparation of the Company's consolidated financial statements in accordance with U.S. generally accepted accounting principles, or GAAP, requires the Company to make estimates and judgments that affect the Company's reported amounts of assets, liabilities, income and expenses and related disclosure of contingent assets and liabilities. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under current circumstances, results of which form the basis for making judgments about the carrying value of certain assets and liabilities that are not readily available from other sources. The Company evaluates its 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 audited consolidated financial statements are an integral part of the Company's financial statements. A thorough understanding of these accounting policies is essential when reviewing the Company's reported results of operations and the Company's financial position. The Company believes that the critical accounting policies and estimates discussed below require the Company to make difficult, subjective or complex judgments about matters that are inherently uncertain. Changes in these estimates, that are likely to occur from period to period, or the use of different estimates that the Company could have reasonably used in the current period, would have a material impact on the Company's financial position, results of operations or liquidity.

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

Acquired loans from the transactions accounted for as a business combination include both loans with evidence of credit deterioration since their origination date and performing loans. The Company accounts for performing loans under ASC Paragraph 310-20, *Nonrefundable Fees and Other Costs*, with the related difference in the initial fair value and unpaid principal balance (the discount) recognized as interest income on a level yield basis over the life of the loan. The Company accounts for the nonperforming loans acquired in accordance with ASC Paragraph 310-30, *Loans and Debt Securities Acquired with*

Deteriorated Credit Quality. At the date of the acquisition, acquired loans are recorded at their fair value with no valuation allowance.

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

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

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

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

On January 1, 2020, the Company adopted a new accounting standard which replaces the “incurred loss” model for measuring credit losses discussed above with a new “expected loss” model. Refer to Note 2, Recent Accounting Pronouncements, in the notes to the Company's audited consolidated financial statements included elsewhere in this report for additional details.

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

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

Core deposit intangibles and other acquired customer relationship intangibles 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. Other intangible assets are being amortized on a straight-line basis over their estimated useful lives ranging from ten to thirteen years. Other intangible assets 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.

Recently Issued Accounting Pronouncements

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements, the reports thereon, the notes thereto and supplementary data commence at page 113 of this Annual Report on Form 10-K.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

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

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

As of December 31, 2019, management, including the Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company’s internal control over financial reporting based on the criteria for effective internal control over financial reporting established in “Internal Control-Integrated Framework,” issued by the Committee of Sponsoring

Organizations, or COSO, of the Treadway Commission (2013 framework). Based on the assessment, management determined that the Company maintained effective internal control over financial reporting, as of December 31, 2019, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

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

Attestation report of the registered public accounting firm. The Company's independent registered public accounting firm that audited the Company's consolidated financial statements included in this Annual Report on Form 10-K has issued an attestation report on the Company's internal control over financial reporting. The attestation report of RSM US LLP, which expresses an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2019, appears below.

Report of Independent Registered Public Accounting Firm

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

Opinion on the Internal Control Over Financial Reporting

We have audited Independent Bank Group, Inc.'s (the Company) internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and our report dated March 2, 2020 expressed an unqualified opinion.

Basis for Opinion

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

RSM US LLP

Dallas, Texas
March 2, 2020

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ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Director and Executive Officer Information

The following table sets forth the name, age and position with the Company of each of the Company's directors and its executive officers as of February 27, 2020.* The business address for all of these individuals is 7777 Henneman Way, McKinney, Texas 75070.

Name	Age	Position with the Company
David R. Brooks (1)	61	Chairman of the Board, Chief Executive Officer, President and Director
Daniel W. Brooks (2)	59	Vice Chairman, Chief Risk Officer and Director
Michelle S. Hickox	52	Executive Vice President and Chief Financial Officer
James C. White	55	Executive Vice President and Chief Operations Officer
James P. Tippit	49	Executive Vice President, Corporate Responsibility
Mark S. Haynie	63	Executive Vice President, General Counsel
Michael B. Hobbs	57	Executive Vice President, Chief Lending Officer
William E. Fair (3)	58	Director
Alicia K. Harrison (4)	60	Director
Craig E. Holmes (5)	62	Director
J. Webb Jennings, III (6)	49	Director
Tom C. Nichols (7)	73	Director
Donald L. Poarch (8)	68	Director
G. Stacy Smith (9)	52	Director
Michael T. Viola (10)	33	Director

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(1) Chair, Strategic Planning Committee

(2) Chair, Risk Oversight Committee

(3) Chair, Compensation Committee and Member, Strategic Planning Committee

(4) Member, Corporate Governance & Nominating Committee

(5) Chair, Audit Committee and Member, Risk Oversight Committee

(6) Member, Audit Committee and Member, Compensation Committee

(7) Member, Strategic Planning Committee

(8) Member, Corporate Governance & Nominating Committee

(9) Member, Audit Committee; Member, Compensation Committee; Chair, Corporate Governance & Nominating Committee; and Member, Strategic Planning Committee

(10) Member, Corporate Governance & Nominating Committee and Member, Risk Oversight Committee

* Brian E. Hobart, the former Vice Chairman and Chief Lending Officer, resigned on November 11, 2019, and former directors Douglas A. Cifu and Mark K. Gormley, resigned on July 25, 2019 and January 20, 2020, respectively.

The following is a brief discussion of the business and banking background and experience of the Company's current directors and executive officers. Other than as described below, no director has any family relationship, as defined in Item 401 in Regulation S-K, with any other director or with any of the Company’s executive officers. All officers of the Company are elected annually by the board and serve at the discretion of the board.

David R. Brooks. David R. Brooks is Chairman of the Board of Directors, CEO and President of the Company. He has been active in community banking since the early 1980’s and founded the Company in 1988. Mr. Brooks has a long history of community and civic involvement, and is passionate about education. He served as a McKinney City Councilman. He served five years as President of the Board of Trustees at McKinney Independent School District and three years on both the McKinney Economic Development Corporation Board and the McKinney Chamber of Commerce Board. Mr. Brooks served as the Chief Financial Officer for Baylor University from 2000 to 2004. He served as Chairman of the Board of Directors of Noel-Levitz, Inc., a national higher education consulting company, and also Chairman of the Board of Trustees at Houston Baptist University. He currently serves as Chairman of the Board of Directors of Capital Southwest Corporation (CSWC). Mr. Brooks holds Bachelor’s (1980) and Master’s (1981) degrees in business from Baylor University. Mr. Brook’s qualifications to serve on the Company’s Board of Directors include his intimate working knowledge of the Company since its inception, his extensive knowledge and experience in banking and finance, and his knowledge of the Company’s key markets and customers, as well as his service on other Board of Directors.

Daniel W. Brooks. Daniel W. Brooks is Vice Chairman, Chief Risk Officer and a director of the Company. He has served as Vice Chairman and a director of the Company since 2009 and as Chief Risk Officer of the Company since April 2013. He previously served as President and a director of the Company from 2002 to 2009 and has functioned as the Company’s Chief Credit Officer throughout his tenure. Mr. Brooks began his banking career in the early 1980s with a large regional bank and has been active in community banking since the late 1980s. Mr. Brooks has served in numerous leadership roles in the Collin County community, including service as Chairman of the Board for Medical Center of McKinney and on the boards of directors of McKinney Christian Academy and the McKinney Education Foundation. Daniel W. Brooks is the brother of David R. Brooks. Mr. Brooks’ qualifications to serve on the Company’s board of directors include his extensive experience in the banking industry, and specifically as an executive officer and director of the Company.

Michelle S. Hickox. Michelle S. Hickox is Executive Vice President and Chief Financial Officer of the Company. Prior to joining the Company in May 2012, Ms. Hickox was an audit partner with RSM US LLP (formerly McGladrey LLP). Over her twenty-two year career in public accounting, Ms. Hickox provided audit, financial reporting, internal control assistance and training to community banks and was a designated financial institution specialist. Ms. Hickox serves on the boards of the Baylor Oral Health Foundation and the Texas A&M 12th Man Foundation. She is a licensed certified public accountant and is a member of the AICPA, the Texas Society of Certified Public Accountants and the Dallas CPA Society.

James C. White. James C. White is the Executive Vice President and Chief Operations Officer of the Company, joining the Company in April 2016. He has over thirty years’ experience in the banking industry and has held a variety of management positions in finance, operations, product development, strategic planning, compliance and information technology. Prior to joining the Company, Mr. White served as Executive Vice President and Chief Operating Officer of Fischer & Company, a global corporate real estate firm that provides consulting, brokerage and technology solutions to many Fortune 500 companies from July 2015 to April 2016. Prior to Fischer, Mr. White served as Executive Vice President and Chief Operations Officer of Texas Capital Bank from February 2000 to June 2015 where he directed key operational areas and introduced and managed changes which supported growth for that bank. Mr. White holds a bachelor’s of science degree from the University of North Texas in business and control systems, is certified in Six Sigma, is a Certified Treasury Professional and is a current member of the Association of Financial Professionals.

James P. Tippit. James P. Tippit is Executive Vice President Corporate Responsibility of the Company and Independent Bank assuming this position effective on January 8, 2018. Mr. Tippit oversees the Company’s and Independent Bank’s community development function. Mr. Tippit has been with Independent Bank since 2011 as Community Reinvestment Act (CRA) Officer and then Head of Corporate Responsibility. As Executive Vice President, he will continue to oversee Human Resources, CRA, Community Development, Marketing and Communications. Prior to his tenure at Independent Bank, Mr. Tippit worked for JP Morgan Chase in the Wealth Management Division and American Express Financial Advisors.

Mark S. Haynie. Mark S. Haynie is Executive Vice President and General Counsel of the Company and Independent Bank, effective March 1, 2018. Mr. Haynie has over 35 years’ experience in representing community banks in a wide variety of corporate, regulatory and securities matters. Prior to joining the Company, Mr. Haynie served as attorney, President and shareholder at Haynie Rake Repass & Klimko, P.C., a law firm, from 1996 to 2018. Mr. Haynie has represented the Company since its formation in 2002, serving as lead counsel on all of the Company’s M&A and capital markets transactions. Mr. Haynie is a graduate of Texas Tech University and The University of Texas School of Law.

Michael B. Hobbs. Michael Hobbs is Executive Vice President and Chief Lending Officer of the Company and Independent Bank. Mr. Hobbs previously served as Executive Vice President and Colorado Market CEO for Independent Bank following the completion of the Guaranty acquisition on January 1, 2019. Prior to the Guaranty acquisition, Mr. Hobbs served as President and Director of Guaranty Bank and Trust Company. Mr. Hobbs has over 25 years’ experience in the banking and investment banking sectors, representing Bank of America, KeyBank and St. Charles Capital. Mr. Hobbs holds a Bachelor's degree in Marketing (1984) and Master's of Business Administration degree in Finance (1992) from Texas Christian University.

William E. Fair. William E. Fair is a member of the Board of Directors of the Company. He joined the board when IBG Central Texas was combined with the Company in 2009, prior to which he served as a director of IBG Central Texas beginning in 2007. Mr. Fair has served as the Chairman and Chief Executive Officer of Home Abstract and Title Company, a title insurance agency located in Waco, Texas, since 1984 and has served on the board of directors of Capstone Mechanical, LLC since 2005. He also serves on the board of trustees of Hillcrest Baptist Medical Center, Scott & White Healthcare, further serving as Chairman of the Board of Development for that organization. Mr. Fair's qualifications to serve on the Company's board of directors include his extensive experience in the real estate industry and his experience as a director of the Company, Independent Bank and IBG Central Texas.

Alicia K. Harrison. Alicia K. Harrison is a member of the Board of Directors of the Company, joining the board in 2019. Ms. Harrison previously worked for Wells Fargo & Company and its predecessor banks from 1986 until 2012, when she retired as Executive Vice President of Commercial Banking. Her responsibilities at Wells Fargo included positions as area manager and group head for the Southwest Regional Commercial Banking Office, manager of the Real Estate Department, and as a member of the integration team for the Government and Institutional Banking Group integrating the employees and clients of Wachovia Corporation following its acquisition in 2008. Ms. Harrison serves on the Board of Directors of Ryan Companies US, Inc., a national commercial real estate development, design and management company, and concurrently serves on the Board of Directors of Cole Credit Property Trust IV, a publicly-registered non-listed real estate investment trust focusing on high-quality, income-producing necessity retail properties. Ms. Harrison's qualifications to serve on the Company's board of directors include her deep experience in banking and real estate in high-growth organizations and her broad experience serving on the Board of Directors for other companies.

Craig E. Holmes. Craig E. Holmes is a member of the Board of Directors of the Company, joining the board in February 2013. Mr. Holmes provides advisory services and manages personal investments in real estate, oil and gas and other private and public companies. He also serves on the Board of Directors of Hobi International, Inc., joining the board in August 2009 and the Board of Directors of Leopard Mobility Inc., joining the board in October 2014. From August 2017 through April 13, 2018, Mr. Holmes served on the Board of Directors and as a President and Co-Chief Executive Officer of Global Power Equipment Group, Inc., an engineering, manufacturing and maintenance company. He previously served as Senior Vice President of Global Power Equipment Group, Inc. from October 2015 to July 2017, Chief Financial Officer of Global Power Equipment Group, Inc. from March 2017 to August 2017, Chief Financial Officer of Goodman Networks Incorporated, a telecommunications services company, from December 2014 to March 2015, and as Chief Financial Officer of Sizmek, Inc., formerly Digital Generation, Inc., a global advertising campaign management company, from October 2012 until December 2014. Prior to 2012, Mr. Holmes held executive positions at several public and private companies and was a partner at Arthur Andersen, a national public accounting firm, where he worked from 1982 to 1995. Mr. Holmes holds a Masters and BBA from Texas Tech University. He served on the University of Texas at Dallas School of Management Board of Advisors from January 2003 to December 2009 and the Dallas Summer Musicals Board of Directors from December 2004 to January 2010. Mr. Holmes' qualifications to serve on the Company's Board of Directors include his extensive experiences on other boards and executive management of publicly traded companies, including his experience in strategy, finance, operations, compensation and governance and his experience as a director of the Company

J. Webb Jennings, III. J. Webb Jennings, III is a member of the Board of Directors of the Company, joining the board in April 2014 in connection with the Company's acquisition of BOH Holdings, Inc. and its subsidiary, Bank of Houston. Mr. Jennings founded Salt Investment Partners in January 2016 to focus on direct investing in lower, middle-market companies. He previously served as a vice president at Hancock Park Associates, a middle market private equity firm with offices in Houston, Texas, and Los Angeles, California, from 2007 to 2015. Mr. Jennings served on the Bank of Houston board of directors since that bank was formed in 2005 as well as the BOH Holdings board of directors. He currently serves on the boards of directors of Alloy Merchant Finance, Automation Technology, Inc., and a privately held, diversified investment company. Mr. Jennings also serves on the boards of directors of several Houston based charitable organizations and foundations. Mr. Jennings graduated with a B.A. from The University of Texas and an M.B.A. from Southern Methodist University. Mr. Jennings' qualifications to serve on the Company's board of directors include his extensive business experience in Houston and his experience as a director of BOH Holdings, Bank of Houston, and the Company.

Tom C. Nichols. Tom C. Nichols became a member of the Board of Directors of the Company in connection with the Company's acquisition of Carlile on April 1, 2017. Mr. Nichols previously served as the Chairman and Chief Executive Officer of Carlile. Mr. Nichols has acquired, merged and sold banking organizations and other financial services companies for over 30 years. He began his banking career in 1969 as a bank examiner with the FDIC. From 1973 to 1976, he served in various banking capacities in Oklahoma, New Mexico and Texas. In 1976, Mr. Nichols joined Gerald J. Ford (Ford Bank Group) and from 1976 to 1994, was involved in buying and operating numerous banks in Texas and New Mexico. Mr. Nichols served Ford Bank Group as the President and Chief Operating Officer and later, Chairman, President and Chief Executive Officer of Ford's lead bank, First National Bank of Lubbock. In 1993, Ford Bank Group merged with United New Mexico Financial Corporation forming First United Bank Group, at which time Mr. Nichols served as President and Chief Operating Officer. The Norwest Corporation acquired First United Bank Group in 1994 and Mr. Nichols served as Regional President of Norwest Bank Texas, N.A. from 1994 to 1995. In 1996, Mr. Nichols formed State National Bancshares, Inc. ("SNBI") and chartered its subsidiary, State National Bank, a de novo national banking association originally chartered in Lubbock, Texas. He recruited a number of other senior officers formerly with Ford Bank Group and United New Mexico to form the management team. From 1996 to 2005, SNBI completed 9 acquisitions and grew from a de novo in 1996 to assets of over $1.7 billion at the time of its acquisition by BBVA on January 3, 2007. Mr. Nichols served as a member of the Board and Audit Committee of United New Mexico Financial Corporation from 1985 to 1988. He served as a Board member of the Texas Higher Education Coordinating Board and Chairman of the campus Planning Committee from 1992 to 1998. Mr. Nichols also served as a Director and member of the Audit Committee and Compensation Committees of BBVA-Compass USA from 2007 to 2009. Since 2005, Mr. Nichols has served as a Director and member of the Audit Committee and Compensation Committees of First Acceptance Corporation (FAC-NYSE). Mr. Nichols holds a B.S. in Economics from Abilene Christian University. He is a resident of Colleyville, Texas. Mr. Nichols qualifications to serve on the Company's board of directors include his previous service as Chairman of the Board, Chief Executive Officer and director of Carlile and his extensive experience as an executive officer and director of financial institutions.

Donald L. Poarch. Donald L. Poarch is a member of the Board of Directors of the Company, joining the board in April 2014 in connection with the Company's acquisition of BOH Holdings, Inc. and its subsidiary, Bank of Houston. Mr. Poarch has been a partner and co-owner of The Sprint Companies since 1976. The Sprint Companies are a diverse group of approximately ten different companies operating throughout the Texas Gulf Coast area. He had been a member of the BOH Holdings board of directors since 2008, and its chairman since 2012, and he was a member of the Bank of Houston's board of directors since 2005, and its chairman since 2012, until the BOH Holdings merger was completed in April 2014. In the past 25+ years, Mr. Poarch has bought, sold and grown more than twenty companies. Mr. Poarch currently serves on the boards of directors for Keep Houston Beautiful and the Houston Clean City Commission. Mr. Poarch attended The University of Texas at Austin and is currently active in various civic and charitable foundations. Mr. Poarch's qualifications to serve on the Company's board of directors include his extensive experience in the Houston business community and his experience as a director of BOH Holdings, Bank of Houston, and the Company.

G. Stacy Smith. G. Stacy Smith is a member of the Board of Directors of the Company, joining the board in February 2013. Mr. Smith is a Managing Partner of SCW Capital, L.P., a private equity hedge fund focusing on financial and energy sectors, a position he has held since August 2013. Mr. Smith is also co-founder of Trinity Investment Group, which invests in private equity and hard assets. Mr. Smith co-founded Walker Smith Capital, a long/short equity hedge fund based in Dallas, Texas, and he served as co-portfolio manager of that firm for sixteen years. From 1994 through 1996, Mr. Smith was a co-founder and manager of Gryphon Partners, a long/short equity hedge fund focused on small and mid-cap domestic equities. He started his investment career as an energy analyst at Wasserstein Perella & Co., an international investment bank. Mr. Smith serves as a director of USD Partners, LP, a master limited partnership involved in the acquisition and development of energy related logistics assets, and WhiteHorse Finance, Inc., a closed end management investment company. He is a member of the Salesmanship Club of Dallas, an association of business professionals that supports local charitable organizations. Mr. Smith's qualifications to serve on the Company's board of directors include his extensive experience in overseeing the management of investment firms, his knowledge of the Texas banking market and his experience as a director of the Company.

Michael T. Viola. Michael T. Viola is a member of the Board of Directors of the Company, joining the board in February 2013. Mr. Viola currently serves as the President of the Viola family office, a position he has held since March 2016. As President of the family's investment office, Mr. Viola is responsible for overseeing the family's operating businesses, public and private investment portfolio, banking relationships, and philanthropic work. Before joining the family investment office, Mr. Viola worked at Virtu Financial LLC ("Virtu"), a leading technology-enabled market making company, from 2010 to 2016. While employed at Virtu, Mr. Viola held multiple roles, including operations, project management, and trading, where he worked as a senior trader focused on foreign exchange products and global commodities. Mr. Viola currently serves on the Board of Directors at Virtu Financial Inc,(NASDAQ: VIRT), iAero Group, an integrated aviation platform company backed by Blackstone/GSO, Crowheart Energy, LLC, a private oil and gas company, and Madava Financial, LLC, an energy-focused finance company. Mr. Viola also serves on the board of The Viola Foundation, working to develop and deliver innovative programs in the education, national security, and faith based sectors. Mr. Viola is the son of the Company's largest shareholder, Vincent Viola. Mr. Viola's qualifications to serve on the Company's board of directors include his knowledge of financial markets, his familiarity with the Company given his family's ownership of Independent Bank over the past thirty-one years, and his experience as a director of the Company.

Board Composition

The Company's board of directors currently has ten (10) members serving on the board. The number of directors may be changed only by resolution of the board of directors within the range set forth in the Company's certificate of formation (unless the Company's shareholders act to amend the authorized number of directors designated in the Company's certificate of formation). The board of directors may increase the number of directors by two and fill these vacancies until the next annual meeting of shareholders. As discussed in greater detail below, the board of directors has affirmatively determined that eight (8) of its ten (10) current directors qualify as independent directors under Rule 5605(a)(2) of the Nasdaq Stock Market Rules and the regulations of the SEC.

Classification of the Company's Directors

In accordance with the terms of the Company's amended and restated certificate of formation, the Company's current board of directors is divided into three classes, Class I, Class II and Class III, with each class serving staggered three-year terms as follows:

- The Class I directors are Daniel W. Brooks, Craig E. Holmes, Tom C. Nichols, and G. Stacy Smith, and their terms will expire at the annual meeting of shareholders to be held in 2020;
- The Class II directors are William E. Fair, Donald L. Poarch and Michael T. Viola, and their terms will expire at the annual meeting of shareholders to be held in 2021; and
- The Class III directors are David R. Brooks, Alicia K. Harrison and J. Webb Jennings, III, and their terms will expire at the annual meeting of shareholders to be held in 2022.

Board Leadership Structure

David R. Brooks currently serves as the Company's Chairman of the Board, Chief Executive Officer and President. Mr. Brooks has served as Chairman and Chief Executive Officer since the inception of the Company in 2002. Mr. Brooks became President in 2016. Mr. Brooks' primary duties are to lead the Company's board of directors in establishing the Company's overall vision and strategic plan and to lead the Company's management in carrying out that plan. While the Company recognizes the inherent conflict of interest that arises when the positions are held by one person, the Company believes that the overall benefit of Mr. Brooks' leadership in both roles outweighs any potential disadvantage of this structure. The Company's lead independent director is G. Stacy Smith, who assumed this role in July of 2019. As lead independent director, Mr. Smith serves as a liaison between the Chairman and the independent directors, presides over executive sessions of the independent directors, and consults with the Chairman on major corporate decisions.

The Company has also structured its management team to mitigate the corporate governance risk related to the dual positions held by David R. Brooks. Daniel W. Brooks, the Company's Vice Chairman and Chief Risk Officer, is responsible for overseeing the Company's risk and credit functions, the most important component of the Company's operations. By having other executive officers with separate and distinct roles, the Company believes that it will obtain benefits similar to the benefits of having a separate Chairman and Chief Executive Officer.

Board Committees

In February 2013, the Company's board of directors established standing committees at the Company level in connection with the discharge of its responsibilities. These committees include a Compensation Committee, a Corporate Governance and Nominating Committee, an Audit Committee and a Strategic Planning Committee. In 2018, the Board of Directors added a joint Risk Oversight Committee.

In the future, the Company's board of directors also may establish such additional committees as it deems appropriate, in accordance with applicable law and regulations and the Company's certificate of formation and Bylaws.

Compensation Committee. The members of the Company's Compensation Committee are William E. Fair (Chair), G. Stacy Smith and J. Webb Jennings, III. The Company's board of directors has evaluated the independence of each of the members of the Compensation Committee and has affirmatively determined that each meets the definition of an “independent director” under Nasdaq Global Select Market rules.

The Board has determined that each of the members of the Compensation Committee qualifies as a “nonemployee director” within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, or the Exchange Act, and an “outside director” within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended.

None of the directors who served on the Compensation Committee at any time during fiscal 2019 were officers or employees of the Company or were former officers or employees of the Company. Further, none of the directors who served on the Compensation Committee at any time during fiscal 2019 has any relationship with the Company requiring disclosure under “Certain Relationships and Related Transactions and Director Independence” under Item 13 below, other than William E. Fair, as described in that section. Finally, no executive officer of the Company serves, or in the past fiscal year has served, as a member of the compensation committee (or other board committee performing equivalent functions) of any entity that has one or more of its executive officers serving on the Company’s Compensation Committee.

In accordance with its charter, the Compensation Committee has the responsibility and authority of establishing the philosophy that underlies the Company’s executive compensation program, for establishing and implementing that program and for reviewing and setting the compensation of each of the Company’s named executive officers and other executive officers. The Company’s board of directors has directed the Compensation Committee, in accordance with its charter, to ensure that the Company’s executive compensation program is designed and executed in a manner necessary to reflect the Company’s executive compensation philosophy, to achieve the Company’s goals and objectives and is consistent with regulatory requirements. Specifically, the Compensation Committee has responsibility for, among other things:

- Reviewing, monitoring and approving the Company’s overall compensation structure, policies and programs (including benefit plans) and assessing whether the compensation structure establishes appropriate incentives for the Company’s executive officers and other employees and meets the Company’s corporate objectives;
- Determining the annual compensation of the Company’s named executive officers as noted in “Executive Compensation and Other Matters”;
- Reviewing the Company’s executive officer compensation program and determining if:
  - Such program is appropriately linked to the Company’s short-term and long-term financial and other performance;
  - The interests of the Company’s executive officers are appropriately aligned with the interests of the Company’s shareholders or can be more appropriately aligned through greater equity ownership by the Company’s executive officers and by having a greater proportion of executive officer compensation tied to the Company’s financial and other performance; and
  - The base salaries and incentive compensation opportunities provided to the Company’s executive officers are competitive with those packages offered by other similarly situated and similarly performing financial institutions;
- Addressing such other matters relating to the Company’s executive compensation program as it deems appropriate;
- Reviewing the compensation decisions made by the Company’s named executive officers with respect to the Company’s other executive officers;
- Overseeing the administration of the Company’s equity plans and other incentive compensation plans and programs and preparing recommendations and periodic reports to the Company’s board of directors relating to these matters; and
- Handling such other matters that are specifically delegated to the Compensation Committee by the Company’s board of directors from time to time.

The Company’s Compensation Committee has adopted a written charter, which sets forth the committee’s duties and responsibilities. The charter of the Compensation Committee is available on the Company’s website at www.ibtx.com.

From time to time, the Compensation Committee may, by resolution of the Compensation Committee, delegate to one or more other committees of the board of directors of the Company separate but concurrent authority, to the extent specified in such resolution, to administer such plans with respect to employees of the Company and its subsidiaries and consultants who are not subject to the short-swing profit restrictions of Section 16 (b) of the Exchange Act.

Meridian Compensation Partners, LLC ("Meridian") is the Company's compensation consultant. Meridian is a highly-respected compensation consultant with over 70 professionals in ten offices in the U.S. and Canada, and provides a wide spectrum of compensation consulting and corporate governance services to over 500 publicly-traded and privately-held corporations. Meridian is fully-owned by its partners and well-known for their experience in banking and financial services. The firm brings a deep knowledge of the Company's peers and best practices in compensation and governance. Meridian is strongly independent and proactively informs the Company about relevant emerging issues. With Meridian's guidance, the Company has enhanced its approach to compensation, including the development of a new peer group and the addition of several performance-based metrics for incentive compensation.

Corporate Governance and Nominating Committee. The members of the Company's Corporate Governance and Nominating Committee are G. Stacy Smith (Chair), Alicia Harrison, Donald L. Poarch and Michael T. Viola. The Company's board of directors has evaluated the independence of each of the members of the Corporate Governance and Nominating Committee and has affirmatively determined that each meets the definition of an "independent director" under Nasdaq Global Select Market rules and SEC regulations.

The Company's Corporate Governance and Nominating Committee has responsibility for, among other things:

- recommending persons to be selected by the Company's board of directors as nominees for election as directors and to fill any vacancies on the Company's board of directors; provided that if this Committee is not comprised solely of independent directors under the Nasdaq Global Select Market rules, the Committee shall make its recommendations to the independent members of the Company's board of directors, who, in turn, shall nominate persons to be selected by the Company's board of directors as nominees for election as directors and to fill any vacancies on the Company's board of directors;
- monitoring the function of the Company's standing committees and recommending any changes, including the creation or elimination of any committee;
- developing, reviewing and monitoring compliance with the Company's corporate governance guidelines;
- reviewing and approving all related person transactions for potential conflicts of interest situations on an ongoing basis;
- reviewing annually the composition of the Company's board of directors as a whole and making recommendations; and
- handling such other matters that are specifically delegated to the Corporate Governance and Nominating Committee by the Company's board of directors from time to time.

The Company's Corporate Governance and Nominating Committee has adopted a written charter, which sets forth the committee's duties and responsibilities. The charter of the Corporate Governance and Nominating Committee is available on the Company's website at www.ibtx.com.

In carrying out its functions, the Corporate Governance and Nominating Committee has developed the following qualification criteria for all potential nominees for election, including incumbent directors, board nominees and shareholder nominees:

- integrity and high ethical standards in the nominee's professional life;
- sufficient educational and professional experience, business experience or comparable service on other boards of directors to qualify the nominee for service on the Company's board of directors;
- evidence of leadership and sound judgment in the nominee's professional life;
- whether the nominee is well recognized in the community and has a demonstrated record of service to the community;
- diversity of viewpoints, background, experience, race, gender, ethnicity and other demographic factors, as more fully set forth in the Board Diversity Policy adopted by the Corporate Governance and Nominating Committee in 2017;
- a willingness to abide by any published code of conduct or ethics for the Company; and
- a willingness and ability to devote sufficient time to carrying out the duties and responsibilities required as a member of the Company's board of directors.

The Corporate Governance and Nominating Committee evaluates potential nominees for the Company's board of directors to determine if they have any conflicts of interest that may interfere with their ability to serve as effective board members and determines whether they are "independent" in accordance with Nasdaq Global Select Market rules and SEC regulations (to ensure that, at all times, at least a majority of the Company's directors are independent).

Prior to nominating or, if applicable, recommending to the independent members of the Company's board of directors, an existing director for re-election to the board of directors, the Corporate Governance and Nominating Committee will consider and review the following attributes with respect to each existing director:

- attendance and performance at meetings of the Company's board of directors and the committees on which such director serves;
- length of service on the Company's board of directors;
- experience, skills and contributions that the existing director brings to the Company's board of directors;
- independence and any conflicts of interest; and
- any significant change in the director's status, including the attributes considered for initial membership on the Company's board of directors.

Director Nominations. The Company's board of directors does not have a policy with respect to the consideration of any director candidates recommended by shareholders. All recommended candidates will be considered by the Corporate Governance and Nominating Committee of the board of directors for nomination in light of the attributes specified in this section.

A notice of a shareholder to make a nomination of a person for election as a director of the Company must be made in writing and received by the Corporate Secretary of the Company (i) in the event of an annual meeting of shareholders, not more than one hundred twenty (120) days and not less than ninety (90) days in advance of the anniversary date of the immediately preceding annual meeting; provided, however, that in the event that the annual meeting is called on a date that is not within thirty (30) days before or after such anniversary date, notice by the shareholder in order to be timely must be so received not later than the close of business on the fifteenth (15) day following the day on which notice of the date of the annual meeting was mailed or public disclosure of the date of the annual meeting was made, whichever first occurs; or (ii) in the event of a special meeting of shareholders, such notice shall be received by the Corporate Secretary not later than the close of business on the fifteenth (15) day following the day on which notice of the meeting is first mailed to shareholders or public disclosure of the date of the special meeting was made, whichever first occurs.

Every such notice by a shareholder must set forth:

(i) the name and residence address of the shareholder of the Company who intends to make a nomination or bring up any other matter;

(ii) a representation that the shareholder is a holder of the Company's voting stock (indicating the class and number of shares owned) and intends to appear in person or by proxy at the meeting to make the nomination or bring up the matter specified in the notice;

(iii) with respect to notice of an intent to make a nomination for the election of a person as a director of the Company, a description of all arrangements or understandings among the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder; and

(iv) with respect to an intent to make a nomination, such other information regarding each nominee proposed by such shareholder as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had each nominee been nominated by the board of directors of the Company.

At the meeting of shareholders, the Chairman shall declare out of order and disregard any nomination or other matter not presented in accordance with these requirements.

The shareholder must also submit the nominee's consent to be elected and to serve. The board of directors may require any nominee to furnish any other information that may be needed to determine the eligibility and qualifications of the nominee. Any recommendations in proper form received from shareholders will be evaluated in the same manner that potential nominees recommended by directors or management are evaluated.

Audit Committee. The members of the Company's Audit Committee are Craig E. Holmes (Chair), J. Webb Jennings, III and G. Stacy Smith. The Company's board of directors has evaluated the independence of each of the members of the Audit Committee and has affirmatively determined that (i) each of the members meets the definition of an "independent director" under Nasdaq Global Select Market rules, (ii) each of the members satisfies the additional independence standards under applicable SEC rules for audit committee service and (iii) each of the members has the ability to read and understand fundamental financial statements. In addition, the board of directors has determined that Mr. Holmes also qualifies as a financial expert and has the required financial sophistication due to his experience and background, which Nasdaq Global Select Market rules require at least one such Audit Committee member have.

The Company's Audit Committee has responsibility for, among other things:

- selecting and reviewing the performance of the Company's independent auditors and approving, in advance, all engagements and fee arrangements;
- oversee the Company's Internal Audit Department;
- reviewing the independence of the Company's independent auditors;
- reviewing actions by management on recommendations of the independent auditors and internal auditors;
- meeting with management, the internal auditors and the independent auditors to review the effectiveness of the Company's system of internal controls and internal audit procedures;
- reviewing the Company's earnings releases and reports filed with the SEC;
- reviewing reports of bank regulatory agencies and monitoring management's compliance with recommendations contained in those reports; and
- handling such other matters that are specifically delegated to the Audit Committee by the Company's board of directors from time to time.

The Company's Audit Committee has adopted a written charter, which sets forth the committee's duties and responsibilities. The charter of the Audit Committee is available on the Company's website at www.ibtx.com.

Strategic Planning Committee. The members of the Strategic Planning Committee are David R. Brooks (Chair), William E. Fair, Tom C. Nichols, and G. Stacy Smith. The Company's board of directors has evaluated the independence of each of the members of the Strategic Planning Committee and has affirmatively determined that Mr. Nichols, Mr. Smith and Mr. Fair meet the definition of an "independent director" under the Nasdaq stock market rules. Mr. Brooks does not meet the definition of "independent director" under the Nasdaq Global Select Market rules because he is an executive officer of the Company.

The Company's Strategic Planning Committee has responsibility for, among other things:

- establishing plans for the growth of the Company, including organic growth plans and strategic acquisitions;
- identifying new market areas;
- identifying new management candidates to enhance product and geographic expansion;
- identifying acquisition targets and developing plans to pursue acquisitions of such identified targets; and
- reviewing capital and financing levels, financial partners, and ensuring continued access to capital and financing.

The Company's Strategic Planning Committee has adopted a written charter, which sets forth the committee's duties and responsibilities. The charter of the Strategic Planning Committee is available on the Company's website at www.ibtx.com.

Risk Oversight Committee. The members of the Risk Oversight Committee are Daniel W. Brooks (Chair), Craig E. Holmes, and Michael T. Viola. The Company's board of directors has evaluated the independence of each of the members of the Strategic Planning Committee and has affirmatively determined that Mr. Holmes and Mr. Viola meet the definition of an "independent director" under the Nasdaq stock market rules. Mr. Brooks does not meet the definition of "independent director" under the Nasdaq Global Select Market rules because he is an executive officer of the Company.

The purpose of the Risk Oversight Committee is to assist the Board of Directors through oversight of the Company's enterprise-wide risk management process, including the strategies, policies and practices established by management to identify, assess, measure and manage significant risks. The Risk Oversight Committee oversees risk across the entire Company and enhances the understanding of the Company's overall risk tolerance and enterprise-wide risk management activities and effectiveness. The Risk Oversight Committee reports to the Board of Directors on a quarterly basis.

The Risk Oversight Committee has responsibility for, among other things:

- overseeing the Company's risk management infrastructure, including annual review and approval of the Enterprise Risk Management Policy, which such policy describes the Company's risk tolerance and strategies for managing risk in the context of the overall business plan;

- overseeing the Company's financial risk management, capital management, financial performance and compliance, and corporate development, including annual review and approval of the Company's Capital Management Policy, and its Comprehensive Strategic Plan, which describe the Company's capital risk tolerances and strategies for strategic management risk related to capital;
- receiving regular reports from management which: (i) enable the committee to assess the risks involved in the business and how risks are monitored and controlled by management; and (ii) give clear and explicit information on current and forward-looking aspects of risk exposure;
- assessing of compliance with the Company's risk limit structure and policies and procedures relating to risk governance, practices, and risk controls across the enterprise;
- assessing the adequacy of staffing at the Company to ensure the availability of adequate staffing to carry out the objectives of the Enterprise Risk Management Policy, the Capital Management Policy, and the Strategic Plan;
- consulting, as deemed appropriate by the committee, with external experts to review information on emerging practices and risks;
- assessing Management's success in communicating the Company's risk culture to employees, regulators, and shareholders as appropriate;
- preparing reports to the Boards of the Company and the Bank on the overall risk profile of the Company (including risk related to capital management), the Committee's assessment of management's programs for managing enterprise risk and capital, and information concerning current and prospective macroeconomic and financial factors that may affect the Company's financial stability;
- retaining, at its discretion, outside advisors to consider from time to time any other matters that the committee believes are required of it in keeping with its responsibilities;
- seeking such assurance as it may deem appropriate that Company employs a Chief Risk Officer responsible for enterprise risk oversight and management, and which such officer possesses risk management expertise that is commensurate with the Company's capital structure, risk profile, complexity, activities, size, and other risk-related factors that are appropriate, and that the Chief Risk Officer:
  (i) participates in the risk management and oversight process at the highest level on an enterprise-wide basis; and
  (ii) operates independently from individual business units by reporting administratively to the Chief Executive Officer and functionally to the committee as prescribed by the committee charter; and
- performing any other duties or responsibilities expressly delegated to the committee by the Board of Directors from time to time.

The Company's Risk Oversight Committee has adopted a written charter, which sets forth the committee's duties and responsibilities. The charter of the Risk Oversight Committee is available on the Company's website at www.ibtx.com.

Code of Conduct; Code of Ethics for Chief Executive Officer and Senior Financial Officers

The Company has a Code of Conduct in place that applies to all of the Company's directors, officers and employees. The Code of Conduct sets forth the standard of conduct that the Company expects all of the Company's directors, officers and employees to follow, including the Company's Chief Executive Officer and Chief Financial Officer. In addition, the Company has a Code of Ethics for the Chief Executive Officer and Senior Financial Officers that applies to each of the Company's senior executive and senior financial officers, including the Company's Chief Executive Officer and Chief Financial Officer, principal accounting officer and controller, and sets forth specific standards of conduct and ethics that the Company expects from such individuals in addition to those set forth in the Code of Conduct. The Company's Code of Conduct and the Company's Code of Ethics for the Chief Executive Officer and Senior Financial Officers is available on the Company's website at www.ibtx.com. The Company expects that any amendments to the Code of Conduct or the Code of Ethics for the Chief Executive Officer and Senior Financial Officers, or any waivers of their respective requirements, will be disclosed on the Company's website, as well as any other means required by Nasdaq Global Select Market rules or the SEC.

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely on its review of the copies of such report forms received by it with respect to fiscal year 2019, the Company believes that all filing requirements applicable to its directors, executive officers and persons who own more than 10% of a registered class of the Company's equity securities have been timely complied with in accordance with Section 16(a) of the Exchange Act**,** except for the following late filings:

- Filing made by Alicia K. Harrison in connection with common stock ownership upon her appointment to the Board of Directors on May 23, 2019. The Form 3 was filed with the SEC on June 13, 2019.
- Filing made by Alicia K. Harrison in connection with common stock acquired on May 29, 2019. The Form 4 was filed with the SEC on June 13, 2019.

ITEM 11. EXECUTIVE COMPENSATION

Compensation Discussion & Analysis

Overview

The Compensation Committee of the Board of Directors is responsible for making recommendations to the Board of Directors relating to the compensation of the Company's Chairman of the Board, Chief Executive Officer and President, the other named executive officers, and the directors. William E. Fair (Chair), J. Webb Jennings, III, and G. Stacy Smith, each of whom the Board of Directors has determined to be an independent director as defined in The Nasdaq Stock Market Rules and SEC regulations, serve on the Compensation Committee.

This discussion and analysis describes the components of the Company's compensation program for its named executive officers and describes the basis on which the Compensation Committee made its 2019 compensation determinations with respect to the named executive officers of the Company.

The individuals who served as the Company's Chief Executive Officer and Chief Financial Officer during 2019, as well as the Company's other most highly compensated executive officers for 2019, are collectively referred to as the Company's "named executive officers." The compensation of the Company's named executive officers is discussed below.

EXECUTIVE SUMMARY

2019 Performance

For the year ended December 31, 2019, the Company reported net income of $192.7 million, or $4.46 per diluted share, compared to $128.3 million, or $4.33 per diluted share, for the year ended December 31, 2018, representing a 50.3% year-over-year increase in reported net income.

Highlights of the Company's performance include:

- Reported robust organic deposit growth of 10.4% and disciplined organic loan growth of 4.8% for the year;
- Strong credit quality metrics remained at low levels;
- Returned capital to shareholders by increasing quarterly dividend to $0.25 per share from $0.14 per share and repurchasing $49.0 million of Company stock through share repurchase program;
- Successfully closed, converted and integrated the Guaranty Bancorp acquisition, expanding the Company's presence in the fast-growing Colorado Front Range market; and,
- Announced a transformational all-stock merger of equals with Texas Capital Bancshares, Inc. ("TCBI") to create a premier Texas-based bank and position the Company for future growth.

2019 Compensation Outcomes

Early in 2019, the Compensation Committee established incentive targets for each of the named executive officers and approved a new incentive structure for 2019, which included a formulaic component based on Adjusted (Non-GAAP) EPS (weighted 60%), Adjusted (Non-GAAP) Efficiency Ratio (weighted 20%) and Non-Performing Assets (weighted 20%), as well as a qualitative review of corporate and individual performance. Based on the Company's performance against these targets, as well as each individual's performance, the Compensation Committee determined to pay incentives ranging from 102% to 117% of target for 2019. These incentives were paid as a combination of cash and time-based restricted stock based on a prescribed mix for each named executive officer. These incentive awards are discussed in more detail beginning on page 86.

Compensation Philosophy and Objectives

The Company compensates the Company's named executive officers through a mix of base salary, cash incentive bonuses, restricted stock grants and other benefits, including, to a limited extent, perquisites. The Company believes the current mix of these compensation elements and the amounts of each element provide the Company's named executive officers with compensation that is reasonable, competitive within the Company's markets, appropriately reflects the Company's performance and the officer's particular contributions to that performance, and takes into account applicable regulatory guidelines and requirements.

The Compensation Committee's philosophy is to provide a compensation package that attracts and retains executive talent, provides rewards for superior performance and produces consequences for underperformance. It is also the Compensation Committee's practice to provide a balanced mix of cash and equity-based compensation that the committee believes appropriate to mitigate risk and align the short-term and long-term interests of the Company's executives with that of the Company's shareholders and to encourage executives to participate and perform as equity owners of the Company.

The Company believes that in order to attract and retain the quality of executive talent necessary to achieve its long-term strategic business goals, the Company must offer a competitive compensation package to its executives. The Compensation Committee seeks to attract executive talent by offering competitive base salaries, annual performance incentive opportunities, and long-term awards under the Company's long-term incentive programs (including restricted stock grants under the Company's equity incentive plan). When considering pay decisions for its named executive officers, the Company generally evaluates pay relative to the median of market data while also considering the executive's scope of responsibilities, skills and experience, overall Company performance and the Board of Directors' evaluation of the executive's individual performance.

The Company believes the design of its compensation programs and the amounts paid have been and continue to be appropriate and reasonable. The Company continually reviews its programs to ensure they are aligned with the Company's business objectives and shareholder interests.

Say-on-Pay

At the 2019 annual meeting of shareholders, over 96% of votes cast were in favor of our advisory "Say-on-Pay" vote on the Company's executive compensation program. The Compensation Committee considers the results of this advisory vote in connection with the discharge of its responsibilities.

Elements of Compensation

The following is a summary of the elements of compensation provided to the Company's Chief Executive Officer and other named executive officers.

Base Salary

Base salaries paid to the Company's executives are intended to competitively compensate them for the experience and skills needed to perform their current roles, as well as reward their prior individual performance. The Company seeks to provide its senior management with a level of assured cash compensation in the form of base salary that reflects their level of responsibilities, professional status, accomplishments and experience.

The base salaries of the Company's named executive officers are reviewed annually by the Compensation Committee as part of the Company's performance review process as well as upon the promotion of an executive officer to a new position or another change in job responsibility. In establishing base salaries for the Company’s named executive officers, the Compensation Committee relies on external market data obtained from its compensation consultant. The Compensation Committee also considers additional factors including:

- each named executive officer’s scope of responsibility;
- each named executive officer’s years of experience;
- the Company’s financial performance and performance with respect to other aspects of the Company’s operations, such as the Company’s growth, asset quality, profitability and other matters, including the status of the Company’s relationship with banking regulatory agencies; and
- each named executive officer’s individual performance and contributions to the Company’s performance, including leadership, team work and community service.

Following its review, the Compensation Committee makes a recommendation to the Company’s Board of Directors, which reviews the recommendation and sets the annual salaries for the named executive officers. The Compensation Committee met in December 2018 and December 2019 to approve compensation for the named executives for the following years as follows:

Executive	2019 Base Salary	2020 Base Salary	Percent Increase
David R. Brooks	$765,000	$800,000	6.7%
Michelle S. Hickox	375,000	410,000	9.3
Daniel W. Brooks	450,000	465,000	3.3
Mark S. Haynie	300,000	350,000	16.7
James P. Tippit	250,000	280,000	12.0
Brian E. Hobart*	425,000	—	—

* Mr. Hobart resigned as an executive officer on November 11, 2019.

Incentive Compensation

The Company typically awards incentive compensation to its named executive officers through a combination of a cash bonus and grants of restricted shares of Company common stock under the Company’s 2013 Equity Incentive Plan, or Equity Incentive Plan. The Compensation Committee uses annual incentive cash and stock awards to recognize and reward those named executive officers who contribute meaningfully to the Company’s performance for the year. The Compensation Committee has, within its sole discretion, determined whether incentives will be paid for the year, the amount and form of any incentives, and any vesting requirements for equity awards. In determining whether to pay annual cash bonuses and make stock awards, the Compensation Committee establishes performance goals for the Company and the executive officer at the beginning of the year and then reviews the Company’s and the executive’s performance at the end of the year to determine the extent to which the pre-established goals have been obtained.

Early in 2019, the Compensation Committee established incentive targets as a percentage of salary, including both cash and equity components, for each of the named executive officers and approved a new incentive structure for 2019. The new incentive structure included a formulaic component based on preset performance goals and ranges for Adjusted (Non-GAAP) EPS, Adjusted (Non-GAAP) Efficiency Ratio and Non-Performing Assets, as well as a qualitative review of corporate and individual performance. Based on actual performance during the year, the incentive plan is structured to allow for a payout of between 0% to 150% of target for each executive.

The following table outlines the performance goals and actual results of key financial measures included in the Committee's review of performance:

Performance Measure	Weighting	Threshold	Target	Maximum	Actual	Earned %
Earnings per Share - Adjusted (1)	60%	$5.00	$5.25	$5.75	$5.11	72.0%
Efficiency Ratio - Adjusted (2)	20%	50.0%	48.0%	46.0%	45.9%	150.0%
Non-Performing Assets/Total Assets	20%	1.00%	0.50%	0.10%	0.15%	143.8%
Weighted Percentage of Target Bonus Earned						**101.95%**

———————

(1) Non-GAAP measure. Adjusted for extraordinary items such as unexpected income recognized on credit impaired acquired loans; gain/loss on sale of loans, branch and Trust, OREO, securities, and premises and equipment; recoveries on loans charged off prior to an acquisition; separation expenses; OREO and other asset impairment; and acquisition expenses.

(2) Non-GAAP measure. Adjusted for amortization of core deposit intangibles and extraordinary items such as noted in (1).

In addition to these performance results, the Committee also considers additional factors including:

- the Company's overall performance in executing the Company's key strategic initiatives;
- the overall financial soundness of the Company (asset quality, risk controls, balance sheet/capital management);
- the Company's organic growth and growth through strategic acquisitions;
- the Company's profitability (earnings growth and operating efficiencies);
- the executive's role in the Company's achievement of target percentage increases in growth and profitability;
- the executive's role in specific strategic and operational functions, such as successful implementation of the Company's acquisition strategy, overall management of financial reporting, and supervision of the Company's credit function;
- the personal performance of the executive officer and contributions to the Company's performance for the year, including leadership, team work and community service; and
- market data on peer performance and compensation levels.

Based on its review of Company and individual performance, the Compensation Committee awarded the following incentive compensation for performance during fiscal year 2019, which was paid in 2020. The incentive was paid in a combination of cash and deferred equity compensation based on a preset mix established for each executive at the beginning of the year.

Executive	Target Incentive	Total Actual Incentive (1)	*Actual Cash (1)*	*Actual Restricted Stock (2)*
David R. Brooks	$1,530,000	$1,548,773	*$701,926*	*$846,847*
Michelle S. Hickox	468,750	544,799	*285,066*	*259,733*
Daniel W. Brooks	630,000	638,142	*321,143*	*316,999*
James P. Tippit	187,500	190,157	*114,694*	*75,463*
Mark S. Haynie	300,000	304,251	*183,510*	*120,741*

———————

(1) A portion of these payments were paid in 2019. See "Tax Planning Strategies" on page 91.

(2) Restricted stock for 2019 performance was granted on January 31, 2020. Based on a market price of $53.52 as of the grant date.

Restricted stock, as part of the 2019 incentive payout, was granted on January 31, 2020, and will vest in equal annual installments over three years. As the awards were granted in fiscal year 2020, they will appear in next year's Summary Compensation Table and Grants of Plan Awards table. While the Committee had planned to grant a portion of the 2020 equity with performance vesting criteria starting with the 2019 incentive payouts, due to the pending merger with TCBI the Committee determined that time-based restricted stock grants remained appropriate for this year. As discussed further below, the arrangements established for executives following the merger with TCBI include the use of performance-based long-term incentives.

The Company presently offers restricted stock grants under the Equity Incentive Plan approved by shareholders in 2013 and as subsequently amended and approved by shareholders in 2018. The purpose of the Equity Incentive Plan is to attract, motivate, retain and reward high quality executives and other employees, officers, directors, consultants and other persons who provide services to the Company or its related entities by enabling such persons to acquire or increase an ownership interest in the Company in order to strengthen the mutuality of interests between such persons and the Company's shareholders, and providing such persons with long term performance incentives to expend their maximum efforts in the creation of shareholder value. The Company continues to review this program to ensure that this form of equity compensation will drive its executives toward successful long-term business results. Grants made under the Equity Incentive Plan typically vest over a three or five year period, commencing on the first anniversary of the grant.

Independent Bank Group 401(k) Profit Sharing Plan

The Independent Bank Group 401(k) Profit Sharing Plan, or the 401(k) Plan, is designed to provide retirement benefits to all eligible full-time and part-time employees. The 401(k) Plan provides employees the opportunity to save for retirement on a tax-favored basis. The Company's named executive officers, all of whom were eligible to participate in the 401(k) Plan during 2019, 2018, 2017 and 2016, may elect to participate in the 401(k) Plan on the same basis as all other employees. Employees may defer from 1% to 100% of their compensation to the 401(k) Plan up to the applicable Internal Revenue Service limit. The Company matches 100% of an employee's annual contribution to the 401(k) Plan up to a total of 6% per annum of the employee's eligible salary. The Company makes its matching contributions in cash, and that contribution is invested according to the employee's current investment allocation. Beginning in 2014, the 401(k) Plan permits investments in Company common stock. The Company made contributions to its named executive officers' accounts in the 401(k) plan in 2019, 2018, 2017 or 2016 in varying amounts depending on the amounts of the contributions made by the named executive officers to their respective 401(k) Plan accounts.

The Company does not maintain any defined benefit plan, actuarial benefit plan, supplemental executive retirement plan or deferred compensation plan for the Company's named executive officers or any other employees. Moreover, the Company has no plan, agreement and other arrangement with any of the Company's named executive officers relating to the payments of any amounts upon the retirement of such named executive officer from employment with the Company.

Executive Employment Agreements, Award Agreements & Potential Payments upon Change in Control

In connection with the issuance of the shares of restricted stock the Company issued to the Company's named executive officers pursuant to the Equity Incentive Plan, the Company requires that each recipient of an award enter into an award agreement that includes noncompetition and non-solicitation covenants. Each such agreement provides that the named executive officer will not compete with the Company for a period of ninety (90) days after the termination of employment. The award agreements also provide that the named executive officer will not solicit other employees or customers of the Company or Independent Bank for one (1) year following the termination of their employment with the Company or Independent Bank.

The Company has entered into Change in Control Agreements (the "Change in Control Agreements") with each of its named executive officers. Each Change in Control Agreement provides, among other things, that if, within twelve months following the occurrence of a Change in Control of the Company (as defined in the "Potential Payments Upon Termination or Change in Control" section below), (a) the Company terminates the executive's employment without Cause (as defined in the "Potential Payments Upon Termination or Change in Control" section below) or the executive terminates his or her employment for Good Reason (as defined in "the Potential Payments Upon Termination or Change in Control" section below) and (b) the executive signs and allows to become effective a general release of all known and unknown claims in favor of the Company and its affiliates, then (i) the executive will be entitled to a lump sum cash payment in an amount equal to three times the sum, for David R. Brooks, or two times the sum, for the other named executive officers, of (x) the Executive's current annual base salary, plus (y) the Executive's target total annual bonus for the year of termination, (ii) all of Executive's unvested grants of restricted stock will become vested and will no longer be subject to restriction or forfeiture, and (iii) Executive shall continue to be a participant in the Independent Bank Survivor Benefit Plan such that, upon Executive's death and provided certain thresholds are met, the Company will pay to the Executive's beneficiary, as a survivor benefit, a single lump sum cash payment equal to the Executive's annual base salary in effect on the date of the termination of the Executives' employment. Each of the Change in Control Agreements provides further that the amount of payments and benefits payable to the Executive is subject to reduction to the extent necessary to ensure that such amount does not constitute a "parachute payment" as defined in Section 280G of the Internal Revenue Code of 1986, as amended.

The Company believes its Change in Control Agreements are reasonable when compared to the competitive market. The Company views them as necessary to ensure the continued focus of its executives on making the appropriate strategic decisions for the Company even if the decision involves a change in control. Per the terms of the merger agreement with TCBI, these Change in Control Agreements will end upon the close of the merger for Messrs. David Brooks, Dan Brooks, Tippit and Haynie and be replaced with the new employment agreements discussed below in the section entitled "Merger Related Compensation Actions".

Each Change in Control Agreement expires three years following the date on which such agreement was executed. Unless previously terminated, upon the expiration of the term thereof, each Change in Control Agreement will renew for successive one-year renewal terms provided that the Company's Compensation Committee explicitly reviews such agreement and expressly approves each extension within a 90-day period prior to the end of such initial or renewal term. Each Change in Control Agreement automatically terminates without further action by the Company if the employee's employment is terminated by the Company for Cause or upon the employee's death or disability or voluntarily by the employee without Good Reason.

Under the Change in Control Agreements, the Company is not obligated to make any payment to the employees subject to such agreements if any such payments or benefits to the employee would constitute a "golden parachute payment" as defined in 12 CFR §359 unless such payment can be made in compliance with such regulation. The Company is obligated to use commercially reasonable efforts to obtain any regulatory approvals required to enable it to make such payments under the applicable Change in Control Agreement.

In addition to the amounts payable under the Change in Control Agreements, the Company's Equity Incentive Plan generally provides that, upon a Change in Control satisfying the requirements of such plan, all restrictions, deferrals of settlement and forfeiture conditions applicable to shares of restricted stock granted under such plan will lapse and such shares will be deemed fully vested as of the time of the Change in Control, except with respect to grants subject to the achievement of performance goals that the successor entity assumes or for which the successor entity provides a substitute (pursuant to the terms and conditions of such plan).

Mr. Hobart executed a Separation Agreement on November 11, 2019. Under Mr. Hobart's Agreement, he receives continued payment of his salary until November 11, 2021 in an aggregate amount of $2,040,000 (the "Salary Continuation Payment"), which is equal to the product of (i) two (2) multiplied by the (ii) sum of (a) Mr. Hobart's base salary of $425,000 and (b) Mr. Hobart's target annual bonus of $595,000. The Salary Continuation Payment is paid in substantially equal installments from his date of separation from the Company through the second anniversary of the date of the Separation Agreement in accordance with the Company's standard payroll policies and procedures with all applicable withholding and deductions as agreed upon or as required by law. Upon separation, Mr. Hobart had 5,981 shares of unvested stock awarded to him under the above referenced Equity Incentive Plan, which fully vested on November 19, 2019. Mr. Hobart also received $542,835.62, which represented the target annual bonus for fiscal year 2019, prorated based on a fraction, the numerator of which was the number of days elapsed between January 1, 2019 and November 30, 2019, and the denominator of which was 365. This amount was paid to Mr. Hobart in fiscal year 2019. Under the Separation Agreement, Mr. Hobart agreed to a two year noncompetition covenant and a two year nonsolicitation covenant.

Benefits and Perquisites

The Company's named executive officers are eligible to participate in the same benefit plans designed for all of the Company's full-time employees, including health, dental, vision, disability and basic group life insurance coverage. The Company does not provide the named executive officers with any health and welfare benefits that are not generally available to its other employees. The Company also provides its employees, including its named executive officers, with a 401(k) plan to assist its employees, including its named executive officers, in planning for retirement and securing appropriate levels of income during retirement. The purpose of the Company's employee benefit plans is to help the Company attract and retain quality employees, including executives, by offering benefit plans similar to those typically offered by the Company's competitors. None of the individual perquisites or benefits paid or provided to any of the Company's named executive officers exceeded $25,000 in amount for 2019, 2018 or 2017.

Insurance Premiums

Independent Bank maintains bank-owned life insurance policies with respect to certain of the Company's named executive officers. Although Independent Bank is the named beneficiary of each of those policies, the Company has agreed with each of those named executive officers that if the officer dies while employed by Independent Bank, the Company will pay such named executive officer's estate an amount equal to the amount of that officer's base salary for the year in which his or her death occurs out of the benefits Independent Bank receives under such policy.

MERGER RELATED COMPENSATION ACTIONS

Post-Merger Employment Agreements

In connection with the execution of the merger agreement, the Company entered into employment agreements with Messrs. David Brooks, Dan Brooks, Tippit and Haynie setting forth the terms of their employment with the Company following the completion of the merger. The agreements become effective upon completion of the merger in replacement of their change in control agreements with the Company described above in the section entitled "Executive Employment Agreements, Award Agreements & Potential Payments upon Change in Control". In the event that the executive officer's employment terminates for any reason prior to the closing of the merger or the merger agreement is terminated prior to the closing of the merger, the employment agreements will automatically terminate and be of no further force or effect. The employment agreements provide that Mr. David Brooks will serve as Chairman, Chief Executive Officer and President of the combined company and combined bank; Mr. Dan Brooks will serve as Vice Chairman of the combined company and combined bank; Mr. Tippit will serve as Executive Vice President, Corporate Responsibility of the combined company and combined bank; and Mr. Haynie will serve as Executive Vice President and General Counsel of the combined company and combined bank. The employment agreements provide that Mr. David Brooks will serve for an initial five-year term following the effective time of the merger, subject to one (1)-year renewals thereafter and that Messrs. Dan Brooks, Tippit and Haynie will serve for an initial three (3)-year term following the effective time of the merger, subject to one (1)-year renewals thereafter.

In consideration for their services, (a) Mr. David Brooks would receive an annual base salary of $1,000,000, a target annual bonus opportunity of not less than 150% of his annual base salary and an annual equity award with a target value of not less than 300% of his annual base salary, (b) Mr. Dan Brooks would receive an annual base salary of $575,000, a target annual bonus opportunity of not less than 100% of his annual base salary and an annual equity award with a target value of not less than 135% of his annual base salary, (c) Mr. Tippit would receive an annual base salary of $375,000, a target annual bonus opportunity of not less than 60% of his annual base salary and an annual equity award with a target value of not less than 75% of his annual base salary, and (d) Mr. Haynie would receive an annual base salary of $400,000, a target annual bonus opportunity of not less than 75% of his annual base salary and an annual equity award with a target value of not less than 90% of his annual base salary. In addition, at the effective time of the merger, the executives would each receive a one-time grant of the Company RSUs in respect of the Company common stock, 50% of which would be time-based RSUs that vest ratably over five years and 50% of which would be performance-based RSUs that cliff vest on the fifth anniversary of the effective time of the merger based on the achievement of the applicable performance criteria, subject to the executive's continued employment through the fifth anniversary of the effective time of the merger (the "sign-on RSU award"). Such sign-on RSU awards will be granted as soon as reasonably practicable following the closing of the merger. Pursuant to the employment agreements, the executives are entitled to a sign-on RSU award in respect of the following number of shares of the Company common stock: Mr. David Brooks-95,000 shares; Mr. Dan Brooks-20,000 shares; Mr. Tippit-10,000 shares; and Mr. Haynie-15,000 shares. In addition, in consideration for their efforts in connection with the merger, Mr. David Brooks and Mr. Dan Brooks would be entitled to a $3.5 million cash payment and a $2 million cash payment, respectively, at the effective time of the merger. These compensation amounts were negotiated in connection with the merger and reflect the increase scale and complexity of the Company that will result from the merger, as well as the importance of retaining the executives through the transaction.

If an executive's employment were terminated by the Company without cause or by the executive for good reason during the term of the employment agreement, in consideration for his execution of a release of claims in favor of the Company and compliance with the restrictive covenants described below, the executive would be entitled to the following severance benefits:

- *Prorated Bonus*. A prorated target bonus for the year in which his termination occurs.
- *Cash Severance*. A cash severance payment equal to the product of (a) a severance multiple (for Mr. David Brooks, three; or for the other named executive officers, one prior to a change in control and two within two years following a change in control), multiplied by (b) the sum of his base salary and the greater of his target annual bonus and his average annual bonus during the three completed years prior to the date of his termination.
- *Ancillary Benefits*. Continued participation in the Independent Bank Survivor Benefit Plan through age 65 and a cash payment equal to 18 months of COBRA premiums.
- *Long-Term Incentive Awards.* Full vesting of his long-term incentive compensation (other than the sign-on RSU award), subject to the satisfaction of applicable performance goals, with stock options or stock appreciation rights remaining exercisable for the full remaining term, and continued vesting of his sign-on RSU award on the regularly scheduled vesting dates.

The employment agreements provide that, if the compensation and benefits payable thereunder would be subject to Section 280G of the Internal Revenue Code, such amounts would be reduced to the extent such reduction would place the executive in a better after-tax position. The employment agreements contain certain restrictive covenants, including a perpetual nondisclosure covenant and nondisparagement covenant, and covenants concerning noncompetition and nonsolicitation of customers, business relations and employees, each of which apply following a termination for any reason, for two years for Mr. David Brooks and one year for Messrs. Dan Brooks, Tippit and Haynie.

Transaction Awards

In connection with the merger, subject to prior consultation with the Chief Executive Officer of TCBI, the Company may pay one-time transaction or other incentive awards in connection with the merger to certain employees (other than the Chief Executive Officer, Vice Chairman and Chief Risk Officer), who are party to change in control agreements described above in the section entitled "Executive Employment Agreements, Award Agreements & Potential Payments upon Change in Control" which provide for certain benefits upon a termination other than for cause or for good reason within twelve (12) months following a change in control. Such transaction or other incentive awards may not exceed, in the case of any such individual employee, the amount that otherwise would have been payable to such employee under such employee's current change in control agreement (excluding equity award vesting) upon an involuntary termination of employment without cause within twelve (12) months following a change in control. Any Company employee who receives a transaction payment will not be eligible for severance benefits pursuant to the current change in control agreement. The Compensation Committee determined it was appropriate to make Transaction Awards associated with the merger to Mr. Tippit ($875,000) and Mr. Haynie ($1,200,000). Such awards were made pursuant to the terms of the merger agreement described above. The executives will be entitled to a cash payment of their respective Transaction Awards at the effective time of the merger, other than the accelerated portion discussed below.

Tax Planning Strategies

Under the merger agreement, the Company may implement tax planning strategies for the purpose of mitigating the impact of Sections 280G and 4999 of the Internal Revenue Code and thereby preserve certain compensation-related tax deductions for the Company that might otherwise be disallowed. Such tax planning strategies included for Mr. David Brooks vesting a portion of his equity awards in December 2019 that were scheduled to vest in January 2020 and paying a portion of the cash component of his 2019 incentive award in December 2019 based on actual performance achieved. For certain other Company executive officers, strategies included paying a portion of the transaction bonuses described above in December 2019. The accelerated payments of the transaction bonus are subject to repayment if the executive is not employed at the time of closing and/or if the merger is not completed.

Effective as of December 19, 2019, the Company accelerated the vesting and payments of the following items at the approval of the Compensation Committee:

Executive	2019 Annual Bonus	2020 Restricted Stock Vesting	Transaction Award
Mr. David R. Brooks	$650,000	$401,931	$—
Mr. Mark S. Haynie	183,510	—	246,490
Mr. James P. Tippit	114,693	—	555,307

Stock Ownership and Pledging Guidelines

On January 24, 2019, the Board of Directors adopted Stock Ownership & Pledging Guidelines (the "Guidelines") for directors and executive officers. The purpose of these guidelines is to enhance director and executive officer focus on the long-term success of the Company and on the creation of shareholder value by requiring directors and executive officers to be long-term holders of the Company's common stock. The Corporate Governance & Nominating Committee is responsible for monitoring compliance with these guidelines on an annual basis.

The Stock Ownership and Pledging Guidelines apply to the Chief Executive Officer, the Company's executive officers ("Executive Officers"), and the non-employee directors of the Company. The aforementioned individuals will be required to own shares of the Company's common stock with an aggregate value equal to the amounts set forth in the following table:

Title	Required Common Stock Ownership
Chief Executive Officer	5x base salary
Other Executive Officers	3x base salary
Non-Employee Directors	3x annual cash retainer

For the purpose of determining share ownership, the following may be used:

- Shares owned outright by the Executive Officer or Director and his or her immediate family members residing in the same household;
- Shares credited to the Executive Officer's or Director's account under the Company's 401(k) Profit Sharing Plan;
- Shares held in trust for the benefit of the Executive Officer or Director;
- Shares acquired upon net exercise of vested stock options; and
- Unvested shares of restricted Company common stock or restricted stock units held by the Executive Officer or Director.

The determination of whether an individual meets the applicable guidelines will be made as of the last day of the preceding fiscal year by using the average closing price of the Company's common stock on The Nasdaq Global Select Market for the prior six "trading days".

The Executive Officers and Directors are expected to meet the applicable target multiple within five (5) years after the effective date of these guidelines or the date the applicable individual first becomes subject to it, and they are expected to continuously own sufficient shares to meet the guidelines once attained. If an individual falls below the applicable guideline due solely to a decline in the value of the Common Stock, the individual will not be required to acquire additional shares to meet the guideline, but he or she will be required to retain all shares then held (except for shares withheld to pay withholding taxes or the exercise price of options) until such time as the individual again attains the target multiple.

Limitations on Pledging of Shares and Anti-Hedging Guidelines

The Guidelines also provide that Executive Officers and Directors may only pledge shares of the Company's common stock that are in excess of the amount required to be owned pursuant to these guidelines; provided, that any pledge of shares that fails to comply with this requirement and which existed prior to the date of adoption of the guidelines will be exempt from this requirement. The Company believes that the pledging of shares in excess of the minimum required ownership thresholds by directors and executive officers does not present undue risk to the Company or its shareholders.

The Company's Guidelines and Insider Trading Policy prohibit directors and executives from engaging in transactions that hedge the economic risk of owning shares of Company common stock. Thus, directors and executive officers may not engage in hedging transactions in the Company's shares such as puts, calls, prepaid variable forwards, equity swaps, collars and other derivative securities on an exchange or in any other organized market. Directors and executive officers also may not engage in short sales of the Company's shares, meaning sales of shares that are not owned at the time of sale. The Company Guidelines also prohibit directors and executive officers from holding shares of Company common stock in a margin account. The prohibition recognizes the risk that directors or executives may be forced to sell shares to meet a margin call, which could negatively impact the Company's stock price and may violate insider trading laws and policies.

Clawback Policy

In March 2019 the Compensation Committee adopted a clawback policy that will apply to incentive compensation payable to executive officers with respect to performance periods beginning January 1, 2019. Under this policy, the Board, based upon the recommendation of the Compensation Committee, may pursue forfeiture or repayment of incentive compensation if the Company is required to prepare an accounting restatement due to material noncompliance of the Company with any financial reporting requirement under applicable securities laws, or if an executive commits an act of fraud or intentional misconduct.

Role of the Compensation Committee and Executives in Establishing Compensation

The Compensation Committee, either as a committee or together with the other independent directors of the Company, makes all recommendations to the Board of Directors with respect to the compensation of the Company's executive officers, including the named executive officers, which the Board of Directors then reviews and, if satisfactory, ratifies. The Chairman of the Board, Chief Executive Officer and President provides input regarding the performance of the other named executive officers and makes recommendations for compensation amounts payable to the other named executive officers. The Compensation Committee evaluates the Chairman of the Board, Chief Executive Officer and President's performance in light of the Company's goals and objectives relevant to his compensation. The Chairman of the Board, Chief Executive Officer and President is not involved with any aspect of determining his own pay.

When reviewing named executive officer compensation, the Compensation Committee and the Board of Directors review all elements of current and historic compensation for each named executive officer. The Compensation Committee also makes recommendations to the Board of Directors as to all stock grants to the named executive officers made pursuant to the Company's equity incentive plans.

Compensation Consultant

In 2019, the Compensation Committee retained Meridian as its ongoing compensation consultant. Meridian is a highly-respected compensation consultant that provides a wide spectrum of compensation consulting and corporate governance services. The firm brings a deep knowledge of the Company's peers and best practices in compensation and governance. Meridian was engaged directly by the Compensation Committee and proactively informs the Company about relevant emerging issues.

Compensation Peer Group

The Compensation Committee evaluates the Company's named executive officer compensation levels with comparable compensation levels for a peer group of comparable banks based on asset size, geography and operations. The Compensation Committee updated the peer group in 2018 following a review provided by Meridian.

2018 Peer Group	
Ameris Bancorp	Hilltop Holdings
Bank OZK	LegacyTexas Financial Group
BOK Financial Corporation	Old National Bancorp
Cadence Bancorporation	Pinnacle Financial Partners
CenterState Bank Corporation	Prosperity Bancshares
Chemical Financial Corp.	Renasant Corporation
Cullen/Frost Bankers	South State Corporation
First Financial Bancorp.	Texas Capital Bancshares
First Financial Bankshares	Union Bankshares Corp.
Glacier Bancorp	United Bankshares
Heartland Financial USA	United Community Bank

In review of the peer group in June 2019, the Committee approved the removal of Chemical Financial Corporation and BOK Financial Corporation due to their pending mergers and the expected increases in their asset size. This updated peer group was used in connection with setting 2020 compensation levels.

Tax Considerations

Effective January 1, 2018, Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to public corporations for compensation over $1,000,000 paid to an individual who was the company's CEO, CFO or one of the company's next three other most highly compensated executive officers in any year after 2016 ("covered employee"). Prior to January 1, 2018, Section 162(m) provided for an exception to the deduction limit for qualifying performance-based compensation if specified requirements were met, and the deduction limit did not apply to the CFO or an individual who was not the company's CEO or one of the company's next three most highly compensated employees as of the last day of the fiscal year. The Tax Cuts and Jobs Act of 2017 amended Section 162(m) by eliminating the performance-based exception and expanding the individuals who are treated as covered employees. The Company believes that achieving its objectives under the compensation philosophy set forth above is more important than the benefit of tax deductibility. The Company reserves the right to maintain flexibility in how it compensates its executive officers that may result in limiting the deductibility of amounts of compensation from time to time.

Risk Considerations

The Company's compensation practices are regularly examined as part of a holistic and well-rounded Risk Management framework and are evaluated in context with accepted best practices in the industry.

The Compensation Committee and the Board of Directors have reviewed the compensation policies and practices for all employees and does not believe that any risks arise from the Company's compensation policies and practices for the Company's executive officers and other employees that are reasonably likely to have a material adverse effect on the Company's operations, results of operations or financial condition.

BOARD OF DIRECTORS COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

Notwithstanding anything to the contrary set forth in any of the Company's previous or future filings under the Securities Act of 1933, as amended, or the Securities Act, or the Exchange Act that might incorporate the information in this Annual Report on Form 10K or future filings with the SEC, in whole or in part, the following report of the Compensation Committee shall not be deemed to be incorporated by reference into any such filing.

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management and, based on such review and discussion, the Compensation Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this *Annual Report on Form 10K.*

THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

William E. Fair (Chair)
J. Webb Jennings, III
G. Stacy Smith

SUMMARY COMPENSATION INFORMATION

The following table sets forth information regarding the compensation paid to each of the Company's named executive officers for 2019, 2018, and 2017.

Name and Position	Year	Salary (1)	Bonus (2)	Stock Awards (3)	Nonequity Incentive Plan Compensation (2)	All Other Compensation (4)	Total
David R. Brooks, Chairman,	2019	$765,000	$—	$804,262	$701,926	$72,197	$2,343,385
Chief Executive Officer and President	2018	725,000	650,000	628,100	—	66,289	2,069,389
	2017	700,000	750,000	398,382	—	61,534	1,909,916
Michelle S. Hickox, Executive Vice	2019	375,000	—	125,669	285,066	30,614	816,349
President and Chief Financial Officer	2018	325,000	225,000	96,647	—	37,087	683,734
	2017	300,000	200,000	99,626	—	86,277	685,903
Daniel W. Brooks, Vice Chairman and	2019	450,000	—	231,229	321,143	44,627	1,046,999
Chief Risk Officer	2018	425,000	300,000	144,935	—	46,642	916,577
	2017	400,000	350,000	149,409	—	104,504	1,003,913
Mark S. Haynie, Executive Vice	2019	300,000	—	80,435	183,510	287,680	851,625
President and General Counsel	2018	237,500	140,000	534,000 (5)	—	26,312	937,812
James P. Tippit, Executive Vice President	2019	250,000	—	40,218	114,694	604,025	1,008,937
and Head of Corporate Responsibility	2018	210,000	80,000	28,987	—	41,656	360,643
	2017	168,750	60,000	349,150 (6)	—	34,520	612,420
Brian E. Hobart, Vice Chairman and	2019	433,057	—	221,148	—	593,708	1,247,913
Chief Lending Officer* (7)	2018	400,000	280,000	120,827	—	51,390	852,217
	2017	375,000	330,000	124,486	—	117,740	947,226

* Mr. Hobart resigned as an executive officer on November 11, 2019.

(1) The amounts shown in this column represent salaries earned during the fiscal year shown.

(2) The amounts of bonuses and nonequity incentive plan compensation for each year shown were cash bonuses earned for that year, but that were paid in the following fiscal year, except for nonequity incentive plan compensation paid to Mr. David Brooks, Mr. Haynie and Mr. Tippit as discussed in "Tax Planning Strategies" on page 91.

(3) The amounts of stock awards for each year shown were awards actually received in that year for the prior year's performance. The market values of the outstanding stock awards presented as of December 31, 2019, 2018 and 2017, are based on the market value of the Company's common stock on the date of the grant which was $52.78 on January 25, 2019, $71.75 on January 31, 2018 and $62.15 on January 31, 2017. The grants awarded for each year shown were based upon the Company's and the executive's performance for the prior year.

(4) Includes 401(k) contributions, health and welfare benefits, restricted stock related payments, insurance premiums and certain perquisites and other benefits. During 2019, the Company made transaction award payments to Mr. Haynie ($246,490) and Mr. Tippit ($555,307) as described in "Tax Planning Strategies" on page 91. None of these individual components of All Other Compensation exceeded $25,000 in 2018. In 2017, the Company made payments related to payroll taxes on restricted stock vesting under a legacy program for Daniel W. Brooks ($68,876), Brian E. Hobart ($68,033) and Michelle S. Hickox ($60,011).

(5) The market value of the outstanding stock awards presented for Mr. Haynie as of December 31, 2018 is based on the market value of the Company's common stock on the date of grant which was $71.20 on March 1, 2018.

(6) The market value of the outstanding stock awards presented for Mr. Tippit as of December 31, 2017 are based on the market values of the Company's common stock on the date of grant which was $62.15 on January 31, 2017 for 1,000 shares of common stock, and $57.40 on August 16, 2017 for 5,000 shares of common stock.

(7) Mr. Hobart received payments pursuant to a Separation Agreement as described in "Executive Employment Agreements, Award Agreements & Potential Payments upon Change in Control" on page 89.

Grants of Plan-Based Awards

The Compensation Committee grants restricted stock awards periodically. In 2019, restricted stock grants encompassing 138,608 shares of the Company's common stock under the Equity Incentive Plan were granted to certain named executive officers.

The table below sets forth the cash portion of 2019 incentive compensation opportunity for each NEO as well as the equity grants awarded to each NEO in 2019 based on 2018 performance:

			Estimated future payout under nonequity incentive plan awards (1)			Estimated future payouts under equity incentive plan awards						
Name	Plan	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)	All other stock awards: Number of shares of stock or units (#) (2)	All other option awards: Number of securities underlying options (#)	Exercise Price or base price of option awards ($/sh)	Grant date fair value of stock and option awards ($) (3)
David R. Brooks	Restricted Stock	January 25, 2019	$—	$—	$—	—	—	—	15,238	—	$—	$804,262
	Annual Incentive	March 8, 2019	—	688,500	1,032,750	—	—	—	—	—	—	—
Michelle S. Hickox	Restricted Stock	January 25, 2019	—	—	—	—	—	—	2,381	—	—	125,669
	Annual Incentive	March 8, 2019	—	243,750	365,625	—	—	—	—	—	—	—
Daniel W. Brooks	Restricted Stock	January 25, 2019	—	—	—	—	—	—	4,381	—	—	231,229
	Annual Incentive	March 8, 2019	—	315,000	472,500	—	—	—	—	—	—	—
Mark S. Haynie	Restricted Stock	January 25, 2019	—	—	—	—	—	—	1,524	—	—	80,437
	Annual Incentive	March 8, 2019	—	180,000	270,000	—	—	—	—	—	—	—
James P. Tippit	Restricted Stock	January 25, 2019	—	—	—	—	—	—	762	—	—	40,218
	Annual Incentive	March 8, 2019	—	112,500	168,750	—	—	—	—	—	—	—
Brian E. Hobart*	Restricted Stock	January 25, 2019	—	—	—	—	—	—	4,190	—	—	221,148
	Annual Incentive	March 8, 2019	—	—	—	—	—	—	—	—	—	—

* Mr. Hobart resigned as an executive officer on November 11, 2019.

(1) Represents the cash portion at target and maximum of the total incentive opportunity approved for each named executive officer for 2019 performance.

(2) Represents awards under the Equity Incentive Plan. Each award vests one-third at the end of one year, an additional one-third at the end of two years and the remaining one-third at the end of three years.

(3) Calculated by multiplying the restricted stock grant shares by the grant date fair value of $52.78 on January 25, 2019.

Outstanding Equity Awards at Fiscal Year-End

The following table provides information regarding outstanding unvested stock awards held by the named executive officers as of December 31, 2019. The then-outstanding stock awards were shares of restricted stock subject to forfeiture provisions that expire on the third anniversary of the date of the grant or the fifth anniversary of the date of the grant (for grants received in connection with employment) so long as the holder of the shares remains employed by the Company or Independent Bank on that date. Unvested restricted stock granted under the Equity Incentive Plan vest immediately upon the occurrence of a change of control event. Unvested awards granted under the Equity Incentive Plan expire should the officer be terminated with cause, as defined in the Equity Incentive Plan. Restricted stock grants awarded under the Equity Incentive Plan are not assignable or transferable by a grantee. Grantees are required to sign confidentiality, non-solicitation and noncompetition agreements in connection with receipt of the restricted stock grants to preclude actions detrimental to the Company.

Name	Stock Awards under the Equity Incentive Plan as of December 31, 2019	
	Number of Shares of Stock that have not Vested (1)	Market Value of Shares of Stock that have not Vested (2)
David R. Brooks	15,995	$886,763
Michelle S. Hickox	3,814	211,448
Daniel W. Brooks	6,530	362,023
Mark S. Haynie	7,524	417,131
James P. Tippit	4,366	242,051

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(1) The following table shows the dates on which the shares of restricted stock shown in the table above vest, i.e., the date on which the forfeiture provisions expire as to the shares of restricted stock held by each of the Company's named executive officers:

Name	Vesting Dates	Number of Shares to Vest
David R. Brooks	January 31, 2020	2,918
	January 25, 2021	5,079
	January 31, 2021	2,918
	January 25, 2022	5,080
Michelle S. Hickox	January 25, 2020	793
	January 31, 2020	984
	January 25, 2021	794
	January 31, 2021	449
	January 25, 2022	794
Daniel W. Brooks	January 25, 2020	1,460
	January 31, 2020	1,475
	January 25, 2021	1,460
	January 31, 2021	674
	January 25, 2022	1,461
Mark S. Haynie	January 25, 2020	508
	March 1, 2020	1,500
	January 25, 2021	508
	March 1, 2021	1,500
	January 25, 2022	508
	March 1, 2022	1,500
	March 1, 2023	1,500
James P. Tippit	January 25, 2020	254
	January 31, 2020	469
	August 16, 2020	1,000
	January 25, 2021	254
	January 31, 2021	135
	August 16, 2021	1,000
	August 16, 2022	1,000

(2) The market values for the outstanding stock awards presented as of December 31, 2019, are based on a fair market value of the Company's common stock of $55.44 per share as of December 31, 2019, which was the closing sale price of the Company's common stock on the Nasdaq Global Select Market on such date.

Options Exercises and Stock Vested

The following table provides information concerning the exercise of stock options, SARs and similar instruments, and the vesting of stock, including restricted stock, restricted stock units and similar instruments, during the year ended December 31, 2019 for the named executive officers on an aggregated basis:

	Option Awards		Stock Awards	
Name	**Number of shares acquired on exercise (#)**	**Value realized on exercise ($)**	**Number of shares acquired on vesting (#)**	**Value realized on vesting ($)**
David R. Brooks	—	—	15,698	$851,909
Michelle S. Hickox	—	—	1,890	100,369
Daniel W. Brooks	—	—	2,583	137,078
Mark S. Haynie	—	—	1,500	87,525
James P. Tippit	—	—	1,467	74,629
Brian E. Hobart*	—	—	8,218	458,052

* Mr. Hobart resigned as an executive officer on November 11, 2019.

Potential Payments Upon Termination or Change in Control

The following table summarizes the estimated payments to be made under each named executive officer's change in control agreement described above. For the purposes of the quantitative disclosure in the following table, and in accordance with SEC regulations, the Company has assumed that the change in control took place on December 31, 2019, and that the price per share of its common stock was the closing market price as of that date, $55.44.

As used in the Change in Control Agreements, a "Change in Control" is defined as one or more of the following:

- the acquisition by any person or entity of beneficial ownership of 50% or more of either (a) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (b) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, that the following shall not constitute a Change of Control: (w) any acquisition directly from the Company, (x) any acquisition by the Company, (y) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any of its subsidiaries, or (z) any acquisition by any corporation pursuant to a transaction which complies with the Change in Control Exceptions (defined below);
- during any period of two consecutive years (not including any period prior to February 21, 2013) individuals who constituted the Board of Directors on February 21, 2013 (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board of Directors; provided, however, that any individual becoming a director subsequent to February 21, 2013 whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a person or entity other than the Board of Directors;
- consummation of a reorganization, merger, statutory share exchange or consolidation or similar corporate transaction involving the Company or any of its subsidiaries, a sale or other disposition of all or substantially all of the assets of the Company, or the acquisition of assets or stock of another entity by the Company or any of its Subsidiaries (each a "Business Combination"), in each case, unless, following such Business Combination, (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of Common Stock and the combined voting power of the then outstanding voting securities entitled to vote

generally in the election of directors, as the case may be, of the entity resulting from such Business Combination (including a corporation that as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (B) no person (excluding any employee benefit plan (or related trust) of the Company or such entity resulting from such Business Combination) beneficially owns, directly or indirectly, 50% or more of, respectively, the then outstanding shares of common stock of the entity resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such entity except to the extent that such ownership existed prior to the Business Combination and (C) at least a majority of the members of the Board of Directors or other governing body of the entity resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board of Directors, providing for such Business Combination (collectively, clauses (a), (b) and (c) are referred to as "Change in Control Exceptions"); or

- approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

As used in the Change in Control Agreements, "Cause" means termination of an employee due to any of the following after the Company provides notice to the employee by the Company, specifying such Cause with reasonable particularity, and giving the employee 30 days from the receipt thereof in which to cure the act or omission complained of, unless the act or omission of its very nature cannot be cured:

- material act of self-dealing between the Company and the employee which is not disclosed in full to, and approved by, the Board of Directors;
- deliberate falsification by the employee of any records or reports;
- fraud on the part of the employee against the Company or any of its subsidiaries or affiliates;
- theft, embezzlement or misappropriation by the employee of any funds of the Company, or conviction of any felony;
- execution of any document transferring, or creating any material lien or encumbrance on, any material property of the Company, not in the ordinary course of business, without authorization of the Board of Directors;
- engagement by the employee in inappropriate behavior which is found by the Company after due investigation to be sexual harassment or assault;
- declaration by an independent medical authority that the employee is addicted to drugs or alcohol; or
- any recommendation or suggestion by any bank regulatory authority that the employee's employment must be terminated.

As used in the Change in Control Agreements, "Good Reason" means termination by an employee due to any of the following after the employee has provided written notice to the Company of the existence of the circumstances alleged to constitute Good Reason and the Company has had at least 30 days from the date on which such notice is provided to cure such circumstances (if the employee does not terminate his or her employment within 90 days of the first occurrence of such circumstances, the employee is deemed to have waived his or her right to terminate for Good Reason with respect to such circumstances):

- the assignment to the employee of any duties or responsibilities, other than in connection with a promotion, inconsistent in any material respect with employees position (including status, offices, titles and reporting relationships), authority, duties or responsibilities in effect immediately prior to a Change in Control, or any other action by the Company which results in a material diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly following receipt of notice thereof given by the employee;
- a reduction in the executive's compensation and benefits which were in effect immediately prior to a Change of Control;
- the material breach by the Company of any provision of the Change in Control Agreement applicable to the employee; or
- the requirement that the employee's principal place of employment be based at a location further than 30 miles from the Company's principal office immediately prior to the Change in Control.

The following table summarizes the estimated payments to be made under each named executive officer's change in control agreement described above. For the purposes of the quantitative disclosure in the following table, and in accordance with SEC regulations, the Company has assumed that the change in control took place on December 31, 2019, and that the price per share of its common stock was the closing market price as of that date, $55.44.

Name	Cash [(1)]	Equity [(2)]	Pension/ NQDC	Perquisites/ Benefits	Tax Reimbursement	Other [(3)]	Total
David R. Brooks	$6,885,000	$886,763	$—	$—	$—	$—	$7,771,763
Michelle S. Hickox	1,688,000	211,448	—	—	—	—	1,899,448
Daniel W. Brooks	2,160,000	362,023	—	—	—	—	2,522,023
Mark S. Haynie	1,200,000	417,131	—	—	—	—	1,617,131
James P. Tippit	875,000	242,051	—	—	—	—	1,117,051

(1) Cash amounts that would be paid under the Company's existing change in control agreements upon a change in control and a qualifying termination or termination for Good Reason using base salary information for 2019 and the amount of the named executive officers' 2019 annual incentive bonus.

(2) Estimates of the value that would have been recognized by our executive officers as result of the accelerated vesting of the shares of restricted stock held by such executive officers assuming a change in control occurred on December 31, 2019. The estimated value was calculated by multiplying the number of unvested shares of restricted stock held by the applicable executive officer by the closing price of our common shares on December 31, 2019, which was $55.44. The actual amounts to be paid out can only be determined at the time of such change in control.

(3) Other benefits for each executive officer include continued participation in Independent Bank's BOLI Plan. Under this plan, if (i) an executive dies before reaching age 65 and (ii) Independent Bank actually receives sufficient proceeds from a life insurance policy insuring the life of such executive, then Independent Bank shall pay to such executive's designated beneficiary, as a survivor benefit, a single lump sum cash payment equal to such executive's annual base salary in effect on the date of the termination of such executive's employment with Independent Bank within 30 days after such executive's death.

Director Compensation

During 2019, each of the Company's nonmanagement directors received a cash retainer of $55,000 and an award of shares of restricted stock under the 2013 Equity Incentive Plan with a market value of $110,377 for their service as a director. In addition, the chairman of the Audit Committee of the Company's Board of Directors received an additional cash retainer of $15,000, the chairmen of the Company's Compensation Committee received an additional cash retainer of $10,000, and the Corporate Governance and Nominating Committee chair and Strategic Planning Committee chair members received an additional cash retainer of $5,000 for their service in those roles. The Company's directors were reimbursed for the reasonable out-of-pocket expenses they incurred in connection with their service as directors, including travel costs to attend the meetings of the Board of Directors and committees. The Company's directors who were also the Company's named executed officers did not receive fees or other compensation for their service as directors of the Company. Mr. David R. Brooks and Mr. Daniel W. Brooks, who are directors and executive officers of the Company, do not receive any compensation in their capacity as directors of the Company.

In 2019, the Compensation Committee changed the timing of the payment of director compensation to coincide with the Company's annual meeting. The restricted stock award paid in 2019 reflects an award made on January 25, 2019 for service as director in 2018 and an award made on June 11, 2019 for service from June 2019 to June 2020.

The following table sets forth information regarding 2019 compensation for those of the Company's directors during 2019 who were not named executive officers of the Company for 2019:

Director Compensation Table

Name	Fees Earned or Paid in Cash	Stock Awards [1]	All Other Compensation	Total
Douglas A. Cifu [2]	$60,000	$110,377	$—	$170,377
William E. Fair	65,000	110,377	—	175,377
Mark K. Gormley [3]	55,000	110,377	—	165,377
Alicia K. Harrison [4]	55,000	55,063	—	110,063
Craig E. Holmes	70,000	110,377	—	180,377
J. Webb Jennings III	55,000	110,377	—	165,377
Tom C. Nichols	55,000	110,377	—	165,377
Donald L. Poarch	55,000	110,377	—	165,377
G. Stacy Smith	60,000	110,377	—	170,377
Michael T. Viola	55,000	110,377	—	165,377

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(1) Reflects awards granted in 2019 calculated by multiplying the restricted stock grant shares by the grant date fair value of $52.78 on January 25, 2019 for 1,048 shares of common stock and on June 11, 2019 for 1,036 shares of common stock.

(2) Douglas A. Cifu resigned as director on July 25, 2019. Mr. Cifu's resignation was not a result of a disagreement between the Company or its management and Mr. Cifu related to the Company's operations, policies or practices.

(3) Mark K. Gormley resigned as director on January 20, 2020. Mr. Gormley's resignation was not a result of a disagreement between the Company or its management and Mr. Gormley related to the Company's operations, policies or practices.

(4) Alicia K. Harrison was elected as a director on May 23, 2019.

Compensation Committee Interlocks and Insider Participation

During 2019, no executive officer of the Company served as (1) a member of a compensation committee (or other Board committee performing equivalent functions or, in the absence of any such committee, the entire Board) of another entity, one of whose executive officers served on the Company's Compensation Committee, (2) a director of another entity, one of whose executive officers served on the Company's Compensation Committee or (3) a member of the compensation committee (or other Board committee performing equivalent functions or, in the absence of any such committee, the entire Board) of another entity, one of whose executive officers served as a director of the Company. In addition, none of the members of the Compensation Committee (a) was an officer or employee of the Company or any of its subsidiaries in 2019, (b) was formerly an officer or employee of the Company or any of its subsidiaries or (c) had any relationship that required disclosure under "Certain Relationships and Related Transactions," except as is disclosed under such section for William E. Fair.

CEO PAY RATIO

As required by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 402(u) of Regulation S-K, we are providing the following information about the relationship of the annual total compensation of our employees and the annual total compensation of our CEO. The CEO to median employee pay ratio included in this information is a reasonable estimate calculated in a manner consistent with Item 402(u) of Regulation S-K. Given the different methodologies that various public companies will use to determine an estimate of their pay ratio, the estimated ratio reported below should not be used as a basis for comparison between companies.

Below is the 2019 annual total compensation of the Company's CEO, the annual total compensation of the Company's median employee, the ratio of the annual total compensation of the Company's CEO to that of the Company's median employee, and the methodology we used to calculate the Company's CEO pay ratio.

CEO Annual Total Compensation	$2,343,385
Median Employee Annual Total Compensation	$62,861
CEO to Median Employee Pay Ratio	37:1

Methodology

The CEO pay ratio is a reasonable estimate calculated in a manner consistent with the rules of the Securities & Exchange Commission. To calculate our media employee pay ratio, we:

- Determined the eligible employee population by taking a population of all employees of the Company as of December 31, 2019, including full-time, part-time and seasonal or temporary workers, employed by the Company or its subsidiaries, but excluding the CEO.
- Identified the median employee by calculating total calendar year taxable wages for each employee as of December 31, 2019. This yielded an even number of employees, and the median employee was determined from the population of two employees at the median.
- Calculated CEO Pay Ratio by calculating the median employee's total compensation for 2019 according to instructions for preparing the Summary Compensation Table, including employer health insurance contributions and the value of other benefits. The Company then calculated the CEO's annual total compensation using the same approach to determine the pay ratio shown above.

The Company's continued investment in its employees is tantamount to the continued performance of the organization, and the Company focuses on offering competitive compensation arrangements that balance risk and reward while encouraging employees to grow and develop professionally.

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

Security Ownership of Certain Beneficial Owners

The following table sets forth certain information regarding the beneficial ownership of the Company’s common stock as of February 27, 2020, by (1) directors and named executive officers of the Company, (2) each person who is known by the Company to own beneficially 5% or more of the Company’s common stock and (3) all directors and named executive officers as a group. Unless otherwise indicated, based on information furnished by such shareholders, management of the Company believes that each person has sole voting and dispositive power over the shares indicated as owned by such person.

Name of Beneficial Owner (1)	Number of Shares Beneficially Owned		Percentage Beneficially Owned (2)
Directors and Executive Officers:			
David R. Brooks	929,877	(3)	2.2%
Daniel W. Brooks	122,312	(4)	*
Michelle S. Hickox	29,709	(5)	*
Michael B. Hobbs	27,691		*
James C. White	18,089		*
James P. Tippit	8,979	(6)	*
Mark S. Haynie	25,095		*
William E. Fair	218,757	(7)	*
Alicia K. Harrison	1,411	(8)	*
Craig E. Holmes	17,150		*
J. Webb Jennings, III	44,990		*
Tom C. Nichols	208,817	(9)	*
Donald L. Poarch	141,435	(10)	*
G. Stacy Smith	97,058		*
Michael T. Viola	25,849		*
All Directors and Executive Officers as a Group (15 persons)	1,917,219		4.5%
Principal Shareholders:			
Vincent J. Viola	4,443,839		10.3%
BlackRock, Inc.	3,134,780	(11)	7.3%
The Vanguard Group	3,129,829	(12)	7.3%
T. Rowe Price Associates, Inc.	2,902,989	(13)	6.7%
Dimensional Fund Advisors LP	2,512,520	(14)	5.8%

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* Indicates ownership that does not exceed 1%.

(1) The address of the persons shown in the foregoing table who are beneficial owners of more than 5% of the common stock are as follows: Vincent J. Viola, 7777 Henneman Way, McKinney, Texas 75070; BlackRock, Inc., 55 East 52nd Street, New York, New York 10055; The Vanguard Group, 100 Vanguard Boulevard, Malvern, Pennsylvania 19355; T. Rowe Price Associates, Inc., 100 East Pratt Street, Baltimore, Maryland 21202; Dimensional Fund Advisors LP, Building One, 6300 Bee Cave Road, Austin, Texas 78746.

(2) The percentages are based upon 43,040,776 shares issued and outstanding as of February 27, 2020.

(3) Of these shares, 809,877 are held of record by David R. Brooks and 120,000 shares are held of record by trusts for his children of which he and his wife are trustees. Included in Mr. Brooks total shares are 150,000 shares pledged as security for bank loans.

(4) Includes 40,000 shares pledged as security for bank loans.

(5) Includes 29,370 shares held of record by Michelle S. Hickox and 339 shares held of record by Independent Bank 401(k) Profit Sharing Plan, of which Ms. Hickox is beneficiary.

(6) Includes 8,576 shares held of record by James P. Tippit and 403 shares held of record by Independent Bank 401(k) Profit Sharing Plan, of which Mr. Tippit is beneficiary.

(7) Includes 210,110 shares held of record by William E. Fair and 7,547 shares held of record by an IRA of which he is beneficiary, and 1,100 shares held of record by Fair Title, Inc. dbd Hatco Investments, of which Mr. Fair is President. Included in his total shares are 130,476 shares pledged as security for bank loans.

(8) Includes 1,036 shares held of record by Alicia K. Harrison, 100 shares and 275 shares held of record by a revocable living trust and a revocable living trust IRA, respectively, of which Ms. Harrison is beneficiary.

(9) Includes 207,436 shares held of record by Tom C. Nichols and 1,381 shares held of record by his wife, Lynda Nichols.

(10) Of these shares, 125,000 shares are held of record by Poarch Family Limited Partnership, of which Mr. Poarch is the President of its General Partner, Donald L. Poarch, Inc., and 16,435 shares are held of record by Donald Poarch.

(11) According to Schedule 13G/A as filed with the SEC on February 5, 2020, by BlackRock, Inc., on behalf of itself and certain of its subsidiaries. BlackRock, Inc. has sole voting power over 2,972,323 shares, and sole dispositive power over 3,134,780 shares.

(12) According to Schedule 13G/A filed with the SEC on February 12, 2020, by The Vanguard Group, on behalf of itself and certain of its subsidiaries. The Vanguard Group has sole voting power over 45,179 shares, shared voting power over 5,641 shares, sole dispositive power over 3,084,230 shares, and

shared dispositive power over 45,599 shares. Vanguard Fiduciary Trust Company and Vanguard Investments Australia, Ltd., wholly-owned subsidiaries of The Vanguard Group, are the beneficial owners of 39,958 and 10,862 shares respectively.

(13) According to a Schedule 13G/A filed with the SEC on February 14, 2020, by T. Rowe Price Associates, Inc., on behalf of itself and certain of its subsidiaries. T. Rowe Price Associates, Inc. has sole voting power over 598,111 shares, and sole dispositive power over 2,902,989 shares.

(14) According to a Schedule 13G/A filed with the SEC on February 12, 2020, by Dimensional Fund Advisors LP, on behalf of itself and certain of its subsidiaries. Dimensional Fund Advisors LP has sole voting power over 2,461,165 shares, and sole dispositive power over 2,512,520 shares.

There are no arrangements currently known to us, the operation of which may at a subsequent date result in a change in control of the Company other than the pending merger with TCBI.

Securities Authorized for Issuance under Equity Compensation Plans

Refer to "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" appearing in Part II Item 5 of this Annual Report on Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Related Person Transaction Review Policy

The Company has adopted a formal written policy concerning related party transactions. A related party transaction is a transaction, arrangement or relationship or a series of similar transactions, arrangements or relationships in which the amount involved exceeds $120,000, in which the Company or one of the Company’s consolidated subsidiaries participates (whether or not the Company or the subsidiary is a direct party to the transaction), and in which a director, nominee to become a director, executive officer or employee of the Company or one of the Company’s consolidated subsidiaries or any of his or her immediate family members or any entity that any of them controls or in which any of them has a substantial beneficial ownership interest has a direct or indirect material interest, or in which any person who is the beneficial owner of more than 5% of the Company’s voting securities or a member of the immediate family of such person has a direct or indirect material interest. A copy of the Company’s policy may be found on the Company’s website at www.ibtx.com.

The Company’s policy requires the Company’s Corporate Governance and Nominating Committee to ensure that the Company maintains an ongoing review process for all related party transactions for potential conflicts of interest and requires that the Corporate Governance and Nominating Committee pre-approve any such transactions or, if for any reason pre-approval is not obtained, to review, ratify and approve or cause the termination of such transactions. The Company’s Corporate Governance and Nominating Committee evaluates each related party transaction for the purpose of recommending to the disinterested members of the Company’s board of directors whether the transaction is fair, reasonable and permitted to occur under the Company’s policy, and should be pre-approved or ratified and approved by the Company’s board of directors. Relevant factors considered relating to any approval or ratification include the benefits of the transaction to the Company, the terms of the transaction and whether the transaction will be or was on an arm’s-length basis and in the ordinary course of the Company’s business, the direct or indirect nature of the related party’s interest in the transaction, the size and expected term of the transaction and other facts and circumstances that bear on the materiality of the related party transaction under applicable law and listing standards. Related party transactions entered into, but not approved or ratified as required by the Company’s policy concerning related party transactions, will be subject to termination by us or the relevant subsidiary, if so directed by the Company’s Corporate Governance and Nominating Committee or the Company’s board of directors, taking into account factors as deemed appropriate and relevant. Lending and other banking transactions in the ordinary course of business and consistent with the insider loan provisions of Regulation O of the Board of Governors of the Federal Reserve System are not treated as related party transactions under this policy and, instead, these transactions are monitored and approved, if necessary, by Independent Bank’s board of directors. In addition, any transaction in which the rates or charges are determined by competitive bids are not subject to approval under the policy.

The Company’s directors, officers, beneficial owners of more than 5% of the Company’s voting securities and their respective associates were customers of and had transactions with the Company in the past, and additional transactions with these persons are expected to take place in the future. All outstanding loans and commitments to loan with these persons were made in the ordinary course of business, were made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with persons not related to the Company or Independent Bank and did not involve more than the normal risk of collectability or present other unfavorable features. All such loans are approved by Independent Bank’s board of directors in accordance with bank regulatory requirements. Similarly, all certificates of deposit and depository relationships with these persons were made in the ordinary course of business and involved substantially the same terms, including interest rates, as those prevailing at the time for comparable depository relationships with persons not related to the Company or Independent Bank.

Related Person Transactions

The following is a description of certain transactions in which the Company participated in 2019 or is currently proposed and in which one or more of the Company's directors, executive officers or beneficial holders of more than 5% of the Company's capital stock, or their immediate family members or entities affiliated with them, had or will have a direct or indirect material interest.

IBG Aircraft. IBG Aircraft Company III, a subsidiary of Independent Bank, or IBG Aircraft, owns an airplane and related hangar. The Company and Independent Bank use the airplane to facilitate the travel of the Company's and Independent Bank's executives for corporate purposes related to the Company's business. Independent Bank uses the aircraft to facilitate the travel of Independent Bank employees to and from Independent Bank's locations across Texas and Colorado. Certain of the Company's named executive officers elect to receive a portion of their cash bonus in the form of personal use of the aircraft. Under this arrangement, the Compensation Committee establishes the cash bonus for named executive officers. Those officers who elect to personally use the aircraft are then charged a rate per flight hour for use of the aircraft (computed on an hourly basis and including fuel, maintenance reserves and other operating costs) as established by an Aviation Committee, a joint working group of the Company's and Independent Bank's boards of directors comprised of David R. Brooks, William E. Fair and David Wood. This amount is then charged against the named executive officers' bonus amounts, reducing the cash portion of the bonus awarded to those officers. The Compensation Committee and the CGNC have reviewed and approved this arrangement, and the Company believes that this arrangement is in compliance with third party regulations established by bank regulatory agencies.

Branch Lease. Independent Bank leases its Woodway Branch in Waco from Waco Fairbank Realty, Ltd., of which William E. Fair, one of the Company's directors, is a limited partner. Independent Bank has agreed to pay rent for this 5,462 square foot facility, at the rate of $27.50 per square foot, or $150,204 annually, from 2016 - 2018, $29.00 per square foot, or $158,400 annually, from 2018 - 2021, and $30.60 per square foot plus an amount based upon the increase in consumer price index, or approximately $167,136 annually, from 2021 - 2026. The Company believes that this arrangement is at least as favorable to Independent Bank as could have been arranged with unrelated third parties and is in compliance with third party regulations for transactions with directors and their affiliates established by bank regulatory agencies.

Family Health Center at Virginia Parkway. The Company has provided approximately $2.5 million in direct support to establish the Family Health Center at Virginia Parkway, a Federally Qualified Health Center in McKinney, Texas. Two of the Company's employees, James Tippit and Kathryn Perry, serve as directors and officers of the foundation supporting the Family Health Center at Virginia Parkway.

SCW Capital Share Repurchase. The Company repurchased 53,096 shares of the Company's common stock from SCW Capital, LP and 81,904 shares of the Company's common stock from SCW Capital QP, LP in June of 2019 for a total purchase price of $7,141,500. Stacy Smith, a director of the Company, is the Managing Partner of the SCW Capital entities, and the repurchase resulted from the SCW Capital entities implementing a new policy regarding its portfolio companies. The shares were repurchased as part of the Company's share repurchase program announced October 24, 2018. The repurchase of these shares was approved by the Company's Corporate Governance and Nominating Committee.

Director Independence

Under the rules of the Nasdaq Global Select Market, independent directors must comprise a majority of the Company's board of directors. The rules of the Nasdaq Global Select Market, as well as those of the SEC, also impose several other requirements with respect to the independence of directors.

The Company's board of directors has evaluated the independence of its members based upon the rules of the Nasdaq Global Select Market and the SEC. Applying these standards, the board of directors has affirmatively determined that, with the exception of David R. Brooks and Daniel W. Brooks, each of the Company's directors set forth under Item 10. Directors, Executive Officers and Corporate Governance is an independent director, as defined under the applicable rules. The board of directors determined that each of David R. Brooks and Daniel W. Brooks does not qualify as an independent director because of his position as an executive officer of the Company and Independent Bank.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Fees Paid to Independent Registered Public Accounting Firm

The Audit Committee has reviewed the following audit and non-audit fees that the Company has paid to RSM US LLP for 2018 and 2019 for purposes of considering whether such fees are compatible with maintaining the auditor's independence. The policy of the Audit Committee is to pre-approve all audit and non-audit services performed by RSM US LLP before the services are performed, including all of the services described under "Audit Fees," "Audit Related Fees," "Tax Fees" and "All Other Fees" below.

Audit Fees. Estimated fees billed for service rendered by RSM US LLP for the reviews of the Company's quarterly reports filed on Form 10-Q, the audit of the consolidated annual financial statements of the Company and services provided for other SEC filings were $680,000 and $931,000 for 2018 and 2019, respectively.

Audit-Related Fees. Aggregate fees billed for all audit-related services rendered by RSM US LLP were $28,000 and $29,000 for 2018 and 2019, respectively. Such services consist of an audit of the Company's 401(k) plan.

Tax Fees. There were no fees billed for permissible tax services rendered by RSM US LLP for 2018 and 2019.

All Other Fees. Aggregate fees billed for all other services rendered by RSM US LLP were $0 and $98,000 for 2018 and 2019, respectively. Such services consist of a fair lending compliance review.

Audit Committee Pre-Approval Policy

The Audit Committee has established a policy and related procedures regarding the pre-approval of all audit, audit-related and non-audit services to be performed by the Company's independent auditors. The Audit Committee will approve the maximum aggregate amount of the costs that may be incurred under a general pre-approval of certain audit services. Any proposed audit services for which the cost to the Company would exceed these levels or amounts, or services that have not received general pre-approval, requires specific pre-approval by the Audit Committee.

The term of any general pre-approval is twelve (12) months from the stated date of pre-approval, unless the Audit Committee considers a different period and specifically states otherwise. The Audit Committee annually reviews and pre-approves the services, and the associated cost levels or budgeted amounts, that may be provided by its independent auditor without obtaining specific pre-approval from the Audit Committee. The Audit Committee adds to or subtracts from the list of general pre-approved services from time to time, based on subsequent determinations.

In addition to the annual audit services engagement approved by the Audit Committee, the Audit Committee may grant general pre-approval for audit-related services and other audit services. Unless granted general pre-approval, all audit-related services and other audit services must be specifically pre-approved by the Audit Committee. All non-audit services must be specifically pre-approved by the Audit Committee. The Company's independent auditor may not be engaged to provide any service that is prohibited by applicable law to be provided to an audit client by an independent auditor.

The Audit Committee may delegate pre-approval authority to one or more of its members. All requests or applications for services to be provided by the independent auditor that do not require specific approval by the Audit Committee will be submitted to the Chief Financial Officer of the Company. The Chief Financial Officer will determine, upon consultation with the chairman of the Audit Committee, whether such services are included within the list of services that have received the general pre-approval of the Audit Committee.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

1. Consolidated Financial Statements. Reference is made to the Consolidated Financial Statements, the report thereon and the notes thereto commencing at page 113 of this Annual Report on Form 10-K. Set forth below is an index of such Consolidated Financial Statements:

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

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

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

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EXHIBIT LIST

Exhibit Number	Description
3.1	Amended and Restated Certificate of Formation of the Company (incorporated herein by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 filed with the SEC on February 27, 2013 (Registration No. 333-186912) (the "Form S-1 Registration Statement"))
3.2	Certificate of Amendment to Amended and Restated Certificate of Formation of the Company (incorporated herein by reference to Exhibit 3.3 to Amendment No. 2 to the Form S-1 Registration Statement filed with SEC on April 1, 2013)
3.3	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Independent Bank Group, Inc. (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on May 28, 2019)
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 (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on April 17, 2014)
3.5	Fourth Amended and Restated Bylaws of Independent Bank Group, Inc. (incorporated herein by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on May 28, 2019)
3.6	Certificate of Merger, dated January 2, 2014, of Live Oak Financial Corp. with and into Independent Bank Group, Inc. (incorporated herein by reference to Exhibit 3.5 to Amendment No. 1 to the Company's Registration Statement on Form S-3 (Registration No. 333-196627 filed with the SEC on June 25, 2014 (the "Form S-3 Registration Statement"))
3.7	Certificate of Merger, dated April 15, 2014, of BOH Holdings, Inc. with and into Independent Bank Group, Inc. (incorporated herein by reference to Exhibit 3.6 to Amendment No. 1 to the Form S-3 Registration Statement filed with the SEC on June 25, 2014)
3.8	Certificate of Merger, dated September 30, 2014, of Houston City Bancshares, Inc. with and into Independent Bank Group, Inc. (incorporated by reference to Exhibit 3.7 to the Company's Quarterly Report on Form 10-Q, for the quarter ended June 30, 2015, filed with the SEC on July 31, 2015)
3.9	Certificate of Merger, dated March 31, 2017, of Carlile Bancshares, Inc. with and into Independent Bank Group, Inc. (incorporated by reference to Exhibit 3.8 to the Company's Quarterly Report on Form 10-Q, for the quarter ended March 31, 2017 filed with the SEC on April 27, 2017)
3.10	Certificate of Merger, dated October 23, 2017, of Washington Investment Company with and into Independent Bank Group, Inc. (incorporated by reference to Exhibit 3.9 to the Registrant's Current Report on Form 10-Q filed with the SEC on July 26, 2018)
3.11	Certificate of Merger, dated May 31, 2018, of Integrity Bancshares, Inc. with and into Independent Bank Group, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 10-Q filed with the SEC on July 26, 2018)
3.12	Certificate of Merger, dated December 27, 2018, but effective January 1, 2019, of Guaranty Bancorp with and into Independent Bank Group, Inc. (incorporated herein by reference to Exhibit 3.10 to the Company's Annual Report on Form 10-K for the year December 31, 2018, filed with the SEC on February 28, 2019)
4.1	Form of certificate representing shares of the Company's common stock (incorporated herein by reference to Exhibit 4.1 to Amendment No. 1 to the Form S-1 Registration Statement filed with the SEC on March 18, 2013)
4.2	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 (incorporated herein by reference to Exhibit 4.6 to Amendment No. 1 to the S-3 Registration Statement filed with the SEC on June 25, 2014)
4.3	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 (incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, dated July 17, 2014)
4.4	Second Supplemental Indenture, dated as of December 19, 2017, between Independent Bank Group, Inc. and Wells Fargo Bank, National Association, as trustee (incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, dated December 19, 2017)
4.5	Form of Global Note to represent the 5.875% Subordinated Notes due August 1, 2024, of the Company (incorporated herein by reference to Exhibit 4.5 in the Company's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2017, filed with the SEC on October 26, 2017)

4.6	Form of Global Note to represent the 5.875% Subordinated Notes due August 1, 2024, of the Company (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, dated June 22, 2016)

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

4.7(a)	Independent Bank 401(k) Profit Sharing Plan (incorporated herein by reference to Exhibit 4.8(a) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019, filed with the SEC on July 25, 2019)
4.7(b)	Amendment to Independent Bank 401(k) Profit Sharing Plan for Unilateral Interim Amendment to Comply with the 2017 Final Regulations under ERISA Section 503, dated June 6, 2018 (incorporated herein by reference to Exhibit 4.8(b) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019, filed with the SEC on April 25, 2019)
4.7(c)	Amendment to Independent Bank 401(k) Profit Sharing Plan for Interim Amendment to Comply with the Final Regulations under Code Sections 401(k) and 401(m), dated October 16, 2018 (incorporated herein by reference to Exhibit 4.8(c) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019, filed with the SEC on April 25, 2019)
4.7(d)	Amendment to Independent Bank 401(k) Profit Sharing Plan for Amendment to Comply with the Bipartisan Budget Act of 2018, dated December 21, 2018 (incorporated herein by reference to Exhibit 4.8(d) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019, filed with the SEC on April 25, 2019)
10.1	Form of Indemnification Agreement for directors and officers (incorporated herein by reference to Exhibit 10.16 to the Form S-1 Registration Statement)
10.2	2015 Performance Award Plan (incorporated herein by reference to Annex A of the Company's definitive Proxy Statement for its 2015 Annual Meeting of Shareholders, dated April 13, 2015)
10.3(a)	2013 Equity Incentive Plan, with form of Restricted Stock Award Agreement (incorporated herein by reference to Exhibit 10.20 to the Form S-1 Registration Statement)
10.3(b)	First Amendment to the 2013 Equity Incentive Plan (incorporated by reference to Appendix A to the Company's proxy statement for its 2018 Annual Meeting of Shareholders filed with the SEC on April 26, 2018)
10.3(c)	Second Amendment to the 2013 Equity Incentive Plan*
10.4(a)	Credit Agreement, dated as of January 17, 2019, between Independent Bank Group, Inc., in favor of U.S. Bank National Association (incorporated herein by reference to Exhibit 10.1(a) to the Company's Current Report on Form 8-K, dated January 17, 2019)
10.4(b)	Revolving Credit Note, dated January 17, 2019, by Independent Bank Group, Inc. in favor of U.S. Bank National Association (incorporated herein by reference to Exhibit 10.1(b) to the Company's Current Report on Form 8-K, dated January 17, 2019)
10.4(c)	Negative Pledge Agreement, dated as of January 17, 2019, by the Company, in favor of U.S. Bank National Association (incorporated herein by reference to Exhibit 10.1(c) to the Company's Current Report on Form 8-K, dated January 17, 2019)
10.4(d)	First Amendment to Credit Agreement between Independent Bank Group, Inc. and U.S. Bank National Association, dated January 17, 2020*
10.5	Employment Agreement, dated March 25, 2016, between Independent Bank and James C. White and joined in by the Company (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2016, filed with the SEC on July 27, 2016)
10.6(a)	Form of Change in Control Agreement, dated July 26, 2016, between the Company and certain Executive Officers (incorporated herein by reference to Exhibit 10.1(a) to the Company's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2016, filed with the SEC on October 27, 2016)
10.6(b)	Schedule of Executive Officers who have executed a Change in Control Agreement*
10.7	Employment Agreement, dated December 9, 2019, by and between Independent Bank Group, Inc. and David R. Brooks*
10.8	Employment Agreement, dated December 9, 2019, by and between Independent Bank Group, Inc. and Daniel W. Brooks*
10.9(a)	Form of Employment Agreement*

10.9(b)	Schedule of Executive Officers who have executed an Employment Agreement*
10.10	Separation Agreement between Brian Hobart, Independent Bank and Independent Bank Group, Inc., dated November 11, 2019 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, dated November 11, 2019)
10.11	CBI Nominee Agreement, dated March 28, 2017, by and among the Company and Tom C. Nichols (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K of Independent filed with the SEC on April 14, 2017)
10.12	Agreement and Plan of Reorganization, dated as of November 28, 2017, by and among the Company and Integrity Bancshares, Inc. (incorporated herein by reference to Appendix A to the joint proxy statement/prospectus, which forms a part of the Registration Statement on Form S-4 (Registration No. 333-222804 filed with the SEC on January 31, 2018 (the "Form S-4 Registration Statement"))
10.13	Agreement and Plan of Reorganization, dated May 22, 2018, by and between Independent Bank Group, Inc. and Guaranty Bancorp (incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, dated May 22, 2018)
10.14	Agreement and Plan of Merger dated as of December 9, 2019, by and between Texas Capital Bancshares, Inc. and Independent Bank Group, Inc. (incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, dated December 13, 2019)**
10.15	Voting Agreement, dated December 9, 2019, by and between Texas Capital Bancshares, Inc. and Vincent J. Viola (incorporated herein by reference to Annex B to the joint proxy statement/prospectus, which forms a part of the Registration Statement on Form S-4 (Registration No. 333-235993) filed with the SEC on January 21, 2020)
10.16	Development Management Agreement, dated January 18, 2018, by and between IBG Real Estate Holdings II, Inc. and KDC McKinney Development One LLC and guaranteed by Independent Bank Group, Inc. and KDC Holdings LLC (incorporated herein by reference to Exhibit 10.18 to the Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on February 27, 2018)
21.1	Subsidiaries of Independent Bank Group, Inc.*
23.1	Consent of RSM US LLP, Independent Registered Public Accounting Firm of Independent Bank Group, Inc.*
31.1	Chief Executive Officer Section 302 Certification*
31.2	Chief Financial Officer Section 302 Certification*
32.1	Chief Executive Officer Section 906 Certification***
32.2	Chief Financial Officer Section 906 Certification***
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*
104	Cover Page Interactive Data File (the cover page XBRL tags are embedded within the Inline XBRL document)

* Filed herewith as an Exhibit

** Pursuant to Item 601(b)(2) of Regulation S-K, certain schedules and similar attachments have been omitted. The registrant hereby agrees to furnish a copy of any omitted schedule or similar attachment to the SEC upon request.

*** Furnished herewith as an Exhibit

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

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

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Independent Bank Group, Inc. and its subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 2, 2020 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

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

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

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Loan Losses-

As described in Notes 1 and 6 of the consolidated financial statements, the Company's allowance for loan losses totaled $51.5 million as of December 31, 2019. The Company establishes the allowance for loan losses by estimating probable and reasonably estimable loan losses inherent in loans held for investment as of the balance sheet date. The allowance for loan losses contains provisions for probable losses that have been identified relating to specific borrowing relationships (specific reserve), as well as probable losses inherent in the loan portfolio and credit undertakings that are not specifically identified (general reserve). The general reserve is established through historical loss experience adjusted for qualitative factors. Qualitative factors used by the Company include considerations such as the volume, growth and composition of the loan portfolio, the effect of changes in the local real estate market on collateral values, trends in past dues, the experience of the lenders, changes in lending policy, the Company's ability to monitor and manage the loan portfolio, and the effects on the loan portfolio of current economic indicators and their probable impact on borrowers. The measurement of the qualitative factors considered in the general allowance requires a significant amount of judgment by management and involves a high degree of estimation. We identified the qualitative factors applied to the general reserve of the allowance for loan losses as a critical audit matter because auditing the qualitative factors of the allowance required a high degree of auditor judgment, as the assumptions determined by management are highly subjective.

Our audit procedures related to the Company's qualitative factors applied to the general reserve of the allowance for loan losses included the following, among others:

- We obtained an understanding of the relevant controls related to the qualitative factors applied to the general reserve of the allowance for loan losses and tested such controls for design and operating effectiveness, including controls over management's establishment, review and approval of the qualitative factors and the data used in determining the qualitative factors.
- We tested the completeness and accuracy of the groups of loans used in the qualitative factor assessment based on the relevant risks associated with such groups of loans.
- We tested management's process for establishing and monitoring qualitative factors including:
  - Evaluating the reasonableness of management's judgments by validating the source of information used by management with the relevant internal or external information from which it was derived, as well as evaluating the estimated correlation to potential losses.
  - Evaluating the reasonableness of qualitative factor adjustments assessed by management as compared to the underlying internal or external source information.

Acquisition of Guaranty Bancorp-

As described in Notes 1 and 22 of the consolidated financial statements the Company completed the acquisition of Guaranty Bancorp (Guaranty) on January 1, 2019 for total consideration of $602 million. The Company applies the acquisition method of accounting for business combinations. Accordingly, the assets acquired and liabilities assumed were recorded at their acquisition date fair values. Any excess of the purchase price over amounts allocated to assets acquired, including identifiable intangible assets, and liabilities assumed was recorded as goodwill. Assets acquired included loans and core deposit intangibles. The fair value of assets acquired in the acquisition totaled $3.9 billion, including $2.8 billion of loans receivable and $62 million of core deposit intangible. The Company estimated the fair value of loans and core deposit intangible assets using a discounted cash flow model. Management determined multiple assumptions for which there was limited observable market information and required significant estimates and judgment with respect to deposit runoff, interest costs, and cost of alternative funding, loan prepayment and discount rates.

We have identified the valuation of loans and core deposit intangibles from the Guaranty acquisition as a critical audit matter because auditing the fair value involved significant auditor judgment and increased audit effort because of the estimation required by management.
Our audit procedures related to the fair value of acquired loans and core deposits included the following, among others:

- We obtained an understanding of the relevant controls related to the fair value of acquired loans and core deposits and tested such controls for design and operating effectiveness, including controls over management's establishment and determination of assumptions utilized in the loans and core deposit intangibles valuations.
- We evaluated the valuation approach used by the Company to calculate the fair value of loans and core deposit intangibles.
- We performed, with the assistance of our valuation specialists, the following procedures:
  - Compared management's assumptions to publicly available market data.
  - Evaluated the reasonableness of the core deposit intangible valuation by calculating the value using a reduction to the reserve requirement assumption, alternative cost of funding assumptions from a published source, disregarding insurance costs and float assumptions, and adjusting retention rates downward and comparing our results to management's calculation.
  - Tested the completeness and accuracy of the underlying data used in the valuation model.
- We evaluated estimated run-off rates for reasonableness by comparing to actual data observed subsequent to the acquisition. We tested the completeness and accuracy of the actual data observed.

RSM US LLP

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

Dallas, Texas
March 2, 2020

Independent Bank Group, Inc. and Subsidiaries
Consolidated Balance Sheets
December 31, 2019 and 2018
(Dollars in thousands, except share information)

	December 31,	
Assets	2019	2018
Cash and due from banks	$ 186,299	$ 102,024
Interest-bearing deposits in other banks	378,871	28,755
Cash and cash equivalents	565,170	130,779
Certificates of deposit held in other banks	5,719	1,225
Securities available for sale, at fair value	1,085,936	685,350
Loans held for sale (includes $29,204 and $27,871 carried at fair value, respectively)	35,645	32,727
Loans, net	11,562,814	7,839,695
Premises and equipment, net	242,874	167,866
Other real estate owned	4,819	4,200
Federal Home Loan Bank (FHLB) of Dallas stock and other restricted stock	30,052	26,870
Bank-owned life insurance (BOLI)	215,081	129,521
Deferred tax asset	6,943	13,180
Goodwill	994,021	721,797
Other intangible assets, net	100,741	45,042
Other assets	108,392	51,713
Total assets	$ 14,958,207	$ 9,849,965
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing	$ 3,240,185	$ 2,145,930
Interest-bearing	8,701,151	5,591,864
Total deposits	11,941,336	7,737,794
FHLB advances	325,000	290,000
Other borrowings	202,251	137,316
Junior subordinated debentures	53,824	27,852
Other liabilities	96,023	50,570
Total liabilities	12,618,434	8,243,532
Commitments and contingencies		
Stockholders' equity:		
Preferred stock (0 and 0 shares outstanding, respectively)	—	—
Common stock (42,950,228 and 30,600,582 shares outstanding, respectively)	430	306
Additional paid-in capital	1,926,359	1,317,616
Retained earnings	393,674	296,816
Accumulated other comprehensive income (loss)	19,310	(8,305)
Total stockholders' equity	2,339,773	1,606,433
Total liabilities and stockholders' equity	$ 14,958,207	$ 9,849,965

See Notes to Consolidated Financial Statements

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Independent Bank Group, Inc. and Subsidiaries
Consolidated Statements of Income
Years Ended December 31, 2019, 2018 and 2017
(Dollars in thousands, except per share information)

	Years Ended December 31,		
	2019	2018	2017
Interest income:			
Interest and fees on loans	$ 611,589	$ 384,791	$ 290,357
Interest on taxable securities	21,324	14,007	8,229
Interest on nontaxable securities	8,482	4,580	3,877
Interest on interest-bearing deposits and other	11,537	3,912	5,451
Total interest income	652,932	407,290	307,914
Interest expense:			
Interest on deposits	123,384	60,767	28,518
Interest on FHLB advances	10,173	10,264	5,858
Interest on other borrowings and repurchase agreements	11,590	8,398	6,898
Interest on junior subordinated debentures	3,028	1,609	1,162
Total interest expense	148,175	81,038	42,436
Net interest income	504,757	326,252	265,478
Provision for loan losses	14,805	9,860	8,265
Net interest income after provision for loan losses	489,952	316,392	257,213
Noninterest income:			
Service charges on deposit accounts	24,500	14,224	12,955
Investment management and trust	9,330	—	—
Mortgage banking revenue	15,461	15,512	13,755
Gain on sale of loans	6,779	—	351
Gain on sale of branches	1,549	—	2,917
Gain on sale of trust business	1,319	—	—
Gain (loss) on sale of other real estate	875	269	(160)
Gain on sale of repossessed assets	—	—	1,010
Gain (loss) on sale of securities available for sale	275	(581)	124
(Loss) gain on sale of premises and equipment	(585)	123	(21)
Increase in cash surrender value of BOLI	5,525	3,170	2,748
Other	13,148	9,507	7,608
Total noninterest income	78,176	42,224	41,287
Noninterest expense:			
Salaries and employee benefits	162,683	111,697	95,741
Occupancy	37,654	24,786	22,079
Data processing	17,103	10,754	8,597
FDIC assessment	1,065	3,306	4,311
Advertising and public relations	2,527	1,907	1,452
Communications	5,145	3,353	2,860
Other real estate owned expenses, net	418	318	304
Impairment of other real estate	1,801	85	1,412
Amortization of other intangible assets	12,880	5,739	4,639
Professional fees	7,936	4,556	4,564
Acquisition expense, including legal	33,445	6,157	12,898
Other	39,207	25,961	17,956
Total noninterest expense	321,864	198,619	176,813
Income before taxes	246,264	159,997	121,687
Income tax expense	53,528	31,738	45,175
Net income	$ 192,736	$ 128,259	$ 76,512

Basic earnings per share	$ 4.46	$ 4.33	$ 2.98
Diluted earnings per share	$ 4.46	$ 4.33	$ 2.97

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2019, 2018 and 2017
(Dollars in thousands)

	Years Ended December 31,		
	2019	2018	2017
Net income	$ 192,736	$ 128,259	$ 76,512
Other comprehensive income (loss) before tax:			
Change in net unrealized gains (losses) on available for sale securities during the year	35,620	(10,182)	1,067
Reclassification for amount realized through sales of securities available for sale included in net income	(275)	581	(124)
Other comprehensive income (loss) before tax	35,345	(9,601)	943
Income tax expense (benefit)	7,730	(2,016)	330
Other comprehensive income (loss), net of tax	27,615	(7,585)	613
Comprehensive income	$ 220,351	$ 120,674	$ 77,125

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2019, 2018 and 2017
(Dollars in thousands, except for par value, share and per share information)

	Preferred Stock $.01 Par Value 10 million shares authorized	Common Stock $.01 Par Value 100 million shares authorized		Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
		Shares	Amount				
Balance, December 31, 2016	$ —	18,870,312	$ 189	$ 555,325	$117,951	$ (1,100)	$ 672,365
Net income	—	—	—	—	76,512	—	76,512
Other comprehensive income, net of tax	—	—	—	—	—	613	613
Stock issued for acquisition of bank, net of offering costs of $942	—	8,804,699	88	565,112	—	—	565,200
Common stock issued, net of offering costs of $525	—	448,500	5	26,811	—	—	26,816
Restricted stock forfeited	—	(2,543)	—	—	—	—	—
Restricted stock granted	—	130,722	1	(1)	—	—	—
Stock based compensation expense	—	—	—	4,688	—	—	4,688
Exercise of warrants	—	3,203	—	55	—	—	55
Cash dividends ($0.40 per share)	—	—	—	—	(10,231)	—	(10,231)
Balance, December 31, 2017	$ —	28,254,893	$ 283	$ 1,151,990	$184,232	$ (487)	$ 1,336,018
Cumulative effect of change in accounting principles	—	—	—	—	233	(233)	—
Net income	—	—	—	—	128,259	—	128,259
Other comprehensive loss, net of tax	—	—	—	—	—	(7,585)	(7,585)
Stock issued for acquisition of bank, net of offering costs of $209	—	2,071,981	21	157,033	—	—	157,054
Restricted stock forfeited	—	(3,845)	—	—	—	—	—
Restricted stock granted	—	130,212	1	(1)	—	—	—
Stock based compensation expense	—	—	—	6,062	—	—	6,062
Exercise of warrants	—	147,341	1	2,532	—	—	2,533
Cash dividends ($0.54 per share)	—	—	—	—	(15,908)	—	(15,908)
Balance, December 31, 2018	$ —	30,600,582	$ 306	$ 1,317,616	$296,816	$ (8,305)	$ 1,606,433
Cumulative effect of change in accounting principles	—	—	—	—	(926)	—	(926)
Net income	—	—	—	—	192,736	—	192,736
Other comprehensive income, net of tax	—	—	—	—	—	27,615	27,615
Stock issued for acquisition of bank, net of offering costs of $804	—	13,179,748	132	600,936	—	—	601,068
Common stock repurchased	—	(952,844)	(9)	—	(51,650)	—	(51,659)
Restricted stock forfeited	—	(15,866)	—	—	—	—	—
Restricted stock granted	—	138,608	1	(1)	—	—	—
Stock based compensation expense	—	—	—	7,808	—	—	7,808
Cash dividends ($1.00 per share)	—	—	—	—	(43,302)	—	(43,302)
Balance, December 31, 2019	$ —	42,950,228	$ 430	$ 1,926,359	$393,674	$ 19,310	$ 2,339,773

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2019, 2018 and 2017
(Dollars in thousands)

	Years Ended December 31,		
	2019	2018	2017
Cash flows from operating activities:			
Net income	$ 192,736	$ 128,259	$ 76,512
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	11,783	8,391	8,196
Accretion of income recognized on acquired loans	(46,071)	(13,523)	(7,833)
Amortization of other intangibles assets	12,880	5,739	4,639
Amortization of premium on securities, net	2,671	3,316	3,629
Amortization of discount and origination costs on borrowings	633	633	505
Stock based compensation expense	7,808	6,062	4,688
Excess tax expense (benefit) on restricted stock vested	21	(646)	(1,323)
FHLB stock dividends	(854)	(791)	(448)
Loss (gain) on sale of premises and equipment	585	(123)	21
Gain on sale of loans	(6,779)	—	(351)
Gain on sale of branches	(1,549)	—	(2,917)
Gain on sale of trust business	(1,319)	—	—
(Gain) loss on sale of securities available for sale	(275)	581	(124)
(Gain) loss on sale of other real estate owned	(875)	(269)	160
Gain on sale of repossessed assets	—	—	(1,010)
Impairment of other real estate	1,801	85	1,412
Impairment of other assets	1,173	—	—
Deferred tax expense	14,102	1,937	17,054
Provision for loan losses	14,805	9,860	8,265
Increase in cash surrender value of BOLI	(5,525)	(3,170)	(2,748)
Net gain on mortgage loans held for sale	(15,133)	(13,794)	(9,160)
Originations of loans held for sale	(435,076)	(384,178)	(429,874)
Proceeds from sale of loans held for sale	447,291	404,447	422,409
Net change in other assets	(5,878)	(14,352)	(5,987)
Net change in other liabilities	(15,636)	20,277	(2,920)
Net cash provided by operating activities	173,319	158,741	82,795
Cash flows from investing activities:			
Proceeds from maturities, calls and pay downs of securities available for sale	5,400,634	3,660,624	2,328,843
Proceeds from sale of securities available for sale	192,417	102,647	31,367
Purchases of securities available for sale	(5,390,543)	(3,674,396)	(2,472,799)
Purchases of certificates of deposit held in other banks	(5,705)	—	—
Proceeds from maturities of certificates of deposit held in other banks	1,473	11,760	747
Proceeds from surrender of bank owned life insurance contracts	802	—	—
Purchase of bank owned life insurance contracts	—	(5,000)	—
Purchases of FHLB stock and other restricted stock	(9,397)	(6,144)	(48)
Proceeds from redemptions of FHLB stock and other restricted stock	34,863	12,606	8,958
Proceeds from sale of loans	90,025	—	3,867
Net loans originated held for investment	(469,023)	(746,804)	(566,881)
Originations of mortgage warehouse purchase loans	(12,835,522)	(5,128,767)	(3,640,235)
Proceeds from pay-offs of mortgage warehouse purchase loans	12,318,495	5,123,171	3,575,863

Additions to premises and equipment	(31,680)	(38,110)	(13,193)
Proceeds from sale of premises and equipment	2,100	14,479	16
Proceeds from sale of other real estate owned	8,207	3,520	9,433
Proceeds from sale of repossessed assets	—	—	1,010
Capitalized additions to other real estate	—	—	(1,030)
Cash acquired in connection with acquisition	39,913	44,723	148,444
Cash paid in connection with acquisition	(9)	(31,016)	(17,773)

Independent Bank Group, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2019, 2018 and 2017
(Dollars in thousands)

	Years Ended December 31,		
	2019	2018	2017
Selling costs paid in connection with branch sale	(144)	—	(235)
Net cash transferred in branch sale	(25,163)	—	(58,687)
Proceeds from sale of trust business	4,269	—	—
Net cash used in investing activities	(673,988)	(656,707)	(662,333)
Cash flows from financing activities:			
Net increase in demand deposits, money market and savings accounts	876,842	363,003	610,279
Net increase (decrease) in time deposits	237,136	148,891	(210,382)
Repayments of FHLB advances	(1,807,653)	(1,985,667)	(130,079)
Proceeds from FHLB advances	1,700,000	1,685,000	200,000
Net change in repurchase agreements	—	—	(9,158)
Proceeds from other borrowings	65,000	—	29,255
Repayments of other borrowings	(40,500)	—	—
Proceeds from exercise of common stock warrants	—	2,533	55
Offering costs paid in connection with acquired bank	(804)	(209)	(942)
Proceeds from sale of common stock, net	—	—	26,816
Repurchase of common stock	(51,659)	—	—
Dividends paid	(43,302)	(15,908)	(10,231)
Net cash provided by financing activities	935,060	197,643	505,613
Net change in cash and cash equivalents	434,391	(300,323)	(73,925)
Cash and cash equivalents at beginning of year	130,779	431,102	505,027
Cash and cash equivalents at end of year	$ 565,170	$ 130,779	$ 431,102

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands, except for share and per share information)

Note 1. Summary of Significant Accounting Policies

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

Proposed merger with Texas Capital Bancshares, Inc.: The Company and Texas Capital Bancshares, Inc. (TCBI) have entered into an Agreement and Plan of Merger, dated as of December 9, 2019, which is referred to as the "merger agreement". Under the merger agreement, the Company and TCBI have agreed to combine their respective companies in an all stock merger of equals, pursuant to which TCBI will merge with and into the Company, with the Company continuing as the surviving entity, in a transaction referred to as "the merger." Immediately following the merger or at such later time as the parties may mutually agree, Texas Capital Bank will merge with and into Independent Bank, with Independent Bank as the surviving bank. The merger agreement was unanimously approved by each company's board of directors. The transaction is anticipated to close in mid-2020, subject to customary closing conditions, including receipt of shareholder and regulatory approvals. The transaction is discussed in more detail in Note 22, Business Combinations.

Basis of presentation: The accompanying consolidated financial statements include the accounts of IBG and all other entities in which IBG has controlling financial interest. All material intercompany transactions and balances have been eliminated in consolidation. In addition, the Company wholly-owns nine statutory business trusts that were formed for the purpose of issuing trust preferred securities and do not meet the criteria for consolidation (See Note 12, Junior Subordinated Debentures).

On January 1, 2019, the Company acquired Guaranty Bancorp (Guaranty) and its wholly owned subsidiary, Guaranty Bank and Trust Company (Guaranty Bank) and its wholly owned subsidiary, Private Capital Management, LLC. Guaranty was merged into the Company and dissolved and Guaranty Bank and its subsidiary was merged with the Bank as of acquisition date. The Company also acquired two statutory business trusts in connection with the acquisition as disclosed in Note 12, Junior Subordinated Debentures. See Note 22, Business Combinations, for more details of the Guaranty acquisition.

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

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

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

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

Independent Bank Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands, except for share and per share information)

Cash and cash equivalents: For the purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold. All highly liquid investments with an initial maturity of less than ninety days are considered to be cash equivalents. The Company maintains deposits with other financial institutions in amounts that exceed FDIC insurance coverage. The Company's management monitors the balance in these accounts and periodically assesses the financial condition of the other financial institutions. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks on cash or cash equivalents.

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

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

Securities available for sale are reported at fair value with unrealized gains or losses reported as a separate component of other comprehensive income, net of tax. The amortization of premiums and accretion of discounts, computed by the interest method generally over their contractual lives, are recognized in interest income. Premiums on callable securities are amortized to their earliest call date. Prior to the adoption of a new accounting standard in 2019, as further discussed in Note 2, Recent Accounting Pronouncements, premiums on callable securities were amortized to their respective maturity dates unless such securities were included in pools for the purposes of assessing prepayment expectations.

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

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

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

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

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

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

Loans, net: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balance, net of unearned interest, purchase premiums and discounts, deferred loan fees or costs and an allowance for loan losses. Loan origination fees, net of direct origination costs, are deferred and recognized as an adjustment to the related loan yield using the effective interest method without anticipating prepayments. Prior to the year ended December 31, 2019, fees and costs associated with originating loans were generally recognized in the period they were incurred, except in the Houston market, former Grand Bank and Carlile branches, which fees were deferred. Management believes that not deferring such fees and costs did not materially affect the financial position or results of operations of the Company.

Allowance for loan losses: The allowance for loan losses is maintained at a level considered adequate by management to provide for probable loan losses. The allowance is increased by provisions charged to expense. Loans are charged against the allowance for loan losses when management believes that collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance. The provision for loan losses is the amount, which, in the judgment of management, is necessary to establish the allowance for loan losses at a level that is adequate to absorb known and inherent risks in the loan portfolio. See Note 6, Loans, Net and Allowance for Loan Losses, for further information on the Company's policies and methodology used to estimate the allowance for loan losses.

Premises and equipment, net: Land is carried at cost. Bank premises, furniture and equipment and aircraft are carried at cost, less accumulated depreciation computed principally by the straight-line method over the estimated useful lives of the assets, which range from three to thirty years. Real property acquired after January 1, 2019, accounts for depreciation using the straight-line method over the estimated useful lives of the assets considering the salvage value of the real property.

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

Leases: The Company leases certain office facilities and office equipment under operating leases. The Company also owns certain office facilities which it leases to outside parties under operating lessor leases; however, such leases are not significant. On January 1, 2019, the Company adopted ASU 2016-02, *Leases (Topic 842),* as further explained below and in Note 2, Recent Accounting Pronouncements. Under the new standard, for operating leases other than those considered to be short-term, the Company recognizes operating lease right-of-use (ROU) assets and operating lease liabilities, which are recorded in other assets and other liabilities, respectively, in the consolidated balance sheets.

The Company determines if an arrangement is a lease at inception. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate referenced to the Federal Home Loan Bank Secure Connect advance rates for borrowings of similar terms in determining the present value of lease payments. The operating lease ROU asset also includes any lease pre-payments made and excludes lease incentives. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company has lease agreements with lease and non-lease components, which the Company has elected to account for separately as the non-lease component amounts are readily determinable under most leases.

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

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

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

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

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

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

Bank-owned life insurance: Bank-owned life insurance is recorded at the amount that can be realized under the insurance contracts at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. Changes in the net cash surrender value of the policies, as well as insurance proceeds received are reflected in noninterest income.

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

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

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

Management estimates losses on off-balance-sheet financial instruments using the same methodology as for portfolio loans. Estimated losses on off-balance-sheet financial instruments are recorded by charges to the provision for losses and credits to other liabilities in the Company's consolidated balance sheet. There were no estimated losses on off-balance sheet financial instruments as of December 31, 2019 or 2018.

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

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

Advertising costs: Advertising costs are expensed as incurred.

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

Comprehensive income: Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income. Gains and losses on available for sale securities are reclassified to net income as the gains or losses are realized upon sale of the securities. The credit component of other than temporary impairment charges are reclassified to net income at the time of the charge.

Fair values of financial instruments: Accounting standards define fair value, establish a framework for measuring fair value in U.S. generally accepted accounting principles, and require certain disclosures about fair value measurements (see Note 18, Fair Value Measurements). In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

Derivative financial instruments: The Company enters into certain derivative financial instruments: interest rate lock commitments, forward mortgage-backed securities trades and interest rate swaps. These financial instruments are not designated as hedging instruments and are used for asset and liability management related to the Company's mortgage banking activities and commercial customers' financing needs. All derivatives are carried at fair value in either other assets or other liabilities (see Note 19, Derivative Financial Instruments*)*.

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

Revenue recognition: ASC Topic 606, R*evenue from Contracts with Customers (ASC 606)*, establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

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

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

- Investment management and trust - includes income related to providing investment management and trust services to customers under investment management and trust contracts. Also included are fees received from a third party broker-dealer as part of a revenue-sharing agreement for fees earned from customers that are referred to a third party. The investment management fees and referral fees are billed and paid on a quarterly basis and recognized ratably throughout the quarter as performance obligations are satisfied.

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

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

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

Share repurchase program: The Company established share repurchase programs in prior years which would allow the Company to purchase its common stock in the open market or in privately negotiated transactions. In general, share repurchase programs allow the Company to proactively manage its capital position and return excess capital to shareholders. On October 24, 2018, the Company announced the reestablishment of its share repurchase program. The program authorizes the purchase by the Company of up to $75,000 of its common stock. The repurchase program was authorized to continue through October 1, 2019. On October 17, 2019, the repurchase program was renewed and authorized to continue through December 31, 2020. The Company has approval from the Federal Reserve to repurchase up to $60,000 in shares for 2019, of which $10,952 is remaining. The Company intends to request additional approvals, as necessary, for share buybacks in 2020.

As of December 31, 2019, the Company has repurchased a total of 897,738 shares of Company stock at a total cost of $49,048 under this program. Shares of Company stock repurchased to settle employee tax withholding related to vesting of stock awards during the period ended December 31, 2019 totaled 55,106 at a total cost of $2,611 and were not included under this program. No shares of Company stock were repurchased by the Company under this program during 2018.

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

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Earnings per share: Basic earnings per common share is calculated as 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 nonforfeitable dividends are considered participating securities for this calculation. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under stock warrants. The participating nonvested common stock was not included in dilutive shares as it was anti-dilutive for the years ended December 31, 2019, 2018 and 2017. The Company's outstanding stock warrants were all exercised prior to December 31, 2018. For the year ended December 31, 2017, proceeds from the assumed exercise of dilutive stock warrants are assumed to be used to repurchase common stock at the average market price.

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

	Years Ended December 31,		
	2019	2018	2017
Basic earnings per share:			
Net income	$ 192,736	$ 128,259	$ 76,512
Less:			
Undistributed earnings allocated to participating securities	971	976	626
Dividends paid on participating securities	281	139	97
Net income available to common shareholders	$ 191,484	$ 127,144	$ 75,789
Weighted average basic shares outstanding	42,964,393	29,341,843	25,394,079
Basic earnings per share	$ 4.46	$ 4.33	$ 2.98
Diluted earnings per share:			
Net income available to common shareholders	$ 191,484	$ 127,144	$ 75,789
Total weighted average basic shares outstanding	42,964,393	29,341,843	25,394,079
Add dilutive stock warrants	—	—	106,070
Total weighted average diluted shares outstanding	42,964,393	29,341,843	25,500,149
Diluted earnings per share	$ 4.46	$ 4.33	$ 2.97
Anti-dilutive participating securities	73,546	114,087	123,564

Note 2. Recent Accounting Pronouncements

Adoption of new accounting standards

ASU 2016-02, *Leases (Topic 842).* This ASU, among other things, requires lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under this guidance, lessor accounting is largely unchanged. This ASU became effective for annual and interim periods for the Company on January 1, 2019. The Company adopted the standard by applying the alternative transition method whereby comparative periods were not restated, and an immaterial cumulative effect adjustment to the opening balance of retained earnings was recognized as of January 1, 2019. The Company also elected the ASU's package of three practical expedients, which allowed the Company to forego a reassessment of (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases and (iii) the initial direct costs for any existing leases. The Company also elected not to apply the recognition requirements of the ASU to any short-term leases (as defined by related accounting guidance) and will account for lease and non-lease components separately because such amounts are readily determinable under most lease contracts and because this election results in a lower impact on the Company's balance sheet. The Company has implemented a lease management system to assist in centralizing, maintaining and accounting for all leases and implemented additional processes

and internal controls to ensure the Company meets the ASU's reporting and disclosure requirements. The adoption of this standard resulted in the Company recognizing lease right-of-use assets and related lease liabilities totaling $38,812 and $33,953, respectively, as of January 1, 2019. The difference between the lease assets and the lease liabilities was $4,949 of prepaid rent, which was reclassified to lease assets, and the remainder, net of the deferred tax impact, was recorded as an adjustment reducing retained earnings in the amount of $70. In addition, the right-of-use assets and related lease liabilities recognized on January 1, 2019 include the leases assumed with the Guaranty acquisition. The adoption of this ASU did not have a significant impact on the Company's consolidated statement of income. See Note 1, Summary of Significant Accounting Policies, and Note 13, Leases, for required disclosures.

ASU 2017-08, *Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities*. This ASU requires certain premiums on callable debt securities to be amortized to the earliest call date. The amortization period for callable debt securities purchased at a discount is not impacted. Under current GAAP, premiums on callable debt securities are generally amortized over the contractual life of the security. ASU 2017-08 became effective for the Company on January 1, 2019 and, upon adoption, the Company recognized a cumulative effect adjustment reducing retained earnings by $856, net of the deferred tax impact, but otherwise did not have a significant impact to the Company's consolidated financial statements and disclosures.

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

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

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

Newly issued but not yet effective accounting standards

ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* ASU 2016-13 along with several other subsequent codification updates related to accounting for credit losses, requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the credit loss measurement guidance for available for sale debt securities and purchased financial assets with credit deterioration. Under prior US GAAP, companies generally recognized credit losses when it was probable that the loss has been incurred (incurred loss model). ASU 2016-13 requires a new credit loss methodology, the current expected credit loss (CECL) model, which requires the recognition of an allowance for lifetime expected credit losses on loans, held-to-maturity debt securities and other receivables measured at amortized cost at the time the financial asset is originated or acquired. Credit losses will be immediately recognized through net income; the amount recognized will be based on the current estimate of contractual cash flows not expected to be collected over the financial asset's contractual term. The Company currently expects the adoption of ASU 2016-13 will result in an increase of its combined allowance for loan losses and reserves for unfunded commitments of approximately $68,000 to $80,000, of which $20,000 to $22,000 is attributable to purchase credit deteriorated loans. As the Company currently finalizes the execution of its implementation controls and processes, the ultimate impact of the adoption of ASU 2016-13 as of January 1, 2020 could differ from the current expectation. The expected increase in the allowance for loan losses is a result of changing from an incurred loss model, which encompasses allowances for current known and inherent losses within the portfolio, to a CECL model, which encompasses allowances for losses expected to be incurred over the life of the portfolio. The majority of the increase is attributable to applying the CECL model to the Company's acquired loans, which, under prior guidance, were recorded at fair value without an allowance at acquisition date. Furthermore, ASU 2016-13 will necessitate that the Company establish an allowance for expected credit losses for certain debt securities and other financial assets; however, allowances are not expected to be significant. The Company will apply the standard's provisions as a cumulative-effect adjustment to retained earnings.

ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment.* This ASU simplifies the accounting for goodwill impairment for all entities by requiring impairment charges to be based on the first step in today's two-step impairment test. Under the new guidance, if a reporting unit's carrying amount exceeds its fair value, an entity will record an impairment charge based on that difference. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit. The standard eliminates today's requirement to calculate a goodwill impairment charge using Step 2, which requires an entity to calculate any impairment charge by comparing the implied fair value of goodwill with its carrying amount. ASU 2017-04 will be effective for the Company on January 1, 2020, with earlier adoption permitted and is not expected to have a significant impact on its financial statements.

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

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

ASU 2019-12, *Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes.* The guidance issued in this update simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in ASC 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition for deferred tax liabilities for outside basis differences. ASU 2019-12 also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. ASU 2019-12 will be effective for the Company on January 1, 2021, with early adoption permitted, and is not expected to have a significant impact on our financial statements.

Note 3. Restrictions on Cash and Due From Banks

At December 31, 2019 and 2018, the Company had a reserve requirement of $63,739 and $35,952, respectively, with the Federal Reserve Bank.

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Note 4. 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:

	Years Ended December 31,		
	2019	2018	2017
Cash transactions:			
Interest expense paid	$ 144,775	$ 79,509	$ 41,802
Income taxes paid	$ 40,504	$ 25,109	$ 34,161
Noncash transactions:			
Transfers of loans to other real estate owned	$ 544	$ 410	$ 1,201
Loans to facilitate the sale of other real estate owned	$ 517	$ —	$ —
Securities purchased, not yet settled	$ 9,975	$ —	$ —
Transfers of loans held for investment to loans held for sale	$ 83,526	$ —	$ —
Right-of-use assets obtained in exchange for lease liabilities	$ 35,553	$ —	$ —
Transfer of bank premises to other real estate	$ 7,896	$ —	$ 2,716
Transfer of repurchase agreements to deposits	$ 8,475	$ —	$ 8,845

Supplemental schedule of noncash investing activities from branch sales is as follows:

	Years ended December 31,		
	2019	2018	2017
Noncash assets transferred:			
Loans, including accrued interest	$ 796	$ —	$ 106,008
Premises and equipment	94	—	7,473
Core deposit intangible assets, net	—	—	3,011
Other assets	2	—	74
Total assets	$ 892	$ —	$ 116,566
Noncash liabilities transferred:			
Deposits, including interest	$ 27,721	$ —	$ 178,279
Other liabilities	27	—	129
Total liabilities	$ 27,748	$ —	$ 178,408
Cash and cash equivalents transferred in branch sales	$ 206	$ —	$ 1,712
Deposit premium received	$ 1,386	$ —	$ 7,107
Cash paid to buyer, net of deposit premium	$ 24,957	$ —	$ 56,975

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Supplemental schedule of noncash investing activities from sale of trust business during 2019 is as follows:

	Year ended December 31, 2019
Noncash assets transferred:	
Customer relationship intangible assets, net	$ 2,939
Other assets	11
Total assets	$ 2,950
Net cash received from sale	$ 4,269

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

	Years ended December 31,		
	2019	2018	2017
Noncash assets acquired			
Certificates of deposit held in other banks	$ 262	$ —	$ 11,025
Securities available for sale	561,052	24,721	336,540
Restricted stock	27,794	3,357	11,110
Loans	2,789,868	651,769	1,384,210
Premises and equipment	65,786	4,863	63,166
Other real estate owned	1,829	—	11,212
Goodwill	272,224	100,339	363,139
Other intangible assets	71,518	7,537	36,717
Bank owned life insurance	80,837	8,181	53,213
Other assets	31,987	6,385	25,379
Total assets acquired	$ 3,903,157	$ 807,152	$ 2,295,711
Noncash liabilities assumed:			
Deposits	$ 3,108,810	$ 593,078	$ 1,825,181
Repurchase agreements	8,475	—	18,003
FHLB advances	142,653	60,000	—
Other borrowings	40,000	—	—
Junior subordinated debentures	25,774	—	9,359
Other liabilities	15,477	10,518	7,697
Total liabilities assumed	$ 3,341,189	$ 663,596	$ 1,860,240
Cash and cash equivalents acquired from acquisitions	$ 39,913	$ 44,723	$ 148,444
Cash paid to shareholders of acquired banks	$ 9	$ 31,016	$ 17,773
Fair value of common stock issued to shareholders of acquired banks	$ 601,872	$ 157,263	$ 566,142

(Dollars in thousands, except for share and per share information)

Note 5. Securities Available for Sale

Securities available for sale have been classified in the consolidated balance sheets according to management's intent. The amortized cost of securities and their approximate fair values at December 31, 2019 and 2018, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
December 31, 2019				
U.S. treasuries	$ 48,060	$ 743	$ (7)	$ 48,796
Government agency securities	178,953	926	(583)	179,296
Obligations of state and municipal subdivisions	332,715	11,150	(6)	343,859
Corporate bonds	7,011	207	—	7,218
Mortgage-backed securities guaranteed by FHLMC, FNMA and GNMA	493,915	11,981	(329)	505,567
Other securities	1,200	—	—	1,200
	$ 1,061,854	$ 25,007	$ (925)	$ 1,085,936
December 31, 2018				
U.S. treasuries	$ 30,110	$ —	$ (467)	$ 29,643
Government agency securities	152,969	80	(2,819)	150,230
Obligations of state and municipal subdivisions	187,366	727	(3,086)	185,007
Mortgage-backed securities guaranteed by FHLMC, FNMA and GNMA	326,168	128	(5,826)	320,470
	$ 696,613	$ 935	$ (12,198)	$ 685,350

Securities with a carrying amount of approximately $571,843 and $219,927 at December 31, 2019 and 2018, respectively, were pledged primarily to secure deposits.

Proceeds from sale of securities available for sale and gross gains and gross losses for the years ended December 31, 2019, 2018 and 2017 were as follows:

	Years Ended December 31,		
	2019	2018	2017
Proceeds from sale	$ 192,417	$ 102,647	$ 31,367
Gross gains	$ 306	$ 268	$ 176
Gross losses	$ 31	$ 849	$ 52

(Dollars in thousands, except for share and per share information)

The amortized cost and estimated fair value of securities available for sale at December 31, 2019, by contractual maturity, are shown below. Maturities of mortgage-backed securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2019	
	Securities Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 34,050	$ 34,088
Due from one year to five years	181,742	184,903
Due from five to ten years	162,396	166,337
Thereafter	189,751	195,041
	567,939	580,369
Mortgage-backed securities guaranteed by FHLMC, FNMA and GNMA	493,915	505,567
	$ 1,061,854	$ 1,085,936

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The number of securities, unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2019 and 2018, are summarized as follows:

	Less Than 12 Months			Greater Than 12 Months			Total	
Description of Securities	Number of Securities	Estimated Fair Value	Unrealized Losses	Number of Securities	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Securities Available for Sale								
December 31, 2019								
U.S. treasuries	—	$ —	$ —	2	$ 8,097	$ (7)	$ 8,097	$ (7)
Government agency securities	13	52,790	(495)	6	15,911	(88)	68,701	(583)
Obligations of state and municipal subdivisions	5	2,793	(1)	1	423	(5)	3,216	(6)
Mortgage-backed securities guaranteed by FHLMC, FNMA and GNMA	13	46,512	(317)	1	1,193	(12)	47,705	(329)
	31	$ 102,095	$ (813)	10	$ 25,624	$ (112)	$ 127,719	$ (925)
December 31, 2018								
U.S. treasuries	1	$ 9,749	$ (6)	5	$ 19,894	$ (461)	$ 29,643	$ (467)
Government agency securities	4	6,068	(32)	43	126,745	(2,787)	132,813	(2,819)
Obligations of state and municipal subdivisions	88	32,493	(326)	218	105,817	(2,760)	138,310	(3,086)
Mortgage-backed securities guaranteed by FHLMC, FNMA and GNMA	56	112,114	(1,031)	101	186,713	(4,795)	298,827	(5,826)
	149	$ 160,424	$ (1,395)	367	$ 439,169	$ (10,803)	$ 599,593	$ (12,198)

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.

(Dollars in thousands, except for share and per share information)

Note 6. Loans, Net and Allowance for Loan Losses

Loans, net at December 31, 2019 and 2018, consisted of the following:

	December 31, 2019	December 31, 2018
Commercial	$ 2,482,356	$ 1,361,104
Real estate:		
Commercial	5,872,653	4,141,356
Commercial construction, land and land development	1,236,623	905,421
Residential	1,515,227	1,049,521
Single-family interim construction	378,120	331,748
Agricultural	97,767	66,638
Consumer	32,603	31,759
Other	621	253
	11,615,970	7,887,800
Deferred loan fees	(1,695)	(3,303)
Allowance for loan losses	(51,461)	(44,802)
	$ 11,562,814	$ 7,839,695

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 nonperforming and potential problem loans.

Commercial loans are underwritten after evaluating and understanding the borrower’s ability to operate profitably and prudently expand its business. The Company’s management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. These cash flows, however, may not be as expected and the value of collateral securing the loans may fluctuate. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short term loans may be made on an unsecured basis. Additionally, our commercial loan portfolio includes loans made to customers in the energy industry, which is a complex, technical and cyclical industry. Experienced bankers with specialized energy lending experience originate our energy loans. Companies in this industry produce, extract, develop, exploit and explore for oil and natural gas. Loans are primarily collateralized with proven producing oil and gas reserves based on a technical evaluation of these reserves. At December 31, 2019 and 2018, there were approximately $189,781 and $135,034 of energy-related loans outstanding, respectively. The Company has a mortgage warehouse purchase program providing mortgage inventory financing for residential mortgage loans originated by mortgage banker clients across a broad geographic scale. Proceeds from the sale of mortgages is the primary source of repayment for warehouse inventory financing via approved investor takeout commitments. These loans typically have a very short duration ranging between a few days to 15 days. In some cases, loans to larger mortgage originators may be financed for up to 60 days. These loans are reported as commercial loans since the loans are secured by notes receivable, not real estate. As of December 31, 2019 and 2018, mortgage warehouse purchase loans outstanding totaled $687,317 and $170,290, respectively.

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

occupied property versus non owner-occupied property. At December 31, 2019, the portfolio consisted of approximately 30% of 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 borrowers which minimizes risk in the residential portfolio. In addition, management evaluates trends in past dues and current economic factors on a regular basis.

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

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

Consumer loans represent less than 1% of the outstanding total loan portfolio. Collateral consists primarily of automobiles and other personal assets. Credit score analysis is used to supplement the underwriting process.

Most of the Company’s lending activity occurs within the State of Texas, primarily in the north, central and southeast Texas regions and the State of Colorado, specifically along the Front Range area. As of December 31, 2019, loans in the Colorado region represented about 27% of the total portfolio. A large percentage of the Company’s portfolio consists of commercial and residential real estate loans. As of December 31, 2019 and 2018, there were no concentrations of loans related to a single industry in excess of 10% of total loans.

The allowance for loan losses is an amount that management believes will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio.

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

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

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

Loans requiring an allocated loan loss provision are generally identified at the servicing officer level based on review of weekly past due reports and/or the loan officer’s communication with borrowers. In addition, past due loans are discussed at weekly officer loan committee meetings to determine if classification is warranted. The Company’s credit department has implemented an internal risk based loan review process to identity potential internally classified loans that supplements the annual independent external loan review. External loan reviews cover a wide range of the loan portfolio, including large lending relationships and recently acquired loan portfolios. As such, the external loan review generally covers loans exceeding $3,500. These reviews include analysis of borrower’s financial condition, payment histories and collateral values to determine if a loan should be internally classified. Generally, once classified, an impaired loan analysis is completed by the credit department to determine if the loan is impaired and the amount of allocated allowance required.

The Texas economy, specifically the Company’s lending area of north, central and southeast Texas area, continued to expand at a moderate pace while the Colorado economy remained flat during the fourth quarter of 2019. The Texas economy, which is the second largest in the nation, and the Colorado economy have exceeded the average U.S. economy in job creation and employment growth. Overall, the forecast is positive with continued moderate growth in the retail and service sectors. The Texas and Colorado economies are expected to continue to grow into 2020 at a slower pace with an improved outlook, though uncertainties, including slowing U.S. and global economies, trade uncertainty and a significant oil-price decline, remain elevated. The risk of loss associated with all segments of the portfolio could increase due to these factors.

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The economy and other risk factors are minimized by the Company's underwriting standards which include the following principles: 1) financial strength of the borrower including strong earnings, high net worth, significant liquidity and acceptable debt to worth ratio, 2) managerial business competence, 3) ability to repay, 4) loan to value, 5) projected cash flow and 6) guarantor financial statements as applicable. The following is a summary of the activity in the allowance for loan losses by loan class for the years ended December 31, 2019, 2018 and 2017:

	Commercial	Commercial Real Estate, Construction, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Unallocated	Total
Year ended December 31, 2019									
Balance at beginning of year	$ 11,793	$ 27,795	$ 3,320	$ 1,402	$ 241	$ 186	$ 3	$ 62	$ 44,802
Provision for loan losses	8,670	5,289	498	207	91	71	356	(377)	14,805
Charge-offs	(7,709)	(3)	(140)	(3)	—	(79)	(430)	—	(8,364)
Recoveries	90	4	—	—	—	48	76	—	218
Balance at end of year	$ 12,844	$ 33,085	$ 3,678	$ 1,606	$ 332	$ 226	$ 5	$ (315)	$ 51,461
Year ended December 31, 2018									
Balance at beginning of year	$ 10,599	$ 23,301	$ 3,447	$ 1,583	$ 250	$ 205	$ (32)	$ 49	$ 39,402
Provision for loan losses	4,973	4,909	(124)	(181)	(9)	69	210	13	9,860
Charge-offs	(3,863)	(435)	(6)	—	—	(93)	(228)	—	(4,625)
Recoveries	84	20	3	—	—	5	53	—	165
Balance at end of year	$ 11,793	$ 27,795	$ 3,320	$ 1,402	$ 241	$ 186	$ 3	$ 62	$ 44,802
Year ended December 31, 2017									
Balance at beginning of year	$ 8,593	$ 18,399	$ 2,760	$ 1,301	$ 207	$ 242	$ 29	$ 60	$ 31,591
Provision for loan losses	2,059	4,886	683	416	43	99	90	(11)	8,265
Charge-offs	(81)	(15)	—	(134)	—	(182)	(190)	—	(602)
Recoveries	28	31	4	—	—	46	39	—	148
Balance at end of year	$ 10,599	$ 23,301	$ 3,447	$ 1,583	$ 250	$ 205	$ (32)	$ 49	$ 39,402

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The following table details the amount of the allowance for loan losses and recorded investment in loans by class as of December 31, 2019 and 2018:

	Commercial	Commercial Real Estate, Construction, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Unallocated	Total
December 31, 2019									
Allowance for losses:									
Individually evaluated for impairment	$ 357	$ —	$ —	$ —	$ —	$ 1	$ —	$ —	$ 358
Collectively evaluated for impairment	12,108	32,615	3,678	1,606	332	225	5	(315)	50,254
Loans acquired with deteriorated credit quality	379	470	—	—	—	—	—	—	849
Ending balance	$ 12,844	$ 33,085	$ 3,678	$ 1,606	$ 332	$ 226	$ 5	$ (315)	$ 51,461
Loans:									
Individually evaluated for impairment	$ 3,130	$ 6,813	$ 2,008	$ —	$ 114	$ 22	$ —	$ —	$ 12,087
Collectively evaluated for impairment	2,416,569	6,883,639	1,505,896	378,120	93,837	32,556	621	—	11,311,238
Acquired with deteriorated credit quality	62,657	218,824	7,323	—	3,816	25	—	—	292,645
Ending balance	$ 2,482,356	$ 7,109,276	$1,515,227	$ 378,120	$ 97,767	$ 32,603	$ 621	$ —	$11,615,970
December 31, 2018									
Allowance for losses:									
Individually evaluated for impairment	$ 2,633	$ —	$ 92	$ —	$ —	$ 2	$ —	$ —	$ 2,727
Collectively evaluated for impairment	9,115	27,795	3,228	1,402	241	184	3	62	42,030
Loans acquired with deteriorated credit quality	45	—	—	—	—	—	—	—	45
Ending balance	$ 11,793	$ 27,795	$ 3,320	$ 1,402	$ 241	$ 186	$ 3	$ 62	$ 44,802
Loans:									
Individually evaluated for impairment	$ 7,288	$ 1,734	$ 1,943	$ 3,578	$ —	$ 32	$ —	$ —	$ 14,575
Collectively evaluated for impairment	1,335,194	4,955,178	1,044,265	328,170	66,032	31,699	253	—	7,760,791
Acquired with deteriorated credit quality	18,622	89,865	3,313	—	606	28	—	—	112,434
Ending balance	$ 1,361,104	$ 5,046,777	$1,049,521	$ 331,748	$ 66,638	$ 31,759	$ 253	$ —	$ 7,887,800

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Nonperforming loans by loan class (excluding loans acquired with deteriorated credit quality) at December 31, 2019 and 2018, are summarized as follows:

	Commercial	Commercial Real Estate, Construction, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Total
December 31, 2019								
Nonaccrual loans	$ 3,130	$ 6,461	$ 1,820	$ —	$ 114	$ 22	$ —	$ 11,547
Loans past due 90 days and still accruing	14,529	—	—	—	—	—	—	14,529
Troubled debt restructurings (not included in nonaccrual or loans past due and still accruing)	—	352	188	—	—	—	—	540
	$ 17,659	$ 6,813	$ 2,008	$ —	$ 114	$ 22	$ —	$ 26,616
December 31, 2018								
Nonaccrual loans	$ 5,224	$ 1,329	$ 1,775	$ 3,578	$ —	$ 32	$ —	$ 11,938
Loans past due 90 days and still accruing	—	—	—	—	—	5	—	5
Troubled debt restructurings (not included in nonaccrual or loans past due and still accruing)	114	405	168	—	—	—	—	687
	$ 5,338	$ 1,734	$ 1,943	$ 3,578	$ —	$ 37	$ —	$ 12,630

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 loan's effective interest rate; 2) the loan's observable market price; or 3) the fair value of collateral if the loan is collateral dependent. Substantially all of the Company’s impaired loans are measured at the fair value of the collateral. In limited cases, the Company may use other methods to determine the level of impairment of a loan if such loan is not collateral dependent.

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

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Impaired loans by loan class (excluding loans acquired with deteriorated credit quality) at December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017, are summarized as follows:

	Commercial	Commercial Real Estate, Construction, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Total
December 31, 2019								
Recorded investment in impaired loans:								
Impaired loans with an allowance for loan losses	$ 1,580	$ —	$ —	$ —	$ —	$ 1	$ —	$ 1,581
Impaired loans with no allowance for loan losses	1,550	6,813	2,008	—	114	21	—	10,506
Total	$ 3,130	$ 6,813	$ 2,008	$ —	$ 114	$ 22	$ —	$ 12,087
Unpaid principal balance of impaired loans	$ 8,580	$ 6,967	$ 2,197	$ —	$ 123	$ 24	$ —	$ 17,891
Allowance for loan losses on impaired loans	$ 357	$ —	$ —	$ —	$ —	$ 1	$ —	$ 358
December 31, 2018								
Recorded investment in impaired loans:								
Impaired loans with an allowance for loan losses	$ 6,416	$ —	$ 134	$ —	$ —	$ 1	$ —	$ 6,551
Impaired loans with no allowance for loan losses	872	1,734	1,809	3,578	—	31	—	8,024
Total	$ 7,288	$ 1,734	$ 1,943	$ 3,578	$ —	$ 32	$ —	$ 14,575
Unpaid principal balance of impaired loans	$ 9,822	$ 1,860	$ 2,056	$ 3,579	$ —	$ 38	$ —	$ 17,355
Allowance for loan losses on impaired loans	$ 2,633	$ —	$ 92	$ —	$ —	$ 2	$ —	$ 2,727
For the year ended December 31, 2019								
Average recorded investment in impaired loans	$ 6,266	$ 3,979	$ 1,746	$ 716	$ 57	$ 30	$ —	$ 12,794
Interest income recognized on impaired loans	$ 30	$ 39	$ 39	$ 119	$ —	$ 6	$ —	$ 233
For the year ended December 31, 2018								
Average recorded investment in impaired loans	$ 8,919	$ 2,667	$ 2,033	$ 716	$ —	$ 46	$ —	$ 14,381
Interest income recognized on impaired loans	$ 119	$ 65	$ 81	$ 1	$ —	$ 2	$ —	$ 268
For the year ended December 31, 2017								
Average recorded investment in impaired loans	$ 8,524	$ 3,690	$ 2,431	$ 177	$ —	$ 218	$ —	$ 15,040
Interest income recognized on impaired loans	$ 8	$ 428	$ 58	$ —	$ —	$ 5	$ —	$ 499

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

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

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

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A "troubled debt restructured" loan is identified as impaired and measured for credit impairment as of each reporting period in accordance with the guidance in ASC 310-10-35. Modifications primarily relate to extending the amortization periods of the loans and interest rate concessions. The majority of these loans were identified as impaired prior to restructuring; therefore, the modifications did not materially impact the Company's determination of the allowance for loan losses. The recorded investment in troubled debt restructurings, including those on nonaccrual, was $1,208 and $1,925 as of December 31, 2019 and 2018, respectively.

Following is a summary of loans modified under troubled debt restructurings during the years ended December 31, 2019 and 2018:

	Commercial	Commercial Real Estate, Construction, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Total
Troubled debt restructurings during the year ended December 31, 2019								
Number of contracts	—	—	1	—	—	—	—	1
Pre-restructuring outstanding recorded investment	$ —	$ —	$ 29	$ —	$ —	$ —	$ —	$ 29
Post-restructuring outstanding recorded investment	$ —	$ —	$ 29	$ —	$ —	$ —	$ —	$ 29
Troubled debt restructurings during the year ended December 31, 2018								
Number of contracts	1	—	—	—	—	—	—	1
Pre-restructuring outstanding recorded investment	$ 114	$ —	$ —	$ —	$ —	$ —	$ —	$ 114
Post-restructuring outstanding recorded investment	$ 114	$ —	$ —	$ —	$ —	$ —	$ —	$ 114

At December 31, 2019 and 2018, there were no loans modified under troubled debt restructurings during the previous twelve month period that subsequently defaulted during the years ended December 31, 2019 and 2018.

At December 31, 2019 and 2018, the Company had no commitments to lend additional funds to any borrowers with loans whose terms have been modified under troubled debt restructurings.

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Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. The following table presents information regarding the aging of past due loans by loan class as of December 31, 2019 and 2018:

	Loans 30-89 Days Past Due	Loans 90 Days or More Past Due	Total Past Due Loans	Current Loans	Total Loans
December 31, 2019					
Commercial	$ 4,512	$ 17,656	$ 22,168	$ 2,397,531	$ 2,419,699
Commercial real estate, construction, land and land development	9,153	2,905	12,058	6,878,394	6,890,452
Residential real estate	3,242	642	3,884	1,504,020	1,507,904
Single-family interim construction	2,836	—	2,836	375,284	378,120
Agricultural	22	114	136	93,815	93,951
Consumer	167	22	189	32,389	32,578
Other	—	—	—	621	621
	19,932	21,339	41,271	11,282,054	11,323,325
Acquired with deteriorated credit quality	2,556	6,766	9,322	283,323	292,645
	$ 22,488	$ 28,105	$ 50,593	$ 11,565,377	$ 11,615,970
December 31, 2018					
Commercial	$ 15,426	$ 4,366	$ 19,792	$ 1,322,690	$ 1,342,482
Commercial real estate, construction, land and land development	3,435	—	3,435	4,953,477	4,956,912
Residential real estate	4,199	1,035	5,234	1,040,974	1,046,208
Single-family interim construction	774	3,578	4,352	327,396	331,748
Agricultural	—	—	—	66,032	66,032
Consumer	135	35	170	31,561	31,731
Other	—	—	—	253	253
	23,969	9,014	32,983	7,742,383	7,775,366
Acquired with deteriorated credit quality	2,939	957	3,896	108,538	112,434
	$ 26,908	$ 9,971	$ 36,879	$ 7,850,921	$ 7,887,800

The Company’s internal classified report is segregated into the following categories: 1) Pass/Watch, 2) Special Mention, 3) Substandard and 4) Doubtful. The loans placed in the Pass/Watch category reflect the Company’s opinion that the loans reflect potential weakness that requires monitoring on a more frequent basis. The loans in the Special Mention category reflect the Company’s opinion that the credit contains weaknesses which represent a greater degree of risk and warrant extra attention. These loans are reviewed monthly by officers and senior management to determine if a change in category is warranted. The loans placed in the Substandard category are considered to be potentially inadequately protected by the current debt service capacity of the borrower and/or the pledged collateral. These credits, even if apparently protected by collateral value, have shown weakness related to adverse financial, managerial, economic, market or political conditions which may jeopardize repayment of principal and interest. There is a 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:

(Dollars in thousands, except for share and per share information)

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.

A summary of loans by credit quality indicator by class as of December 31, 2019 and 2018, is as follows:

	Pass	Pass/ Watch	Special Mention	Substandard	Doubtful	Total
December 31, 2019						
Commercial	$ 2,332,611	$ 71,642	$ 37,739	$ 40,364	$ —	$ 2,482,356
Commercial real estate, construction, land and land development	6,814,780	184,720	46,889	62,887	—	7,109,276
Residential real estate	1,501,019	4,850	994	8,364	—	1,515,227
Single-family interim construction	376,887	1,233	—	—	—	378,120
Agricultural	88,044	5,287	1,864	2,572	—	97,767
Consumer	32,459	33	2	109	—	32,603
Other	621	—	—	—	—	621
	$ 11,146,421	$ 267,765	$ 87,488	$ 114,296	$ —	$ 11,615,970
December 31, 2018						
Commercial	$ 1,279,024	$ 18,378	$ 30,783	$ 32,919	$ —	$ 1,361,104
Commercial real estate, construction, land and land development	4,895,217	81,693	40,601	29,266	—	5,046,777
Residential real estate	1,038,283	3,617	707	6,914	—	1,049,521
Single-family interim construction	327,939	—	231	3,578	—	331,748
Agricultural	61,055	2,918	2,093	572	—	66,638
Consumer	31,559	67	—	133	—	31,759
Other	253	—	—	—	—	253
	$ 7,633,330	$ 106,673	$ 74,415	$ 73,382	$ —	$ 7,887,800

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

The Company has included PCI loans in the above grading tables. The following provides additional detail on the grades applied to those loans at December 31, 2019 and 2018:

	Pass	Pass/ Watch	Special Mention	Substandard	Doubtful	Total
December 31, 2019	$ 232,095	$ 21,284	$ 4,502	$ 34,764	$ —	$ 292,645
December 31, 2018	40,940	32,427	14,817	24,250	—	112,434

PCI loans may remain on accrual status to the extent the company can reasonably estimate the amount and timing of expected future cash flows. At December 31, 2019 and 2018, nonaccrual PCI loans were $10,850 and $6,996, respectively.

(Dollars in thousands, except for share and per share information)

Accretion on PCI loans is based on estimated future cash flows, regardless of contractual maturity. The following table summarizes the outstanding balance and related carrying amount of purchased credit impaired loans by acquired bank as of the acquisition date for the acquisitions occurring in 2019 and 2018.

	Acquisition Date	
	January 1, 2019	June 1, 2018
	Guaranty Bancorp	Integrity Bancshares, Inc.
Outstanding balance	$ 341,645	$ 57,317
Nonaccretable difference	(16,622)	(9,969)
Accretable yield	(13,299)	(128)
Carrying amount	$ 311,724	$ 47,220

The carrying amount of all acquired PCI loans included in the consolidated balance sheet and the related outstanding balance at December 31, 2019 and 2018, were as follows:

	December 31,	
	2019	2018
Outstanding balance	$ 326,077	$ 129,333
Carrying amount	292,645	112,434

There was an allocation of $849 and $45 established in the allowance for loan losses relating to PCI loans at December 31, 2019 and 2018, respectively.

The changes in accretable yield during the years ended December 31, 2019 and 2018 in regard to loans transferred at acquisition for which it was probable that all contractually required payments would not be collected are presented in the table below.

	2019	2018
Balance at January 1	$ 1,436	$ 1,546
Additions	13,299	128
Accretion	(5,830)	(1,557)
Transfers from nonaccretable	—	1,319
Balance at December 31	$ 8,905	$ 1,436

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Note 7. Premises and Equipment, Net

Premises and equipment, net at December 31, 2019 and 2018 consisted of the following:

	December 31,	
	2019	2018
Land	$ 58,643	$ 43,746
Building	184,589	93,793
Furniture, fixtures and equipment	39,855	34,602
Aircraft	8,947	8,947
Leasehold and tenant improvements	5,466	4,638
Construction in progress	834	32,399
	298,334	218,125
Less accumulated depreciation	(55,460)	(50,259)
	$ 242,874	$ 167,866

Depreciation expense amounted to $11,783, $8,391 and $8,196 for the years ended December 31, 2019, 2018 and 2017, respectively.

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Note 8. Goodwill and Other Intangible Assets, Net

At December 31, 2019 and 2018, goodwill totaled $994,021 and $721,797, respectively. The Company recorded goodwill of $272,224 relating to the Guaranty Bancorp acquisition in 2019 (see Note 22, Business Combinations).

The following is a summary of other intangible assets activity:

	December 31,	
	2019	2018
Core deposit intangible:		
Balance at beginning of the year	$ 63,891	$ 56,354
Additions: Guaranty and Integrity acquisitions	61,993	7,537
Balance at end of the year	125,884	63,891
Less accumulated amortization	(31,057)	(18,849)
Total core deposit intangible, net	94,827	45,042
Customer relationship intangible:		
Balance at beginning of the year	—	—
Additions: Guaranty acquisition	9,525	—
Deletions: sale of trust business	(3,118)	—
Balance at end of the year	6,407	—
Less accumulated amortization	(493)	—
Total customer relationship intangible, net	5,914	—
Total other intangible assets, net	$ 100,741	$ 45,042

Amortization expense related to intangible assets amounted to $12,880, $5,739 and $4,639 for the years ended December 31, 2019, 2018 and 2017, respectively. The remaining weighted average amortization period for intangible assets is 8.4 years as of December 31, 2019.

The future amortization expense related to other intangible assets remaining at December 31, 2019 is as follows:

First year	$ 12,671
Second year	12,580
Third year	12,492
Fourth year	12,439
Fifth year	11,752
Thereafter	38,807
	$ 100,741

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Note 9. Deposits

Deposits at December 31, 2019 and 2018 consisted of the following:

	December 31,			
	2019		2018	
	Amount	Percent	Amount	Percent
Noninterest-bearing demand accounts	$ 3,240,185	27.1%	$ 2,145,930	27.7%
Interest-bearing checking accounts	4,198,772	35.2	2,892,318	37.4
Savings accounts	552,585	4.6	293,108	3.8
Limited access money market accounts	2,119,878	17.8	1,286,135	16.6
Certificates of deposit and individual retirement accounts (IRA), less than $250,000	892,639	7.5	559,016	7.2
Certificates of deposit and individual retirement accounts (IRA), $250,000 and greater	937,277	7.8	561,287	7.3
	$ 11,941,336	100.0%	$ 7,737,794	100.0%

At December 31, 2019, the scheduled maturities of certificates of deposit, including IRAs, were as follows:

First year	$ 1,531,507
Second year	245,339
Third year	32,216
Fourth year	15,373
Fifth year	5,481
Thereafter	—
	$ 1,829,916

Brokered deposits at December 31, 2019 and 2018 totaled $894,131 and $356,282, respectively.

Note 10. Federal Home Loan Bank Advances

At December 31, 2019, the Company has advances from the FHLB of Dallas under note payable arrangements with maturities which range from January 7, 2020 to July 6, 2021. Interest payments on these notes are made monthly. The weighted average interest rate of all notes was 2.17% at both December 31, 2019 and 2018. The balances outstanding on these advances were $325,000 and $290,000 at December 31, 2019 and 2018, respectively.

Contractual maturities of FHLB advances at December 31, 2019 were as follows:

First year	$ 300,000
Second year	25,000
Third year	—
Fourth year	—
Fifth year	—
Thereafter	—
	$ 325,000

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The advances are secured by $26,901 of FHLB stock owned by the Company and a blanket lien on certain loans with an aggregate available carrying value of $4,454,852 at December 31, 2019. The Company had remaining credit available under the FHLB advance program of $3,664,617 at December 31, 2019.

At December 31, 2019, the Company had $1,057,129 in undisbursed advance commitments (letters of credit) with the FHLB. As of December 31, 2019, these commitments mature on various dates from January 2020 through November 2021. The FHLB letters of credit were obtained in lieu of pledging securities to secure public fund deposits that are over the FDIC insurance limit. At December 31, 2019, there were no disbursements against the advance commitments.

Note 11. Other Borrowings

Other borrowings at December 31, 2019 and 2018 consisted of the following:

	December 31,	
	2019	2018
Unsecured fixed rate subordinated debentures in the amount of $110,000. The balance of borrowings at December 31, 2019 and 2018 is net of discount and origination costs of $1,628 and $1,986, respectively. Interest payments of 5.875% are made semiannually on February 1 and August 1. The maturity date is August 1, 2024. The notes may not be redeemed prior to maturity and meet the criteria to be recognized as Tier 2 capital for regulatory purposes. [1][2]	$ 108,372	$ 108,014
Unsecured fixed-to-floating subordinated debentures in the amount of $30,000. The balance of borrowings at December 31, 2019 and 2018 is net of origination costs of $621 and $698, respectively. Interest payments initially of 5.00% fixed rate are made semiannually on June 30 and December 31 through December 31, 2022. Thereafter, floating rate payments of 3 month LIBOR plus 2.83% are made quarterly in arrears on March 31, June 30, September 30, and December 31 through March 31, 2028. The maturity date is December 31, 2027 with an optional redemption at December 31, 2022. The notes meet the criteria to be recognized as Tier 2 capital for regulatory purposes. [2]	29,379	29,302
Unsecured fixed-to-floating subordinated debentures in the original amount of $40,000. Interest payments initially of 5.75% are made semiannually on January 20 and July 20 through July 20, 2021. Thereafter, floating rate payments of 3 month LIBOR plus 4.73% are made quarterly in arrears on October 20, January 20, April 20 and July 20 through October 20, 2026. The maturity date is July 20, 2026 with an optional redemption at July 20, 2021. The notes meet the criteria to be recognized as Tier 2 capital for regulatory purposes. [2][3]	40,000	—
Unsecured revolving line of credit with an unrelated commercial bank in the amount of $100,000. The line bears interest at LIBOR plus 1.75% and matures January 17, 2020. The Company is required to meet certain financial covenants on a quarterly basis, which includes certain restrictions on cash at IBG and meeting minimum capital ratios. [4]	24,500	—
	$ 202,251	$ 137,316

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(1) At December 31, 2019 and 2018, other borrowings included amounts owed to related parties of $50.
(2) The permissible portion of qualified subordinated notes decreases 20% per year during the final five years of the term of the notes.
(3) Assumed on January 1, 2019 with the Guaranty acquisition (see Note 22, Business Combinations).
(4) Subsequent to December 31, 2019, the Company renewed the line (see Note 24, Subsequent Events).

The Company has established federal funds lines of credit notes with ten unaffiliated banks totaling $375,000 and $365,000 of borrowing capacity at December 31, 2019 and 2018, respectively. At December 31, 2019, two of the lines totaling $30,000 have stated maturity dates in August and September 2020. The remaining lines have no stated maturity dates and the lenders may terminate the lines at any time without notice. The lines are provided on an unsecured basis and must be repaid the following business day from when the funds are borrowed. There were no borrowings against the lines at December 31, 2019 and 2018.

In addition, the Company maintains a secured line of credit with the Federal Reserve Bank with an availability to borrow approximately $895,110 and $738,919 at December 31, 2019 and 2018, respectively. Approximately $1,196,491 and $978,266

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of commercial loans were pledged as collateral at December 31, 2019 and 2018, respectively. There were no borrowings against this line as of December 31, 2019 and 2018.

The Company also participates in an exchange that provides direct overnight borrowings with other financial institutions. The funds are provided on an unsecured basis. Borrowing availability totaled $484,000 and $204,000 at December 31, 2019 and 2018, respectively. There were no borrowings as of December 31, 2019 and 2018.

Note 12. Junior Subordinated Debentures

The Company has formed or acquired nine statutory business trusts (the Trusts) for the purpose of issuing trust preferred securities. Each of the Trusts have issued capital and common securities and invested the proceeds thereof in an equivalent amount of junior subordinated debentures (the Debentures) issued by the Company. The interest rate payable on, and the payment terms of the Debentures are the same as the distribution rate and payment terms of the respective issues of capital and common securities issued by the Trusts. The Debentures are subordinated and junior in right of payment to all present and future senior indebtedness. The Company has fully and unconditionally guaranteed the obligations of each of the Trusts with respect to the capital and common securities. Except under certain circumstances, the common securities issued to the Company by the trusts possess sole voting rights with respect to matters involving those entities. Under certain circumstances, the Company may, from time to time, defer the debentures' interest payments, which would result in a deferral of distribution payments on the related trust preferred securities and, with certain exceptions, prevent the Company from declaring or paying cash distributions on the Company's common stock and any other future debt ranking equally with or junior to the debentures. The Company may redeem the debentures, which are intended to qualify as Tier 1 capital, at the Company’s option, subject to approval of the Federal Reserve.

As of December 31, 2019 and 2018, the carrying amount of debentures outstanding totaled $53,824 and $27,852, respectively. Information regarding the Debentures as of December 31, 2019 are summarized in the table below:

	Trust Preferred Securities Issued	Debentures Carrying Value	Repricing Frequency	Interest Rate	Interest Rate Index	Maturity Date
IB Trust I	$ 5,155	$ 5,155	Quarterly	5.16%	LIBOR + 3.25%	March 2033
Guaranty Trust III [(1)]	10,310	10,310	Quarterly	5.09	LIBOR + 3.10	July 2033
IB Trust II	3,093	3,093	Quarterly	4.84	LIBOR + 2.85	March 2034
Cenbank Trust III [(1)]	15,464	15,464	Quarterly	4.65	LIBOR + 2.65	April 2034
IB Trust III	3,712	3,712	Quarterly	4.31	LIBOR + 2.40	December 2035
IB Centex Trust I	2,578	2,578	Quarterly	5.16	LIBOR + 3.25	February 2035
Community Group Statutory Trust I	3,609	3,609	Quarterly	3.49	LIBOR + 1.60	June 2037
Northstar Trust II [(2)]	5,155	3,815	Quarterly	3.56	LIBOR + 1.67	June 2037
Northstar Trust III [(2)]	8,248	6,088	Quarterly	3.56	LIBOR + 1.67	September 2037
	$ 57,324	$ 53,824				

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(1) Assumed on January 1, 2019 with the Guaranty acquisition (see Note 22, Business Combinations).
(2) Assumed in 2017 with a recorded fair value discount of $3,500 remaining as of December 31, 2019.

Note 13. Leases

On January 1, 2019, the Company adopted ASU 2016-02, *Leases (Topic 842)*, as further explained in Note 1, Summary of Significant Accounting Policies, and Note 2, Recent Accounting Pronouncements.

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The Company's primary leasing activities relate to certain real estate operating leases entered into in support of the Company's branch operations and back office operations. The Company leases 21 of its 93 branches. The Company's branch locations operated under lease agreements have all been designated as operating leases. Rent expense related to these leases amounted to $7,025, $3,758, and $3,073 for the years ended December 31, 2019, 2018, and 2017, respectively. In addition, the Company leases certain equipment under operating leases. The Company does not have leases designated as finance leases.

As of December 31, 2019 the Company's lease ROU assets and related lease liabilities were $31,813 and $28,978, respectively, and have remaining terms ranging from 1 to 31 years, including extension options that the Company is reasonably certain will be exercised.

The table below summarizes net lease cost:

	Year Ended December 31, 2019
Operating lease cost	$ 7,128
Variable lease cost	1,829
Sublease income	(228)
Net lease cost	$ 8,729

The table below summarizes other information related to operating leases:

	Year Ended December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 6,965
Weighted average remaining lease term - operating leases, in years	7.58
Weighted average discount rate - operating leases	3.35%

The following table outlines lease payment obligations as outlined in the Company's lease agreements for each of the next five years and thereafter in addition to a reconcilement to the Company's current lease liability as of December 31, 2019.

2020	$ 5,964
2021	5,784
2022	4,990
2023	4,213
2024	3,437
Thereafter	8,454
Total lease payments	32,842
Less imputed interest	(3,864)
	$ 28,978

As of December 31, 2019, the Company had not entered into any material leases that have not yet commenced.

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Note 14. Income Taxes

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

Income tax expense for the years ended December 31, 2019, 2018 and 2017 was as follows:

	Years Ended December 31,		
	2019	2018	2017
Current income tax expense	$ 39,426	$ 29,801	$ 28,121
Deferred income tax expense	14,102	2,000	11,526
Deferred income tax (benefit) expense related to remeasurement of deferred taxes	—	(63)	5,528
Income tax expense, as reported	$ 53,528	$ 31,738	$ 45,175

A reconciliation between reported income tax expense and the amounts computed by applying the U.S. federal statutory income tax rate of 21% for the years ended December 31, 2019 and 2018 and 35% for the year ended December 31, 2017 to income before income taxes is presented below:

	Years Ended December 31,		
	2019	2018	2017
Income tax expense computed at the statutory rate	$ 51,715	$ 33,599	$ 42,590
Tax-exempt interest income from municipal securities	(1,781)	(962)	(1,357)
Tax-exempt loan income	(1,174)	(490)	(435)
Bank owned life insurance income	(1,288)	(666)	(962)
Non-deductible acquisition expenses	281	142	491
State taxes, net of federal benefit	3,455	375	241
Non-deductible compensation	2,017	—	—
Net tax expense (benefit) from stock based compensation	21	(646)	(1,323)
Deferred tax adjustment related to reduction in U.S. Federal statutory income tax rate	—	(63)	5,528
Other	282	449	402
	$ 53,528	$ 31,738	$ 45,175

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

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Components of deferred tax assets and liabilities are presented in the table below. Deferred taxes as of December 31, 2019 and 2018 are based on the U.S. statutory federal income tax rate of 21%.

	December 31,	
	2019	2018
Deferred tax assets:		
Allowance for loan losses	$ 11,466	$ 9,496
Lease liabilities under operating leases	6,457	—
NOL and tax credit carryforwards from acquisitions	4,209	4,810
Net unrealized loss on available for sale securities	—	2,365
Acquired loan fair market value adjustments	21,645	6,090
Stock-based compensation	1,218	987
Reserve for bonuses and other accrued expenses	2,773	1,646
Deferred loan fees	378	700
Acquisition costs	416	—
Acquired Securities	2,529	273
Acquired intangibles	1,546	—
Start up costs	230	274
Other real estate owned	362	273
Unearned income	774	160
Deferred compensation	1,101	1,266
Noncompete agreements	663	552
Nonaccrual loans	390	470
Other	407	303
	56,564	29,665
Deferred tax liabilities:		
Premises and equipment	(13,170)	(5,242)
Right-of-use assets under operating leases	(6,233)	—
Net unrealized gain on available for sale securities	(5,367)	—
Intangible assets	(22,447)	(9,547)
Acquired junior subordinated debentures fair value adjustment	(780)	(777)
Restricted stock	(673)	(250)
Prepaids	(281)	(190)
Acquired tax goodwill	(413)	(232)
Other	(257)	(247)
	(49,621)	(16,485)
Net deferred tax asset	$ 6,943	$ 13,180

At December 31, 2019, the Company had federal net operating loss carryforwards of approximately $17,293 which expire in various years from 2022 to 2032, federal tax credit carryovers of approximately $132 which will never expire and state net operating loss carryforwards of approximately $12,155 which expire in various years from 2030 to 2036. Deferred tax assets are recognized for net operating losses because the benefit is more likely than not to be realized. No valuation allowance for deferred tax assets was recorded at December 31, 2019 or 2018 as management believes it is more likely than not that all of the deferred tax assets will be realized.

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The Company does not have any material uncertain tax positions and does not have any interest and penalties recorded in the income statement for the years ended December 31, 2019, 2018 and 2017. The Company files a consolidated income tax return in the US federal tax jurisdiction. The Company is no longer subject to examination by the US federal tax jurisdiction for years prior to 2016.

Note 15. Commitments and Contingencies

Financial Instruments with Off-Balance Sheet Risk

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

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of this instrument. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. At December 31, 2019 and 2018, the approximate amounts of these financial instruments were as follows:

	December 31,	
	2019	2018
Commitments to extend credit	$ 2,337,385	$ 1,761,724
Standby letters of credit	23,406	14,997
	$ 2,360,791	$ 1,776,721

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

Letters of credit are written conditional commitments used by the Company to guarantee the performance of a customer to a third party. The Company's policies generally require that letter of credit arrangements contain security and debt covenants similar to those contained in loan arrangements. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount shown in the table above. If the commitment is funded, the Company would be entitled to seek recovery from the customer. As of December 31, 2019 and 2018, no amounts have been recorded as liabilities for the Company's potential obligations under these guarantees.

Change in Control Agreements

The Company has change-in-control agreements with each of its named executive officers. Under these agreements, each executive could receive, upon the effectiveness of a change-in-control and subsequent termination of employment, as defined in the agreement, a lump sum cash payment in an amount equal to two to three times (depending upon the executive) the sum, of the executive's current annual base salary, plus the executive's prorated target annual bonus for the year of termination. In addition all of the executive's unvested grants of restricted stock will immediately vest and the executive will continue to be a participant in the Independent Bank Survivor Benefit Plan.

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Litigation

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

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

Note 16. Related Party Transactions

In the ordinary course of business, the Company has and expects to continue to have transactions, including loans to its officers, directors and their affiliates. In the opinion of management, such transactions are on the same terms as those prevailing at the time for comparable transactions with unaffiliated persons. Loan activity for officers, directors and their affiliates for the year ended December 31, 2019 is as follows:

Balance at beginning of year	$	58,967
New loans		14,185
Repayments		(31,366)
Changes in affiliated persons		(2,990)
Balance at end of year	$	38,796

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

Note 17. Employee Benefit Plans

The Company has a 401(k) profit sharing plan (Plan) which covers employees over the age of eighteen who have completed ninety days of credited service, as defined by the Plan. The Plan provides for “before tax” employee contributions through salary reduction contributions under Section 401(k) of the Internal Revenue Code. A participant may choose a salary reduction not to exceed the dollar limit set by law each year ($19 in 2019). Contributions by the Company and by participants are immediately fully vested. In July 2018, the Plan was modified to provide for the Company to make 401(k) matching contributions of 100%, but limited to 6% of the participant's eligible salary. Previously, the Plan provided for the Company to make 401(k) matching contributions ranging from 50% to 100% depending upon the employee's years of service, but limited to 6% of the participant's eligible salary. The Plan also provides for the Company to make additional discretionary contributions to the Plan. The Company made contributions of approximately $6,343, $3,280 and $2,070 for the years ended December 31, 2019, 2018 and 2017, respectively.

Note 18. Fair Value Measurements

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

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

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

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

The Company elected the fair value option for certain residential mortgage loans held for sale originated after July 1, 2018 in accordance with ASC 825, *Financial Instruments.* This election allows for a more effective offset of the changes in fair values of the loans and the derivative instruments used to economically hedge them without the burden of complying with the requirements for hedge accounting under ASC 815, *Derivatives and Hedging*. The Company has not elected the fair value option for other residential mortgage loans held for sale primarily because they are not economically hedged using derivative instruments. See below and Note 19, Derivative Financial Instruments, for additional information.

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Assets and Liabilities Measured on a Recurring Basis

The following table represents assets and liabilities reported on the consolidated balance sheets at their fair value on a recurring basis as of December 31, 2019 and 2018 by level within the ASC Topic 820 fair value measurement hierarchy:

		Fair Value Measurements at Reporting Date Using		
	Assets/ Liabilities Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2019				
Assets:				
Investment securities available for sale:				
U.S. treasuries	$ 48,796	$ —	$ 48,796	$ —
Government agency securities	179,296	—	179,296	—
Obligations of state and municipal subdivisions	343,859	—	343,859	—
Corporate bonds	7,218	—	7,218	—
Mortgage-backed securities guaranteed by FHLMC, FNMA and GNMA	505,567	—	505,567	—
Other securities	1,200	—	1,200	—
Loans held for sale, fair value option elected [(1)]	29,204	—	29,204	—
Derivative financial instruments:				
Interest rate lock commitments	847	—	847	—
Forward mortgage-backed securities trades	6	—	6	—
Loan customer counterparty	6,104	—	6,104	—
Liabilities:				
Derivative financial instruments:				
Forward mortgage-backed securities trades	69	—	69	—
Financial institution counterparty	6,566	—	6,566	—
December 31, 2018				
Assets:				
Investment securities available for sale:				
U.S. treasuries	$ 29,643	$ —	$ 29,643	$ —
Government agency securities	150,230	—	150,230	—
Obligations of state and municipal subdivisions	185,007	—	185,007	—
Mortgage-backed securities guaranteed by FHLMC, FNMA and GNMA	320,470	—	320,470	—
Loans held for sale, fair value option elected [(1)]	27,871	—	27,871	—
Derivative financial instruments:				
Interest rate lock commitments	822	—	822	—
Loan customer counterparty	360	—	360	—
Financial institution counterparty	109	—	109	—
Liabilities:				
Derivative financial instruments:				
Forward mortgage-backed securities trades	226	—	226	—
Loan customer counterparty	108	—	108	—
Financial institution counterparty	406	—	406	—

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(1) At December 31, 2019 and 2018, loans held for sale for which the fair value option was elected had an aggregate outstanding principal balance of $28,166 and $26,594, respectively. There were no mortgage loans held for sale under the fair value option that were 90 days or greater past due or on nonaccrual at December 31, 2019.

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

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

Certain mortgage loans held for sale are measured at fair value on a recurring basis due to the Company's election to adopt fair value accounting treatment for those loans originated for which the Company has entered into certain derivative financial instruments as part of its mortgage banking and related risk management activities. These instruments include interest rate lock commitments and mandatory forward commitments to sell these loans to investors known as forward mortgage-backed securities trades. This election allows for a more effective offset of the changes in fair values of the assets and the mortgage related derivative instruments used to economically hedge them without the burden of complying with the requirements for hedge accounting under ASC 815, Derivatives and Hedging. Mortgage loans held for sale, for which the fair value option was elected, which are sold on a servicing released basis, are valued using a market approach by utilizing either: (i) the fair value of securities backed by similar mortgage loans, adjusted for certain factors to approximate the fair value of a whole mortgage loan, including the value attributable to mortgage servicing and credit risk, (ii) current commitments to purchase loans or (iii) recent observable market trades for similar loans, adjusted to credit risk and other individual loan characteristics. As these prices are derived from market observable inputs, the Company classifies these valuations as Level 2 in the fair value disclosures. For mortgage loans held for sale for which the fair value option was elected, the earned current contractual interest payment is recognized in interest income, loan origination costs and fees on fair value option loans are recognized in earnings as incurred and not deferred. The Company has no continuing involvement in any residential mortgage loans sold.

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

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

The Company also enters into certain interest rate derivative positions that are not designated as hedging instruments. The estimated fair value of these commercial loan interest rate swaps are obtained from a pricing service that provides the swaps' unwind value (Level 2 inputs). See Note 19, Derivative Financial Instruments, for more information.

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Assets and Liabilities Measured on a Nonrecurring Basis

In accordance with ASC Topic 820, certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets carried on the consolidated balance sheet by caption and by level in the fair value hierarchy at December 31, 2019 and 2018, for which a nonrecurring change in fair value has been recorded:

		Fair Value Measurements at Reporting Date Using			
	Assets Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Period Ended Total Losses
December 31, 2019					
Assets:					
Impaired loans	$ 2,276	$ —	$ —	$ 2,276	$ 1,806
Other real estate owned	4,618	—	—	4,618	749
December 31, 2018					
Assets:					
Impaired loans	$ 3,824	$ —	$ —	$ 3,824	$ 2,227

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

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

In addition, mortgage loans held for sale not recorded under the fair value option are required to be measured at the lower of cost or fair value. The fair value of these loans is based upon binding quotes or bids from third party investors. As of December 31, 2019 and 2018, all mortgage loans held for sale not recorded under the fair value option were recorded at cost.

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Fair Value of Financial Instruments not Recorded at Fair Value

The carrying amount, estimated fair value and the level of the fair value hierarchy of the Company’s financial instruments that are reported at amortized cost on the Company's consolidated balance sheets were as follows at December 31, 2019 and 2018:

			Fair Value Measurements at Reporting Date Using		
	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2019					
Financial assets:					
Cash and cash equivalents	$ 565,170	$ 565,170	$ 565,170	$ —	$ —
Certificates of deposit held in other banks	5,719	5,951	—	5,951	—
Loans held for sale, at cost	6,441	6,554	—	6,554	—
Loans, net	11,562,814	11,689,672	—	—	11,689,672
FHLB of Dallas stock and other restricted stock	30,052	30,052	—	30,052	—
Accrued interest receivable	35,860	35,860	—	35,860	—
Financial liabilities:					
Deposits	11,941,336	11,958,939	—	11,958,939	—
Accrued interest payable	9,583	9,583	—	9,583	—
FHLB advances	325,000	325,210	—	325,210	—
Other borrowings	202,251	209,050	—	209,050	—
Junior subordinated debentures	53,824	48,879	—	48,879	—
Off-balance sheet assets (liabilities):					
Commitments to extend credit	—	—	—	—	—
Standby letters of credit	—	—	—	—	—
December 31, 2018					
Financial assets:					
Cash and cash equivalents	$ 130,779	$ 130,779	$ 130,779	$ —	$ —
Certificates of deposit held in other banks	1,225	1,224	—	1,224	—
Loans held for sale, at cost	4,856	4,974	—	4,974	—
Loans, net	7,839,695	7,807,823	—	—	7,807,823
FHLB of Dallas stock and other restricted stock	26,870	26,870	—	26,870	—
Accrued interest receivable	24,253	24,253	—	24,253	—
Financial liabilities:					
Deposits	7,737,794	7,750,059	—	7,750,059	—
Accrued interest payable	6,183	6,183	—	6,183	—
FHLB advances	290,000	287,450	—	287,450	—
Other borrowings	137,316	138,450	—	138,450	—
Junior subordinated debentures	27,852	31,370	—	31,370	—
Off-balance sheet assets (liabilities):					
Commitments to extend credit	—	—	—	—	—
Standby letters of credit	—	—	—	—	—

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

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

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

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

Loans: A discounted cash flow model is used to estimate the fair value of the loans. The discounted cash flow approach models the credit losses directly in the projected cash flows, applying various assumptions regarding credit, interest and prepayment risks for the loans based on loan types, payment types and fixed or variable classifications.

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

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

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

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

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

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

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

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Note 19. Derivative Financial Instruments

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

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

During July 2018, the Company began managing the changes in fair value associated with changes in interest rates related to interest rate lock commitments by using forward sold commitments known as forward mortgage-backed securities trades. These instruments are typically entered into at the time the interest rate lock commitment is made.

The Company also offers certain derivatives products, primarily interest rate swaps, directly to qualified commercial banking customers to facilitate their risk management strategies. The interest rate swap derivative positions relate to transactions in which the Company enters into an interest rate swap with a customer, while at the same time entering into an offsetting interest rate swap with another financial institution. An interest rate swap transaction allows customers to effectively convert a variable rate loan to a fixed rate. In connection with each swap, the Company agrees to pay interest to the customer on a notional amount at a variable interest rate and receive interest from the customer on a similar notional amount at a fixed interest rate. At the same time, the Company agrees to pay another financial institution the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount.

The following table provides the outstanding notional balances and fair values of outstanding derivative positions at December 31, 2019 and 2018:

	Outstanding Notional Balance	Asset Derivative Fair Value	Liability Derivative Fair Value
December 31, 2019			
Interest rate lock commitments	$ 28,434	$ 847	$ —
Forward mortgage-backed securities trades	42,500	6	69
Commercial loan interest rate swaps:			
Loan customer counterparty	280,751	6,104	—
Financial institution counterparty	280,751	—	6,566
December 31, 2018			
Interest rate lock commitments	$ 20,306	$ 822	$ —
Forward mortgage-backed securities trades	27,500	—	226
Commercial loan interest rate swaps:			
Loan customer counterparty	25,055	360	108
Financial institution counterparty	25,055	109	406

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The commercial loan customer counterparty weighted average received and paid interest rates for interest rate swaps outstanding were as follows:

	Weighted Average Interest Rate			
	December 31, 2019		December 31, 2018	
	Received	Paid	Received	Paid
Loan customer counterparty	4.23%	3.77%	4.67%	4.46%

The credit exposure related to interest rate swaps is limited to the net favorable value of all swaps by each counterparty, which was approximately $6,104 at December 31, 2019. In some cases collateral may be required from the counterparties involved if the net value of the derivative instruments exceeds a nominal amount. Collateral levels are monitored and adjusted on a regular basis for changes in interest rate swap values. At December 31, 2019, cash of $4,350 and securities of $3,645 were pledged as collateral for these derivatives.

During 2019, the Company entered into a credit risk participation agreement with a financial institution counterparty for interest rate swaps related to loans in which the Company is the lead bank. This agreement provides credit protection to the Company should the borrower fail to perform on its interest rate derivative contract. The agreement has a notional amount of $9,850 at December 31, 2019.

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

Income (loss) for the years ended December 31, 2019 and 2018 was as follows:

	Years Ended December 31,	
	2019	2018
Derivatives not designated as hedging instruments		
Interest rate lock commitments	$ 25	$ 822
Forward mortgage-backed securities trades	163	(226)

Note 20. Stock Awards

The Company grants common stock awards to certain employees of the Company. In connection with the Company's initial public offering in April 2013, the Board of Directors adopted the 2013 Equity Incentive Plan. Under this plan, the Compensation Committee may grant awards to certain employees of the Company 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. All stock awards issued under expired plans prior to 2013 are fully vested. In May 2018, the shareholders of the Company voted to amend the plan to increase the reserved shares of common stock to be awarded by the Company's compensation committee by 1,500,000 for a total of 2,300,000 reserved shares. As of December 31, 2019, there were 1,452,124 shares remaining available for grant for future awards. The shares currently issued under the 2013 Plan are restricted stock awards and will vest evenly over the required employment period, generally ranging from three to five years. As defined in the plan, outstanding awards may immediately vest upon a change-in-control in the Company. Shares granted under the 2013 Equity Incentive Plan were issued at the date of grant and receive dividends.

In connection with the acquisition of Guaranty, as further described in Note 22, Business Combinations, unvested awards of restricted Guaranty common stock granted under Guaranty’s 2015 Long-Term Incentive Plan (Guaranty 2015 RSA), as amended, that were outstanding as of January 1, 2019, the acquisition date, were converted into awards of restricted shares of Independent common stock (Replacement RSA) with the same terms and conditions as were applicable under such Guaranty 2015 RSA, except with respect to any performance-vesting Guaranty 2015 RSA, which became a service-vesting RSA only. The Replacement RSA will vest over the remaining service period, generally in two years, and do not receive dividends.

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The following table summarizes the activity in nonvested shares for the years ended December 31, 2019 and 2018:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested shares, December 31, 2018	252,903	$ 62.81
Acquired awards replaced during the period	70,248	45.77
Granted during the period	138,608	51.14
Vested during the period	(161,032)	54.76
Forfeited during the period	(15,866)	46.95
Nonvested shares, December 31, 2019	284,861	$ 58.63
Nonvested shares, December 31, 2017	242,056	$ 49.17
Granted during the period	130,212	71.85
Vested during the period	(115,520)	44.36
Forfeited during the period	(3,845)	64.47
Nonvested shares, December 31, 2018	252,903	$ 62.81

Compensation expense related to these awards is recorded based on the fair value of the award at the date of grant and totaled $7,808, $6,062 and $4,688 for the years ended December 31, 2019, 2018 and 2017, respectively. Compensation expense is recorded in salaries and employee benefits in the accompanying consolidated statements of income. At December 31, 2019, future compensation expense is estimated to be $11,263 and will be recognized over a remaining weighted average period of 2.40 years.

The fair value of common stock awards that vested during the years ended December 31, 2019, 2018 and 2017 was $8,725, $8,206 and $8,597, respectively. The Company has recorded $21, $(646) and $(1,323) in excess tax expense (benefits) on vested restricted stock to income tax expense for the years ended December 31, 2019, 2018 and 2017, respectively.

There were no modifications of stock agreements during 2019, 2018 and 2017 that resulted in significant additional incremental compensation costs.

At December 31, 2019, the future vesting schedule of the nonvested shares is as follows:

First year	105,390
Second year	96,125
Third year	62,006
Fourth year	19,260
Fifth year	2,080
Total nonvested shares	284,861

Note 21. 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. Tier 2 capital for the Company includes permissible portions of the Company's subordinated notes. The permissible portion of qualified subordinated notes decreases 20% per year during the final five years of the term of the notes.

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

Fully phased in on January 1, 2019, the Basel III Capital Rules require the Company and Bank to maintain (i) a minimum ratio of Common Equity Tier 1 ("CET1") capital to risk-weighted assets of at least 4.5%, plus the 2.5% capital conservation buffer (7.0%), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the 2.5% capital conservation buffer (8.5%), (iii) a minimum ratio of Total capital (that is, Tier 1 plus Tier 2) to risk-weighted assets of at least 8.0%, plus the 2.5% capital conservation buffer (10.5%) and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average quarterly assets.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total, CET1 and Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2019 and 2018, the Company and the Bank meet all capital adequacy requirements to which they are subject, including the capital buffer requirement.

As of December 31, 2019 and 2018, the Bank’s capital ratios exceeded those levels necessary to be categorized as “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as “well capitalized,” the Bank must maintain minimum total risk based, CET1, Tier 1 risk based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events that management believes have changed the Bank’s category.

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The following table presents the actual capital amounts and required ratios of the Company and Bank as of December 31, 2019 and 2018. The minimum required capital amounts presented as of December 31, 2019 include the minimum required capital levels as of January 1, 2019 when the Basel III Capital Rules have been fully phased-in.

	Actual		Minimum for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2019						
Total capital to risk weighted assets:						
Consolidated	$ 1,513,209	11.83%	$ 1,343,114	10.50%	N/A	N/A
Bank	1,548,103	12.11	1,342,595	10.50	$ 1,278,662	10.00%
Tier 1 capital to risk weighted assets:						
Consolidated	1,303,748	10.19	1,087,282	8.50	N/A	N/A
Bank	1,496,642	11.70	1,086,863	8.50	1,022,930	8.00
Common equity tier 1 to risk weighted assets:						
Consolidated	1,248,148	9.76	895,409	7.00	N/A	N/A
Bank	1,496,642	11.70	895,064	7.00	831,130	6.50
Tier 1 capital to average assets:						
Consolidated	1,303,748	9.32	559,758	4.00	N/A	N/A
Bank	1,496,642	10.70	559,584	4.00	699,480	5.00
December 31, 2018						
Total capital to risk weighted assets:						
Consolidated	$ 1,072,156	12.58%	$ 681,686	8.00%	N/A	N/A
Bank	1,054,783	12.39	681,004	8.00	$ 851,255	10.00%
Tier 1 capital to risk weighted assets:						
Consolidated	887,354	10.41	511,264	6.00	N/A	N/A
Bank	1,009,981	11.86	510,753	6.00	681,004	8.00
Common equity tier 1 to risk weighted assets:						
Consolidated	856,754	10.05	383,448	4.50	N/A	N/A
Bank	1,009,981	11.86	383,065	4.50	553,316	6.50
Tier 1 capital to average assets:						
Consolidated	887,354	9.57	370,727	4.00	N/A	N/A
Bank	1,009,981	10.91	370,412	4.00	463,015	5.00

Note 22. Business Combinations

Proposed Merger with Texas Capital Bancshares, Inc.

On December 9, 2019, The Company and TCBI jointly announced the signing of a definitive merger agreement under which, the companies will combine in an all-stock merger of equals transaction. TCBI is headquartered in Dallas, Texas and has full-service locations in Austin, Dallas, Fort Worth, Houston, and San Antonio. Under the terms of the agreement, TCBI will merge into the Company and Texas Capital Bank will merge into Independent Bank. The combined holding company will operate under the Company name, Independent Bank Group, Inc. The name of the combined bank will be Texas Capital Bank and will operate under the name Independent Financial in Colorado and Texas Capital Bank in Texas.

Under the terms of the merger agreement, TCBI shareholders will receive 1.0311 shares of the Company's common stock for each share of TCBI common stock based on a fixed exchange ratio. Following the completion of the merger, the Company estimates that former holders of TCBI common stock will own approximately fifty-five percent (55%) and holders of the Company common stock will own approximately forty-five percent (45%) of the common stock of the combined company. In addition, each share of TCBI series A preferred stock issued and outstanding immediately prior to the effective time of the merger will be converted into the right to receive one (1) share of the Company's series B preferred stock having substantially the same terms as the TCBI series A preferred stock.

The merger agreement was unanimously approved by the boards of directors of both companies and is anticipated to close in mid-2020, although delays may occur. The transaction is subject to receipt of regulatory approvals and satisfaction of other customary closing conditions, including approval of both Independent Bank Group and TCBI shareholders. The Company has incurred expenses related to the proposed merger of approximately $5,835 for the year ended December 31, 2019, of which $813 is included in salaries and benefits and $5,022 is included in acquisition expense in the consolidated statements of income.

Guaranty Bancorp

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

The Company has recognized total goodwill of $272,224 which is calculated as the excess of both the consideration exchanged and liabilities assumed compared to the estimated fair market value of identifiable assets acquired. The goodwill in this acquisition resulted from a combination of expected synergies and expansion into desirable Colorado markets. None of the goodwill recognized is expected to be deductible for income tax purposes.

The Company has incurred expenses related to the acquisition of approximately $33,622 for the year ended December 31, 2019, of which $5,328 is included in salaries and benefits and $28,294 is included in acquisition expense in the consolidated statements of income. The Company incurred expense of $1,560 during the year ended December 31, 2018. In addition, for the year ended December 31, 2019, the Company paid offering costs totaling $804 which were recorded as a reduction to stock issuance proceeds through additional paid in capital.

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(Dollars in thousands, except for share and per share information)

The following table summarizes the final fair values of the assets acquired and liabilities assumed in this transaction as of the closing date and subsequent measurement period adjustments are as follows:

	Initially Recorded at Acquisition Date	Measurement Period Adjustments	Adjusted Values as of December 31, 2019
Assets of acquired bank:			
Cash and cash equivalents	$ 39,913	$ —	$ 39,913
Certificates of deposit held in other banks	262	—	262
Securities available for sale	561,052	—	561,052
Restricted stock	27,794	—	27,794
Loans	2,788,159	1,709	2,789,868
Premises and equipment	65,786	—	65,786
Other real estate owned	1,710	119	1,829
Goodwill	270,583	1,641	272,224
Other intangible assets	71,518	—	71,518
Bank owned life insurance	80,837	—	80,837
Other assets	31,517	470	31,987
Total assets acquired	$ 3,939,131	$ 3,939	$ 3,943,070
Liabilities of acquired bank:			
Deposits	$ 3,108,810	$ —	$ 3,108,810
Repurchase agreements	8,475	—	8,475
FHLB advances	142,653	—	142,653
Other borrowings	40,000	—	40,000
Junior subordinated debentures	25,774	—	25,774
Other liabilities	11,538	3,939	15,477
Total liabilities assumed	$ 3,337,250	$ 3,939	$ 3,341,189
Common stock of 13,109,500 issued at $45.77 per share	$ 600,022	$ —	$ 600,022
Consideration attributable to 70,248 shares of restricted stock replacement awards	$ 1,850	$ —	$ 1,850
Cash paid	$ 9	$ —	$ 9

The nature of the measurement period adjustments noted in the table above was a result of information obtained subsequent to our initial reporting of provisional fair values but prior to finalizing our fair values in accordance with ASC 805, *Business Combinations*. Such information was determined to be a condition in existence as of acquisition date. The income effects resulting from the recorded measurement period adjustments during the period ending December 31, 2019 are immaterial for separate disclosure.

Non-credit impaired loans had a fair value of $2,478,144 at acquisition date and contractual balance of $2,573,355. As of acquisition date, the Company expects that an insignificant amount of the contractual balance of these loans will be uncollectible. The difference of $95,211 will be recognized into interest income as an adjustment to yield over the life of the loans.

Independent Bank Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands, except for share and per share information)

The following table presents pro-forma information as if the Guaranty acquisition was completed as of January 1, 2018. The pro-forma results combine the historical results of Guaranty into the Company's consolidated statement of income including the impact of certain purchase accounting adjustments including loan and investment discount accretion and intangible assets amortization. The pro-forma results have been prepared for comparative purposes only and are not necessarily indicative of the results that would have been obtained had the acquisition actually occurred on January 1, 2018:

	Year Ended December 31,	
	2018	
Interest income	$	585,412
Noninterest income		71,983
Total revenue	$	657,395
Net income (1)	$	203,542
Basic earnings per share	$	4.76
Diluted earnings per share	$	4.74

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(1) Excludes nonrecurring costs attributable to the acquisition including advisory, legal, other professional fees, and, integration costs, incurred by the Company and Guaranty of $1,560 and $2,034, and the related tax effects, respectively.

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

Integrity Bancshares, Inc.

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

The Company recognized total goodwill of $100,339, which is calculated as the excess of both the consideration exchanged and liabilities assumed compared to the fair market value of identifiable assets acquired. The fair value of consideration exchanged related to the Company's stock was calculated based upon the closing market price of the Company's stock as of June 1, 2018. The goodwill in this acquisition resulted from a combination of expected synergies and expansion in the Houston market. None of the goodwill recognized is expected to be deductible for income tax purposes.

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

(Dollars in thousands, except for share and per share information)

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

	Final Value as reported at December 31, 2018
Assets of acquired bank:	
Cash and cash equivalents	$ 44,723
Securities available for sale	24,721
Restricted stock	3,357
Loans	651,769
Premises and equipment	4,863
Goodwill	100,339
Core deposit intangible	7,537
Bank owned life insurance	8,181
Other assets	6,385
Total assets acquired	$ 851,875
Liabilities of acquired bank:	
Deposits	$ 593,078
FHLB advances	60,000
Other liabilities	10,518
Total liabilities assumed	$ 663,596
Common stock issued at $75.90 per share	$ 157,263
Cash paid	$ 31,016

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

Independent Bank Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
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Note 23. Parent Company Only Financial Statements

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

Balance Sheets

	December 31, 2019	December 31, 2018
Assets		
Cash and cash equivalents	$ 8,277	$ 8,355
Investment in subsidiaries	2,588,857	1,764,698
Investment in trusts	1,724	950
Other assets	3,355	2,189
Total assets	$ 2,602,213	$ 1,776,192
Liabilities and Stockholders' Equity		
Other borrowings	$ 202,251	$ 137,316
Junior subordinated debentures	53,824	27,852
Other liabilities	6,365	4,591
Total liabilities	262,440	169,759
Stockholders' equity:		
Preferred stock	—	—
Common stock	430	306
Additional paid-in capital	1,926,359	1,317,616
Retained earnings	393,674	296,816
Accumulated other comprehensive loss	19,310	(8,305)
Total stockholders' equity	2,339,773	1,606,433
Total liabilities and stockholders' equity	$ 2,602,213	$ 1,776,192

Independent Bank Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands, except for share and per share information)

Statements of Income

	Years Ended December 31,		
	2019	2018	2017
Interest expense:			
Interest on other borrowings	$ 11,561	$ 8,390	$ 6,873
Interest on junior subordinated debentures	3,028	1,609	1,162
Total interest expense	14,589	9,999	8,035
Noninterest income:			
Dividends from subsidiaries	105,877	39,841	29,563
Other	1	14	32
Total noninterest income	105,878	39,855	29,595
Noninterest expense:			
Salaries and employee benefits	7,653	6,318	5,175
Professional fees	264	332	546
Acquisition expense, including legal	33,445	6,157	12,767
Other	2,562	1,611	1,614
Total noninterest expense	43,924	14,418	20,102
Income before income tax benefit and equity in undistributed income of subsidiaries	47,365	15,438	1,458
Income tax benefit	11,066	5,541	8,890
Income before equity in undistributed income of subsidiaries	58,431	20,979	10,348
Equity in undistributed income of subsidiaries	134,305	107,280	66,164
Net income	$ 192,736	$ 128,259	$ 76,512

Independent Bank Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands, except for share and per share information)

Statements of Cash Flows

	Years Ended December 31,		
	2019	2018	2017
Cash flows from operating activities:			
Net income	$ 192,736	$ 128,259	$ 76,512
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of subsidiaries	(134,305)	(107,280)	(66,164)
Amortization of discount and origination costs on borrowings	633	633	505
Stock based compensation expense	7,808	6,062	4,688
Excess tax expense (benefit) on restricted stock vested	21	(646)	(1,323)
Deferred tax expense	2,165	1,054	11,782
Net change in other assets	1,863	6,918	(6,750)
Net change in other liabilities	(64)	1,130	(1,663)
Net cash provided by operating activities	70,857	36,130	17,587
Cash flows from investing activities:			
Capital investment in subsidiaries	—	—	(50,050)
Cash acquired in connection with acquisition	339	7,425	5,418
Cash paid in connection with acquisition	(9)	(31,016)	(17,773)
Net cash provided by (used in) financing activities	330	(23,591)	(62,405)
Cash flows from financing activities:			
Proceeds from other borrowings	65,000	—	29,255
Repayments of other borrowings	(40,500)	—	—
Proceeds from exercise of common stock warrants	—	2,533	55
Offering costs paid in connection with acquired bank	(804)	(209)	(942)
Proceeds from sale of common stock, net	—	—	26,816
Repurchase of common stock	(51,659)	—	—
Dividends paid	(43,302)	(15,908)	(10,231)
Net cash (used in) provided by financing activities	(71,265)	(13,584)	44,953
Net change in cash and cash equivalents	(78)	(1,045)	135
Cash and cash equivalents at beginning of year	8,355	9,400	9,265
Cash and cash equivalents at end of year	$ 8,277	$ 8,355	$ 9,400

Note 24. Subsequent Events

Line of credit agreement

On January 17, 2020, the Company's $100,000 unsecured revolving line of credit was renewed and matures on January 17, 2021. As of March 2, 2020, the Company has no borrowings against its revolving line of credit.

Declaration of dividends

On January 29, 2020, the Company declared a quarterly cash dividend in the amount of $0.25 per share of common stock to the stockholders of record on February 10, 2020. The dividend totaling $10,754 was paid on February 20, 2020.

ITEM 16. FORM 10-K SUMMARY

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of McKinney, Texas, on March 6, 2020.

Independent Bank Group, Inc. (Registrant)

Date: March 6, 2020	**By: /s/ David R. Brooks**
	David R. Brooks **Chairman, President and Chief Executive Officer**

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Section 2: EX-10.3C (EXHIBIT 10.3C)

Exhibit 10.3(c)

SECOND AMENDMENT TO THE
2013 EQUITY INCENTIVE PLAN

Recitals

Independent Bank Group, Inc. (the "Company") has adopted the 2013 Equity Incentive Plan (the "Plan") which the Company uses as a key tool in attracting, motivating and retaining high quality executive officers, directors, employees, consultants and other service providers and in providing an incentive to enhance shareholder value. The Plan currently permits repricing of option awards without shareholder approval. Although the Company has never granted option awards, there are no outstanding options with respect to the Company's common stock, and the Company has no intention of granting option awards in the future, the Board of Directors is committed to maintaining best corporate practices and believes that it is in the best interests of the Company and its shareholders to eliminate this provision from the Plan.

Amendment

The Plan is hereby amended as follows:

1. Section 6(b)(i) of the Plan is hereby amended to read in its entirety as follows:

"Exercise Price. The exercise price per Share purchasable under an Option shall be determined by the Committee, provided that such exercise price shall not be less than 100% of the Fair Market Value of a Share on the date of grant of the Option and shall not, in any event, be less than the par value of a Share on the date of grant of the Option. If any Employee owns or is deemed to own (by reason of the attribution rules applicable under Section 424(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company (or any parent corporation or subsidiary corporation of the Company, as those terms are defined in Section 424(e) and Section 424(f) of the Code, respectively) and an Incentive Stock Option is granted to such Employee, the exercise price of such Incentive Stock Option (to the extent required by the Code at the time of grant) shall be no less than 110% of the Fair Market Value of a Share on the date such Incentive Stock Option is granted. Notwithstanding the authority granted to the Committee pursuant to Section 3(a), and except for adjustments pursuant to Section 10(c) and/or Section 9(a)(iv), once an Option is granted, the Committee shall have no authority to reduce the exercise price of an Option, nor may any Option be granted under the Plan be surrendered to the Company as consideration for the grant of a new Option with a lower exercise price or exchanged for cash or another Award, nor shall the Committee take any action with respect to any Award that would be treated, under the applicable stock exchange listing standards or for accounting purposes, as a "repricing" of such Award, in each case, without approval of the shareholders of the Company."

2. Section 10(e) of the Plan is hereby amended to delete the last two sentences of that section.

3. Except as expressly modified by this Second Amendment, all other terms and provisions of the Plan shall be unchanged and shall remain in full force and effect.

4. This Second Amendment was adopted and approved by the Board of Directors of the Company on June 14, 2018.

INDEPENDENT BANK GROUP, INC.

By: /s/ David R. Brooks

David R. Brooks

Chairman of the Board, Chief Executive Officer and President

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Section 3: EX-10.4D (EXHIBIT 10.4D)

Exhibit 10.4(d)

FIRST AMENDMENT TO CREDIT AGREEMENT

This FIRST AMENDMENT TO CREDIT AGREEMENT (this "**Amendment**") is dated as of January 17, 2020 and is between INDEPENDENT BANK GROUP, INC., a Texas corporation (the "**Borrower**"), and U.S. BANK NATIONAL ASSOCIATION ("**U.S. Bank**"), a national banking association, as the Lender and as Administrative Agent.

RECITALS

A. Borrower, the Lender and the Administrative Agent are party to a Credit Agreement dated as of January 17, 2019 (the "**Credit Agreement**"). Capitalized terms not otherwise defined in this First Amendment shall have the meanings respectively ascribed to them in the Credit Agreement.

B. The parties hereto desire to amend and modify the Credit Agreement in accordance with the terms and subject to the conditions set forth in this Amendment.

NOW, THEREFORE, in consideration of the mutual covenants, conditions and agreements herein contained, the parties hereto hereby agree as follows:

AGREEMENT

SECTION 1. **AMENDMENTS TO THE CREDIT AGREEMENT.**

Section 1.1 **Article I - Definitions**. The definition of "Termination Date" as set forth in Article I of the Credit Agreement is amended in its entirety to read as follows:

"Termination Date" means January 17, 2021 or any earlier date on which the Aggregate Commitment is reduced to zero or otherwise terminated pursuant to the terms hereof.

Article I of the Credit Agreement shall be amended by adding thereto the following definitions in proper alphabetical order:

"BHC Act Affiliate" of a party means an "affiliate" (as such term is defined under, and interpreted in accordance with 12 U.S.C. 1841(k)) of such party.

"Covered Entity" means any of the following:

(a) a "covered entity" as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 252.82(b);

(b) a "covered bank" as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 47.3(b); or

(c) a “covered FSI” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 382.2(b).

“Covered Party” is defined in Section 10.17.

“Default Rights” has the meaning assigned to that term in, and shall be interpreted in accordance with, 12 C.F.R. §§252.81, 47.2 or 382.1, as applicable.

“Prime Rate Advance” means an Advance which bears interest at the Prime Rate.

“QFC” has the meaning assigned to the term “qualified financial contract” in, and shall be interpreted in accordance with, 12 U.S.C. § 5390(c)(8)(D).

“QFC Credit Support” is defined in Section 10.17. “Supported QFC” is defined in Section 10.17.

“U.S. Special Resolution Regimes” is defined in Section 10.17.”

Section 1.2 **Section 3.3 - Availability of Eurocurrency Advances; Adequacy of Interest Rate.** Section 3.3 of the Credit Agreement is amended in its entirety to read as follows:

3.3 Availability of Types of Advances; Adequacy of Interest Rate.

(a) If the Administrative Agent or the Required Lenders determine (which determination shall be conclusive absent manifest error) that

(i) deposits of a type and maturity appropriate to match fund LIBOR Loans are not available to such Lenders in the relevant market; or

(ii) the interest rate applicable to LIBOR Loans is not ascertainable or does not adequately and fairly reflect the cost of making or maintaining LIBOR Loans,

then the Administrative Agent shall suspend the availability of LIBOR Loans and require any affected LIBOR Loans to be repaid or converted to Prime Rate Advances, subject to the payment of any funding indemnification amounts required by Section 3.6.

(b) Notwithstanding the foregoing, in the event the Administrative Agent determines (which determination shall be conclusive absent manifest error) that (i) the circumstances set forth in Section 3.3(a)(ii) have arisen and such circumstances are unlikely to be temporary, (ii) ICE Benchmark Administration (or any Person that takes over the administration of such rate) discontinues its administration and publication of interest settlement rates for deposits in Dollars, or (iii) the supervisor for the administrator of the interest settlement rate described in clause (ii) of this Section 3.3(b) or a Governmental Authority having jurisdiction over the Administrative Agent has made a public statement identifying a specific date after which such interest settlement rate shall no longer be used for determining interest rates for loans, then the Administrative Agent and the Borrower shall seek to jointly agree upon an alternate rate of interest to the LIBOR Rate that gives due consideration to the then prevailing market convention for determining a rate of interest for syndicated loans in the United States at such time, and the Administrative Agent and the Borrower shall enter into an amendment to this Agreement to reflect such alternate rate of interest and such other related changes to this Agreement as may be applicable. Notwithstanding anything to the contrary in Section 9.3, such amendment shall become effective without any further action or consent of any other party to this Agreement so long as the Administrative Agent shall not have received, within five Business Days of the date notice of such alternate rate of interest is provided to the Lenders, a written notice from the Required Lenders stating that such Required Lenders object to such amendment. Until an alternate rate of interest shall be determined in accordance with this Section 3.3(b), any request for an Advance pursuant to Section 2.6 shall be deemed to be a request for a Prime Rate Advance. If the alternate rate of interest determined pursuant to this Section 3.3(b) shall be less than zero, such rate shall be deemed to be zero for the purposes of this Agreement.

Section 1.3 **New Sections 10.16 and 10.17 - Delaware Divisions and Supported QFC's**. Article X of the Credit Agreement is amended by adding thereto the following Sections 10.16 and 10.17:

10.16 Delaware Divisions**.** For all purposes under the Loan Documents, in connection with any division or plan of division under Delaware law (or any comparable event under a different jurisdiction's laws): (a) if any asset, right, obligation or liability of any Person becomes the asset, right, obligation or liability of a different Person, then it shall be deemed to have been transferred from the original Person to the subsequent Person, and (b) if any new Person comes into existence, such new Person shall be deemed to have been organized on the first date of its existence by the holders of its Equity Interests at such time.

10.17 Acknowledgement Regarding Any Supported QFCs. To the extent that the Loan Documents provide support, through a guarantee or otherwise, for Swap Obligations or any other agreement or instrument that is a QFC (such support, "QFC Credit Support" and each such QFC a "Supported QFC"), the parties acknowledge and agree as follows with respect to the resolution power of the Federal Deposit Insurance Corporation under the Federal Deposit Insurance Act and Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act (together with the regulations promulgated thereunder, the "U.S. Special Resolution Regimes") in respect of such Supported QFC and QFC Credit Support (with the provisions below applicable notwithstanding that the Loan Documents and any Supported QFC may in fact be stated to be governed by the laws of the State of New York and/or of the United States or any other state of the United States):

In the event a Covered Entity that is party to a Supported QFC (each, a "Covered Party") becomes subject to a proceeding under a U.S. Special Resolution Regime, the transfer of such Supported QFC and the benefit of such QFC Credit Support (and any interest and obligation in or under such Supported QFC and such QFC Credit Support, and any rights in property securing such Supported QFC or such QFC Credit Support) from such Covered Party will be effective to the same extent as the transfer would be effective under the U.S. Special Resolution Regime if the Supported QFC and such QFC Credit Support (and any such interest, obligation and rights in property) were governed by the laws of the United States or a state of the United States. In the event a Covered Party or a BHC Act Affiliate of a Covered Party becomes subject to a proceeding under a U.S. Special Resolution Regime, Default Rights under the Loan Documents that might otherwise apply to such Supported QFC or any QFC Credit Support that may be exercised against such Covered Party are permitted to be exercised to no greater extent than such Default Rights could be exercised under the U.S. Special Resolution Regime if the Supported QFC and the Loan Documents were governed by the laws of the United States or a state of the United States. Without limitation of the foregoing, it is understood and agreed that rights and remedies of the parties with respect to a Defaulting Lender shall in no event affect the rights of any Covered Party with respect to a Supported QFC or any QFC Credit Support.

Section 1.4 **Section 14.1 – Notices; Effectiveness; Electronic Communication.** Section 14.1(a)(i) of the Credit Agreement is amended by deleting the text "1600 Redbud Blvd. – Ste. #400, McKinney, TX 75069" and inserting in lieu thereof the text "7777 Henneman Way, McKinney, TX 75070."

SECTION 2. **REPRESENTATIONS AND WARRANTIES**. Borrower hereby represents and warrants to the Lender and the Administrative Agent as of the date hereof as follows:

(i) No Default or Event of Default has occurred or is continuing under the Credit Agreement, and no Default or Event of Default would result from the amendment contemplated hereby.

(ii) The execution, delivery and performance by Borrower of this Amendment have been duly authorized by all necessary and proper corporate and other proceedings and do not and will not require any registration with, consent or approval of, or notice to or action by any Person (including any Governmental Authority) in order to be effective and enforceable.

(iii) This Amendment and the other Loan Documents (as amended by this Amendment) constitute the legal, valid and binding obligations of Borrower, enforceable against Borrower in accordance with their respective terms, except as enforceability may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

(iv) The representations and warranties contained in Article V of the Credit Agreement are (x) with respect to any representations or warranties that contain a materiality qualifier, true and correct in all respects as of the date hereof (upon giving effect to this Amendment), except to the extent any such representation or warranty is stated to relate solely to an earlier date, in which case such representation or warranty shall have been true and correct in all respects on and as of such earlier date and (y) with respect to any representations or warranties that do not contain a materiality qualifier, true and correct in all material respects as of such Borrowing Date, except to the extent any such representation or warranty is stated to relate solely to an earlier date, in which case such representation or warranty shall have been true and correct in all material respects on and as of such earlier date.

(v) Borrower is in compliance with all of the covenants contained in the Credit Agreement.

(vi) Borrower's Obligations under the Credit Agreement and under the other Loan Documents are not subject to any defense, counterclaim, set-off, right to recoupment, abatement or other claim.

SECTION 3. **ADDITIONAL TERMS.**

Section 3.1 **Acknowledgement of Indebtedness under Credit Agreement**. Borrower acknowledges and confirms that, as of the date hereof, Borrower is indebted to the Lender, without defense, setoff, or counterclaim, in the aggregate principal amount of $24,500,000 under the Credit Agreement.

Section 3.2 **The Credit Agreement**. On and after the Effective Date: (i) each reference in the Credit Agreement to "this Agreement," "hereunder," "hereof," "herein," or words of like import shall mean and be a reference to the Credit Agreement as amended hereby,
(ii) each reference to the Credit Agreement in all Loan Documents shall mean and be a reference to the Credit Agreement, as amended hereby, and (iii) this Amendment shall be deemed a "Loan Document" for the purposes of the Credit Agreement.

Section 3.3 **Amendment and Credit Agreement to be Read Together**. This Amendment supplements and is hereby made a part of the Credit Agreement, and the Credit Agreement and this Amendment shall from and after the Effective Date be read together and shall constitute one agreement. Except as otherwise set forth herein, the Credit Agreement shall remain in full force and effect.

Section 3.4 **Acknowledgements**. Borrower acknowledges that (i) it has been advised by counsel of its choice of law with respect to this Amendment, the Credit Agreement, the other Loan Documents and the transactions contemplated hereby and thereby, (ii) any waiver of Borrower set forth herein has been knowingly and voluntarily made, and (iii) the obligations of the Lender and the Administrative Agent hereunder shall be strictly construed and shall be expressly subject to Borrower's compliance in all respects with the terms and conditions of the Credit Agreement.

Section 3.5 **No Waiver**. The execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any Event of Default (including without limitation any Event of Default existing on the date hereof), nor operate as a waiver of any right, power or remedy of any Lender or the Administrative Agent (including without limitation any rights, powers or remedies of a Lender or the Administrative Agent with respect to any Event of Default existing on the date hereof), nor constitute a waiver of, or consent to any departure from, any provision of the Credit Agreement, or any of the other Loan Documents.

Section 3.6 **No Novation**. The terms and conditions of the Credit Agreement are amended as set forth in this Amendment. It is expressly understood and acknowledged that nothing in this Amendment shall be deemed to cause or otherwise give rise to a novation of the indebtedness contemplated in the Credit Agreement. All of Borrower's "**Obligations**" under the Credit Agreement shall in all respects be continuing and this Amendment shall not be deemed to evidence or result in a novation or repayment and re- borrowing of such "**Obligations**."

SECTION 4. **CONDITIONS PRECEDENT**. The amendments set forth in SECTION 1 above shall become effective as of the date (the "**Effective Date**") on which each of the following conditions shall have been satisfied: (i) Administrative Agent shall have received a fully executed Amendment and any other documents to be executed, delivered, or performed in connection with this Amendment (the "Amendment Documents"); (ii) the Administrative Agent shall have received all fees and other amounts due and payable on or prior to the Effective Date; (iii) a certificate of the Secretary or Assistant Secretary of Borrower certifying as to (A) that there has been no change to the Borrower's articles of incorporation or bylaws since a copy thereof was provided by the secretary or assistant secretary of the Borrower with a certificate delivered to the Administrative Agent on or about the date of the Credit Agreement or if such changes have occurred, providing a true and accurate copy of the current articles of incorporation and bylaws, as applicable, (B) the names and titles of officers authorized to execute and deliver this Amendment, and (C) such other matters as the Administrative Agent shall require; (iv) a certificate of good standing or status from the Secretary of State or other applicable office of the state in which the Borrower was incorporated or formed, and (v) Administrative Agent shall have received payment from Borrower, in immediately available funds, of an amount sufficient to reimburse all reasonable out-of-pocket costs, fees and expenses incurred by Administrative Agent, or for which Administrative Agent has become obligated which have been invoiced to Borrower prior to or on the date hereof, in connection with the negotiation, preparation and consummation of this Amendment, including but not limited to, reasonable attorneys' fees and expenses.

SECTION 5. **POST-CLOSING COVENANT.** Within ten (10) days after the date hereof, Borrower shall deliver to Administrative Agent a certificate of the Secretary or Assistant Secretary of Borrower certifying as to the resolutions authorizing the execution, delivery, and performance, respectively, of the Amendment Documents. Failure to make such delivery shall constitute an Event of Default that shall be deemed to have occurred on January 17, 2020.

SECTION 6. **RELEASE**.

Section 6.1 **Release**. Borrower, for itself and its successors and assigns, does hereby fully, finally and unconditionally release and forever discharge, and agrees to hold harmless, the Lender, the Administrative Agent and each of their respective equity holders and affiliates, and their respective agents, advisors, managers, parents, subsidiaries, attorneys, representatives, employees, officers and directors, and the successors, assigns, heirs and representatives of each of the foregoing, from any and all debts, claims, counterclaims, setoffs, obligations, damages, costs, attorneys' fees and expenses, suits, demands, liabilities, actions, proceedings and causes of action, in each case whether known or unknown, contingent or fixed, direct or indirect and of whatever kind, nature or description, and whether in law or in equity, under contract, tort, statute or otherwise, that Borrower has heretofore had or now or hereafter can, shall or may have by reason of any act, omission or thing whatsoever done or omitted to be done on or prior to the Effective Date arising out of, connected with or related in any way to this Amendment, the Credit Agreement, the other Loan Documents, the transactions described therein, the Revolving Loans, the Lender's and the Administrative Agent's administration thereof, or the financing or banking relationships of Borrower with the Lender and the Administrative Agent.

SECTION 7. **MISCELLANEOUS**.

Section 7.1 **Entire Agreement; Successors**. This Amendment (i) constitutes the entire understanding of the parties with respect to the subject matter hereof, and any other prior or contemporaneous agreements, whether written or oral, with respect hereto or thereto are expressly superseded hereby; and (ii) shall be binding upon and inure to the benefit of the successors and assigns of the parties hereto permitted pursuant to Article XIII of the Credit Agreement.

Section 7.2 **Counterparts**. This Amendment may be executed in any number of counterparts (which taken together shall constitute one and the same instrument) and by facsimile or electronic (.pdf) transmission, which facsimile or electronic (.pdf) signatures shall be considered original executed counterparts.

Section 7.3 **CHOICE OF LAW**. THIS AMENDMENT SHALL BE CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS (WITHOUT REGARD TO THE CONFLICT OF LAWS PROVISIONS) OF THE STATE OF NEW YORK, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS.

Section 7.4 **CONSENT TO JURISDICTION**. THE BORROWER HEREBY IRREVOCABLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF ANY UNITED STATES FEDERAL OR STATE COURT SITTING IN NEW YORK, NEW YORK IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AMENDMENT AND THE BORROWER HEREBY IRREVOCABLY AGREES THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN ANY SUCH COURT AND IRREVOCABLY WAIVES ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE AS TO THE VENUE OF ANY

SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN SUCH A COURT OR THAT SUCH COURT IS AN INCONVENIENT FORUM. NOTHING HEREIN SHALL LIMIT THE RIGHT OF THE ADMINISTRATIVE AGENT OR ANY LENDER TO BRING PROCEEDINGS AGAINST THE BORROWER IN THE COURTS OF ANY OTHER JURISDICTION. ANY JUDICIAL PROCEEDING BY THE BORROWER AGAINST THE ADMINISTRATIVE AGENT OR ANY LENDER OR ANY AFFILIATE OF THE ADMINISTRATIVE AGENT OR ANY LENDER INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH THIS AMENDMENT SHALL BE BROUGHT ONLY IN A COURT IN NEW YORK, NEW YORK.

Section 7.5 **WAIVER OF JURY TRIAL**. THE BORROWER, THE ADMINISTRATIVE AGENT AND EACH LENDER HEREBY WAIVE TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH THIS AMENDMENT OR THE RELATIONSHIP ESTABLISHED HEREUNDER.

Section 7.6 **SERVICE OF PROCESS**. EACH PARTY HERETO IRREVOCABLY CONSENTS TO SERVICE OF PROCESS IN THE MANNER PROVIDED FOR NOTICES IN SECTION 14.1 (OTHER THAN TRANSMISSION BY FACSIMILE) OF THE CREDIT AGREEMENT WITH RESPECT TO THE MATTERS SET FORTH IN THIS AMENDMENT. NOTHING IN THIS WAIVER WILL AFFECT THE RIGHT OF ANY PARTY HERETO TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY APPLICABLE LAW.

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IN WITNESS WHEREOF, the Borrower, the Lender, and the Administrative Agent have executed this Amendment as of the date first above written.

INDEPENDENT BANK GROUP, INC.

By: /s/ David R. Brooks

Name: David R. Brooks
Title: Chairman of the Board, CEO and President

U.S. BANK NATIONAL ASSOCIATION

By: /s/ Michael Trenkman

Name: Michael Trenkman
Title: Vice President

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Section 4: EX-10.6B (EXHIBIT 10.6B)

Exhibit 10.6(b)

SCHEDULE OF EXECUTIVE OFFICERS WHO HAVE EXECUTED A CHANGE IN CONTROL AGREEMENT IN THE FORM FILED AS EXHIBIT 10.1(a) TO THE QUARTERLY REPORT ON FORM 10-Q OF THE COMPANY FOR THE QUARTER ENDED SEPTEMBER 30, 2016 (this "Schedule")

This Schedule of Executive Officers Who Have Executed a Change in Control Agreement relates to the form of Change in Control Agreement filed by Independent Bank Group, Inc. as Exhibit 10.1(a) to its Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, as filed with the Securities and Exchange Commission on October 27, 2016 (the "Form Agreement"). This Schedule is included pursuant to Instruction 2 of Item 601(a) of Regulation S-K for the purpose of setting forth the details in which the specific agreements executed in the form of the Form Agreement differ from the Form Agreement, and, in particular to set forth the persons who, with Independent Bank Group, Inc., were parties to the Change in Control Agreements in such form as of March 2, 2020.

Executive Officer Who is a Party to such Change in Control Agreement	Date of Change in Control Agreement	The number of times the sum of (a) Executive's current base salary plus (b) Executive's target total annual bonus for the year of termination paid upon a Change in Control
David R. Brooks*	July 26, 2016	Three (3) times
Daniel W. Brooks*	July 26, 2016	Two (2) times
Michelle S. Hickox	July 26, 2016	Two (2) times
James C. White	January 31, 2018	Two (2) times
James P. Tippit*	January 31, 2018	Two (2) times
Mark S. Haynie*	January 31, 2018	Two (2) times

* The Change in Control Agreement with this Executive Officer has been superseded by Independent Bank Group, Inc.'s Employment Agreement, dated December 9, 2019, with such person, which Employment Agreement will be effective upon the effective time of the proposed merger of Texas Capital Bancshares, Inc. with and into Independent Bank Group, Inc.

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Section 5: EX-10.7 (EXHIBIT 10.7)

Exhibit 10.7

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is entered into by and between Independent Bank Group, Inc., a Texas corporation (the "Company"), and David R. Brooks ("Executive") as of the 9th day of December 2019.

WHEREAS, the Company has entered into that certain Agreement and Plan of Merger, dated as of December 9, 2019 (the "Merger Agreement"), by and between the Company and Texas Capital Bancshares, Inc., a Delaware corporation ("Texas Capital"), pursuant to which Texas Capital will merge with and into the Company (the "Merger") so that the Company is the surviving entity in the Merger.

WHEREAS, the Company wishes to employ Executive on the terms and conditions, and for the consideration, hereinafter set forth, and Executive desires to be employed by the Company on such terms and conditions and for such consideration.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth below, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, it is hereby agreed as follows:

1. Employment Period. The Company hereby agrees to employ Executive, and Executive hereby agrees to be employed by the Company, subject to the terms and conditions of this Agreement, for the period commencing on the date of the closing of the Merger (the "Effective Date") and ending on the fifth (5th) anniversary thereof (the "Employment Period"); provided, however, that commencing on the fifth (5th) anniversary of the Effective Date, and on each annual anniversary thereafter (such date and each annual anniversary thereof shall be hereinafter referred to as the "Renewal Date"), unless previously terminated, the Employment Period shall be automatically extended so as to terminate one year from such Renewal Date, unless at least 90 days prior to the Renewal Date the Company shall give notice to Executive that the Employment Period shall not be so extended.

2. Terms of Employment.

(a) Position and Duties; Standard of Services; Location.

(i) Position and Duties. During the Employment Period, Executive shall serve as Chief Executive Officer and President of the Company and Independent Bank and Chairman of the Board of Directors (the "Board") of the Company and Independent Bank, with such duties and authority as are customarily associated with such positions in public companies. Executive shall report solely and directly to the Board of the Company and Independent Bank.

(ii) Standard of Services. During the Employment Period, Executive agrees to devote his full business time, energy and skill to the performance of his duties, authorities and responsibilities to the Company and its affiliates and to use Executive's best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period, Executive may serve on civic, charitable or other not-for-profit boards or committees, deliver lectures, fulfill speaking engagements or teach at educational institutions, manage personal investments and, subject to the prior written approval of the Board (or a committee thereof), serve on boards of for-profit entities, in each case, so long as such activities do not materially interfere with the performance of Executive's duties and responsibilities or create a potential business or fiduciary conflict, and Executive complies with applicable provisions of any codes of business conduct and ethics of the Company and its affiliates, as in effect from time to time. For purposes of this Agreement, the term "affiliate" means an entity controlled by, controlling or under common control with the Company

(iii) Location. Executive's primary work location shall be at the Company's corporate headquarters in McKinney, Texas, subject to reasonable business travel at the Company's request.

(b) Compensation.

(i) Annual Base Salary. During the Employment Period, Executive shall receive an annual base salary equal to at least $1,000,000 (as in effect from time to time, the "Annual Base Salary"), payable in accordance with the Company's regular payroll practices. The Annual Base Salary shall be reviewed at least annually by the Board or an appropriate committee thereof (the Board or such committee, the "Committee") for possible increase, as determined in the sole and absolute discretion of the Committee, pursuant to the normal performance review policies for senior executives of the Company. Once the Annual Base Salary has been increased hereunder it shall not subsequently be decreased during the Employment Period.

(ii) Annual Bonus. Commencing with 2020, and for each year during the Employment Period thereafter, Executive shall be eligible to receive an annual cash bonus (the "Annual Bonus"), with a target opportunity equal to at least 150% of the Annual Base Salary (as in effect from time to time, the "Target Annual Bonus Opportunity"). The Target Annual Bonus Opportunity shall be reviewed at least annually by the Committee for possible increase, as determined in the sole and absolute discretion of the Committee, pursuant to the normal performance review policies for senior executives of the Company. Once the Target Annual Bonus Opportunity has been increased hereunder it shall not subsequently be decreased during the Employment Period. The Annual Bonus shall be determined by the Committee on the same basis as incentive award determinations are made for other senior executives of the Company and shall be paid to Executive at the same time that other senior executives of the Company who are eligible to receive annual bonus payments receive such payments (but no later than March 15th of the calendar year following the year with respect to which the Annual Bonus was earned).

(iii) Annual Long-Term Incentive Awards. During each year of the Employment Period, Executive shall be eligible to receive long-term incentive awards of the Company having an aggregate target grant date fair value equal to at least 300% of the Annual Base Salary (as in effect from time to time, the "Target Annual LTI Opportunity"), with the types of awards and amounts allocated to each type of award, and grant dates, to be consistent with the types, amounts and grant dates applicable to senior executives of the Company; provided, however, that all such awards shall contain termination vesting protections no less favorable than those set forth in this Agreement (all such awards, collectively, the "Annual LTI Grants"). The Target Annual LTI Opportunity shall be reviewed at least annually by the Committee for possible increase, as determined in the sole and absolute discretion of the Committee, pursuant to the normal performance review policies for senior executives of the Company. Once the Target Annual LTI Opportunity has been increased hereunder it shall not subsequently be decreased during the Employment Period.

(iv) Other Benefits. During the Employment Period, Executive shall be eligible for participation in retirement, welfare and other benefit plans, practices, policies and programs of the Company, on terms no less favorable than those provided to Executive immediately prior to the Effective Date, including continued participation in the Independent Bank Survivor Benefit Plan.

(v) Expenses. During the Employment Period, Executive shall be entitled to receive reimbursement for all reasonable, documented business expenses incurred by Executive in accordance with the performance of Executive's duties under this Agreement, subject to the Company's policies with respect to expense reimbursement.

(vi) Transaction Award. In consideration of Executive's efforts in negotiating the Merger Agreement and completing all deliverables required leading up to the Effective Date, on the Effective Date, the Company shall make a lump sum cash payment to Executive equal to $3,500,000.

(vii) Sign-On Equity Award. On or as soon as reasonably practicable following the Effective Date (but in no event later than thirty (30) days following the Effective Date), in consideration for Executive's continued service to the Company and compliance with the covenants set forth in Section 5, the Company shall grant to Executive a restricted stock unit award (the "Sign-On Equity Award") in respect of 95,000 shares of common stock of the Company. The Sign-On Equity Award shall be composed of (A) 50% time-based restricted stock units, which shall vest in five (5) equal installments on each of the first five (5) anniversaries of the Effective Date, subject to Executive's continued employment with the Company through the applicable anniversary, and, except as provided in Section 4(a)(ii) or 4(b), shall be forfeited upon a termination of employment prior to such time, and (B) 50% performance-based restricted stock units, which shall vest in full on the fifth (5th) anniversary of the Effective Date based on the achievement of the applicable performance criteria developed by the Committee prior to the Effective Date, subject to Executive's continued employment with the Company through the fifth (5th) anniversary of the Effective Date, and, except as provided in Section 4(a)(ii) or 4(b), shall be forfeited upon a termination of employment prior to such time. Except as set forth above, the Sign-On Equity Award shall otherwise have terms and conditions consistent with the Company's standard form of restricted stock unit award agreement.

3. Termination of Employment.

(a) Death or Disability. Executive's employment shall terminate automatically upon Executive's death during the Employment Period. If the Company determines in good faith that the Disability (as defined below) of Executive has occurred during the Employment Period, it may provide Executive with written notice in accordance with Section 7(i) of its intention to terminate Executive's employment. In such event, Executive's employment with the Company shall terminate effective on the thirtieth (30th) day after receipt of such notice by Executive (the "Disability Effective Date"), provided that, within the thirty (30) days after such receipt, Executive shall not have returned to full-time performance of Executive's duties. For purposes of this Agreement, "Disability" shall mean Executive's inability to perform his employment duties due to his permanent and total disability as determined by a physician reasonably acceptable to the Company.

(b) Cause. The Company may terminate Executive's employment during the Employment Period either with or without Cause. For purposes of this Agreement, "Cause" shall mean (i) Executive's continued intentional failure or refusal to materially abide by the terms and conditions of this Agreement or perform substantially Executive's assigned duties (other than as a result of total or partial mental or physical incapacity); (ii) Executive's engagement in willful misconduct, including without limitation, fraud, embezzlement, theft or dishonesty, in the course of Executive's employment with the Company; (iii) Executive's conviction of, or plea of guilty or *nolo contendere* to a felony or a crime (other than a felony) that involves moral turpitude or a breach of trust or fiduciary duty owed to the Company or any of its affiliates; (iv) a material breach of the restrictive covenants in this Agreement; or (v) a material breach of the Company's Code of Conduct or another policy of the Company applicable to Executive, that does, or could reasonably be expected to, result in material harm to the Company, including reputational harm; provided that no act or failure to act, on the part of Executive, will be considered "willful" or "intentional" unless it is done, or omitted to be done, by Executive in bad faith or without reasonable belief that Executive's action or omission was in the best interests of the Company and its affiliates or if done based on the direction of the Board or on advice of counsel to the Company. If an action or omission constituting Cause is curable, Executive may be terminated under such clauses only if Executive has not cured such action or omission within thirty (30) days following written notice thereof from the Company. Further, Executive shall not be deemed to be discharged for Cause unless and until there is delivered to Executive a copy of a resolution duly adopted by the affirmative vote of not less than a majority (or 75% if such higher threshold is applicable pursuant to Section 3(e)) of the entire membership of the Board, at a meeting called and duly held for such purpose (after reasonable notice is provided to Executive and Executive is given an opportunity, together with counsel for Executive, to be heard before the Board), finding in good faith that Executive is guilty of the conduct set forth above and specifying the particulars thereof in detail.

(c) Good Reason. Executive's employment may be terminated by Executive with or without Good Reason. For purposes of this Agreement, "Good Reason" shall mean in the absence of the prior written consent of Executive:

(i) the assignment to Executive of any duties or responsibilities inconsistent in any material respect with Executive's position, status, office, title, reporting relationship, duties or responsibilities as set forth in this Agreement;

(ii) a reduction in the Annual Base Salary, Target Annual Bonus Opportunity or Target Annual LTI Opportunity;

(iii) a change by forty-five (45) miles or more in Executive's principal work location at the Company's corporate headquarters in McKinney, Texas;

(iv) the failure of the Board to appoint or re-elect Executive to any of the positions specifically provided for in this Agreement; or

(v) any other action or inaction that constitutes a material breach by the Company or any of its affiliates or any of their respective successors of its obligations to Executive under this Agreement;

provided, however, that Executive's termination of employment shall not be deemed to be for Good Reason unless (A) Executive has notified the Company in writing describing the occurrence of one (1) or more Good Reason events within ninety (90) days after Executive first becomes aware of such occurrence (or should have become aware of such occurrence), (B) the Company fails to cure such

Good Reason event within thirty (30) days after its receipt of such written notice and (C) the termination of employment occurs within thirty (30) days following such failure to cure.

(d) Notice of Termination. Any termination of employment by the Company for Cause, or by Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 7(i). For purposes of this Agreement, the term "Notice of Termination" means a written notice that (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated, and (iii) if the Date of Termination (as defined herein) is other than the date of receipt of such notice, specifies the Date of Termination (which Date of Termination shall be not more than thirty (30) days after the giving of such notice). The failure by Executive or the Company to set forth in the Notice of Termination any fact or circumstance that contributes to a showing of Good Reason or Cause shall not waive any right of Executive or the Company, respectively, hereunder or preclude Executive or the Company, respectively, from asserting such fact or circumstance in enforcing Executive's or the Company's respective rights hereunder.

(e) Board Approval. Any termination of Executive (whether with or without Cause or due to Disability) or the decision to take action that would give rise to a claim by Executive of Good Reason will require approval of at least a majority of the full Board; provided that, during the portion of the Employment Period commencing on the Effective Date and ending on the third (3rd) anniversary of the Effective Date and the two (2) years following a subsequent Change in Control (as defined in the Company's 2013 Equity Incentive Plan), approval of at least 75% of the full Board shall be required.

(f) Date of Termination. For purposes of this Agreement, the term "Date of Termination" means (i) if Executive's employment is terminated by the Company for Cause, or by Executive for Good Reason, the date of receipt of the Notice of Termination or such later date specified in the Notice of Termination, as the case may be, (ii) if Executive's employment is terminated by the Company other than for Cause or Disability, the date on which the Company notifies Executive of such termination, (iii) if Executive resigns without Good Reason, the date on which Executive notifies the Company of such termination, or (iv) if Executive's employment is terminated by reason of death or Disability, the date of Executive's death or the Disability Effective Date, as the case may be. Notwithstanding the foregoing, in no event shall the Date of Termination occur until Executive experiences a "separation from service" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended, and the date on which such separation from service takes place shall be the "Date of Termination."

4. Obligations of the Company upon Termination.

(a) By the Company other than for Cause; by Executive for Good Reason. If, during the Employment Period, the Company shall terminate Executive's employment other than for Cause or Executive shall terminate employment for Good Reason:

(i) The Company shall pay to Executive the following amounts in a lump sum in cash within thirty (30) days after the Date of Termination: (A) Executive's Annual Base Salary through the Date of Termination to the extent not theretofore paid, (B) any unpaid Annual Bonus from any prior completed calendar year, (C) Executive's business expenses that are reimbursable pursuant to

Section 2(b)(vi) but have not been reimbursed by the Company as of the Date of Termination; and (D) any accrued vacation pay to the extent not theretofore paid (the sum of the amounts described in the foregoing subclauses (A), (B), (C) and (D), the "Accrued Obligations");

(ii) Subject to Section 4(d) and Executive's compliance with Section 5 (it being agreed that in the event that Executive does not comply with Section 5, Executive shall return any payments previously made pursuant to this Section 4(a)(ii)), Executive shall be entitled to:

(A) a prorated portion of Executive's target Annual Bonus for the calendar year during which the Date of Termination occurs, prorated based on the number of days Executive is employed with the Company in such year divided by the total number of days in such year, which amount shall be paid not more than sixty (60) days after the Date of Termination (the "Prorated Annual Incentive");

(B) a cash payment equal to the product of (I) three (3) *multiplied by* (II) the sum of (x) the Annual Base Salary and (y) the greater of (i) the Target Annual Bonus Opportunity and (ii) the average Annual Bonus actually paid to Executive (before any tax withholding) during the three (3) completed years prior to the Date of Termination, which amount shall be paid not more than sixty (60) days after the Date of Termination;

(C) effective as of the Date of Termination, (I) accelerated vesting in full of any unvested time-vesting long-term incentive awards (other than the Sign-On Equity Award), (II) any performance-vesting long-term incentive awards for which the performance period is complete shall vest in full and any such awards for which the performance period is not complete shall be earned as provided in the applicable award agreement and vest in full, and (III) any vested stock options or stock appreciation rights shall remain exercisable for the full remaining term (collectively, the "LTI Benefit");

(D) any portion of the Sign-On Equity Award that is unvested as of the Date of Termination shall continue to vest on the regularly scheduled vesting dates subject to Executive's continued compliance with Section 5;

(E) continued participation in the Independent Bank Survivor Benefit Plan through age 65;

(F) a cash payment equal to eighteen (18) months of COBRA premiums for the health care coverage that Executive had in place for him and his dependents, as applicable, on the Date of Termination, which amount shall be paid not more than sixty (60) days after the Date of Termination;

(iii) To the extent not theretofore paid or provided, the Company shall timely pay or provide to Executive any other amounts or benefits required to be paid or provided or which Executive is eligible to receive under any plan, program, policy or practice or contract or agreement of the Company and its affiliates through the Date of Termination (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits"), such Other Benefits to be paid or provided subject to and in accordance with the applicable terms of any such arrangements.

(b) Due to Death or Disability. If, during the Employment Period, Executive's employment shall terminate due to his death or Disability, subject in the case of Sections 4(b)(ii) and 4(b)(iii) to Section 4(d) and in the event of Executive's Disability, Executive's compliance with Section 5 (it being agreed that in the event that Executive does not comply with Section 5, Executive shall return any payments previously made pursuant to Section 4(b)(ii) and 4(b)(iii)), the Company shall pay to Executive or his estate, on the schedule contemplated by Section 4(a), the Accrued Obligations, the Prorated Annual Incentive, the LTI Benefit, and the Other Benefits. In addition, (i) upon a termination due to Disability, the unvested portion of the Sign-On Equity Award shall vest on the regularly scheduled vesting dates subject to Section 4(d) and the Executive's continued compliance with Section 5 and the Independent Bank Survivor Benefit Plan benefit shall continue to be provided in the event of Executive's Disability on or prior to age 65, and, (ii) upon a termination due to death, the unvested portion of the Sign-On Equity Award shall vest in full on the date of Executive's death.

(c) Cause; Other than for Good Reason. If, during the Employment Period, Executive's employment shall be terminated for Cause or Executive terminates his employment other than for Good Reason, this Agreement shall terminate without further obligations to Executive other than the obligation to pay to Executive (i) the Accrued Obligations through the Date of Termination (excluding payment of any unpaid Annual Bonus from any prior completed calendar year) and (ii) Other Benefits, in each case to the extent theretofore unpaid. The Accrued Obligations shall be paid to Executive in a lump sum in cash within thirty (30) days of the Date of Termination.

(d) Separation Agreement and General Release. The Company's obligations to make payments under Section 4 (a)(ii) or Sections 4(b)(ii) and (b)(iii), as applicable, shall be conditioned on (i) Executive (or, in the event of Executive's death or Disability, his legal guardian or estate) executing and delivering (and not revoking) a separation agreement and general release (the "Release") in the form attached as Exhibit A hereto (with such revisions as may be appropriate to reflect changes in law or the successors and assigns of the Company and its affiliates), which Release must become effective not later than sixty (60) days following the Date of Termination. In the event that Executive (or his legal guardian or estate) does not so execute and deliver such release, or in the event that Executive (or his legal guardian or estate) revokes such release, the Company may require Executive (or his legal guardian or estate) to repay any amounts previously provided to him pursuant to Section 4(a)(ii) or Sections 4(b)(ii) and (b)(iii), as applicable.

(e) Full Settlement. The payments and benefits provided under this Section 4 shall be in full satisfaction of the obligations of the Company and its affiliates to Executive under this Agreement or any other plan, agreement, policy or arrangement of the Company and its Affiliates upon his termination of employment.

(f) No Mitigation. Executive shall have no obligation to mitigate any severance obligation of the Company under this Agreement by seeking new employment. The Company shall not be entitled to set off or reduce any severance payments owed to Executive under this Agreement by the amount of earnings or benefits received by Executive in future employment.

(g) Expiration of the Employment Period. Following the end of the Employment Period, if Executive remains employed by the Company or its affiliates, Executive's employment shall be at-will.

5. Executive Covenants.

(a) Confidentiality.

(i) Generally. Executive has and will have access to and participate in the development of or be acquainted with confidential or proprietary information and trade secrets related to the business of the Company and its subsidiaries and affiliates (collectively, the "Companies"), including but not limited to (A) business plans, operating plans, marketing plans, bid strategies, bid proposals, financial reports, operating data, budgets, wage and salary rates, pricing strategies and information, terms of agreements with suppliers or customers and others, customer lists and customer information, credit files, software programs, reports, correspondence, tapes, discs, tangible property and specifications owned by or used in the Companies' businesses, operating strengths and weaknesses of the Companies' officers, directors, employees, agents, suppliers and customers, (B) information pertaining to future developments such as, but not limited to, research and development, future marketing, products, distribution, delivery or merchandising plans or ideas, and potential new distribution or business locations, and (C) other tangible and intangible property, which are used in the business and operations of the Companies but not made publicly available (the "Confidential Information"); provided that the term Confidential Information shall not include information that is available or known to persons or entities outside of the Companies otherwise than as a result of a breach of a confidentiality agreement. Pursuant to his employment with the Companies, Executive agrees that he is or may be provided with access to Confidential Information to which he would not otherwise have access.

(ii) Assignment. Executive hereby assigns to the Companies, in consideration of his employment, all Confidential Information that may be developed by Executive at any time during his employment with the Companies, whether or not made or conceived during working hours, alone or with others, which related, directly or indirectly, to businesses or proposed businesses of the Companies, and Executive agrees that all such Confidential Information shall be the exclusive property of the Companies. Executive shall establish and maintain written records of all such Confidential Information with respect to inventions or similar intellectual property for the benefit of the Companies and shall execute and deliver to the Companies any specific assignments or other documents appropriate to vest title in such Confidential Information in the Companies or to obtain for the Companies legal protection for such Confidential Information.

(iii) Nondisclosure. Executive shall not disclose, use or make known for his or another's benefit any Confidential Information of the Companies or use such Confidential Information in any way except in the best interests of the Companies in the performance of Executive's duties under this Agreement.

(b) Return of Company's Property. Immediately upon termination of Executive's employment with the Company, Executive shall deliver to the Company all Confidential Information, documents, correspondence, notebooks, reports, computer programs, names of full-time and part-time employees and consultants, and all other materials and copies thereof (including computer discs and other electronic media) relating in any way to any business conducted by the Companies in any way obtained by Executive during the period of his employment or engagement with the Company. Immediately upon termination of Executive's employment with the Company, Executive shall deliver to the Company all tangible property of Company in the possession of Executive, including without limitation, telephones, facsimile machines, computers, leased automobiles and credit cards.

(c) Noncompetition and Nonsolicitation.

(i) Noncompete. In consideration for (A) the compensation provided to Executive by the Company under this Agreement and (B) the provision of Confidential Information, during the period of Executive's employment with the Companies and for a period of two (2) years following the termination of Executive's employment with the Companies for any reason (the "Restricted Period"), Executive shall not, directly or indirectly, without the written consent of the Board, own, manage, operate, control, be employed by in the same or in a similar manner to which Executive is employed by the Companies, consult with or participate in or be connected with any entity owning or having financial interest in, whether direct or indirect, a business entity which is in the same line or lines of business as and competes with any business of the Companies, if such business has a branch or other office of any kind located within fifteen (15) miles of any branch or office of the Companies, which the parties stipulate is a reasonable geographic area because of the scope of the Companies' operations and Executive's employment with the Companies. For purposes of this Section 5(c)(i), each of the following activities, without limitation, shall be deemed to constitute proscribed activities during the Restricted Period: to engage in, work with, have an interest in (other than interests of less than 1% in companies with securities traded on a nationally recognized stock exchange or interdealer quotation system), advise, consult, manage, operate, lend money to (other than interests of less than 1% in companies with securities traded on a nationally recognized stock exchange or interdealer quotation system), guarantee the debts or obligations of, or permit one's name or any part thereof to be used in connection with an enterprise or endeavor, either individually, in partnership or in conjunction with any person or persons, firm, association, company or corporation, whether as principal, director, agent, shareholder, partner, employee, consultant or in any other manner whatsoever. Executive may not avoid the purpose and intent of this Section 5(c) by engaging in conduct within the geographically limited area from a remote location through means such as telecommunications, written correspondence, computer generated or assisted communications, or other similar methods.

(ii) Nonsolicitation. During the Restricted Period, Executive shall not, directly or indirectly, (A) solicit for employment, or advise or recommend any entity to employ or solicit for employment, any person who is, or at any time within the one (1)-year period immediately prior to Executive's last day of employment was, an employee of the Companies, or (B) solicit the banking business of, or conduct any banking business with, any Restricted Customer of the Companies. For purposes of this Agreement, "Restricted Customer" means any individual, corporation, limited liability company, association, partnership, estate, trust, or any other entity or organization to which the Companies marketed, attempted to or actually promoted or provided products or services to at any time during the one (1)-year period immediately prior to Executive's last day of employment, and with respect to which Executive has participated in any efforts related to the marketing, negotiation or provision of products or services, had contact with or supervised employees who had contact with, or received Confidential Information about, within the one (1)-year period immediately prior to Executive's last day of employment. This Section 5(c)(ii) shall be geographically limited to wherever any Restricted Customer can be found or is available for solicitation or to do business with, which the parties stipulate is a reasonable geographic area because of the scope of the Companies' operations and Executive's employment with the Companies. Executive may not avoid the purpose and intent of this Section 5(c)(ii) by engaging in conduct within the geographically limited area from a remote location through means such as telecommunications, written correspondence, computer generated or assisted communications, or other similar methods.

(iii) Reasonable and Necessary. Executive agrees that the above covenants are reasonable and necessary agreements for the protection of the business interests covered in the fully enforceable, ancillary agreements set forth in this Agreement.

(d) Nondisparagement. From and following the Effective Date, Executive shall not make, either directly or by or through another person, any oral or written negative, disparaging or adverse statements or representations of or concerning the Companies, any of their clients or businesses or any of their current or former directors, officers or employees; provided, however, that, subject to Section 5(a), nothing herein shall prohibit Executive from disclosing truthful information if legally required (whether by oral questions, interrogatories, requests for information or documents, subpoena, civil investigative demand or similar process). In the event of Executive's termination of employment, the Company shall instruct its senior executive officers not to make, either directly or by or through another person, any oral or written negative, disparaging or adverse statements or representations of or concerning Executive or any of his agents or related parties; provided, however, that nothing herein shall prohibit any such individuals from disclosing truthful information if legally required (whether by oral questions, interrogatories, requests for information or documents, subpoena, civil investigative demand or similar process).

(e) Cooperation. Executive agrees that following Executive's termination of employment, upon the reasonable request of the Company or any of its affiliates, Executive shall use reasonable efforts to assist and cooperate with the Company or any of its affiliates in connection with the defense or prosecution of any claim that may be made against or by the Company or any of its affiliates, or in connection with any ongoing or future investigation or dispute or claim of any kind involving the Company or any of its affiliates, including any proceedings before any arbitral, administrative, regulatory, judicial, legislative or other body or agency; provided that the Company shall provide Executive with reasonable compensation for the time actually expended in such endeavors (at an hourly rate based on the Annual Base Salary) and shall reimburse Executive's reasonable business expenses incurred in connection with such cooperation to the extent that such expenses would have been reimbursed under Section 2(b)(v) had they been incurred during the Employment Period.

(f) Trade Secrets; Whistleblower Rights. The Company hereby informs Executive that, notwithstanding any provision of this Agreement to the contrary, an individual may not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that (i) is made in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, and solely for the purpose of reporting or investigating a suspected violation of law, or (ii) is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding. Further, an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the employer's trade secrets to the attorney and use the trade secret information in the court proceeding if the individual files any document containing the trade secret under seal and does not disclose the trade secret, except pursuant to court order. In addition, notwithstanding anything in this Agreement to the contrary, nothing in this Agreement shall impair Executive's rights under the whistleblower provisions of any applicable federal law or regulation or, for the avoidance of doubt, limit Executive's right to receive an award for information provided to any government authority under such law or regulation.

(g) Acknowledgments and Remedies.

(i) Executive acknowledges that the Company and its affiliates have (A) expended and will continue to expend substantial amounts of time, money and effort to develop business strategies, employee, customer and other relationships and goodwill to build an effective organization, and (B) a legitimate business interest in and right to protect their Confidential Information, goodwill and employee, customer and other relationships.

(ii) Executive understands that the covenants contained in this Section 5 may limit Executive's ability to earn a livelihood in a business similar to the business of the Company, and Executive represents that his experience and capabilities are such that he has other opportunities to earn a livelihood and adequate means of support for himself and his dependents.

(iii) Any termination of (A) Executive's employment, (B) the Employment Period or (C) this Agreement shall have no effect on the continuing obligations of Executive under this Section 5 or operation of this Section 5.

(iv) Executive acknowledges that a violation by Executive of any of the covenants contained in this Section 5 would cause irreparable damage to the Companies in an amount that would be material but not readily ascertainable, and that any remedy at law (including the payment of damages) would be inadequate. Accordingly, Executive agrees that, notwithstanding any provision of this Agreement to the contrary, in addition to any other damages it is able to show, in the event of a material breach by Executive of any of the covenants contained in this Section 5, the Companies shall be entitled (without the necessity of showing economic loss or other actual damage) to (A) cease payment of the compensation and benefits contemplated by Section 4 to the extent not previously paid or provided (including ceasing vesting of outstanding equity awards), (B) the prompt return by Executive of any portion of such compensation and the value of such benefits previously paid or provided (including forfeiture of any equity awards that vested pursuant to Section 4 or the repayment of the value of any equity awards that vested pursuant to Section 4 that have been exercised or settled, as applicable) and (C) injunctive relief (including temporary restraining orders, preliminary injunctions and permanent injunctions), without posting a bond, in any court of competent jurisdiction for any actual or threatened breach of any of the covenants set forth in this Section 5 in addition to any other legal or equitable remedies they may have. The preceding sentence shall not be construed as a waiver of the rights that the Companies may have for damages under this Agreement or otherwise, and all such rights shall be unrestricted. The Restricted Period shall be tolled during (and shall be deemed automatically extended by) any period during which Executive is in violation of the provisions of Section 5(c) or (d), as applicable. In the event that a court of competent jurisdiction determines that any provision of this Section 5 is invalid or more restrictive than permitted under the governing law of such jurisdiction, then, only as to enforcement of this Section 5 within the jurisdiction of such court, such provision shall be interpreted and enforced as if it provided for the maximum restriction permitted under such governing law.

6. Treatment of Certain Payments

(a) Anything in this Agreement to the contrary notwithstanding, in the event the Accounting Firm (as defined below) shall determine that receipt of all Payments (as defined below) would subject Executive to the excise tax under Section 4999 of the Code, the Accounting Firm shall determine whether to reduce any of the Payments paid or payable pursuant to this Agreement (the

"Agreement Payments") so that the Parachute Value (as defined below) of all Payments, in the aggregate, equals the Safe Harbor Amount (as defined below). The Agreement Payments shall be so reduced only if the Accounting Firm determines that Executive would have a greater Net After-Tax Receipt (as defined below) of aggregate Payments if the Agreement Payments were so reduced. If the Accounting Firm determines that Executive would not have a greater Net After-Tax Receipt (as defined below) of aggregate Payments if the Agreement Payments were so reduced, Executive shall receive all of the Agreement Payments to which Executive is entitled hereunder.

(b) If the Accounting Firm determines that the aggregate Agreement Payments should be reduced so that the Parachute Value of all Payments, in the aggregate, equals the Safe Harbor Amount, the Company shall promptly give Executive notice to that effect and a copy of the detailed calculation thereof. All determinations made by the Accounting Firm under this Section 6 shall be binding upon the Company and Executive and shall be made as soon as reasonably practicable following an Agreement Payment becoming due. For purposes of reducing the Agreement Payments so that the Parachute Value of all Payments, in the aggregate, equals the Safe Harbor Amount, only amounts payable under this Agreement (and no other Payments) shall be reduced. The reduction of the amounts payable hereunder, if applicable, shall be made by reducing the payments and benefits under the following sections in the following order: (i) cash payments that may not be valued under Treas. Reg. § 1.280G-1, Q&A-24(c) ("24(c)"), (ii) equity-based payments that may not be valued under 24(c), (iii) cash payments that may be valued under 24(c), (iv) equity-based payments that may be valued under 24(c) and (v) other types of benefits. With respect to each category of the foregoing, such reduction shall occur first (1st) with respect to amounts that are not "deferred compensation" within the meaning of Section 409A of the Code and next with respect to payments that are deferred compensation, in each case, beginning with payments or benefits that are to be paid the farthest in time from the Accounting Firm's determination. All fees and expenses of the Accounting Firm shall be borne solely by the Company.

(c) To the extent requested by Executive, the Company shall cooperate with Executive in good faith in valuing, and the Accounting Firm shall take into account the value of, services provided or to be provided by Executive (including Executive's agreeing to refrain from performing services pursuant to a covenant not to compete or similar covenant), before, on or after the date of a change in ownership or control of the Company (within the meaning of Q&A-2(b) of the final regulations under Section 280G of the Code), such that payments in respect of such services may be considered reasonable compensation within the meaning of Q&A-9 and Q&A-40 to Q&A-44 of the final regulations under Section 280G of the Code and/or exempt from the definition of the term "parachute payment" within the meaning of Q&A-2(a) of the final regulations under Section 280G of the Code in accordance with Q&A-5(a) of the final regulations under Section 280G of the Code.

(d) The following terms shall have the following meanings for purposes of this Section 6:

(i) "Accounting Firm" shall mean a nationally recognized certified public accounting firm or other professional organization that is a certified public accounting firm recognized as an expert in determinations and calculations for purposes of Section 280G of the Code that is selected by the Company prior to a Change in Control for purposes of making the applicable determinations hereunder and is reasonably acceptable to Executive, which firm shall not, without

Executive's consent, be a firm serving as accountant or auditor for the individual, entity or group effecting the Change in Control.

(ii) "Net After-Tax Receipt" shall mean the present value (as determined in accordance with Sections 280G(b)(2)(A)(ii) and 280G(d)(4) of the Code) of a Payment net of all taxes imposed on Executive with respect thereto under Sections 1 and 4999 of the Code and under applicable state and local laws, determined by applying the highest marginal rate under Section 1 of the Code and under state and local laws which applied to Executive's taxable income for the immediately preceding taxable year, or such other rate(s) as the Accounting Firm determines to be likely to apply to Executive in the relevant tax year(s).

(iii) "Parachute Value" of a Payment shall mean the present value as of the date of the change of control for purposes of Section 280G of the Code of the portion of such Payment that constitutes a "parachute payment" under Section 280G(b)(2) of the Code, as determined by the Accounting Firm for purposes of determining whether and to what extent the excise tax under Section 4999 of the Code will apply to such Payment.

(iv) "Payment" shall mean any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of Executive, whether paid or payable pursuant to this Agreement or otherwise.

(v) "Safe Harbor Amount" shall mean 2.99 *multiplied by* Executive's "base amount," within the meaning of Section 280G(b)(3) of the Code.

7. Miscellaneous.

(a) Governing Law; Venue. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas, without reference to principles of conflict of laws. The parties irrevocably submit to the jurisdiction of any state or federal court sitting in or for Collin County, Texas with respect to orders in aid or enforcement of arbitration awards and injunctive relief, and each party irrevocably agrees that all claims in respect of such dispute or proceeding shall be heard and determined in such courts. The parties hereby irrevocably waive, to the fullest extent permitted by law, any objection that they may now or hereafter have to the venue of any dispute arising out of or relating to this Agreement or the transactions contemplated hereby brought in such court or any defense of inconvenient forum for the maintenance of such dispute or proceeding. Each party agrees that a judgment in any such dispute may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. THE PARTIES HEREBY WAIVE A TRIAL BY JURY IN ANY ACTION, PROCEEDING, CLAIM OR COUNTER CLAIM BROUGHT OR ASSERTED BY EITHER OF THE PARTIES HERETO AGAINST THE OTHER ON ANY MATTERS WHATSOEVER ARISING OUT OF OR IN ANY WAY RELATED TO THIS AGREEMENT.

(b) Dispute Resolutions. Any and all disputes that arise out of or relate to the provisions of this Agreement or the alleged breach thereof (other than orders in aid or enforcement of arbitration awards and injunctive relief) shall be resolved by arbitration in accordance with the Federal Arbitration Act and in accordance with the Employment Arbitration Rules of the American Arbitration Association (the "AAA") before a single arbitrator who shall be selected in accordance with the AAA rules. The arbitrator must have at least ten (10) years' experience in employment matters. Arbitration will be conducted in Collin County, Texas. Judgment may be entered upon the final award of the arbitrator.

(c) Indemnification. The Company shall, to the maximum extent to which it is empowered by its governing documents and the laws of the State of Texas, defend, indemnify and hold harmless Executive from and against any and all demands, claims and causes of action made against Executive concerning or relating to his service, actions or omissions on behalf of the Company or its affiliates as an employee, director, officer, or agent, including, without limitation, holding Executive harmless for any losses, costs and expenses in connection with any such demand, claim, or cause of action. Executive shall be covered by directors and officers insurance that the Company provides from time to time to its directors and executives, on terms no less favorable than those provided to similarly situated executives, both during Executive's employment by the Company and for such period thereafter that the Company provides insurance coverage to its similarly situated former executives.

(d) Interpretation. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. For purposes of this Agreement, the term "including" shall mean "including, without limitation" and the word "or" shall be understood to mean "and/or."

(e) Amendments; No Waiver. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives. Executive's or the Company's failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right Executive or the Company may have hereunder shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(f) Survival. The provisions of this Agreement that by their terms call for performance subsequent to the termination of either Executive's employment or this Agreement (including the terms of Sections 4, 5, 6 and 7(c)) shall survive such termination.

(g) Invalidity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(h) Successors. This Agreement is personal to Executive and without the prior written consent of the Company shall not be assignable by Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by Executive's legal representatives. This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid that assumes and agrees to perform this Agreement by operation of law, or otherwise.

(i) Notices. All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to Executive: At the most recent address
on file at the Company.

If to the Company: Independent Bank Group, Inc.
7777 Henneman Way
McKinney, Texas 75070
Attention: General Counsel

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(j) Tax Withholding. The Company may withhold from any amounts payable under this Agreement such federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(k) Section 409A.

(i) General. It is intended that payments and benefits made or provided under this Agreement shall not result in penalty taxes or accelerated taxation pursuant to Section 409A of the Code. Any payments that qualify for the "short-term deferral" exception, the separation pay exception or another exception under Section 409A of the Code shall be paid under the applicable exception. For purposes of the limitations on nonqualified deferred compensation under Section 409A of the Code, each payment of compensation under this Agreement shall be treated as a separate payment of compensation. All payments to be made upon a termination of employment under this Agreement may only be made upon a "separation from service" under Section 409A of the Code to the extent necessary in order to avoid the imposition of penalty taxes on Executive pursuant to Section 409A of the Code. In no event may Executive, directly or indirectly, designate the calendar year of any payment under this Agreement, and to the extent required by Section 409A of the Code, any payment that may be paid in more than one (1) taxable year shall be paid in the later taxable year.

(ii) Reimbursements and In-Kind Benefits. Notwithstanding anything to the contrary in this Agreement, all reimbursements and in-kind benefits provided under this Agreement that are subject to Section 409A of the Code shall be made in accordance with the requirements of Section 409A of the Code, including, where applicable, the requirement that (A) any reimbursement is for expenses incurred during Executive's lifetime (or during a shorter period of time specified in this Agreement); (B) the amount of expenses eligible for reimbursement, or in-kind benefits provided, during a calendar year may not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other calendar year; (C) the reimbursement of an eligible expense will be made no later than the last day of the calendar year following the year in which the expense is incurred; and (D) the right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit.

(iii) Delay of Payments. Notwithstanding any other provision of this Agreement to the contrary, if Executive is considered a "specified employee" for purposes of Section 409A of the Code (as determined in accordance with the methodology established by the Company and its affiliates as in effect on the Date of Termination), any payment that constitutes nonqualified deferred compensation within the meaning of Section 409A of the Code that is otherwise due to Executive under this Agreement during the six (6)-month period immediately following Executive's separation from service on account of Executive's separation from service shall instead be paid, with interest (based on the rate in effect for the month in which Executive's separation from service occurs), on the first business day of the seventh (7th) month following his separation from service (the "Delayed

Payment Date”), to the extent necessary to prevent the imposition of tax penalties on Executive under Section 409A of the Code. If Executive dies during the postponement period, the amounts and entitlements delayed on account of Section 409A of the Code shall be paid to the personal representative of his estate on the first to occur of the Delayed Payment Date or thirty (30) calendar days after the date of Executive’s death.

(l) Effective Date; Entire Agreement. This Agreement shall become effective on the Effective Date, subject to Executive’s continued employment with the Company through such date. If Executive’s employment with the Company terminates for any reason before the Effective Date or the Merger Agreement is terminated before the closing of the Merger, this Agreement shall terminate automatically and be of no further force or effect, and neither of the parties shall have any obligations hereunder. Effective on the Effective Date, this Agreement shall constitute the entire agreement between the parties and, as of the Effective Date, terminates and supersedes any and all prior agreements and understandings (whether written or oral) between the parties with respect to the subject matter of this Agreement (including the Change in Control Agreement between Executive and the Company dated as of July 26, 2016); provided, however, that the covenants set forth in Section 5 of this Agreement shall be in addition to, and shall not supersede, any restrictive covenants to which Executive is otherwise subject under any other plan, agreement or arrangement of the Companies.

(m) Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, Executive has hereunto set Executive's hand and, the Company has caused these presents to be executed in its name and on its behalf, all as of the day and year first above written.

INDEPENDENT BANK GROUP, INC.

By: /s/ William E. Fair
Name: William E. Fair
Title: Chair of the Compensation Committee
of the Board of Directors

EXECUTIVE

/s/ David R. Brooks
David R. Brooks

[Signature Page to Employment Agreement]

Exhibit A

FORM OF RELEASE

THIS RELEASE (this "Release") is entered into between David R. Brooks ("Executive") and Independent Bank Group, Inc. (the "Company") for the benefit of the Company and its affiliates. The entering into and non-revocation of this Release is a condition to Executive's right to receive certain payments and benefits under Sections [4(a)(ii)][4(b)(ii) and 4(b)(iii)] of the Employment Agreement entered into by and between Executive and the Company, dated as of December 9, 2019 (the "Employment Agreement"). Capitalized terms used and not defined herein shall have the meaning provided in the Employment Agreement.

Accordingly, Executive and the Company agree as follows.

1. General Release and Waiver of Claims. In consideration for the payments and other benefits provided to Executive by the Employment Agreement, to which Executive is not otherwise entitled, and the sufficiency of which Executive acknowledges, Executive represents and agrees, as follows:

(a) Release. Executive, for himself, his heirs, administrators, representatives, executors, successors and assigns (collectively "Releasers"), hereby irrevocably and unconditionally releases, acquits and forever discharges and agrees not to sue the Company or any of its subsidiaries, divisions, affiliates and related entities and its current and former directors, officers, shareholders, trustees, employees, consultants, independent contractors, representatives, agents, servants, successors and assigns and all persons acting by, through or under or in concert with any of them (collectively "Releasees"), from any and all claims, rights and liabilities up to and including the date of this Release arising from or relating to Executive's employment with, or termination of employment from, the Company, under the Employment Agreement and from any and all charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of actions, suits, rights, demands, costs, losses, debts and expenses of any nature whatsoever, known or unknown, suspected or unsuspected and any claims of wrongful discharge, breach of contract, implied contract, promissory estoppel, defamation, slander, libel, tortious conduct, employment discrimination or claims under any federal, state or local employment statute, law, order or ordinance, including any rights or claims arising under Title VII of the Civil Rights Act of 1964, as amended, the Age Discrimination in Employment Act of 1967, as amended, 29 U.S.C. § 621 et seq. ("ADEA"), or any other federal, state or municipal ordinance relating to discrimination in employment. Nothing contained herein shall restrict the parties' rights to enforce the terms of this Release.

(b) Proceedings; Whistleblower Rights. To the maximum extent permitted by law, Executive agrees that he has not filed, nor will he ever file, a lawsuit asserting any claims that are released by this Release, or to accept any benefit from any lawsuit that might be filed by another person or government entity based in whole or in part on any event, act, or omission that is the subject of this Release. Notwithstanding the foregoing, nothing in this Release shall impair Executive's rights under the whistleblower provisions of any applicable federal law or regulation or, for the avoidance of doubt, limit Executive's right to receive an award for information provided to any government authority under such law or regulation.

(c) Exclusions. This Release specifically excludes Executive's rights and the Company's obligations under Sections 4(a) and 4(b) of the Employment Agreement. Excluded from this Release are: (i) any claims that cannot be waived by law; (ii) Executive's rights to receive any payments or benefits under Section 4 of the Employment Agreement; (iii) any rights Executive may have to receive vested amounts under any of the Company's employee benefit plans and/or pension plans or programs; (iv) Executive's rights in and to any equity or ownership interest that Executive continues to hold following his termination of employment; (v) Executive's rights to medical benefit continuation coverage pursuant to federal law (COBRA); (vi) any rights or claims that the law does not allow to be released and/or waived by private agreement; (vii) any rights or claims that are based on events occurring after the date on which Executive signs this Release; or (viii) any claims to indemnification or insurance coverage, including but not limited to "D&O coverage", that Executive may have with respect to any claims made or threatened against Executive in Executive's capacity as a director, officer or employee of the Company or the Releasees. Nothing contained in this Release shall release Executive from his obligations, including any obligations to abide by the covenants set forth in Section 5 of the Employment Agreement and any other restrictive covenants applicable to Executive that continue or are to be performed following termination of employment.

(d) EEOC Matters. The parties agree that this Release shall not affect the rights and responsibilities of the U.S. Equal Employment Opportunity Commission (the "EEOC") to enforce ADEA and other laws. In addition, the parties agree that this Release shall not be used to justify interfering with Executive's protected right to file a charge or participate in an investigation or proceeding conducted by the EEOC. The parties further agree that Executive knowingly and voluntarily waives all rights or claims (that arose prior to Executive's execution of this Release) the Releasers may have against the Releasees, or any of them, to receive any benefit or remedial relief (including, but not limited to, reinstatement, back pay, front pay, damages, attorneys' fees, experts' fees) as a consequence of any investigation or proceeding conducted by the EEOC.

2. Acknowledgements. Executive acknowledges that the Company has specifically advised him of the right to seek the advice of an attorney concerning the terms and conditions of this Release. Executive further acknowledges that he has been furnished with a copy of this Release, and he has been afforded [twenty-one (21)/forty-five (45)] days in which to consider the terms and conditions set forth above prior to this Release. By executing this Release, Executive affirmatively states that he has had sufficient and reasonable time to review this Release and to consult with an attorney concerning his legal rights prior to the final execution of this Release. Executive further agrees that he has carefully read this Release and fully understands its terms. Executive understands that he may revoke this Release within seven (7) days after signing this Release. Revocation of this Release must be made in writing and must be received by the General Counsel at the Company, 7777 Henneman Way, McKinney, Texas 75070 within the time period set forth above.

3. Governing Law. This Release shall be governed by and construed in accordance with the laws of the state of Texas, without giving effect to any choice of law or conflicting provision or rule (whether of the state of Texas or any other jurisdiction) that would cause the laws of any jurisdiction other than the state of Texas to be applied. In furtherance of the foregoing, the internal law of the state of Texas shall control the interpretation and construction of this Release, even if under such jurisdiction's choice of law or conflict of law analysis, the substantive law of some other jurisdiction would ordinarily apply. The provisions of this Release are severable, and if any part or portion of it is found to be unenforceable, all other parts and provisions shall remain fully valid and enforceable.

4. Effectiveness. This Release shall become effective and enforceable on the eighth day following its execution by Executive, provided that he does not exercise his right of revocation as described above. If Executive fails to sign and deliver this Release or revokes his signature, this Release shall be without force or effect, and Executive shall not be entitled to the payments and benefits of Section 4(a)(ii) of the Employment Agreement.

[Remainder of Page Intentionally Left Blank]

EXECUTIVE ACKNOWLEDGES THAT EXECUTIVE HAS READ THIS RELEASE AND THAT EXECUTIVE FULLY KNOWS, UNDERSTANDS AND APPRECIATES ITS CONTENTS, AND THAT EXECUTIVE HEREBY EXECUTES THE SAME AND MAKES THIS RELEASE AND THE RELEASE PROVIDED FOR HEREIN VOLUNTARILY AND OF EXECUTIVE'S OWN FREE WILL.

Date: December 9, 2019

/s/ David R. Brooks
David R. Brooks

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Section 6: EX-10.8 (EXHIBIT 10.8)

Exhibit 10.8

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is entered into by and between Independent Bank Group, Inc., a Texas corporation (the "Company"), and Daniel W. Brooks ("Executive") as of the 9 day of December 2019.

WHEREAS, the Company has entered into that certain Agreement and Plan of Merger, dated as of December 9, 2019 (the "Merger Agreement"), by and between the Company and Texas Capital Bancshares, Inc., a Delaware corporation ("Texas Capital"), pursuant to which Texas Capital will merge with and into the Company (the "Merger") so that the Company is the surviving entity in the Merger.

WHEREAS, the Company wishes to employ Executive on the terms and conditions, and for the consideration, hereinafter set forth, and Executive desires to be employed by the Company on such terms and conditions and for such consideration.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth below, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, it is hereby agreed as follows:

1. Employment Period. The Company hereby agrees to employ Executive, and Executive hereby agrees to be employed by the Company, subject to the terms and conditions of this Agreement, for the period commencing on the date of the closing of the Merger (the "Effective Date") and ending on the third (3rd) anniversary thereof (the "Employment Period"); provided, however, that commencing on the third (3rd) anniversary of the Effective Date, and on each annual anniversary thereafter (such date and each annual anniversary thereof shall be hereinafter referred to as the "Renewal Date"), unless previously terminated, the Employment Period shall be automatically extended so as to terminate one year from such Renewal Date, unless at least 90 days prior to the Renewal Date the Company shall give notice to Executive that the Employment Period shall not be so extended.

2. Terms of Employment.

(a) Position and Duties; Standard of Services; Location.

(i) Position and Duties. During the Employment Period, Executive shall serve as Vice Chairman of the Company and Independent Bank, with such duties and authority as are customarily associated with such positions in public companies. Executive shall report solely and directly to the Chief Executive Officer of the Company and Independent Bank.

(ii) Standard of Services. During the Employment Period, Executive agrees to devote his full business time, energy and skill to the performance of his duties, authorities and responsibilities to the Company and its affiliates and to use Executive’s best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period, Executive may serve on civic, charitable or other not-for-profit boards or committees, deliver lectures, fulfill speaking engagements or teach at educational institutions, manage personal investments and, subject to the prior written approval of the Board of Directors of the Company (the "Board") or a committee thereof, serve on boards of for-profit entities, in each case, so long as such activities do not materially interfere with the performance of Executive's duties and responsibilities or create a potential business or fiduciary conflict, and Executive complies with applicable provisions of any codes of business conduct and ethics of the Company and its affiliates, as in effect from time to time. For purposes of this Agreement, the term "affiliate" means an entity controlled by, controlling or under common control with the Company

(iii) Location. Executive's primary work location shall be at the Company's corporate headquarters in McKinney, Texas, subject to reasonable business travel at the Company's request.

(b) Compensation.

(i) Annual Base Salary. During the Employment Period, Executive shall receive an annual base salary equal to at least $575,000 (as in effect from time to time, the "Annual Base Salary"), payable in accordance with the Company's regular payroll practices. The Annual Base Salary shall be reviewed at least annually by the Board or an appropriate committee thereof (the Board or such committee, the "Committee") for possible increase, as determined in the sole and absolute discretion of the Committee, pursuant to the normal performance review policies for senior executives of the Company. Once the Annual Base Salary has been increased hereunder it shall not subsequently be decreased during the Employment Period.

(ii) Annual Bonus. Commencing with 2020, and for each year during the Employment Period thereafter, Executive shall be eligible to receive an annual cash bonus (the "Annual Bonus"), with a target opportunity equal to at least 100% of the Annual Base Salary (as in effect from time to time, the "Target Annual Bonus Opportunity"). The Target Annual Bonus Opportunity shall be reviewed at least annually by the Committee for possible increase, as determined in the sole and absolute discretion of the Committee, pursuant to the normal performance review policies for senior executives of the Company. Once the Target Annual Bonus Opportunity has been increased hereunder it shall not subsequently be decreased during the Employment Period. The Annual Bonus shall be determined by the Committee on the same basis as incentive award determinations are made for other senior executives of the Company and shall be paid to Executive at the same time that other senior executives of the Company who are eligible to receive annual bonus payments receive such payments (but no later than March 15th of the calendar year following the year with respect to which the Annual Bonus was earned).

(iii) Annual Long-Term Incentive Awards. During each year of the Employment Period, Executive shall be eligible to receive long-term incentive awards of the Company having an aggregate target grant date fair value equal to at least 135% of the Annual Base Salary (as in effect from time to time, the "Target Annual LTI Opportunity"), with the types of awards and amounts allocated to each type of award, and grant dates, to be consistent with the types, amounts and grant dates applicable to senior executives of the Company; provided, however, that all such awards shall contain termination vesting protections no less favorable than those set forth in this Agreement (all such awards, collectively, the "Annual LTI Grants"). The Target Annual LTI Opportunity shall be reviewed at least annually by the Committee for possible increase, as determined in the sole and absolute discretion of the Committee, pursuant to the normal performance review policies for senior executives of the Company. Once the Target Annual LTI Opportunity has been increased hereunder it shall not subsequently be decreased during the Employment Period.

(iv) Other Benefits. During the Employment Period, Executive shall be eligible for participation in retirement, welfare and other benefit plans, practices, policies and programs of the Company, on terms no less favorable than those provided to similarly situated executives.

(v) Expenses. During the Employment Period, Executive shall be entitled to receive reimbursement for all reasonable, documented business expenses incurred by Executive in accordance with the performance of Executive's duties under this Agreement, subject to the Company's policies with respect to expense reimbursement.

(vi) Transaction Award. In consideration of Executive's efforts in negotiating the Merger Agreement and completing all deliverables required leading up to the Effective Date, on the Effective Date, the Company shall make a lump sum cash payment to Executive equal to $2,000,000.

(vii) Sign-On Equity Award. On or as soon as reasonably practicable following the Effective Date (but in no event later than thirty (30) days following the Effective Date), in consideration for Executive's continued service to the Company and compliance with the covenants set forth in Section 5, the Company shall grant to Executive a restricted stock unit award (the "Sign-On Equity Award") in respect of 20,000 shares of common stock of the Company. The Sign-On Equity Award shall be composed of (A) 50% time-based restricted stock units, which shall vest in five (5) equal installments on each of the first five (5) anniversaries of the Effective Date, subject to Executive's continued employment with the Company through the applicable anniversary, and, except as provided in Section 4(a)(ii) or 4(b), shall be forfeited upon a termination of employment prior to such time, and (B) 50% performance-based restricted stock units, which shall vest in full on the fifth (5th) anniversary of the Effective Date based on the achievement of the applicable performance criteria developed by the Committee prior to the Effective Date, subject to Executive's continued employment with the Company through the fifth (5th) anniversary of the Effective Date, and, except as provided in Section 4(a)(ii) or 4(b), shall be forfeited upon a termination of employment prior to such time. Except as set forth above, the Sign-On Equity Award shall otherwise have terms and conditions consistent with the Company's standard form of restricted stock unit award agreement.

3. Termination of Employment.

(a) Death or Disability. Executive's employment shall terminate automatically upon Executive's death during the Employment Period. If the Company determines in good faith that the Disability (as defined below) of Executive has occurred during the Employment Period, it may provide Executive with written notice in accordance with Section

7(i) of its intention to terminate Executive's employment. In such event, Executive's employment with the Company shall terminate effective on the thirtieth (30th) day after receipt of such notice by Executive (the "Disability Effective Date"), provided that, within the thirty (30) days after such receipt, Executive shall not have returned to full-time performance of Executive's duties. For purposes of this Agreement, "Disability" shall mean Executive's inability to perform his employment duties due to his permanent and total disability as determined by a physician reasonably acceptable to the Company.

(b) Cause. The Company may terminate Executive's employment during the Employment Period either with or without Cause. For purposes of this Agreement, "Cause" shall mean (i) Executive's continued intentional failure or refusal to materially abide by the terms and conditions of this Agreement or perform substantially Executive's assigned duties (other than as a result of total or partial mental or physical incapacity); (ii) Executive's engagement in willful misconduct, including without limitation, fraud, embezzlement, theft or dishonesty, in the course of Executive's employment with the Company; (iii) Executive's conviction of, or plea of guilty or *nolo contendere* to a felony or a crime (other than a felony) that involves moral turpitude or a breach of trust or fiduciary duty owed to the Company or any of its affiliates; (iv) a material breach of the restrictive covenants in this Agreement; or (v) a material breach of the Company's Code of Conduct or another policy of the Company applicable to Executive, that does, or could reasonably be expected to, result in material harm to the Company, including reputational harm; provided that no act or failure to act, on the part of Executive, will be considered "willful" or "intentional" unless it is done, or omitted to be done, by Executive in bad faith or without reasonable belief that Executive's action or omission was in the best interests of the Company and its affiliates or if done based on the direction of the Board or on advice of counsel to the Company. If an action or omission constituting Cause is curable, Executive may be terminated under such clauses only if Executive has not cured such action or omission within thirty (30) days following written notice thereof from the Company.

(c) Good Reason. Executive's employment may be terminated by Executive with or without Good Reason. For purposes of this Agreement, "Good Reason" shall mean in the absence of the prior written consent of Executive:

(i) the assignment to Executive of any duties or responsibilities inconsistent in any material respect with Executive's position, status, office, title, reporting relationship, duties or responsibilities as set forth in this Agreement;

(ii) a reduction in the Annual Base Salary, Target Annual Bonus Opportunity or Target Annual LTI Opportunity;

(iii) a change by forty-five (45) miles or more in Executive's principal work location at the Company's corporate headquarters in McKinney, Texas;

(iv) the failure of the Board to appoint or re-elect Executive to any of the positions specifically provided for in this Agreement; or

(v) any other action or inaction that constitutes a material breach by the Company or any of its affiliates or any of their respective successors of its obligations to Executive under this Agreement;

provided, however, that Executive's termination of employment shall not be deemed to be for Good Reason unless (A) Executive has notified the Company in writing describing the occurrence of one (1) or more Good Reason events within ninety (90) days after Executive first becomes aware of such occurrence (or should have become aware of such occurrence), (B) the Company fails to cure such Good Reason event within thirty (30) days after its receipt of such written notice and (C) the termination of employment occurs within thirty (30) days following such failure to cure.

(d) Notice of Termination. Any termination of employment by the Company for Cause, or by Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 7(i). For purposes of this Agreement, the term "Notice of Termination" means a written notice that (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated, and (iii) if the Date of Termination (as defined herein) is other than the date of receipt of such notice, specifies the Date of Termination (which Date of Termination shall be not more than thirty (30) days after the giving of such notice). The failure by Executive or the Company to set forth in the Notice of Termination any fact or circumstance that contributes to a showing of Good Reason or Cause shall not waive any right of Executive or the Company, respectively, hereunder or preclude Executive or the Company, respectively, from asserting such fact or circumstance in enforcing Executive's or the Company's respective rights hereunder.

(e) Date of Termination. For purposes of this Agreement, the term "Date of Termination" means (i) if Executive's employment is terminated by the Company for Cause, or by Executive for Good Reason, the date of receipt of the Notice of Termination or such later date specified in the Notice of Termination, as the case may be, (ii) if Executive's employment is terminated by the Company other than for Cause or Disability, the date on which the Company notifies Executive of such termination, (iii) if Executive resigns without Good Reason, the date on which Executive notifies the Company of such termination, or (iv) if Executive's employment is terminated by reason of death or Disability, the date of Executive's death or the Disability Effective Date, as the case may be. Notwithstanding the foregoing, in no event shall the Date of Termination occur until Executive experiences a "separation from service" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended, and the date on which such separation from service takes place shall be the "Date of Termination."

4. Obligations of the Company upon Termination.

(a) By the Company other than for Cause; by Executive for Good Reason. If, during the Employment Period, the Company shall terminate Executive's employment other than for Cause or Executive shall terminate employment for Good Reason:

(i) The Company shall pay to Executive the following amounts in a lump sum in cash within thirty (30) days after the Date of Termination: (A) Executive's Annual Base Salary through the Date of Termination to the extent not theretofore paid, (B) any unpaid Annual Bonus from any prior completed calendar year, (C) Executive's business expenses that are reimbursable pursuant to Section 2(b)(vi) but have not been reimbursed by the Company as of the Date of Termination; and (D) any accrued vacation pay to the extent not theretofore paid (the sum of the amounts described in the foregoing subclauses (A), (B), (C) and (D), the "Accrued Obligations");

(ii) Subject to Section 4(d) and Executive's compliance with Section 5 (it being agreed that in the event that Executive does not comply with Section 5, Executive shall return any payments previously made pursuant to this Section 4(a)(ii)), Executive shall be entitled to:

(A) a prorated portion of Executive's target Annual Bonus for the calendar year during which the Date of Termination occurs, prorated based on the number of days Executive is employed with the Company in such year divided by the total number of days in such year, which amount shall be paid not more than sixty (60) days after the Date of Termination (the "Prorated Annual Incentive");

(B) a cash payment equal to the product of (I) the Severance Multiple (as defined below) *multiplied by* (II) the sum of (x) the Annual Base Salary and (y) the greater of (i) the Target Annual Bonus Opportunity and (ii) the average Annual Bonus actually paid to Executive (before any tax withholding) during the three (3) completed years prior to the Date of Termination, which amount shall be paid not more than sixty (60) days after the Date of Termination;

(C) effective as of the Date of Termination, (I) accelerated vesting in full of any unvested time-vesting long-term incentive awards (other than the Sign-On Equity Award), (II) any performance-vesting long-term incentive awards for which the performance period is complete shall vest in full and any such awards for which the performance period is not complete shall be earned as provided in the applicable award agreement and vest in full, and (III) any vested stock options or stock appreciation rights shall remain exercisable for the full remaining term (collectively, the "LTI Benefit");

(D) any portion of the Sign-On Equity Award that is unvested as of the Date of Termination shall continue to vest on the regularly scheduled vesting dates subject to Executive's continued compliance with Section 5;

(E) continued participation in the Independent Bank Survivor Benefit Plan through age 65;

(F) a cash payment equal to eighteen (18) months of COBRA premiums for the health care coverage that Executive had in place for him and his dependents, as applicable, on the Date of Termination, which amount shall be paid not more than sixty (60) days after the Date of Termination;

(iii) To the extent not theretofore paid or provided, the Company shall timely pay or provide to Executive any other amounts or benefits required to be paid or provided or which Executive is eligible to receive under any plan, program, policy or practice or contract or agreement of the Company and its affiliates through the Date of Termination (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits"), such Other Benefits to be paid or provided subject to and in accordance with the applicable terms of any such arrangements.

(iv) For purposes of this Section 4, the term "Severance Multiple" shall mean (A) except if the Date of Termination is within two (2) years following a Change in Control (as defined in the Company's 2013 Equity Incentive Plan) that occurs after the Effective Date, one (1), and (B) if the Date of Termination is within two (2) years following a Change in Control that occurs after the Effective Date, two (2).

(b) Due to Death or Disability. If, during the Employment Period, Executive's employment shall terminate due to his death or Disability, subject in the case of Sections 4(b)(ii) and 4(b)(iii) to Section 4(d) and in the event of Executive's Disability, Executive's compliance with Section 5 (it being agreed that in the event that Executive does not comply with Section 5, Executive shall return any payments previously made pursuant to Section 4(b)(ii) and 4(b)(iii)), the Company shall pay to Executive or his estate, on the schedule contemplated by Section 4(a), the Accrued Obligations, the Prorated Annual Incentive, the LTI Benefit, and the Other Benefits. In addition, (i) upon a termination due to Disability, the unvested portion of the Sign-On Equity Award shall vest on the regularly scheduled vesting dates subject to Section 4(d) and the Executive's continued compliance with Section 5 and the Independent Bank Survivor Benefit Plan benefit shall continue to be provided in the event of Executive's Disability on or prior to age 65, and, (ii) upon a termination due to death, the unvested portion of the Sign-On Equity Award shall vest in full on the date of Executive's death.

(c) Cause; Other than for Good Reason. If, during the Employment Period, Executive's employment shall be terminated for Cause or Executive terminates his employment other than for Good Reason, this Agreement shall terminate without further obligations to Executive other than the obligation to pay to Executive (i) the Accrued Obligations through the Date of Termination (excluding payment of any unpaid Annual Bonus from any prior completed calendar year) and (ii) Other Benefits, in each case to the extent theretofore unpaid. The Accrued Obligations shall be paid to Executive in a lump sum in cash within thirty (30) days of the Date of Termination.

(d) Separation Agreement and General Release. The Company's obligations to make payments under Section 4 (a)(ii) or Sections 4(b)(ii) and (b)(iii), as applicable, shall be conditioned on (i) Executive (or, in the event of Executive's death or Disability, his legal guardian or estate) executing and delivering (and not revoking) a separation agreement and general release (the "Release") in the form attached as Exhibit A hereto (with such revisions as may be appropriate to reflect changes in law or the successors and assigns of the Company and its affiliates), which Release must become effective not later than sixty (60) days following the Date of Termination. In the event that Executive (or his legal guardian or estate) does not so execute and deliver such release, or in the event that Executive (or his legal guardian or estate) revokes such release, the Company may require Executive (or his legal guardian or estate) to repay any amounts previously provided to him pursuant to Section 4(a)(ii) or Sections 4(b)(ii) and (b)(iii), as applicable.

(e) Full Settlement. The payments and benefits provided under this Section 4 shall be in full satisfaction of the obligations of the Company and its affiliates to Executive under this Agreement or any other plan, agreement, policy or arrangement of the Company and its Affiliates upon his termination of employment.

(f) No Mitigation. Executive shall have no obligation to mitigate any severance obligation of the Company under this Agreement by seeking new employment. The Company shall not be entitled to set off or reduce any severance payments owed to Executive under this Agreement by the amount of earnings or benefits received by Executive in future employment.

(g) Expiration of the Employment Period. Following the end of the Employment Period, if Executive remains employed by the Company or its affiliates, Executive's employment shall be at-will.

5. Executive Covenants.

(a) Confidentiality.

(i) Generally. Executive has and will have access to and participate in the development of or be acquainted with confidential or proprietary information and trade secrets related to the business of the Company and its subsidiaries and affiliates (collectively, the "Companies"), including but not limited to (A) business plans, operating plans, marketing plans, bid strategies, bid proposals, financial reports, operating data, budgets, wage and salary rates, pricing strategies and information, terms of agreements with suppliers or customers and others, customer lists and customer information, credit files, software programs, reports, correspondence, tapes, discs, tangible property and specifications owned by or used in the Companies' businesses, operating strengths and weaknesses of the Companies' officers, directors, employees, agents, suppliers and customers, (B) information pertaining to future developments such as, but not limited to, research and development, future marketing, products, distribution, delivery or merchandising plans or ideas, and potential new distribution or business locations, and (C) other tangible and intangible property, which are used in the business and operations of the Companies but not made publicly available (the "Confidential Information"); provided that the term Confidential Information shall not include information that is available or known to persons or entities outside of the Companies otherwise than as a result of a breach of a confidentiality agreement. Pursuant to his employment with the Companies, Executive agrees that he is or may be provided with access to Confidential Information to which he would not otherwise have access.

(ii) Assignment. Executive hereby assigns to the Companies, in consideration of his employment, all Confidential Information that may be developed by Executive at any time during his employment with the Companies, whether or not made or conceived during working hours, alone or with others, which related, directly or indirectly, to businesses or proposed businesses of the Companies, and Executive agrees that all such Confidential Information shall be the exclusive property of the Companies. Executive shall establish and maintain written records of all such Confidential Information with respect to inventions or similar intellectual property for the benefit of the Companies and shall execute and deliver to the Companies any specific assignments or other documents appropriate to vest title in such Confidential Information in the Companies or to obtain for the Companies legal protection for such Confidential Information.

(iii) Nondisclosure. Executive shall not disclose, use or make known for his or another's benefit any Confidential Information of the Companies or use such Confidential Information in any way except in the best interests of the Companies in the performance of Executive's duties under this Agreement.

(b) Return of Company's Property. Immediately upon termination of Executive's employment with the Company, Executive shall deliver to the Company all Confidential Information, documents, correspondence, notebooks, reports, computer programs, names of full-time and part-time employees and consultants, and all other materials and copies thereof (including computer discs and other electronic media) relating in any way to any business conducted by the Companies in any way obtained by Executive during the period of his employment or engagement with the Company. Immediately upon termination of Executive's employment with the Company, Executive shall deliver to the Company all tangible property of Company in the possession of Executive, including without limitation, telephones, facsimile machines, computers, leased automobiles and credit cards.

(c) Noncompetition and Nonsolicitation.

(i) Noncompete. In consideration for (A) the compensation provided to Executive by the Company under this Agreement and (B) the provision of Confidential Information, during the period of Executive's employment with the Companies and for a period of one (1) year following the termination of Executive's employment with the Companies for any reason (the "Restricted Period"), Executive shall not, directly or indirectly, without the written consent of the Board, own, manage, operate, control, be employed by in the same or in a similar manner to which Executive is employed by the Companies, consult with or participate in or be connected with any entity owning or having financial interest in, whether direct or indirect, a business entity which is in the same line or lines of business as and competes with any business of the Companies, if such business has a branch or other office of any kind located within fifteen (15) miles of any branch or office of the Companies, which the parties stipulate is a reasonable geographic area because of the scope of the Companies' operations and Executive's employment with the Companies. For purposes of this Section 5(c)(i), each of the following activities, without limitation, shall be deemed to constitute proscribed activities during the Restricted Period: to engage in, work with, have an interest in (other than interests of less than 1% in companies with securities traded on a nationally recognized stock exchange or interdealer quotation system), advise, consult, manage, operate, lend money to (other than interests of less than 1% in companies with securities traded on a nationally recognized stock exchange or interdealer quotation system), guarantee the debts or obligations of, or permit one's name or any part thereof to be used in connection with an enterprise or endeavor, either individually, in partnership or in conjunction with any person or persons, firm, association, company or corporation, whether as principal, director, agent, shareholder, partner, employee, consultant or in any other manner whatsoever. Executive may not avoid the purpose and intent of this Section 5(c) by engaging in conduct within the geographically limited area from a remote location through means such as telecommunications, written correspondence, computer generated or assisted communications, or other similar methods.

(ii) Nonsolicitation. During the Restricted Period, Executive shall not, directly or indirectly, (A) solicit for employment, or advise or recommend any entity to employ or solicit for employment, any person who is, or at any time within the one (1)-year period immediately prior to Executive's last day of employment was, an employee of the Companies, or (B) solicit the banking business of, or conduct any banking business with, any Restricted Customer of the Companies. For purposes of this Agreement, "Restricted Customer" means any individual, corporation, limited liability company, association, partnership, estate, trust, or any other entity or organization to which the Companies marketed, attempted to or actually promoted or provided products or services to at any time during the one (1)-year period immediately prior to Executive's last day of employment, and with respect to which Executive has participated in any efforts related to the marketing, negotiation or provision of products or services, had contact with or supervised employees who had contact with, or received Confidential Information about, within the one (1)-year period immediately prior to Executive's last day of employment. This Section 5(c)(ii) shall be geographically limited to wherever any Restricted Customer can be found or is available for solicitation or to do business with, which the parties stipulate is a reasonable geographic area because of the scope of the Companies' operations and Executive's employment with the Companies. Executive may not avoid the purpose and intent of this Section 5(c)(ii) by engaging in conduct within the geographically limited area from a remote location through means such as telecommunications, written correspondence, computer generated or assisted communications, or other similar methods.

(iii) Reasonable and Necessary. Executive agrees that the above covenants are reasonable and necessary agreements for the protection of the business interests covered in the fully enforceable, ancillary agreements set forth in this Agreement.

(d) Nondisparagement. From and following the Effective Date, Executive shall not make, either directly or by or through another person, any oral or written negative, disparaging or adverse statements or representations of or concerning the Companies, any of their clients or businesses or any of their current or former directors, officers or employees; provided, however, that, subject to Section 5(a), nothing herein shall prohibit Executive from disclosing truthful information if legally required (whether by oral questions, interrogatories, requests for information or documents, subpoena, civil investigative demand or similar process). In the event of Executive's termination of employment, the Company shall instruct its senior executive officers not to make, either directly or by or through another person, any oral or written negative, disparaging or adverse statements or representations of or concerning Executive or any of his agents or related parties; provided, however, that nothing herein shall prohibit any such individuals from disclosing truthful information if legally required (whether by oral questions, interrogatories, requests for information or documents, subpoena, civil investigative demand or similar process).

(e) Cooperation. Executive agrees that following Executive's termination of employment, upon the reasonable request of the Company or any of its affiliates, Executive shall use reasonable efforts to assist and cooperate with the Company or any of its affiliates in connection with the defense or prosecution of any claim that may be made against or by the Company or any of its affiliates, or in connection with any ongoing or future investigation or dispute or claim of any kind involving the Company or any of its affiliates, including any proceedings before any arbitral, administrative, regulatory, judicial, legislative or other body or agency; provided that the Company shall provide Executive with reasonable compensation for the time actually expended in such endeavors (at an hourly rate based on the Annual Base Salary) and shall reimburse Executive's reasonable business expenses incurred in connection with such cooperation to the extent that such expenses would have been reimbursed under Section 2(b)(v) had they been incurred during the Employment Period.

(f) Trade Secrets; Whistleblower Rights. The Company hereby informs Executive that, notwithstanding any provision of this Agreement to the contrary, an individual may not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that (i) is made in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, and solely for the purpose of reporting or investigating a suspected violation of law, or (ii) is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding. Further, an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the employer's trade secrets to the attorney and use the trade secret information in the court proceeding if the individual files any document containing the trade secret under seal and does not disclose the trade secret, except pursuant to court order. In addition, notwithstanding anything in this Agreement to the contrary, nothing in this Agreement shall impair Executive's rights under the whistleblower provisions of any applicable federal law or regulation or, for the avoidance of doubt, limit Executive's right to receive an award for information provided to any government authority under such law or regulation.

(g) Acknowledgments and Remedies.

(i) Executive acknowledges that the Company and its affiliates have (A) expended and will continue to expend substantial amounts of time, money and effort to develop business strategies, employee, customer and other relationships and goodwill to build an effective organization, and (B) a legitimate business interest in and right to protect their Confidential Information, goodwill and employee, customer and other relationships.

(ii) Executive understands that the covenants contained in this Section 5 may limit Executive's ability to earn a livelihood in a business similar to the business of the

Company, and Executive represents that his experience and capabilities are such that he has other opportunities to earn a livelihood and adequate means of support for himself and his dependents.

(iii) Any termination of (A) Executive's employment, (B) the Employment Period or (C) this Agreement shall have no effect on the continuing obligations of Executive under this Section 5 or operation of this Section 5.

(iv) Executive acknowledges that a violation by Executive of any of the covenants contained in this Section 5 would cause irreparable damage to the Companies in an amount that would be material but not readily ascertainable, and that any remedy at law (including the payment of damages) would be inadequate. Accordingly, Executive agrees that, notwithstanding any provision of this Agreement to the contrary, in addition to any other damages it is able to show, in the event of a material breach by Executive of any of the covenants contained in this Section 5, the Companies shall be entitled (without the necessity of showing economic loss or other actual damage) to (A) cease payment of the compensation and benefits contemplated by Section 4 to the extent not previously paid or provided (including ceasing vesting of outstanding equity awards), (B) the prompt return by Executive of any portion of such compensation and the value of such benefits previously paid or provided (including forfeiture of any equity awards that vested pursuant to Section 4 or the repayment of the value of any equity awards that vested pursuant to Section 4 that have been exercised or settled, as applicable) and (C) injunctive relief (including temporary restraining orders, preliminary injunctions and permanent injunctions), without posting a bond, in any court of competent jurisdiction for any actual or threatened breach of any of the covenants set forth in this Section 5 in addition to any other legal or equitable remedies they may have. The preceding sentence shall not be construed as a waiver of the rights that the Companies may have for damages under this Agreement or otherwise, and all such rights shall be unrestricted. The Restricted Period shall be tolled during (and shall be deemed automatically extended by) any period during which Executive is in violation of the provisions of Section 5(c) or (d), as applicable. In the event that a court of competent jurisdiction determines that any provision of this Section 5 is invalid or more restrictive than permitted under the governing law of such jurisdiction, then, only as to enforcement of this Section 5 within the jurisdiction of such court, such provision shall be interpreted and enforced as if it provided for the maximum restriction permitted under such governing law.

6. Treatment of Certain Payments

(a) Anything in this Agreement to the contrary notwithstanding, in the event the Accounting Firm (as defined below) shall determine that receipt of all Payments (as defined below) would subject Executive to the excise tax under Section 4999 of the Code, the Accounting Firm shall determine whether to reduce any of the Payments paid or payable pursuant to this Agreement (the "Agreement Payments") so that the Parachute Value (as defined below) of all Payments, in the aggregate, equals the Safe Harbor Amount (as defined below). The Agreement Payments shall be so reduced only if the Accounting Firm determines that Executive would have a greater Net After-Tax Receipt (as defined below) of aggregate Payments if the Agreement Payments were so reduced. If the Accounting Firm determines that Executive would not have a greater Net After-Tax Receipt (as defined below) of aggregate Payments if the Agreement Payments were so reduced, Executive shall receive all of the Agreement Payments to which Executive is entitled hereunder.

(b) If the Accounting Firm determines that the aggregate Agreement Payments should be reduced so that the Parachute Value of all Payments, in the aggregate, equals the Safe Harbor Amount, the Company shall promptly give Executive notice to that effect and a copy of the detailed calculation thereof. All determinations made by the Accounting Firm under this Section 6 shall be binding upon the Company and Executive and shall be made as soon as reasonably practicable following an Agreement Payment becoming due. For purposes of reducing the Agreement Payments so that the Parachute Value of all Payments, in the aggregate, equals the Safe Harbor Amount, only amounts payable under this Agreement (and no other Payments) shall be reduced. The reduction of the amounts payable hereunder, if applicable, shall be made by reducing the payments and benefits under the following sections in the following order: (i) cash payments that may not be valued under Treas. Reg. § 1.280G-1, Q&A-24(c) ("24(c)"), (ii) equity-based payments that may not be valued under 24(c), (iii) cash payments that may be valued under 24(c), (iv) equity-based payments that may be valued under 24(c) and (v) other types of benefits. With respect to each category of the foregoing, such reduction shall occur first (1st) with respect to amounts that are not "deferred compensation" within the meaning of Section 409A of the Code and next with respect to payments that are deferred compensation, in each case, beginning with payments or benefits that are to be paid the farthest in time from the Accounting Firm's determination. All fees and expenses of the Accounting Firm shall be borne solely by the Company.

(c) To the extent requested by Executive, the Company shall cooperate with Executive in good faith in valuing, and the Accounting Firm shall take into account the value of, services provided or to be provided by Executive (including Executive's agreeing to refrain from performing services pursuant to a covenant not to compete or similar covenant), before, on or after the date of a change in ownership or control of the Company (within the meaning of Q&A-2(b) of the final regulations under Section 280G of the Code), such that payments in respect of such services may be considered reasonable compensation within the meaning of Q&A-9 and Q&A-40 to Q&A-44 of the final regulations under Section 280G of the Code and/or exempt from the definition of the term "parachute payment" within the meaning of Q&A-2(a) of the final regulations under Section 280G of the Code in accordance with Q&A-5(a) of the final regulations under Section 280G of the Code.

(d) The following terms shall have the following meanings for purposes of this Section 6:

(i) "Accounting Firm" shall mean a nationally recognized certified public accounting firm or other professional organization that is a certified public accounting firm recognized as an expert in determinations and calculations for purposes of Section 280G of the Code that is selected by the Company prior to a Change in Control for purposes of making the applicable determinations hereunder and is reasonably acceptable to Executive, which firm shall not, without Executive's consent, be a firm serving as accountant or auditor for the individual, entity or group effecting the Change in Control.

(ii) "Net After-Tax Receipt" shall mean the present value (as determined in accordance with Sections 280G(b)(2)(A)(ii) and 280G(d)(4) of the Code) of a Payment net of all taxes imposed on Executive with respect thereto under Sections 1 and 4999 of the Code and under applicable state and local laws, determined by applying the highest marginal rate under Section 1 of the Code and under state and local laws which applied to Executive's taxable income for the immediately preceding taxable year, or such other rate(s) as the Accounting Firm determines to be likely to apply to Executive in the relevant tax year(s).

(iii) "Parachute Value" of a Payment shall mean the present value as of the date of the change of control for purposes of Section 280G of the Code of the portion of such Payment that constitutes a "parachute payment" under Section 280G(b)(2) of the Code, as determined by the Accounting Firm for purposes of determining whether and to what extent the excise tax under Section 4999 of the Code will apply to such Payment.

(iv) "Payment" shall mean any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of Executive, whether paid or payable pursuant to this Agreement or otherwise.

(v) "Safe Harbor Amount" shall mean 2.99 *multiplied by* Executive's "base amount," within the meaning of Section 280G(b)(3) of the Code.

7. Miscellaneous.

(a) Governing Law; Venue. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas, without reference to principles of conflict of laws. The parties irrevocably submit to the jurisdiction of any state or federal court sitting in or for Collin County, Texas with respect to orders in aid or enforcement of arbitration awards and injunctive relief, and each party irrevocably agrees that all claims in respect of such dispute or proceeding shall be heard and determined in such courts. The parties hereby irrevocably waive, to the fullest extent permitted by law, any objection that they may now or hereafter have to the venue of any dispute arising out of or relating to this Agreement or the transactions contemplated hereby brought in such court or any defense of inconvenient forum for the maintenance of such dispute or proceeding. Each party agrees that a judgment in any such dispute may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. THE PARTIES HEREBY WAIVE A TRIAL BY JURY IN ANY ACTION, PROCEEDING, CLAIM OR COUNTER CLAIM BROUGHT OR ASSERTED BY EITHER OF THE PARTIES HERETO AGAINST THE OTHER ON ANY MATTERS WHATSOEVER ARISING OUT OF OR IN ANY WAY RELATED TO THIS AGREEMENT.

(b) Dispute Resolutions. Any and all disputes that arise out of or relate to the provisions of this Agreement or the alleged breach thereof (other than orders in aid or enforcement of arbitration awards and injunctive relief) shall be resolved by arbitration in accordance with the Federal Arbitration Act and in accordance with the Employment Arbitration

Rules of the American Arbitration Association (the "AAA") before a single arbitrator who shall be selected in accordance with the AAA rules. The arbitrator must have at least ten (10) years' experience in employment matters. Arbitration will be conducted in Collin County, Texas. Judgment may be entered upon the final award of the arbitrator.

(c) Indemnification. The Company shall, to the maximum extent to which it is empowered by its governing documents and the laws of the State of Texas, defend, indemnify and hold harmless Executive from and against any and all demands, claims and causes of action made against Executive concerning or relating to his service, actions or omissions on behalf of the Company or its affiliates as an employee, director, officer, or agent, including, without limitation, holding Executive harmless for any losses, costs and expenses in connection with any such demand, claim, or cause of action. Executive shall be covered by directors and officers insurance that the Company provides from time to time to its directors and executives, on terms no less favorable than those provided to similarly situated executives, both during Executive's employment by the Company and for such period thereafter that the Company provides insurance coverage to its similarly situated former executives.

(d) Interpretation. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. For purposes of this Agreement, the term "including" shall mean "including, without limitation" and the word "or" shall be understood to mean "and/or."

(e) Amendments; No Waiver. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives. Executive's or the Company's failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right Executive or the Company may have hereunder shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(f) Survival. The provisions of this Agreement that by their terms call for performance subsequent to the termination of either Executive's employment or this Agreement (including the terms of Sections 4, 5, 6 and 7(c)) shall survive such termination.

(g) Invalidity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(h) Successors. This Agreement is personal to Executive and without the prior written consent of the Company shall not be assignable by Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by Executive's legal representatives. This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid that assumes and agrees to perform this Agreement by operation of law, or otherwise.

(i) Notices. All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to Executive: At the most recent address
on file at the Company.

If to the Company: Independent Bank Group, Inc.
7777 Henneman Way
McKinney, Texas 75070
Attention: General Counsel

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(j) Tax Withholding. The Company may withhold from any amounts payable under this Agreement such federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(k) Section 409A.

(i) General. It is intended that payments and benefits made or provided under this Agreement shall not result in penalty taxes or accelerated taxation pursuant to Section 409A of the Code. Any payments that qualify for the "short-term deferral" exception, the separation pay exception or another exception under Section 409A of the Code shall be paid under the applicable exception. For purposes of the limitations on nonqualified deferred compensation under Section 409A of the Code, each payment of compensation under this Agreement shall be treated as a separate payment of compensation. All payments to be made upon a termination of employment under this Agreement may only be made upon a "separation from service" under Section 409A of the Code to the extent necessary in order to avoid the imposition of penalty taxes on Executive pursuant to Section 409A of the Code. In no event may Executive, directly or indirectly, designate the calendar year of any payment under this Agreement, and to the extent required by Section 409A of the Code, any payment that may be paid in more than one (1) taxable year shall be paid in the later taxable year.

(ii) Reimbursements and In-Kind Benefits. Notwithstanding anything to the contrary in this Agreement, all reimbursements and in-kind benefits provided under this Agreement that are subject to Section 409A of the Code shall be made in accordance with the requirements of Section 409A of the Code, including, where applicable, the requirement that (A) any reimbursement is for expenses incurred during Executive's lifetime (or during a shorter period of time specified in this Agreement); (B) the amount of expenses eligible for reimbursement, or in-kind benefits provided, during a calendar year may not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other calendar year; (C) the reimbursement of an eligible expense will be made no later than the last day of the calendar year following the year in which the expense is incurred; and (D) the right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit.

(iii) Delay of Payments. Notwithstanding any other provision of this Agreement to the contrary, if Executive is considered a "specified employee" for purposes of Section 409A of the Code (as determined in accordance with the methodology established by the Company and its affiliates as in effect on the Date of Termination), any payment that constitutes nonqualified deferred compensation within the meaning of Section 409A of the Code that is otherwise due to Executive under this Agreement during the six (6)-month period immediately following Executive's separation from service on account of Executive's separation from service shall instead be paid, with interest (based on the rate in effect for the month in which Executive's separation from service occurs), on the first business day of the seventh (7th) month following his separation from service (the "Delayed Payment Date"), to the extent necessary to prevent the imposition of tax penalties on Executive under Section 409A of the Code. If Executive dies during the postponement period, the amounts and entitlements delayed on account of Section 409A of the Code shall be paid to the personal representative of his estate on the first to occur of the Delayed Payment Date or thirty (30) calendar days after the date of Executive's death.

(l) Effective Date; Entire Agreement. This Agreement shall become effective on the Effective Date, subject to Executive's continued employment with the Company through such date. If Executive's employment with the Company terminates for any reason before the Effective Date or the Merger Agreement is terminated before the closing of the Merger, this Agreement shall terminate automatically and be of no further force or effect, and neither of the parties shall have any obligations hereunder. Effective on the Effective Date, this Agreement shall constitute the entire agreement between the parties and, as of the Effective Date, terminates and supersedes any and all prior agreements and understandings (whether written or oral) between the parties with respect to the subject matter of this Agreement (including the Change in Control Agreement between Executive and the Company dated as of July 26, 2016); provided, however, that the covenants set forth in Section 5 of this Agreement shall be in addition to, and shall not supersede, any restrictive covenants to which Executive is otherwise subject under any other plan, agreement or arrangement of the Companies.

(m) Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, Executive has hereunto set Executive's hand and, the Company has caused these presents to be executed in its name and on its behalf, all as of the day and year first above written.

INDEPENDENT BANK GROUP, INC.

By: /s/ David R. Brooks
Name: David R. Brooks
Title: Chairman of the Board, President and Chief Executive Officer

EXECUTIVE

/s/ Daniel W. Brooks
Daniel W. Brooks

[Signature Page to Employment Agreement]

Exhibit A

FORM OF RELEASE

THIS RELEASE (this "Release") is entered into between Daniel W. Brooks ("Executive") and Independent Bank Group, Inc. (the "Company") for the benefit of the Company and its affiliates. The entering into and non-revocation of this Release is a condition to Executive's right to receive certain payments and benefits under Sections [4(a)(ii)][4(b)(ii) and 4(b)(iii)] of the Employment Agreement entered into by and between Executive and the Company, dated as of December 9, 2019 (the "Employment Agreement"). Capitalized terms used and not defined herein shall have the meaning provided in the Employment Agreement.

Accordingly, Executive and the Company agree as follows.

1. General Release and Waiver of Claims. In consideration for the payments and other benefits provided to Executive by the Employment Agreement, to which Executive is not otherwise entitled, and the sufficiency of which Executive acknowledges, Executive represents and agrees, as follows:

(a) Release. Executive, for himself, his heirs, administrators, representatives, executors, successors and assigns (collectively "Releasers"), hereby irrevocably and unconditionally releases, acquits and forever discharges and agrees not to sue the Company or any of its subsidiaries, divisions, affiliates and related entities and its current and former directors, officers, shareholders, trustees, employees, consultants, independent contractors, representatives, agents, servants, successors and assigns and all persons acting by, through or under or in concert with any of them (collectively "Releasees"), from any and all claims, rights and liabilities up to and including the date of this Release arising from or relating to Executive's employment with, or termination of employment from, the Company, under the Employment Agreement and from any and all charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of actions, suits, rights, demands, costs, losses, debts and expenses of any nature whatsoever, known or unknown, suspected or unsuspected and any claims of wrongful discharge, breach of contract, implied contract, promissory estoppel, defamation, slander, libel, tortious conduct, employment discrimination or claims under any federal, state or local employment statute, law, order or ordinance, including any rights or claims arising under Title VII of the Civil Rights Act of 1964, as amended, the Age Discrimination in Employment Act of 1967, as amended, 29 U.S.C. § 621 et seq. ("ADEA"), or any other federal, state or municipal ordinance relating to discrimination in employment. Nothing contained herein shall restrict the parties' rights to enforce the terms of this Release.

(b) Proceedings; Whistleblower Rights. To the maximum extent permitted by law, Executive agrees that he has not filed, nor will he ever file, a lawsuit asserting any claims that are released by this Release, or to accept any benefit from any lawsuit that might be filed by another person or government entity based in whole or in part on any event, act, or omission that is the subject of this Release. Notwithstanding the foregoing, nothing in this Release shall impair Executive's rights under the whistleblower provisions of any applicable federal law or regulation or, for the avoidance of doubt, limit Executive's right to receive an award for information provided to any government authority under such law or regulation.

(c) Exclusions. This Release specifically excludes Executive's rights and the Company's obligations under Sections 4(a) and 4(b) of the Employment Agreement. Excluded from this Release are: (i) any claims that cannot be waived by law; (ii) Executive's rights to receive any payments or benefits under Section 4 of the Employment Agreement; (iii) any rights Executive may have to receive vested amounts under any of the Company's employee benefit plans and/or pension plans or programs; (iv) Executive's rights in and to any equity or ownership interest that Executive continues to hold following his termination of employment; (v) Executive's rights to medical benefit continuation coverage pursuant to federal law (COBRA); (vi) any rights or claims that the law does not allow to be released and/or waived by private agreement; (vii) any rights or claims that are based on events occurring after the date on which Executive signs this Release; or (viii) any claims to indemnification or insurance coverage, including but not limited to "D&O coverage", that Executive may have with respect to any claims made or threatened against Executive in Executive's capacity as a director, officer or employee of the Company or the Releasees. Nothing contained in this Release shall release Executive from his obligations, including any obligations to abide by the covenants set forth in Section 5 of the Employment Agreement and any other restrictive covenants applicable to Executive that continue or are to be performed following termination of employment.

(d) EEOC Matters. The parties agree that this Release shall not affect the rights and responsibilities of the U.S. Equal Employment Opportunity Commission (the "EEOC") to enforce ADEA and other laws. In addition, the parties agree that this Release shall not be used to justify interfering with Executive's protected right to file a charge or participate in an investigation or proceeding conducted by the EEOC. The parties further agree that Executive knowingly and voluntarily waives all rights or claims (that arose prior to Executive's execution of this Release) the Releasers may have against the Releasees, or any of them, to receive any benefit or remedial relief (including, but not limited to, reinstatement, back pay, front pay, damages, attorneys' fees, experts' fees) as a consequence of any investigation or proceeding conducted by the EEOC.

2. Acknowledgements. Executive acknowledges that the Company has specifically advised him of the right to seek the advice of an attorney concerning the terms and conditions of this Release. Executive further acknowledges that he has been furnished with a copy of this Release, and he has been afforded [twenty-one (21)/forty-five (45)] days in which to consider the terms and conditions set forth above prior to this Release. By executing this Release, Executive affirmatively states that he has had sufficient and reasonable time to review this Release and to consult with an attorney concerning his legal rights prior to the final execution of this Release. Executive further agrees that he has carefully read this Release and fully understands its terms. Executive understands that he may revoke this Release within seven (7) days after signing this Release. Revocation of this Release must be made in writing and must be received by the General Counsel at the Company, 7777 Henneman Way, McKinney, Texas 75070 within the time period set forth above.

3. Governing Law. This Release shall be governed by and construed in accordance with the laws of the state of Texas, without giving effect to any choice of law or conflicting provision or rule (whether of the state of Texas or any other jurisdiction) that would cause the laws of any jurisdiction other than the state of Texas to be applied. In furtherance of the foregoing, the internal law of the state of Texas shall control the interpretation and construction of this Release, even if under such jurisdiction's choice of law or conflict of law analysis, the substantive law of some other jurisdiction would ordinarily apply. The provisions of this Release are severable, and if any part or portion of it is found to be unenforceable, all other parts and provisions shall remain fully valid and enforceable.

4. Effectiveness. This Release shall become effective and enforceable on the eighth day following its execution by Executive, provided that he does not exercise his right of revocation as described above. If Executive fails to sign and deliver this Release or revokes his signature, this Release shall be without force or effect, and Executive shall not be entitled to the payments and benefits of Section 4(a)(ii) of the Employment Agreement.

[Remainder of Page Intentionally Left Blank]

EXECUTIVE ACKNOWLEDGES THAT EXECUTIVE HAS READ THIS RELEASE AND THAT EXECUTIVE FULLY KNOWS, UNDERSTANDS AND APPRECIATES ITS CONTENTS, AND THAT EXECUTIVE HEREBY EXECUTES THE SAME AND MAKES THIS RELEASE AND THE RELEASE PROVIDED FOR HEREIN VOLUNTARILY AND OF EXECUTIVE'S OWN FREE WILL.

Date: December 9, 2019 /s/ Daniel W. Brooks

Daniel W. Brooks

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Section 7: EX-10.9A (EXHIBIT 10.9A)

Exhibit 10.9(a)

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is entered into by and between Independent Bank Group, Inc., a Texas corporation (the "Company"), and __________________ ("Executive") as of the 9th day of December 2019.

WHEREAS, the Company has entered into that certain Agreement and Plan of Merger, dated as of December 9, 2019 (the "Merger Agreement"), by and between the Company and Texas Capital Bancshares, Inc., a Delaware corporation ("Texas Capital"), pursuant to which Texas Capital will merge with and into the Company (the "Merger") so that the Company is the surviving entity in the Merger.

WHEREAS, the Company wishes to employ Executive on the terms and conditions, and for the consideration, hereinafter set forth, and Executive desires to be employed by the Company on such terms and conditions and for such consideration.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth below, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, it is hereby agreed as follows:

1. Employment Period. The Company hereby agrees to employ Executive, and Executive hereby agrees to be employed by the Company, subject to the terms and conditions of this Agreement, for the period commencing on the date of the closing of the Merger (the "Effective Date") and ending on the third (3rd) anniversary thereof (the "Employment Period"); provided, however, that commencing on the third (3rd) anniversary of the Effective Date, and on each annual anniversary thereafter (such date and each annual anniversary thereof shall be hereinafter referred to as the "Renewal Date"), unless previously terminated, the Employment Period shall be automatically extended so as to terminate one year from such Renewal Date, unless at least 90 days prior to the Renewal Date the Company shall give notice to Executive that the Employment Period shall not be so extended.

2. Terms of Employment.

(a) Position and Duties; Standard of Services; Location.

(i) Position and Duties. During the Employment Period, Executive shall serve as ________________________ of the Company and Independent Bank, with such duties and authority as are customarily associated with such positions in public companies. Executive shall report solely and directly to the Chief Executive Officer of the Company and Independent Bank.

(ii) Standard of Services. During the Employment Period, Executive agrees to devote his full business time, energy and skill to the performance of his duties, authorities and responsibilities to the Company and its affiliates and to use Executive’s best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period, Executive may serve on civic, charitable or other not-for-profit boards or committees, deliver lectures, fulfill speaking engagements or teach at educational institutions, manage personal investments and, subject to the prior written approval of the Board of Directors of the Company (the "Board") or a committee thereof, serve on boards of for-profit entities, in each case, so long as such activities do not materially interfere with the performance of Executive's duties and responsibilities or create a potential business or fiduciary conflict, and Executive complies with applicable provisions of any codes of business conduct and ethics of the Company and its affiliates, as in effect from time to time. For purposes of this Agreement, the term "affiliate" means an entity controlled by, controlling or under common control with the Company

(iii) Location. Executive's primary work location shall be at the Company's corporate headquarters in McKinney, Texas, subject to reasonable business travel at the Company's request.

(b) Compensation.

(i) Annual Base Salary. During the Employment Period, Executive shall receive an annual base salary equal to at least $________ (as in effect from time to time, the "Annual Base Salary"), payable in accordance with the Company's regular payroll practices. The Annual Base Salary shall be reviewed at least annually by the Board or an appropriate committee thereof (the Board or such committee, the "Committee") for possible increase, as determined in the sole and absolute discretion of the Committee, pursuant to the normal performance review policies for senior executives of the Company. Once the Annual Base Salary has been increased hereunder it shall not subsequently be decreased during the Employment Period.

(ii) Annual Bonus. Commencing with 2020, and for each year during the Employment Period thereafter, Executive shall be eligible to receive an annual cash bonus (the "Annual Bonus"), with a target opportunity equal to at least _____% of the Annual Base Salary (as in effect from time to time, the "Target Annual Bonus Opportunity"). The Target Annual Bonus Opportunity shall be reviewed at least annually by the Committee for possible increase, as determined in the sole and absolute discretion of the Committee, pursuant to the normal performance review policies for senior executives of the Company. Once the Target Annual Bonus Opportunity has been increased hereunder it shall not subsequently be decreased during the Employment Period. The Annual Bonus shall be determined by the Committee on the same basis as incentive award determinations are made for other senior executives of the Company and shall be paid to Executive at the same time that other senior executives of the Company who are eligible to receive annual bonus payments receive such payments (but no later than March 15th of the calendar year following the year with respect to which the Annual Bonus was earned).

(iii) Annual Long-Term Incentive Awards. During each year of the Employment Period, Executive shall be eligible to receive long-term incentive awards of the Company having an aggregate target grant date fair value equal to at least _____% of the Annual Base Salary (as in effect from time to time, the "Target Annual LTI Opportunity"), with the types of awards and amounts allocated to each type of award, and grant dates, to be consistent with the types, amounts and grant dates applicable to senior executives of the Company; provided, however, that all such awards shall contain termination vesting protections no less favorable than those set forth in this Agreement (all such awards, collectively, the "Annual LTI Grants"). The Target Annual LTI Opportunity shall be reviewed at least annually by the Committee for possible increase, as determined in the sole and absolute discretion of the Committee, pursuant to the normal performance review policies for senior executives of the Company. Once the Target Annual LTI Opportunity has been increased hereunder it shall not subsequently be decreased during the Employment Period.

(iv) Other Benefits. During the Employment Period, Executive shall be eligible for participation in retirement, welfare and other benefit plans, practices, policies and programs of the Company, on terms no less favorable than those provided to similarly situated executives.

(v) Expenses. During the Employment Period, Executive shall be entitled to receive reimbursement for all reasonable, documented business expenses incurred by Executive in accordance with the performance of Executive's duties under this Agreement, subject to the Company's policies with respect to expense reimbursement.

(vi) Sign-On Equity Award. On or as soon as reasonably practicable following the Effective Date (but in no event later than thirty (30) days following the Effective Date), in consideration for Executive's continued service to the Company and compliance with the covenants set forth in Section 5, the Company shall grant to Executive a restricted stock unit award (the "Sign-On Equity Award") in respect of ______ shares of common stock of the Company. The Sign-On Equity Award shall be composed of (A) 50% time-based restricted stock units, which shall vest in five (5) equal installments on each of the first five (5) anniversaries of the Effective Date, subject to Executive's continued employment with the Company through the applicable anniversary, and, except as provided in Sections 4(a)(ii) or 4(b), shall be forfeited upon a termination of employment prior to such time, and (B) 50% performance-based restricted stock units, which shall vest in full on the fifth (5th) anniversary of the Effective Date based on the achievement of the applicable performance criteria developed by the Committee prior to the Effective Date, subject to Executive's continued employment with the Company through the fifth (5th) anniversary of the Effective Date, and, except as provided in Sections 4(a)(ii) or 4(b), shall be forfeited upon a termination of employment prior to such time. Except as set forth above, the Sign-On Equity Award shall otherwise have terms and conditions consistent with the Company's standard form of restricted stock unit award agreement.

3. Termination of Employment.

(a) Death or Disability. Executive's employment shall terminate automatically upon Executive's death during the Employment Period. If the Company determines in good faith that the Disability (as defined below) of Executive has occurred during the Employment Period, it may provide Executive with written notice in accordance with Section 7(i) of its intention to terminate Executive's employment. In such event, Executive's employment with the Company shall terminate effective on the thirtieth (30th) day after receipt of such notice by Executive (the "Disability Effective Date"), provided that, within the thirty (30) days after such receipt, Executive shall not have returned to full-time performance of

Executive's duties. For purposes of this Agreement, "Disability" shall mean Executive's inability to perform his employment duties due to his permanent and total disability as determined by a physician reasonably acceptable to the Company.

(b) Cause. The Company may terminate Executive's employment during the Employment Period either with or without Cause. For purposes of this Agreement, "Cause" shall mean (i) Executive's continued intentional failure or refusal to materially abide by the terms and conditions of this Agreement or perform substantially Executive's assigned duties (other than as a result of total or partial mental or physical incapacity); (ii) Executive's engagement in willful misconduct, including without limitation, fraud, embezzlement, theft or dishonesty, in the course of Executive's employment with the Company; (iii) Executive's conviction of, or plea of guilty or *nolo contendere* to a felony or a crime (other than a felony) that involves moral turpitude or a breach of trust or fiduciary duty owed to the Company or any of its affiliates; (iv) a material breach of the restrictive covenants in this Agreement; or (v) a material breach of the Company's Code of Conduct or another policy of the Company applicable to Executive, that does, or could reasonably be expected to, result in material harm to the Company, including reputational harm; provided that no act or failure to act, on the part of Executive, will be considered "willful" or "intentional" unless it is done, or omitted to be done, by Executive in bad faith or without reasonable belief that Executive's action or omission was in the best interests of the Company and its affiliates or if done based on the direction of the Board or on advice of counsel to the Company. If an action or omission constituting Cause is curable, Executive may be terminated under such clauses only if Executive has not cured such action or omission within thirty (30) days following written notice thereof from the Company.

(c) Good Reason. Executive's employment may be terminated by Executive with or without Good Reason. For purposes of this Agreement, "Good Reason" shall mean in the absence of the prior written consent of Executive:

(i) the assignment to Executive of any duties or responsibilities inconsistent in any material respect with Executive's position, status, office, title, reporting relationship, duties or responsibilities as set forth in this Agreement;

(ii) a reduction in the Annual Base Salary, Target Annual Bonus Opportunity or Target Annual LTI Opportunity;

(iii) a change by forty-five (45) miles or more in Executive's principal work location at the Company's corporate headquarters in McKinney, Texas;

(iv) the failure of the Board to appoint or re-elect Executive to any of the positions specifically provided for in this Agreement; or

(v) any other action or inaction that constitutes a material breach by the Company or any of its affiliates or any of their respective successors of its obligations to Executive under this Agreement;

provided, however, that Executive's termination of employment shall not be deemed to be for Good Reason unless (A) Executive has notified the Company in writing describing the occurrence of one (1) or more Good Reason events within ninety (90) days after Executive first becomes aware of such occurrence (or should have become aware of such occurrence), (B) the Company fails to cure such Good Reason event within thirty (30) days after its receipt of such written notice and (C) the termination of employment occurs within thirty (30) days following such failure to cure.

(d) Notice of Termination. Any termination of employment by the Company for Cause, or by Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 7(i). For purposes of this Agreement, the term "Notice of Termination" means a written notice that (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated, and (iii) if the Date of Termination (as defined herein) is other than the date of receipt of such notice, specifies the Date of Termination (which Date of Termination shall be not more than thirty (30) days after the giving of such notice). The failure by Executive or the Company to set forth in the Notice of Termination any fact or circumstance that contributes to a showing of Good Reason or Cause shall not waive any right of Executive or the Company, respectively, hereunder or preclude Executive or the Company, respectively, from asserting such fact or circumstance in enforcing Executive's or the Company's respective rights hereunder.

(e) Date of Termination. For purposes of this Agreement, the term "Date of Termination" means (i) if Executive's employment is terminated by the Company for Cause, or by Executive for Good Reason, the date of receipt of the Notice of Termination or such later date specified in the Notice of Termination, as the case may be, (ii) if Executive's employment is terminated by the Company other than for Cause or Disability, the date on which the Company notifies Executive of such termination, (iii) if Executive resigns without Good Reason, the date on which Executive notifies the Company of such termination, or (iv) if Executive's employment is terminated by reason of death or Disability, the date of Executive's death or the Disability Effective Date, as the case may be. Notwithstanding the foregoing, in no event shall the Date of Termination occur until Executive experiences a "separation from service" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended, and the date on which such separation from service takes place shall be the "Date of Termination."

4. Obligations of the Company upon Termination.

(a) By the Company other than for Cause; by Executive for Good Reason. If, during the Employment Period, the Company shall terminate Executive's employment other than for Cause or Executive shall terminate employment for Good Reason:

(i) The Company shall pay to Executive the following amounts in a lump sum in cash within thirty (30) days after the Date of Termination: (A) Executive's Annual Base Salary through the Date of Termination to the extent not theretofore paid, (B) any unpaid Annual Bonus from any prior completed calendar year, (C) Executive's business expenses that are reimbursable pursuant to Section 2(b)(vi) but have not been reimbursed by the Company as of the Date of Termination; and (D) any accrued vacation pay to the extent not theretofore paid (the sum of the amounts described in the foregoing subclauses (A), (B), (C) and (D), the "Accrued Obligations");

(ii) Subject to Section 4(d) and Executive's compliance with Section 5 (it being agreed that in the event that Executive does not comply with Section 5, Executive shall return any payments previously made pursuant to this Section 4(a)(ii)), Executive shall be entitled to:

(A) a prorated portion of Executive's target Annual Bonus for the calendar year during which the Date of Termination occurs, prorated based on the number of days Executive is employed with the Company in such year divided by the total number of days in such year, which amount shall be paid not more than sixty (60) days after the Date of Termination (the "Prorated Annual Incentive");

(B) a cash payment equal to the product of (I) the Severance Multiple (as defined below) *multiplied by* (II) the sum of (x) the Annual Base Salary and (y) the greater of (i) the Target Annual Bonus Opportunity and (ii) the average Annual Bonus actually paid to Executive (before any tax withholding) during the three (3) completed years prior to the Date of Termination, which amount shall be paid not more than sixty (60) days after the Date of Termination;

(C) effective as of the Date of Termination, (I) accelerated vesting in full of any unvested time-vesting long-term incentive awards (other than the Sign-On Equity Award), (II) any performance-vesting long-term incentive awards for which the performance period is complete shall vest in full and any such awards for which the performance period is not complete shall be earned as provided in the applicable award agreement and vest in full, and (III) any vested stock options or stock appreciation rights shall remain exercisable for the full remaining term (collectively, the "LTI Benefit");

(D) any portion of the Sign-On Equity Award that is unvested as of the Date of Termination shall continue to vest on the regularly scheduled vesting dates subject to Executive's continued compliance with Section 5;

(E) continued participation in the Independent Bank Survivor Benefit Plan through age 65;

(F) a cash payment equal to eighteen (18) months of COBRA premiums for the health care coverage that Executive had in place for him and his dependents, as applicable, on the Date of Termination, which amount shall be paid not more than sixty (60) days after the Date of Termination;

(iii) To the extent not theretofore paid or provided, the Company shall timely pay or provide to Executive any other amounts or benefits required to be paid or provided or which Executive is eligible to receive under any plan, program, policy or practice or contract or agreement of the Company and its affiliates through the Date of Termination (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits"), such Other Benefits to be paid or provided subject to and in accordance with the applicable terms of any such arrangements.

(iv) For purposes of this Section 4, the term "Severance Multiple" shall mean (A) except if the Date of Termination is within two (2) years following a Change in Control (as defined in the Company's 2013 Equity Incentive Plan) that occurs after the Effective Date, one (1), and (B) if the Date of Termination is within two (2) years following a Change in Control that occurs after the Effective Date, two (2).

(b) Due to Death or Disability. If, during the Employment Period, Executive's employment shall terminate due to his death or Disability, subject in the case of Sections 4(b)(ii) and 4(b)(iii) to Section 4(d) and in the event of Executive's Disability, Executive's compliance with Section 5 (it being agreed that in the event that Executive does not comply with Section 5, Executive shall return any payments previously made pursuant to Sections 4(b)(ii) and 4(b)(iii)), the Company shall pay to Executive or his estate, on the schedule contemplated by Section 4(a), the Accrued Obligations, the Prorated Annual Incentive, the LTI Benefit, and the Other Benefits. In addition, (i) upon a termination due to Disability, the unvested portion of the Sign-On Equity Award shall vest on the regularly scheduled vesting dates subject to Section 4(d) and the Executive's continued compliance with Section 5 and the Independent Bank Survivor Benefit Plan benefit shall continue to be provided in the event of Executive's Disability on or prior to age 65, and, (ii) upon a termination due to death, the unvested portion of the Sign-On Equity Award shall vest in full on the date of Executive's death.

(c) Cause; Other than for Good Reason. If, during the Employment Period, Executive's employment shall be terminated for Cause or Executive terminates his employment other than for Good Reason, this Agreement shall terminate without further obligations to Executive other than the obligation to pay to Executive (i) the Accrued Obligations through the Date of Termination (excluding payment of any unpaid Annual Bonus from any prior completed calendar year) and (ii) Other Benefits, in each case to the extent theretofore unpaid. The Accrued Obligations shall be paid to Executive in a lump sum in cash within thirty (30) days of the Date of Termination.

(d) Separation Agreement and General Release. The Company's obligations to make payments under Section 4(a)(ii) or Sections 4(b)(ii) and (b)(iii), as applicable, shall be conditioned on (i) Executive (or, in the event of Executive's death or Disability, his legal guardian or estate) executing and delivering (and not revoking) a separation agreement and general release (the "Release") in the form attached as Exhibit A hereto (with such revisions as may be appropriate to reflect changes in law or the successors and assigns of the Company and its affiliates), which Release must become effective not later than sixty (60) days following the Date of Termination. In the event that Executive (or his legal guardian or estate) does not so execute and deliver such release, or in the event that Executive (or his legal guardian or estate) revokes such release, the Company may require Executive (or his legal guardian or estate) to repay any amounts previously provided to him pursuant to Section 4(a)(ii) or Sections 4(b)(ii) and (b)(iii), as applicable.

(e) Full Settlement. The payments and benefits provided under this Section 4 shall be in full satisfaction of the obligations of the Company and its affiliates to Executive under this Agreement or any other plan, agreement, policy or arrangement of the Company and its Affiliates upon his termination of employment.

(f) No Mitigation. Executive shall have no obligation to mitigate any severance obligation of the Company under this Agreement by seeking new employment. The Company shall not be entitled to set off or reduce any severance payments owed to Executive under this Agreement by the amount of earnings or benefits received by Executive in future employment.

(g) Expiration of the Employment Period. Following the end of the Employment Period, if Executive remains employed by the Company or its affiliates, Executive's employment shall be at-will.

5. Executive Covenants.

(a) Confidentiality.

(i) Generally. Executive has and will have access to and participate in the development of or be acquainted with confidential or proprietary information and trade secrets related to the business of the Company and its subsidiaries and affiliates (collectively, the "Companies"), including but not limited to (A) business plans, operating plans, marketing plans, bid strategies, bid proposals, financial reports, operating data, budgets, wage and salary rates, pricing strategies and information, terms of agreements with suppliers or customers and others, customer lists and customer information, credit files, software programs, reports, correspondence, tapes, discs, tangible property and specifications owned by or used in the Companies' businesses, operating strengths and weaknesses of the Companies' officers, directors, employees, agents, suppliers and customers, (B) information pertaining to future developments such as, but not limited to, research and development, future marketing, products, distribution, delivery or merchandising plans or ideas, and potential new distribution or business locations, and (C) other tangible and intangible property, which are used in the business and operations of the Companies but not made publicly available (the "Confidential Information"); provided that the term Confidential Information shall not include information that is available or known to persons or entities outside of the Companies otherwise than as a result of a breach of a confidentiality agreement. Pursuant to his employment with the Companies, Executive agrees that he is or may be provided with access to Confidential Information to which he would not otherwise have access.

(ii) Assignment. Executive hereby assigns to the Companies, in consideration of his employment, all Confidential Information that may be developed by Executive at any time during his employment with the Companies, whether or not made or conceived during working hours, alone or with others, which related, directly or indirectly, to businesses or proposed businesses of the Companies, and Executive agrees that all such Confidential Information shall be the exclusive property of the Companies. Executive shall establish and maintain written records of all such Confidential Information with respect to inventions or similar intellectual property for the benefit of the Companies and shall execute and deliver to the Companies any specific assignments or other documents appropriate to vest title in such Confidential Information in the Companies or to obtain for the Companies legal protection for such Confidential Information.

(iii) Nondisclosure. Executive shall not disclose, use or make known for his or another's benefit any Confidential Information of the Companies or use such Confidential Information in any way except in the best interests of the Companies in the performance of Executive's duties under this Agreement.

(b) Return of Company's Property. Immediately upon termination of Executive's employment with the Company, Executive shall deliver to the Company all Confidential Information, documents, correspondence, notebooks, reports, computer programs, names of full-time and part-time employees and consultants, and all other materials and copies thereof (including computer discs and other electronic media) relating in any way to any business conducted by the Companies in any way obtained by Executive during the period of his employment or engagement with the Company. Immediately upon termination of Executive's employment with the Company, Executive shall deliver to the Company all tangible property of Company in the possession of Executive, including without limitation, telephones, facsimile machines, computers, leased automobiles and credit cards.

(c) Noncompetition and Nonsolicitation.

(i) Noncompete. In consideration for (A) the compensation provided to Executive by the Company under this Agreement and (B) the provision of Confidential Information, during the period of Executive's employment with the Companies and for a period of one (1) year following the termination of Executive's employment with the Companies for any reason (the "Restricted Period"), Executive shall not, directly or indirectly, without the written consent of the Board, own, manage, operate, control, be employed by in the same or in a similar manner to which Executive is employed by the Companies, consult with or participate in or be connected with any entity owning or having financial interest in, whether direct or indirect, a business entity which is in the same line or lines of business as and competes with any business of the Companies, if such business has a branch or other office of any kind located within fifteen (15) miles of any branch or office of the Companies, which the parties stipulate is a reasonable geographic area because of the scope of the Companies' operations and Executive's employment with the Companies. For purposes of this Section 5(c)(i), each of the following activities, without limitation, shall be deemed to constitute proscribed activities during the Restricted Period: to engage in, work with, have an interest in (other than interests of less than 1% in companies with securities traded on a nationally recognized stock exchange or interdealer quotation system), advise, consult, manage, operate, lend money to (other than interests of less than 1% in companies with securities traded on a nationally recognized stock exchange or interdealer quotation system), guarantee the debts or obligations of, or permit one's name or any part thereof to be used in connection with an enterprise or endeavor, either individually, in partnership or in conjunction with any person or persons, firm, association, company or corporation, whether as principal, director, agent, shareholder, partner, employee, consultant or in any other manner whatsoever. Executive may not avoid the purpose and intent of this Section 5(c) by engaging in conduct within the geographically limited area from a remote location through means such as telecommunications, written correspondence, computer generated or assisted communications, or other similar methods.

(ii) Nonsolicitation. During the Restricted Period, Executive shall not, directly or indirectly, (A) solicit for employment, or advise or recommend any entity to employ or solicit for employment, any person who is, or at any time within the one (1)-year period immediately prior to Executive's last day of employment was, an employee of the Companies, or (B) solicit the banking business of, or conduct any banking business with, any Restricted Customer of the Companies. For purposes of this Agreement, "Restricted Customer" means any individual, corporation, limited liability company, association, partnership, estate, trust, or any other entity or organization to which the Companies marketed, attempted to or actually promoted or provided products or services to at any time during the one (1)-year period immediately prior to Executive's last day of employment, and with respect to which Executive has participated in any efforts related to the marketing, negotiation or provision of products or services, had contact with or supervised employees who had contact with, or received Confidential Information about, within the one (1)-year period immediately prior to Executive's last day of employment. This Section 5(c)(ii) shall be geographically limited to wherever any Restricted Customer can be found or is available for solicitation or to do business with, which the parties stipulate is a reasonable geographic area because of the scope of the Companies' operations and Executive's employment with the Companies. Executive may not avoid the purpose and intent of this Section 5(c)(ii) by engaging in conduct within the geographically limited area from a remote location through means such as telecommunications, written correspondence, computer generated or assisted communications, or other similar methods.

(iii) Reasonable and Necessary. Executive agrees that the above covenants are reasonable and necessary agreements for the protection of the business interests covered in the fully enforceable, ancillary agreements set forth in this Agreement.

(d) Nondisparagement. From and following the Effective Date, Executive shall not make, either directly or by or through another person, any oral or written negative, disparaging or adverse statements or representations of or concerning the Companies, any of their clients or businesses or any of their current or former directors, officers or employees; provided, however, that, subject to Section 5(a), nothing herein shall prohibit Executive from disclosing truthful information if legally required (whether by oral questions, interrogatories, requests for information or documents, subpoena, civil investigative demand or similar process). In the event of Executive's termination of employment, the Company shall instruct its senior executive officers not to make, either directly or by or through another person, any oral or written negative, disparaging or adverse statements or representations of or concerning Executive or any of his agents or related parties; provided, however, that nothing herein shall prohibit any such individuals from disclosing truthful information if legally required (whether by oral questions, interrogatories, requests for information or documents, subpoena, civil investigative demand or similar process).

(e) Cooperation. Executive agrees that following Executive's termination of employment, upon the reasonable request of the Company or any of its affiliates, Executive shall use reasonable efforts to assist and cooperate with the Company or any of its affiliates in connection with the defense or prosecution of any claim that may be made against or by the Company or any of its affiliates, or in connection with any ongoing or future investigation or dispute or claim of any kind involving the Company or any of its affiliates, including any proceedings before any arbitral, administrative, regulatory, judicial, legislative or other body or agency; provided that the Company shall provide Executive with reasonable compensation for the time actually expended in such endeavors (at an hourly rate based on the Annual Base Salary) and shall reimburse Executive's reasonable business expenses incurred in connection with such cooperation to the extent that such expenses would have been reimbursed under Section 2(b)(v) had they been incurred during the Employment Period.

(f) Trade Secrets; Whistleblower Rights. The Company hereby informs Executive that, notwithstanding any provision of this Agreement to the contrary, an individual may not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that (i) is made in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, and solely for the purpose of reporting or investigating a suspected violation of law, or (ii) is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding. Further, an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the employer's trade secrets to the attorney and use the trade secret information in the court proceeding if the individual files any document containing the trade secret under seal and does not disclose the trade secret, except pursuant to court order. In addition, notwithstanding anything in this Agreement to the contrary, nothing in this Agreement shall impair Executive's rights under the whistleblower provisions of any applicable federal law or regulation or, for the avoidance of doubt, limit Executive's right to receive an award for information provided to any government authority under such law or regulation.

(g) Acknowledgments and Remedies.

(i) Executive acknowledges that the Company and its affiliates have (A) expended and will continue to expend substantial amounts of time, money and effort to develop business strategies, employee, customer and other relationships and goodwill to build an effective organization, and (B) a legitimate business interest in and right to protect their Confidential Information, goodwill and employee, customer and other relationships.

(ii) Executive understands that the covenants contained in this Section 5 may limit Executive's ability to earn a livelihood in a business similar to the business of the Company, and Executive represents that his experience and capabilities are such that he has other opportunities to earn a livelihood and adequate means of support for himself and his dependents.

(iii) Any termination of (A) Executive's employment, (B) the Employment Period or (C) this Agreement shall have no effect on the continuing obligations of Executive under this Section 5 or operation of this Section 5.

(iv) Executive acknowledges that a violation by Executive of any of the covenants contained in this Section 5 would cause irreparable damage to the Companies in an amount that would be material but not readily ascertainable, and that any remedy at law (including the payment of damages) would be inadequate. Accordingly, Executive agrees that, notwithstanding any provision of this Agreement to the contrary, in addition to any other damages it is able to show, in the event of a material breach by Executive of any of the covenants contained in this Section 5, the Companies shall be entitled (without the necessity of showing economic loss or other actual damage) to (A) cease payment of the compensation and benefits contemplated by Section 4 to the extent not previously paid or provided (including ceasing vesting of outstanding equity awards), (B) the prompt return by Executive of any portion of such compensation and the value of such benefits previously paid or provided (including forfeiture of any equity awards that vested pursuant to Section 4 or the repayment of the value of any equity awards that vested pursuant to Section 4 that have been exercised or settled, as applicable) and (C) injunctive relief (including temporary restraining orders, preliminary injunctions and permanent injunctions), without posting a bond, in any court of competent jurisdiction for any actual or threatened breach of any of the covenants set forth in this Section 5 in addition to any other legal or equitable remedies they may have. The preceding sentence shall not be construed as a waiver of the rights that the Companies may have for damages under this Agreement or otherwise, and all such rights shall be unrestricted. The Restricted Period shall be tolled during (and shall be deemed automatically extended by) any period during which Executive is in violation of the provisions of Sections 5(c) or (d), as applicable. In the event that a court of competent jurisdiction determines that any provision of this Section 5 is invalid or more restrictive than permitted under the governing law of such jurisdiction, then, only as to enforcement of this Section 5 within the jurisdiction of such court, such provision shall be interpreted and enforced as if it provided for the maximum restriction permitted under such governing law.

6. Treatment of Certain Payments.

(a) Anything in this Agreement to the contrary notwithstanding, in the event the Accounting Firm (as defined below) shall determine that receipt of all Payments (as defined below) would subject Executive to the excise tax under Section 4999 of the Code, the Accounting Firm shall determine whether to reduce any of the Payments paid or payable pursuant to this Agreement (the "Agreement Payments") so that the Parachute Value (as defined below) of all Payments, in the aggregate, equals the Safe Harbor Amount (as defined below). The Agreement Payments shall be so reduced only if the Accounting Firm determines that Executive would have a greater Net After-Tax Receipt (as defined below) of aggregate Payments if the Agreement Payments were so reduced. If the Accounting Firm determines that Executive would not have a greater Net After-Tax Receipt (as defined below) of aggregate Payments if the Agreement Payments were so reduced, Executive shall receive all of the Agreement Payments to which Executive is entitled hereunder.

(b) If the Accounting Firm determines that the aggregate Agreement Payments should be reduced so that the Parachute Value of all Payments, in the aggregate, equals the Safe Harbor Amount, the Company shall promptly give Executive notice to that effect and a copy of the detailed calculation thereof. All determinations made by the Accounting Firm under this Section 6 shall be binding upon the Company and Executive and shall be made as soon as reasonably practicable following an Agreement Payment becoming due. For purposes of reducing the Agreement Payments so that the Parachute Value of all Payments, in the aggregate, equals the Safe Harbor Amount, only amounts payable under this Agreement (and no other Payments) shall be reduced. The reduction of the amounts payable hereunder, if applicable, shall be made by reducing the payments and benefits under the following sections in the following order: (i) cash payments that may not be valued under Treas. Reg. § 1.280G-1, Q&A-24(c) ("24(c)"), (ii) equity-based payments that may not be valued under 24(c), (iii) cash payments that may be valued under 24(c), (iv) equity-based payments that may be valued under 24(c) and (v) other types of benefits. With respect to each category of the foregoing, such reduction shall occur first (1st) with respect to amounts that are not "deferred compensation" within the meaning of Section 409A of the Code and next with respect to payments that are deferred compensation, in each case, beginning with payments or benefits that are to be paid the farthest in time from the Accounting Firm's determination. All fees and expenses of the Accounting Firm shall be borne solely by the Company.

(c) To the extent requested by Executive, the Company shall cooperate with Executive in good faith in valuing, and the Accounting Firm shall take into account the value of, services provided or to be provided by Executive (including Executive's agreeing to refrain from performing services pursuant to a covenant not to compete or similar covenant), before, on or after the date of a change in ownership or control of the Company (within the meaning of Q&A-2(b) of the final regulations under Section 280G of the Code), such that payments in respect of such services may be considered reasonable compensation within the meaning of Q&A-9 and Q&A-40 to Q&A-44 of the final regulations under Section 280G of the Code and/or exempt from the definition of the term "parachute payment" within the meaning of Q&A-2(a) of the final regulations under Section 280G of the Code in accordance with Q&A-5(a) of the final regulations under Section 280G of the Code.

(d) The following terms shall have the following meanings for purposes of this Section 6:

(i) "Accounting Firm" shall mean a nationally recognized certified public accounting firm or other professional organization that is a certified public accounting firm recognized as an expert in determinations and calculations for purposes of Section 280G of the Code that is selected by the Company prior to a Change in Control for purposes of making the applicable determinations hereunder and is reasonably acceptable to Executive, which firm shall not, without Executive's consent, be a firm serving as accountant or auditor for the individual, entity or group effecting the Change in Control.

(ii) "Net After-Tax Receipt" shall mean the present value (as determined in accordance with Sections 280G(b)(2)(A)(ii) and 280G(d)(4) of the Code) of a

Payment net of all taxes imposed on Executive with respect thereto under Sections 1 and 4999 of the Code and under applicable state and local laws, determined by applying the highest marginal rate under Section 1 of the Code and under state and local laws which applied to Executive's taxable income for the immediately preceding taxable year, or such other rate(s) as the Accounting Firm determines to be likely to apply to Executive in the relevant tax year(s).

(iii) "Parachute Value" of a Payment shall mean the present value as of the date of the change of control for purposes of Section 280G of the Code of the portion of such Payment that constitutes a "parachute payment" under Section 280G(b)(2) of the Code, as determined by the Accounting Firm for purposes of determining whether and to what extent the excise tax under Section 4999 of the Code will apply to such Payment.

(iv) "Payment" shall mean any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of Executive, whether paid or payable pursuant to this Agreement or otherwise.

(v) "Safe Harbor Amount" shall mean 2.99 *multiplied by* Executive's "base amount," within the meaning of Section 280G(b)(3) of the Code.

7. Miscellaneous.

(a) Governing Law; Venue. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas, without reference to principles of conflict of laws. The parties irrevocably submit to the jurisdiction of any state or federal court sitting in or for Collin County, Texas with respect to orders in aid or enforcement of arbitration awards and injunctive relief, and each party irrevocably agrees that all claims in respect of such dispute or proceeding shall be heard and determined in such courts. The parties hereby irrevocably waive, to the fullest extent permitted by law, any objection that they may now or hereafter have to the venue of any dispute arising out of or relating to this Agreement or the transactions contemplated hereby brought in such court or any defense of inconvenient forum for the maintenance of such dispute or proceeding. Each party agrees that a judgment in any such dispute may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. THE PARTIES HEREBY WAIVE A TRIAL BY JURY IN ANY ACTION, PROCEEDING, CLAIM OR COUNTER CLAIM BROUGHT OR ASSERTED BY EITHER OF THE PARTIES HERETO AGAINST THE OTHER ON ANY MATTERS WHATSOEVER ARISING OUT OF OR IN ANY WAY RELATED TO THIS AGREEMENT.

(b) Dispute Resolutions. Any and all disputes that arise out of or relate to the provisions of this Agreement or the alleged breach thereof (other than orders in aid or enforcement of arbitration awards and injunctive relief) shall be resolved by arbitration in accordance with the Federal Arbitration Act and in accordance with the Employment Arbitration Rules of the American Arbitration Association (the "AAA") before a single arbitrator who shall be selected in accordance with the AAA rules. The arbitrator must have at least ten (10) years' experience in employment matters. Arbitration will be conducted in Collin County, Texas. Judgment may be entered upon the final award of the arbitrator.

(c) Indemnification. The Company shall, to the maximum extent to which it is empowered by its governing documents and the laws of the State of Texas, defend, indemnify and hold harmless Executive from and against any and all demands, claims and causes of action made against Executive concerning or relating to his service, actions or omissions on behalf of the Company or its affiliates as an employee, director, officer, or agent, including, without limitation, holding Executive harmless for any losses, costs and expenses in connection with any such demand, claim, or cause of action. Executive shall be covered by directors and officers insurance that the Company provides from time to time to its directors and executives, on terms no less favorable than those provided to similarly situated executives, both during Executive's employment by the Company and for such period thereafter that the Company provides insurance coverage to its similarly situated former executives.

(d) Interpretation. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. For purposes of this Agreement, the term "including" shall mean "including, without limitation" and the word "or" shall be understood to mean "and/or."

(e) Amendments; No Waiver. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives. Executive's or the Company's failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right Executive or the Company may have hereunder shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(f) Survival. The provisions of this Agreement that by their terms call for performance subsequent to the termination of either Executive's employment or this Agreement (including the terms of Sections 4, 5, 6 and 7(c)) shall survive such termination.

(g) Invalidity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(h) Successors. This Agreement is personal to Executive and without the prior written consent of the Company shall not be assignable by Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by Executive's legal representatives. This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid that assumes and agrees to perform this Agreement by operation of law, or otherwise.

(i) Notices. All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to Executive: At the most recent address
on file at the Company.

If to the Company: Independent Bank Group, Inc.
7777 Henneman Way
McKinney, Texas 75070
Attention: **[Chief Executive Officer / General Counsel]**

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(j) Tax Withholding. The Company may withhold from any amounts payable under this Agreement such federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(k) Section 409A.

(i) General. It is intended that payments and benefits made or provided under this Agreement shall not result in penalty taxes or accelerated taxation pursuant to Section 409A of the Code. Any payments that qualify for the “short-term deferral” exception, the separation pay exception or another exception under Section 409A of the Code shall be paid under the applicable exception. For purposes of the limitations on nonqualified deferred compensation under Section 409A of the Code, each payment of compensation under this Agreement shall be treated as a separate payment of compensation. All payments to be made upon a termination of employment under this Agreement may only be made upon a “separation from service” under Section 409A of the Code to the extent necessary in order to avoid the imposition of penalty taxes on Executive pursuant to Section 409A of the Code. In no event may Executive, directly or indirectly, designate the calendar year of any payment under this Agreement, and to the extent required by Section 409A of the Code, any payment that may be paid in more than one (1) taxable year shall be paid in the later taxable year.

(ii) Reimbursements and In-Kind Benefits. Notwithstanding anything to the contrary in this Agreement, all reimbursements and in-kind benefits provided under this Agreement that are subject to Section 409A of the Code shall be made in accordance with the requirements of Section 409A of the Code, including, where applicable, the requirement that (A) any reimbursement is for expenses incurred during Executive’s lifetime (or during a shorter period of time specified in this Agreement); (B) the amount of expenses eligible for reimbursement, or in-kind benefits provided, during a calendar year may not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other calendar year; (C) the reimbursement of an eligible expense will be made no later than the last day of the calendar year following the year in which the expense is incurred; and (D) the right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit.

(iii) Delay of Payments. Notwithstanding any other provision of this Agreement to the contrary, if Executive is considered a “specified employee” for purposes of

Section 409A of the Code (as determined in accordance with the methodology established by the Company and its affiliates as in effect on the Date of Termination), any payment that constitutes nonqualified deferred compensation within the meaning of Section 409A of the Code that is otherwise due to Executive under this Agreement during the six (6)-month period immediately following Executive's separation from service on account of Executive's separation from service shall instead be paid, with interest (based on the rate in effect for the month in which Executive's separation from service occurs), on the first business day of the seventh (7th) month following his separation from service (the "Delayed Payment Date"), to the extent necessary to prevent the imposition of tax penalties on Executive under Section 409A of the Code. If Executive dies during the postponement period, the amounts and entitlements delayed on account of Section 409A of the Code shall be paid to the personal representative of his estate on the first to occur of the Delayed Payment Date or thirty (30) calendar days after the date of Executive's death.

(l) Effective Date; Entire Agreement. This Agreement shall become effective on the Effective Date, subject to Executive's continued employment with the Company through such date. If Executive's employment with the Company terminates for any reason before the Effective Date or the Merger Agreement is terminated before the closing of the Merger, this Agreement shall terminate automatically and be of no further force or effect, and neither of the parties shall have any obligations hereunder. Effective on the Effective Date, this Agreement shall constitute the entire agreement between the parties and, as of the Effective Date, terminates and supersedes any and all prior agreements and understandings (whether written or oral) between the parties with respect to the subject matter of this Agreement (including the **[Change in Control Agreement/Amended and Restated Employment Agreement between Executive and the Company dated as of ___________]**); provided, however, that the covenants set forth in Section 5 of this Agreement shall be in addition to, and shall not supersede, any restrictive covenants to which Executive is otherwise subject under any other plan, agreement or arrangement of the Companies.

(m) Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, Executive has hereunto set Executive's hand and, the Company has caused these presents to be executed in its name and on its behalf, all as of the day and year first above written.

INDEPENDENT BANK GROUP, INC.

By: _____________

Name: David R. Brooks

Title: Chairman of the Board, President and Chief Executive Officer

EXECUTIVE

____

____

[Signature Page to Employment Agreement]

<u>Exhibit A</u>

FORM OF RELEASE

THIS RELEASE (this "<u>Release</u>") is entered into between _________________ ("<u>Executive</u>") and Independent Bank Group, Inc. (the "<u>Company</u>") for the benefit of the Company and its affiliates. The entering into and non-revocation of this Release is a condition to Executive's right to receive certain payments and benefits under Sections 4(b)(ii) and 4(b)(iii) of the Employment Agreement entered into by and between Executive and the Company, dated as of December 9, 2019 (the "<u>Employment Agreement</u>"). Capitalized terms used and not defined herein shall have the meaning provided in the Employment Agreement.

Accordingly, Executive and the Company agree as follows.

1. <u>General Release and Waiver of Claims</u>. In consideration for the payments and other benefits provided to Executive by the Employment Agreement, to which Executive is not otherwise entitled, and the sufficiency of which Executive acknowledges, Executive represents and agrees, as follows:

(a) <u>Release</u>. Executive, for himself, his heirs, administrators, representatives, executors, successors and assigns (collectively "<u>Releasers</u>"), hereby irrevocably and unconditionally releases, acquits and forever discharges and agrees not to sue the Company or any of its subsidiaries, divisions, affiliates and related entities and its current and former directors, officers, shareholders, trustees, employees, consultants, independent contractors, representatives, agents, servants, successors and assigns and all persons acting by, through or under or in concert with any of them (collectively "<u>Releasees</u>"), from any and all claims, rights and liabilities up to and including the date of this Release arising from or relating to Executive's employment with, or termination of employment from, the Company, under the Employment Agreement and from any and all charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of actions, suits, rights, demands, costs, losses, debts and expenses of any nature whatsoever, known or unknown, suspected or unsuspected and any claims of wrongful discharge, breach of contract, implied contract, promissory estoppel, defamation, slander, libel, tortious conduct, employment discrimination or claims under any federal, state or local employment statute, law, order or ordinance, including any rights or claims arising under Title VII of the Civil Rights Act of 1964, as amended, the Age Discrimination in Employment Act of 1967, as amended, 29 U.S.C. § 621 et seq. ("<u>ADEA</u>"), or any other federal, state or municipal ordinance relating to discrimination in employment. Nothing contained herein shall restrict the parties' rights to enforce the terms of this Release.

(b) <u>Proceedings; Whistleblower Rights</u>. To the maximum extent permitted by law, Executive agrees that he has not filed, nor will he ever file, a lawsuit asserting any claims that are released by this Release, or to accept any benefit from any lawsuit that might be filed by another person or government entity based in whole or in part on any event, act, or omission that is the subject of this Release. Notwithstanding the foregoing, nothing in this Release shall impair Executive's rights under the whistleblower provisions of any applicable federal law or regulation or, for the avoidance of doubt, limit Executive's right to receive an award for information provided to any government authority under such law or regulation.

(c) Exclusions. This Release specifically excludes Executive's rights and the Company's obligations under Sections 4(a) and 4(b) of the Employment Agreement. Excluded from this Release are: (i) any claims that cannot be waived by law; (ii) Executive's rights to receive any payments or benefits under Section 4 of the Employment Agreement; (iii) any rights Executive may have to receive vested amounts under any of the Company's employee benefit plans and/or pension plans or programs; (iv) Executive's rights in and to any equity or ownership interest that Executive continues to hold following his termination of employment; (v) Executive's rights to medical benefit continuation coverage pursuant to federal law (COBRA); (vi) any rights or claims that the law does not allow to be released and/or waived by private agreement; (vii) any rights or claims that are based on events occurring after the date on which Executive signs this Release; or (viii) any claims to indemnification or insurance coverage, including but not limited to "D&O coverage", that Executive may have with respect to any claims made or threatened against Executive in Executive's capacity as a director, officer or employee of the Company or the Releasees. Nothing contained in this Release shall release Executive from his obligations, including any obligations to abide by the covenants set forth in Section 5 of the Employment Agreement and any other restrictive covenants applicable to Executive that continue or are to be performed following termination of employment.

(d) EEOC Matters. The parties agree that this Release shall not affect the rights and responsibilities of the U.S. Equal Employment Opportunity Commission (the "EEOC") to enforce ADEA and other laws. In addition, the parties agree that this Release shall not be used to justify interfering with Executive's protected right to file a charge or participate in an investigation or proceeding conducted by the EEOC. The parties further agree that Executive knowingly and voluntarily waives all rights or claims (that arose prior to Executive's execution of this Release) the Releasers may have against the Releasees, or any of them, to receive any benefit or remedial relief (including, but not limited to, reinstatement, back pay, front pay, damages, attorneys' fees, experts' fees) as a consequence of any investigation or proceeding conducted by the EEOC.

2. Acknowledgements. Executive acknowledges that the Company has specifically advised him of the right to seek the advice of an attorney concerning the terms and conditions of this Release. Executive further acknowledges that he has been furnished with a copy of this Release, and he has been afforded [twenty-one (21)/forty-five (45)] days in which to consider the terms and conditions set forth above prior to this Release. By executing this Release, Executive affirmatively states that he has had sufficient and reasonable time to review this Release and to consult with an attorney concerning his legal rights prior to the final execution of this Release. Executive further agrees that he has carefully read this Release and fully understands its terms. Executive understands that he may revoke this Release within seven (7) days after signing this Release. Revocation of this Release must be made in writing and must be received by the General Counsel at the Company, 7777 Henneman Way, McKinney, Texas 75070 within the time period set forth above.

3. Governing Law. This Release shall be governed by and construed in accordance with the laws of the state of Texas, without giving effect to any choice of law or conflicting provision or rule (whether of the state of Texas or any other jurisdiction) that would cause the laws of any jurisdiction other than the state of Texas to be applied. In furtherance of the foregoing, the internal law of the state of Texas shall control the interpretation and construction of this Release, even if under such jurisdiction's choice of law or conflict of law analysis, the substantive law of some other jurisdiction would ordinarily apply. The provisions of this Release are severable, and if any part or portion of it is found to be unenforceable, all other parts and provisions shall remain fully valid and enforceable.

4. Effectiveness. This Release shall become effective and enforceable on the eighth day following its execution by Executive, provided that he does not exercise his right of revocation as described above. If Executive fails to sign and deliver this Release or revokes his signature, this Release shall be without force or effect, and Executive shall not be entitled to the payments and benefits of Section 4(a)(ii) of the Employment Agreement.

[Remainder of Page Intentionally Left Blank]

EXECUTIVE ACKNOWLEDGES THAT EXECUTIVE HAS READ THIS RELEASE AND THAT EXECUTIVE FULLY KNOWS, UNDERSTANDS AND APPRECIATES ITS CONTENTS, AND THAT EXECUTIVE HEREBY EXECUTES THE SAME AND MAKES THIS RELEASE AND THE RELEASE PROVIDED FOR HEREIN VOLUNTARILY AND OF EXECUTIVE'S OWN FREE WILL.

Date: ______________________________ ______________________________
____

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Section 8: EX-10.9B (EXHIBIT 10.9B)

Exhibit 10.9(b)

SCHEDULE OF EXECUTIVE OFFICERS WHO HAVE EXECUTED AN EMPLOYMENT AGREEMENT IN THE FORM FILED AS EXHIBIT 10.9 (a) TO THE ANNUAL REPORT ON FORM 10-K OF THE COMPANY FOR THE YEAR ENDED DECEMBER 31, 2019 (this "Schedule")

This Schedule of Executive Officers Who Have Executed an Employment Agreement relates to the form of Employment Agreement filed by Independent Bank Group, Inc. as Exhibit 10.9(a) to its Annual Report on Form 10-K for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on March 2, 2020 (the "Form Agreement"). This Schedule is included pursuant to Instruction 2 of Item 601(a) of Regulation S-K for the purpose of setting forth the details in which the specific agreements executed in the form of the Form Agreement differ from the Form Agreement, and, in particular to set forth the persons who, with Independent Bank Group, Inc., were parties to the Employment Agreements in such form as of March 2, 2020.

Executive Officer Who is a Party to such Employment Agreement	Date of Employment Agreement	Annual Base Salary	Target Annual Bonus Opportunity/ Percentage of Annual Base Salary	Target Annual LTI Opportunity/ Percentage of Annual Base Salary	Sign-On Equity Award
James P. Tippit	December 9, 2019	$375,000	60%	75%	10,000 Shares
Mark S. Haynie	December 9, 2019	$400,000	75%	90%	15,000 Shares
Michael Hobbs	December 9, 2019	$500,000	100%	125%	20,000 Shares

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Section 9: EX-21.1 (EXHIBIT 21.1)

Exhibit 21.1

INDEPENDENT BANK GROUP, INC.

LIST OF SUBSIDIARIES

	Name	State of Incorporation
Parent:	Independent Bank Group, Inc.	Texas
Banking Subsidiary:	Independent Bank	Texas
Nonbanking Subsidiaries:	Carlile Capital, LLC	Texas
	IBG Real Estate Holdings II, Inc.	Texas
	IBG Aircraft Company III	Texas
	Preston Grand, Inc.	Texas
	McKinney Avenue Holdings, Inc.	Texas
	McKinney Avenue, SPE 1, Inc.	Texas
	Private Capital Management, LLC	Colorado
	IB Trust I	Delaware
	IB Trust II	Delaware
	IB Trust III	Delaware
	IB Centex Trust I	Delaware
	Community Group Statutory Trust I	Delaware
	Northstar Statutory Trust II	Delaware
	Northstar Statutory Trust III	Delaware
	Cenbank Statutory Trust III	Delaware
	Guaranty Capital Trust III	Delaware

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Section 10: EX-23.1 (EXHIBIT 23.1)

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statement (No. 333-218782) on Form S-3 pertaining to a shelf registration statement of Independent Bank Group, Inc., and Registration Statement (No. 333-198483) on Form S-8 pertaining to the Independent Bank 401(k) Profit Sharing Plan of our report dated March 2, 2020, relating to the consolidated financial statements, and the effectiveness of internal control over financial reporting of Independent Bank Group, Inc., appearing in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K, as amended, of Independent Bank Group, Inc. for the year ended December 31, 2019.

RSM US LLP

Dallas, Texas
March 6, 2020

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Section 11: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFER

I, David R. Brooks, certify that:

1. I have reviewed this Annual Report on Form 10-K/A (the "Report") of Independent Bank Group, Inc. (the "registrant");

2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information related to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
    (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
    (d) disclosed in this Report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
    (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 6, 2020

/s/ David R. Brooks

David R. Brooks
Chairman, Chief Executive Officer and President

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Section 12: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Michelle S. Hickox, certify that:

1. I have reviewed this Annual Report on Form 10-K/A (the "Report") of Independent Bank Group, Inc. (the "registrant");

2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information related to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) disclosed in this Report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 6, 2020

/s/ Michelle S. Hickox

Michelle S. Hickox
Executive Vice President and Chief Financial Officer

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Section 13: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350 (AS ADOPTED
PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002)**

In connection with the Annual Report of Independent Bank Group, Inc. (the “Company”) on Form 10-K/A for the period ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David R. Brooks, Chairman, Chief Executive Officer and President of the Company, certify to my knowledge and in my capacity as an officer of the Company, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

IN WITNESS WHEREOF, the undersigned has executed this Certificate, effective as of March 6, 2020.

/s/ David R. Brooks

David R. Brooks
Chairman, Chief Executive Officer and President

[A signed original of this written statement required by Section 906 has been provided to Independent Bank Group, Inc. and will be retained by Independent Bank Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.]

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Section 14: EX-32.2 (EXHIBIT 32.2)

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350 (AS ADOPTED
PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002)**

In connection with the Annual Report of Independent Bank Group, Inc. (the “Company”) on Form 10-K/A for the period ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Michelle S. Hickox, Executive Vice President and Chief Financial Officer of the Company, certify to my knowledge and in my capacity as an officer of the Company, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

IN WITNESS WHEREOF, the undersigned has executed this Certificate, effective as of March 6, 2020.

/s/ Michelle S. Hickox

Michelle S. Hickox
Executive Vice President and Chief Financial Officer

[A signed original of this written statement required by Section 906 has been provided to Independent Bank Group, Inc. and will be retained by Independent Bank Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.]

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