Independent Bank Group, Inc.
Form 10-Q
October 30, 2015

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

FORM 10-Q
(Mark One)
ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the quarterly period ended September 30, 2015.
or
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the transition period from to .
Commission file number 001-35854

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

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

(972) 562-9004
(Registrant’s telephone number, including area code)
Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. Check One:

Large accelerated filer	¨	Accelerated filer	ý
Non-accelerated filer	¨	Smaller reporting company	¨

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
Applicable Only to Corporate Issuers
Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practical date.

Common Stock, Par Value $0.01 Per Share – 17,107,444 shares as of October 29, 2015.

INDEPENDENT BANK GROUP, INC. AND SUBSIDIARIES
Form 10-Q
September 30, 2015

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Independent Bank Group, Inc. and Subsidiaries

Consolidated Balance Sheets
September 30, 2015 and December 31, 2014 (unaudited)
(Dollars in thousands, except share information)

Assets	September 30, 2015	December 31, 2014
Cash and due from banks	$126,991	$153,158
Interest-bearing deposits in other banks	226,959	170,889
Cash and cash equivalents	353,950	324,047
Securities available for sale (amortized cost of $196,695 and $203,277, respectively)	200,188	206,062
Loans held for sale	6,218	4,453
Loans, net of allowance for loan losses of $25,088 and $18,552, respectively	3,503,081	3,182,045
Premises and equipment, net	91,154	88,902
Other real estate owned	2,323	4,763
Federal Home Loan Bank (FHLB) of Dallas stock and other restricted stock	13,187	12,321
Bank-owned life insurance (BOLI)	40,590	39,784
Deferred tax asset	5,863	2,235
Goodwill	229,818	229,457
Core deposit intangible, net	11,353	12,455
Other assets	20,614	26,115
Total assets	$4,478,339	$4,132,639
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing	$884,272	$818,022
Interest-bearing	2,649,768	2,431,576
Total deposits	3,534,040	3,249,598
FHLB advances	263,346	229,405
Repurchase agreements	—	4,012
Other borrowings	68,548	69,410
Other borrowings, related parties	2,591	3,320
Junior subordinated debentures	18,147	18,147
Other liabilities	23,410	17,896
Total liabilities	3,910,082	3,591,788
Commitments and contingencies		
Stockholders' equity:		
Series A preferred stock (23,938.35 shares issued and outstanding)	23,938	23,938
Common stock (17,111,394 and 17,032,669 shares outstanding, respectively)	171	170
Additional paid-in capital	479,615	476,609
Retained earnings	61,670	37,731
Accumulated other comprehensive income	2,863	2,403
Total stockholders' equity	568,257	540,851
Total liabilities and stockholders' equity	$4,478,339	$4,132,639

See Notes to Consolidated Financial Statements

1

Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Income
Three and Nine Months Ended September 30, 2015 and 2014 (unaudited)
(Dollars in thousands, except per share information)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Interest income:				
Interest and fees on loans	$42,145	$35,633	$123,350	$93,637
Interest on taxable securities	393	711	1,553	2,187
Interest on nontaxable securities	461	404	1,324	1,028
Interest on interest-bearing deposits and other	131	192	386	328
Total interest income	43,130	36,940	126,613	97,180
Interest expense:				
Interest on deposits	3,067	2,530	8,794	6,874
Interest on FHLB advances	773	975	2,243	2,792
Interest on repurchase agreements and other borrowings	1,064	871	3,229	1,142
Interest on junior subordinated debentures	137	133	400	402
Total interest expense	5,041	4,509	14,666	11,210
Net interest income	38,089	32,431	111,947	85,970
Provision for loan losses	3,932	976	7,261	3,608
Net interest income after provision for loan losses	34,157	31,455	104,686	82,362
Noninterest income:				
Service charges on deposit accounts	2,165	1,541	5,878	4,205
Mortgage fee income	1,353	1,080	4,082	2,777
Gain on sale of loans	116	1,078	116	1,078
Gain on sale of other real estate	41	20	220	59
Gain on sale of securities available for sale	—	—	90	—
Loss on sale of premises and equipment	(374)	(22)	(374)	(22)
Increase in cash surrender value of BOLI	268	281	806	690
Other	230	232	1,056	876
Total noninterest income	3,799	4,210	11,874	9,663
Noninterest expense:				
Salaries and employee benefits	14,918	12,551	43,992	37,797
Occupancy	4,117	3,435	12,054	9,200
Data processing	786	472	2,140	1,420
FDIC assessment	541	426	1,553	1,246
Advertising and public relations	313	204	912	618
Communications	550	498	1,643	1,220
Net other real estate owned expenses (including taxes)	88	122	184	258
Operations of IBG Adriatica, net	—	—	—	23
Other real estate impairment	10	22	35	22
Core deposit intangible amortization	363	361	1,102	859
Professional fees	841	828	2,008	1,792
Acquisition expense, including legal	293	629	793	2,628
Other	3,010	2,614	8,255	6,498

Total noninterest expense	25,830	22,162	74,671	63,581
Income before taxes	12,126	13,503	41,889	28,444
Income tax expense	3,924	4,543	13,664	9,564
Net income	$8,202	$8,960	$28,225	$18,880
Basic earnings per share	$0.48	$0.54	$1.64	$1.26
Diluted earnings per share	$0.47	$0.54	$1.63	$1.25

See Notes to Consolidated Financial Statements

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Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income
Three and Nine Months Ended September 30, 2015 and 2014 (unaudited)
(Dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$8,202	$8,960	$28,225	$18,880
Other comprehensive income before tax:				
Change in net unrealized gains on available for sale securities during the year	1,414	408	798	4,994
Reclassification adjustment for gain on sale of securities available for sale included in net income	—	—	(90)	—
Other comprehensive income before tax	1,414	408	708	4,994
Income tax expense	496	143	248	1,748
Other comprehensive income, net of tax	918	265	460	3,246
Comprehensive income	$9,120	$9,225	$28,685	$22,126

See Notes to Consolidated Financial Statements

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Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders’ Equity
Nine Months Ended September 30, 2015 and 2014 (unaudited)
(Dollars in thousands, except for par value, share and per share information)

	Series A Preferred Stock $.01 Par Value 10 million shares authorized	Common Stock $.01 Par Value 100 million shares authorized		Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
		Shares	Amount				
Balance, December 31, 2014	$23,938	17,032,669	$170	$476,609	$37,731	$ 2,403	$540,851
Net income	—	—	—	—	28,225	—	28,225
Other comprehensive income, net of tax	—	—	—	—	—	460	460
Offering costs related to acquired bank	—	—	—	(144)	—	—	(144)
Restricted stock forfeited	—	(11,399)	—	—	—	—	—
Restricted stock granted	—	90,124	1	(1)	—	—	—
Stock based compensation expense	—	—	—	3,214	—	—	3,214
Income tax deficiency on restricted stock vested	—	—	—	(63)	—	—	(63)
Preferred stock dividends	—	—	—	—	(180)	—	(180)
Cash dividends ($0.24 per share)	—	—	—	—	(4,106)	—	(4,106)
Balance, September 30, 2015	$23,938	17,111,394	$171	$479,615	$61,670	$ 2,863	$568,257
Balance, December 31, 2013	$—	12,330,158	$123	$222,116	$12,663	$ (1,130)	$233,772
Net income	—	—	—	—	18,880	—	18,880
Other comprehensive income, net of tax	—	—	—	—	—	3,246	3,246
Series A preferred stock issued	23,938	—	—	—	—	—	23,938
Common stock issued for acquisition of bank, net of offering costs of $550	—	3,851,480	39	219,928	—	—	219,967
Restricted stock forfeited	—	(394)	—	—	—	—	—
Restricted stock granted	—	189,069	2	(2)	—	—	—
Excess tax benefit on restricted stock vested	—	—	—	1,326	—	—	1,326
Stock based compensation expense	—	—	—	2,011	—	—	2,011
Preferred stock dividends	—	—	—	—	(109)	—	(109)
Cash dividends ($0.18 per share)	—	—	—	—	(2,720)	—	(2,720)
Balance, September 30, 2014	$23,938	16,370,313	$164	$445,379	$28,714	$ 2,116	$500,311

See Notes to Consolidated Financial Statements

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Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2015 and 2014 (unaudited)
(Dollars in thousands)

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income	$28,225	$18,880
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	4,646	3,787
Amortization of core deposit intangibles	1,102	859
Amortization of premium on securities, net	1,160	1,506
Stock based compensation expense	3,214	2,011
FHLB stock dividends	(32)	(33)
Gain on sale of securities available for sale	(90)	—
Net loss on sale of premises and equipment	374	22
Gain on sale of loans	(116)	(1,078)
Gain recognized on other real estate transactions	(220)	(59)
Impairment of other real estate	35	22
Deferred tax (benefit) expense	(2,992)	128
Provision for loan losses	7,261	3,608
Increase in cash surrender value of life insurance	(806)	(690)
Loans originated for sale	(166,506)	(103,165)
Proceeds from sale of loans	164,741	104,737
Net change in other assets	1,818	(4,981)
Net change in other liabilities	(4,678)	(1,587)
Net cash provided by operating activities	37,136	23,967
Cash flows from investing activities:		
Proceeds from maturities, calls and pay downs of securities available for sale	528,863	67,927
Proceeds from sale of securities available for sale	12,128	—
Purchases of securities available for sale	(522,599)	(28,364)
Proceeds from sale of loans	8,765	12,147
Net (purchases) redemptions of FHLB stock	(834)	625
Net loans originated	(337,008)	(324,030)
Additions to premises and equipment	(11,500)	(3,423)
Proceeds from sale of premises and equipment	4,228	13
Proceeds from sale of other real estate owned	2,324	1,923
Capitalized additions to other real estate owned	(10)	(28)
Cash received from acquired banks	—	167,771
Cash paid in connection with acquisitions	—	(44,010)
Net cash used in investing activities	(315,643)	(149,449)
Cash flows from financing activities:		
Net increase in demand deposits, NOW and savings accounts	191,392	85,935
Net increase in time deposits	89,038	91,139
Proceeds from FHLB advances	230,000	384,000
Repayments of FHLB advances	(196,059)	(342,060)
Net change in repurchase agreements	—	1,502

Repayments of other borrowings	(1,591)	—
Proceeds from other borrowings	—	65,000
Offering costs paid in connection with acquired banks	(144)	(550)
Dividends paid	(4,226)	(2,769)
Net cash provided by financing activities	308,410	282,197
Net change in cash and cash equivalents	29,903	156,715
Cash and cash equivalents at beginning of year	324,047	93,054
Cash and cash equivalents at end of period	$353,950	$249,769

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries

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

Note 1. Summary of Significant Accounting Policies
Nature of Operations: Independent Bank Group, Inc. (IBG) through its subsidiary, Independent Bank, a Texas state banking corporation (Bank) (collectively known as the Company), provides a full range of banking services to individual and corporate customers in the North Texas, Central Texas and Houston areas through its various branch locations in those areas. The Company is engaged in traditional community banking activities, which include commercial and retail lending, deposit gathering, investment and liquidity management activities. The Company's primary deposit products are demand deposits, money market accounts and certificates of deposit, and its primary lending products are commercial business and real estate, real estate mortgage and consumer loans.
Basis of Presentation: The accompanying consolidated financial statements include the accounts of IBG, its wholly-owned subsidiaries, the Bank and IBG Adriatica Holdings, Inc. (Adriatica) and the Bank's wholly-owned subsidiaries, IBG Real Estate Holdings, Inc., IBG Aircraft Acquisition, Inc. and IBG Aircraft Company III. IBG Aircraft Company III was formed in the third quarter 2015 to hold the Company's new aircraft. Adriatica was formed in 2011 to acquire a mixed use residential and retail real estate development in McKinney, Texas. Adriatica became inactive during the first quarter of 2014. All material intercompany transactions and balances have been eliminated in consolidation. In addition, the Company wholly-owns IB Trust I (Trust I), IB Trust II (Trust II), IB Trust III (Trust III), IB Centex Trust I (Centex Trust I) and Community Group Statutory Trust I (CGI Trust I). The Trusts were formed to issue trust preferred securities and do not meet the criteria for consolidation.
The consolidated interim financial statements are unaudited, but include all adjustments, which, in the opinion of management, are necessary for a fair presentation of the results of the periods presented. All such adjustments were of a normal and recurring nature. These financial statements should be read in conjunction with the financial statements and the notes thereto in the Company's Annual Report of Form10-K for the year ended December 31, 2014. The consolidated statement of condition at December 31, 2014 had been derived from the audited financial statements as of that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.
Segment Reporting: The Company has one reportable segment. The Company's chief operating decision-maker uses consolidated results to make operating and strategic decisions.

Subsequent events: Companies are required to evaluate events and transactions that occur after the balance sheet date but before the date the financial statements are issued. They must recognize in the financial statements the effect of all events or transactions that provide additional evidence of conditions that existed at the balance sheet date, including the estimates inherent in the financial statement preparation process. Entities shall not recognize the impact of events or transactions that provide evidence about conditions that did not exist at the balance sheet date but arose after that date. The Company has evaluated subsequent events through the date of filing these financial statements with the Securities and Exchange Commission (SEC) and noted no subsequent events requiring financial statement recognition or disclosure, except as disclosed in Note 12.
Earnings per share: Basic earnings per common share are net income available to common shareholders divided by the weighted average number of common shares outstanding during the period. The unvested share-based payment awards that contain rights to non forfeitable dividends are considered participating securities for this calculation. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under stock warrants. The participating non vested common stock was not included in dulitive shares as it was anti-dilutive. Proceeds from the assumed exercise of dilutive stock warrants are assumed to be used to repurchase common stock at the average market price.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Basic earnings per share:				
Net income	$8,202	$8,960	$28,225	$18,880
Less: Preferred stock dividends	(60)	(60)	(180)	(109)
Net income after preferred stock dividends	8,142	8,900	28,045	18,771
Less:				
Undistributed earnings allocated to participating securities	131	157	492	291
Dividends paid on participating securities	27	19	84	49
Net income available to common shareholders	$7,984	$8,724	$27,469	$18,431
Weighted-average basic shares outstanding	16,778,405	16,046,935	16,753,526	14,657,873
Basic earnings per share	$0.48	$0.54	$1.64	$1.26
Diluted earnings per share:				
Net income available to common shareholders	$7,984	$8,724	$27,469	$18,431
Total weighted-average basic shares outstanding	16,778,405	16,046,935	16,753,526	14,657,873
Add dilutive stock warrants	89,191	98,725	85,161	100,595
Total weighted-average diluted shares outstanding	16,867,596	16,145,660	16,838,687	14,758,468
Diluted earnings per share	$0.47	$0.54	$1.63	$1.25
Anti-dilutive participating securities	50,770	73,120	55,802	122,209

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Note 2. Statement of Cash Flows

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

	Nine Months Ended September 30,	
	2015	2014
Cash transactions:		
Interest expense paid	$15,794	$10,222
Income taxes paid	$16,600	$7,730
Noncash transactions:		
Accrued preferred stock dividends	$60	$60
Transfers of loans to other real estate owned	$221	$1,088
Loans to facilitate the sale of other real estate owned	$159	$48
Securities purchased, not yet settled	$12,880	$—
Excess tax benefit (tax deficiency) on restricted stock vested	$(63)	$1,326
Transfer of bank premises to other real estate	$—	$356
Transfer of repurchase agreements to deposits	$4,012	$—

The supplemental schedule of noncash investing activities from Company acquisition activity is as follows:

	Nine Months Ended September 30,	
	2015	2014
Assets acquired		
Cash and cash equivalents	$—	$167,771
Securities available for sale	—	75,881
Loans	—	856,899
Premises and equipment	—	9,811
Other real estate owned	—	1,224
Goodwill	—	172,151
Core deposit intangibles	—	8,147
Other assets	—	27,804
Total assets	$—	$1,319,688
Liabilities assumed:		
Deposits	$—	$925,762
Repurchase agreements	—	3,733
FHLB advances	—	95,000
Other liabilities	—	6,728
Total liabilities	$—	$1,031,223
Cash paid to shareholders of acquired banks	$—	$44,010
Series A preferred stock exchanged in connection with acquired bank	$—	$23,938
Fair value of common stock issued to shareholders of acquired banks	$—	$220,517

In addition, the following measurement-period adjustments were made during the period relating to Company acquisition activity:

	Nine Months Ended September 30,	
	2015	2014
Assets acquired:		
Loans	$—	$(328)
Goodwill	361	752
Other real estate owned	(373)	—
Core deposit intangibles	—	(18)
Deferred tax asset	193	109
Other assets	—	10
Total assets	$181	$525
Liabilities assumed:		
Deposits	$—	$505
Other liabilities	181	20
Total liabilities	$181	$525

Note 3. Securities Available for Sale

Securities available for sale have been classified in the consolidated balance sheets according to management's intent. The amortized cost of securities and their approximate fair values at September 30, 2015 and December 31, 2014, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
September 30, 2015:				
U.S. treasuries	$1,000	$6	$—	$1,006
Government agency securities	80,905	445	(36)	81,314
Obligations of state and municipal subdivisions	69,510	1,875	(305)	71,080
Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC and FHR	45,280	1,509	(1)	46,788
	$196,695	$3,835	$(342)	$200,188
December 31, 2014:				
U.S. treasuries	$999	$7	$—	$1,006
Government agency securities	58,174	199	(350)	58,023
Obligations of state and municipal subdivisions	75,599	1,837	(537)	76,899
Corporate bonds	1,068	13	—	1,081
Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC and FHR	67,437	1,616	—	69,053
	$203,277	$3,672	$(887)	$206,062

Securities with a carrying amount of approximately $135,981 and $174,741 at September 30, 2015 and December 31, 2014, respectively, were pledged to secure public fund deposits and repurchase agreements.

Proceeds from sale of securities available for sale and gross gains and gross losses for the three and nine months ended September 30, 2015 and 2014 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Proceeds from sale	—	—	12,128	—
Gross gains	—	—	90	—
Gross losses	—	—	—	—

The amortized cost and estimated fair value of securities available for sale at September 30, 2015, by contractual maturity, are shown below. Maturities of pass-through certificates will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	September 30, 2015	
	Securities Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$5,394	$5,423
Due from one year to five years	80,718	81,047
Due from five to ten years	29,737	30,124
Thereafter	35,566	36,806
	151,415	153,400
Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC and FHR	45,280	46,788
	$196,695	$200,188

The number of securities, unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of September 30, 2015 and December 31, 2014, 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								
September 30, 2015								
Government agency securities	1	$2,999	$(1)	9	$14,965	$(35)	$17,964	$(36)
Obligations of state and municipal subdivisions	24	9,522	(56)	21	10,043	(249)	19,565	(305)
Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC and FHR	1	91	(1)	—	—	—	91	(1)
	26	$12,612	$(58)	30	$25,008	$(284)	$37,620	$(342)
December 31, 2014								
Government agency securities	6	$6,396	$(24)	14	$22,671	$(326)	$29,067	$(350)

Obligations of state and municipal subdivisions	44	16,636	(197	)	13	8,541	(340	)	25,177	(537	)
	50	$23,032	$(221	)	27	$31,212	$(666	)	$54,244	$(887	)

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

Note 4. Loans, Net and Allowance for Loan Losses

Loans, net at September 30, 2015 and December 31, 2014, consisted of the following:

	September 30, 2015	December 31, 2014
Commercial	$668,001	$672,052
Real estate:		
Commercial	1,777,401	1,450,434
Commercial construction, land and land development	324,007	334,964
Residential	549,733	514,025
Single family interim construction	140,144	138,278
Agricultural	37,207	38,822
Consumer	32,621	52,267
Other	161	242
	3,529,275	3,201,084
Deferred loan fees	(1,106)	(487)
Allowance for loan losses	(25,088)	(18,552)
	$3,503,081	$3,182,045

The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans.

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. The Company's management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. These cash flows, however, may not be as expected and the value of collateral securing the loans may fluctuate. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short term loans may be made on an unsecured basis. Additionally, our commercial loan portfolio includes loans made to customers in the energy industry, which is a complex, technical and cyclical industry. Experienced bankers with specialized energy lending experience originate our energy loans. Companies in this industry produce, extract, develop, exploit and explore for oil and natural gas. Loans are primarily collateralized with proven producing oil and gas reserves based on a technical evaluation of these reserves. At September 30, 2015 and December 31, 2014, there were approximately $209.6 million and $231.7 million of exploration and production (E&P) energy loans outstanding, respectively.

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

Land and commercial land development loans are underwritten using feasibility studies, independent appraisal reviews and financial analysis of the developers or property owners. Generally, borrowers must have a proven track record of success. Commercial construction loans are generally based upon estimates of cost and value of the completed project. These estimates may not be accurate. Commercial construction loans often involve the disbursement of substantial funds with the repayment dependent on the success of the ultimate project. Sources of repayment for these loans may be pre-committed permanent financing or sale of the developed property. The loans in this portfolio are geographically diverse and due to the increased risk are monitored closely by management and the board of directors on a quarterly basis.

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 2% of the outstanding total loan portfolio. Collateral consists primarily of automobiles and other personal assets. Credit score analysis is used to supplement the underwriting process.

Most of the Company's lending activity occurs within the State of Texas, primarily in the north, central and southeast Texas regions. A large percentage of the Company's portfolio consists of commercial and residential real estate loans. As of September 30, 2015 and December 31, 2014, there were no concentrations of loans related to a single industry in excess of 10% of total loans.

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

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

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

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

The Texas economy, specifically the Company's lending area of north, central and southeast Texas, has generally performed better than certain other parts of the country. However, the recent drop in oil prices has the potential to have a negative impact on the Texas economy. The risk of loss associated with all segments of the portfolio could increase due to this impact. The Company increased its allowance for loan losses during the quarter ended September 30, 2015 in consideration of this risk to the energy portfolio.

The economy and other risk factors are minimized by the Company's underwriting standards, which include the following principles: 1) financial strength of the borrower including strong earnings, high net worth, significant liquidity and acceptable debt to worth ratio, 2) managerial business competence, 3) ability to repay, 4) loan to value, 5) projected cash flow and 6) guarantor financial statements as applicable. The following is a summary of the activity in the allowance for loan losses by loan class for the three and nine months ended September 30, 2015 and 2014:

	Commercial	Commercial Real Estate, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Unallocated	Total
Three months ended September 30, 2015									
Balance at the beginning of period	$ 6,632	$ 11,720	$ 2,318	$ 738	$ 234	$ 181	$ —	$ (59)	$ 21,764
Provision for loan losses	3,866	318	(91)	(19)	(17)	48	—	(173)	3,932
Charge-offs	(500)	(69)	(9)	—	—	(65)	—	—	(643)
Recoveries	17	7	1	—	—	10	—	—	35
Balance at end of period	$ 10,015	$ 11,976	$ 2,219	$ 719	$ 217	$ 174	$ —	$ (232)	$ 25,088
Nine months ended September 30, 2015									
Balance at the beginning of period	$ 5,051	$ 10,110	$ 2,205	$ 669	$ 246	$ 146	$ —	$ 125	$ 18,552
Provision for loan losses	5,547	1,898	18	50	(29)	134	—	(357)	7,261
Charge-offs	(606)	(69)	(9)	—	—	(142)	—	—	(826)
Recoveries	23	37	5	—	—	36	—	—	101
Balance at end of period	$ 10,015	$ 11,976	$ 2,219	$ 719	$ 217	$ 174	$ —	$ (232)	$ 25,088
Three months ended September 30, 2014									
	$ 3,676	$ 9,100	$ 2,291	$ 584	$ 272	$ 349	$ —	$ (53)	$ 16,219

Balance at the beginning of period									
Provision for loan losses	427	706	4	(26)	21	(109)	—	(47)	976
Charge-offs	—	(318)	—	—	—	(76)	—	—	(394)
Recoveries	6	23	3	—	—	7	—	—	39
Balance at end of period	$ 4,109	$ 9,511	$ 2,298	$ 558	$ 293	$ 171	$ —	$ (100)	$ 16,840
Nine months ended September 30, 2014									
Balance at the beginning of period	$ 2,401	$ 7,872	$ 2,440	$ 577	$ 238	$ 363	$ —	$ 69	$ 13,960
Provision for loan losses	2,061	1,907	(117)	(30)	55	(99)	—	(169)	3,608
Charge-offs	(368)	(339)	(32)	—	—	(118)	—	—	(857)
Recoveries	15	71	7	11	—	25	—	—	129
Balance at end of period	$ 4,109	$ 9,511	$ 2,298	$ 558	$ 293	$ 171	$ —	$ (100)	$ 16,840

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The following table details the amount of the allowance for loan losses and recorded investment in loans by class as of September 30, 2015 and December 31, 2014:

	Commercial	Commercial Real Estate, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Unallocated	Total
September 30, 2015									
Allowance for losses:									
Individually evaluated for impairment	$ 2,481	$ 64	$ —	$ —	$ —	$ 9	$ —	$ —	$ 2,554
Collectively evaluated for impairment	7,534	11,912	2,219	719	217	165	—	(232)	22,534
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—
Ending balance	$ 10,015	$ 11,976	$ 2,219	$ 719	$ 217	$ 174	$ —	$ (232)	$ 25,088
Loans:									
Individually evaluated for impairment	$ 4,317	$ 5,302	$ 3,083	$ —	$ —	$ 119	$ —	$ —	$ 12,821
Collectively evaluated for impairment	660,726	2,050,554	545,420	140,144	37,207	32,480	161	—	3,466,692
Acquired with deteriorated credit quality	2,958	45,552	1,230	—	—	22	—	—	49,762
Ending balance	$ 668,001	$ 2,101,408	$ 549,733	$ 140,144	$ 37,207	$ 32,621	$ 161	$ —	$ 3,529,275
December 31, 2014									
Allowance for losses:									
Individually evaluated for impairment	$ 339	$ 124	$ 8	$ —	$ —	$ 4	$ —	$ —	$ 475
Collectively evaluated for impairment	4,712	9,986	2,197	669	246	142	—	125	18,077
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—
Ending balance	$ 5,051	$ 10,110	$ 2,205	$ 669	$ 246	$ 146	$ —	$ 125	$ 18,552
Loans:									
	$ 1,479	$ 6,768	$ 3,387	$ —	$ —	$ 75	$ —	$ —	$ 11,709

Individually evaluated for impairment									
Collectively evaluated for impairment	666,830	1,724,514	508,833	138,278	38,822	52,159	242	—	3,129,678
Acquired with deteriorated credit quality	3,743	54,116	1,805	—	—	33	—	—	59,697
Ending balance	$ 672,052	$ 1,785,398	$ 514,025	$ 138,278	$ 38,822	$ 52,267	$ 242	$ —	$ 3,201,084

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Nonperforming loans by loan class at September 30, 2015 and December 31, 2014, are summarized as follows:

	Commercial	Commercial Real Estate, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Total
September 30, 2015								
Nonaccrual loans	$ 4,297	$ 32	$ 496	$ —	$ —	$ 119	$—	$ 4,944
Loans past due 90 days and still accruing	16	—	95	—	—	—	—	111
Troubled debt restructurings (not included in nonaccrual or loans past due and still accruing)	20	4,061	2,576	—	—	—	—	6,657
	$ 4,333	$ 4,093	$ 3,167	$ —	$ —	$ 119	$—	$ 11,712
December 31, 2014								
Nonaccrual loans	$ 1,449	$ 70	$ 2,117	$ —	$ —	$ 67	$—	$ 3,703
Loans past due 90 days and still accruing	157	288	—	—	—	6	—	451
Troubled debt restructurings (not included in nonaccrual or loans past due and still accruing)	30	4,668	1,254	—	—	8	—	5,960
	$ 1,636	$ 5,026	$ 3,371	$ —	$ —	$ 81	$—	$ 10,114

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

Impaired loans by loan class at September 30, 2015 and December 31, 2014, are summarized as follows:

	Commercial	Commercial Real Estate, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Total
September 30, 2015								
Recorded investment in impaired loans:								
Impaired loans with an allowance for loan losses	$ 4,195	$ 1,417	$ —	$ —	$ —	$ 23	$—	$5,635
Impaired loans with no allowance for loan losses	122	3,885	3,083	—	—	96	—	7,186
Total	$ 4,317	$ 5,302	$ 3,083	$ —	$ —	$ 119	$—	$12,821
Unpaid principal balance of impaired loans	$ 4,322	$ 5,803	$ 3,175	$ —	$ —	$ 141	$—	$13,441
Allowance for loan losses on impaired loans	$ 2,481	$ 64	$ —	$ —	$ —	$ 9	$—	$2,554
December 31, 2014								
Recorded investment in impaired loans:								
Impaired loans with an allowance for loan losses	$ 1,475	$ 2,056	$ 13	$ —	$ —	$ 7	$—	$3,551
Impaired loans with no allowance for loan losses	4	4,712	3,374	—	—	68	—	8,158
Total	$ 1,479	$ 6,768	$ 3,387	$ —	$ —	$ 75	$—	$11,709
Unpaid principal balance of impaired loans	$ 1,482	$ 7,274	$ 3,605	$ —	$ —	$ 93	$—	$12,454
Allowance for loan losses on impaired loans	$ 339	$ 124	$ 8	$ —	$ —	$ 4	$—	$475
For the three months ended September 30, 2015								
Average recorded investment in impaired loans	$ 4,997	$ 5,797	$ 3,182	$ —	$ —	$ 101	$—	$14,077
Interest income recognized on impaired loans	$ —	$ 88	$ 44	$ —	$ —	$ —	$—	$132
For the nine months ended September 30, 2015								
Average recorded investment in impaired loans	$ 4,343	$ 6,212	$ 3,242	$ —	$ —	$ 88	$—	$13,885
Interest income recognized on impaired loans	$ 48	$ 258	$ 136	$ —	$ —	$ 2	$—	$444
For the three months ended September 30, 2014								
Average recorded investment in impaired loans	$ 139	$ 7,538	$ 3,232	$ —	$ —	$ 73	$—	$10,982
Interest income recognized on impaired loans	$ 2	$ 101	$ 44	$ —	$ —	$ 1	$—	$148

For the nine months ended September 30, 2014								
Average recorded investment in impaired loans	$ 257	$ 7,663	$ 3,219	$ 43	$ —	$ 68	$—	$11,250
Interest income recognized on impaired loans	$ 7	$ 302	$ 126	$ —	$ —	$ 2	$—	$437

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

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

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

A "troubled debt restructured" loan is identified as impaired and measured for credit impairment as of each reporting period in accordance with the guidance in Accounting Standards Codification (ASC) 310-10-35. The recorded investment in troubled debt restructurings, including those on nonaccrual, was $6,669 and $7,302 as of September 30, 2015 and December 31, 2014.

Following is a summary of loans modified under troubled debt restructurings during the three months ended September 30, 2015 and 2014:

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	Commercial	Commercial Real Estate, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Total
Troubled debt restructurings during the three months ended September 30, 2015								
Number of contracts	—	—	—	—	—	—	—	—
Pre-restructuring outstanding recorded investment	$—	$—	$—	$ —	$—	$—	$—	$—
Post-restructuring outstanding recorded investment	$—	$—	$—	$ —	$—	$—	$—	$—
Troubled debt restructurings during the nine months ended September 30, 2015								
Number of contracts	—	—	—	—	—	—	—	—
Pre-restructuring outstanding recorded investment	$—	$—	$—	$ —	$—	$—	$—	$—
Post-restructuring outstanding recorded investment	$—	$—	$—	$ —	$—	$—	$—	$—
Troubled debt restructurings during the three months ended September 30, 2014								
Number of contracts	—	—	—	—	—	1	—	1
Pre-restructuring outstanding recorded investment	$—	$—	$—	$ —	$—	$ 9	$—	$9
Post-restructuring outstanding recorded investment	$—	$—	$—	$ —	$—	$ 9	$—	$9

Troubled debt restructurings during the nine months ended September 30, 2014								
Number of contracts	—	2	—	—	—	—	1	3
Pre-restructuring outstanding recorded investment	$—	$1,108	$—	$ —	$—	$—	$9	$1,117
Post-restructuring outstanding recorded investment	$—	$1,108	$—	$ —	$—	$—	$9	$1,117

At September 30, 2015 and 2014, there were no loans modified under troubled debt restructurings during the previous twelve month period that subsequently defaulted during the three and nine months ended September 30, 2015 and 2014, respectively. At September 30, 2015 and 2014, the Company had no commitments to lend additional funds to any borrowers with loans whose terms have been modified under troubled debt restructurings.

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

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. The following table presents information regarding the aging of past due loans by loan class as of September 30, 2015 and December 31, 2014:

	Loans 30-89 Days Past Due	Loans 90 or More Past Due	Total Past Due Loans	Current Loans	Total Loans
September 30, 2015					
Commercial	$582	$4,294	$4,876	$663,125	$668,001
Commercial real estate, land and land development	2,380	—	2,380	2,099,028	2,101,408
Residential real estate	475	375	850	548,883	549,733
Single-family interim construction	—	—	—	140,144	140,144
Agricultural	186	—	186	37,021	37,207
Consumer	143	26	169	32,452	32,621
Other	—	—	—	161	161
	$3,766	$4,695	$8,461	$3,520,814	$3,529,275
December 31, 2014					
Commercial	$6,006	$157	$6,163	$665,889	$672,052
Commercial real estate, land and land development	973	288	1,261	1,784,137	1,785,398
Residential real estate	1,258	554	1,812	512,213	514,025
Single-family interim construction	410	—	410	137,868	138,278
Agricultural	—	—	—	38,822	38,822
Consumer	1,899	8	1,907	50,360	52,267
Other	—	—	—	242	242
	$10,546	$1,007	$11,553	$3,189,531	$3,201,084

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

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

A summary of loans by credit quality indicator by class as of September 30, 2015 and December 31, 2014, is as follows:

	Pass	Pass/ Watch	OAEM	Substandard	Doubtful	Total
September 30, 2015						
Commercial	$532,576	$78,006	$24,311	$33,108	$—	$668,001
Commercial real estate, construction, land and land development	2,077,651	10,635	2,749	10,373	—	2,101,408
Residential real estate	540,756	2,001	1,954	5,022	—	549,733
Single-family interim construction	140,144	—	—	—	—	140,144
Agricultural	35,169	226	1,812	—	—	37,207
Consumer	32,375	76	35	135	—	32,621
Other	161	—	—	—	—	161
	$3,358,832	$90,944	$30,861	$48,638	$—	$3,529,275
December 31, 2014						
Commercial	$647,894	$16,919	$977	$6,262	$—	$672,052
Commercial real estate, construction, land and land development	1,759,533	8,667	6,008	11,190	—	1,785,398
Residential real estate	505,920	2,188	325	5,592	—	514,025
Single-family interim construction	138,278	—	—	—	—	138,278
Agricultural	38,422	57	—	343	—	38,822
Consumer	52,055	39	50	123	—	52,267
Other	242	—	—	—	—	242
	$3,142,344	$27,870	$7,360	$23,510	$—	$3,201,084

The Company has acquired certain loans which experienced credit deterioration since origination (purchased credit impaired (PCI) loans). Accretion on PCI loans is based on estimated future cash flows, regardless of contractual maturity. There are no PCI loans outstanding for acquisitions prior to 2012. No additional PCI loans were acquired during the nine months ended September 30, 2015.

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

	Acquisition Date		
	October 1, 2014	April 15, 2014	January 1, 2014
	Houston City Bancshares, Inc.	BOH Holdings, Inc.	Live Oak Financial Corp.
Outstanding balance	$12,021	$55,718	$3,583
Nonaccretable difference	(1,240)	(5,798)	(519)
Accretable yield	(561)	(2,579)	(182)
Carrying amount	$10,220	$47,341	$2,882

The carrying amount of all acquired PCI loans included in the consolidated balance sheet and the related outstanding balance at September 30, 2015 and December 31, 2014, were as follows:

	September 30, 2015	December 31, 2014
Outstanding balance	$57,648	$69,371
Carrying amount	49,762	59,697

There was no allocation established in the allowance for loan losses relating to PCI loans at September 30, 2015 or December 31, 2014.

The changes in accretable yield during the nine months ended September 30, 2015 in regard to loans transferred at acquisition for which it was probable that all contractually required payments would not be collected are presented in the table below. Activity in accretable yield for the nine months ended September 30, 2014 was not material.

Balance at January 1, 2015	$2,546
Additions	—
Accretion	(791)
Transfers from nonaccretable	748
Balance at September 30, 2015	$2,503

Note 5. Commitments and Contingencies

Financial Instruments with Off-Balance Sheet Risk

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

The Company’s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of this instrument. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

At September 30, 2015 and December 31, 2014, the approximate amounts of these financial instruments were as follows:

	September 30, 2015	December 31, 2014
Commitments to extend credit	$720,277	$565,881
Standby letters of credit	7,322	8,571
	$727,599	$574,452

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

Letters of credit are written conditional commitments used by the Company to guarantee the performance of a customer to a third party. The Company’s policies generally require that letter of credit arrangements contain security and debt covenants similar to those contained in loan arrangements. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount shown in the table above. If the commitment is funded, the Company would be entitled to seek recovery from the customer. As of September 30, 2015 and December 31, 2014, no amounts have been recorded as liabilities for the Company’s potential obligations under these guarantees.

Litigation

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

Independent Bank is a party to a legal proceeding inherited by Independent Bank in connection with its acquisition of BOH Holdings, Inc. and its subsidiary, Bank of Houston. Please see Part II, Item 1. for more details on this lawsuit.

Lease Commitments

The Company leases certain branch facilities and other facilities. Rent expense related to these leases amounted to $583 and $1,567 for the three and nine months ended September 30, 2015, respectively, and $391 and $907 for the three and nine months ended September 30, 2014, respectively.

Note 6. Repurchase Agreements and Other Borrowings

At September 30, 2015 and December 31, 2014, repurchase agreements totaled $0 and $4,012, respectively. During the three months ended September 30, 2015, repurchase agreements were transferred to deposit accounts.

Other borrowings, including those borrowings due to related parties totaled $71,139 and $72,730 at September 30, 2015 and December 31, 2014, respectively. Scheduled principal payments of $625, $341 and $625 were made on January 15, 2015, April 15, 2015 and July 15, 2015, respectively, for subordinated debentures issued to individuals.

Line of Credit Renewal

On July 22, 2015, the Company renewed its unsecured line of credit with two unrelated commercial banks and increased the line from $35 million to $50 million. The line bears interest at LIBOR plus 2.50% and matures on July 19, 2016. At September 30, 2015 and December 31, 2014, there were no advances outstanding on this line.

Note 7. Income Taxes

Income tax expense for the three and nine months ended September 30, 2015 and 2014 was as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015		2014		2015		2014	
Income tax expense for the period	$3,924		$4,543		$13,664		$9,564	
Effective tax rate	32.4	%	33.6	%	32.6	%	33.6	%

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

Note 8. Fair Value Measurements

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

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

Level 2 Inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are

observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.
Level 3 Inputs – Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity’s own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

The following table represents assets reported on the consolidated balance sheets at their fair value on a recurring basis as of September 30, 2015 and December 31, 2014 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)
September 30, 2015				
Measured on a recurring basis:				
Assets:				
Investment securities available for sale:				
U.S. treasuries	$1,006	$—	$1,006	$—
Government agency securities	81,314	—	81,314	—
Obligations of state and municipal subdivisions	71,080	—	71,080	—
Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC and FHR	46,788	—	46,788	—
December 31, 2014				
Measured on a recurring basis:				
Assets:				
Investment securities available for sale:				
U.S. treasuries	$1,006	$—	$1,006	$—
Government agency securities	58,023	—	58,023	—
Obligations of state and municipal subdivisions	76,899	—	76,899	—
Corporate bonds	1,081	—	1,081	—
Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC and FHR	69,053	—	69,053	—

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

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

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

In accordance with ASC Topic 820, certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets carried on the consolidated balance sheet by caption and by level in the fair value hierarchy at September 30, 2015 and December 31, 2014, 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
September 30, 2015					
Measured on a nonrecurring basis:					
Assets:					
Impaired loans	$1,992	$—	$—	$1,992	$2,380
Other real estate	577	—	—	577	35
December 31, 2014					
Measured on a nonrecurring basis:					
Assets:					
Impaired loans	$4,943	$—	$—	$4,943	$188
Other real estate	138	—	—	138	22

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

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

In addition, mortgage loans held for sale are required to be measured at the lower of cost or fair value. The fair value of mortgage loans held for sale is based upon binding quotes or bids from third party investors. As of September 30, 2015 and December 31, 2014, all mortgage loans held for sale were recorded at cost.

The methods and assumptions used by the Company in estimating fair values of financial instruments as disclosed herein in accordance with ASC Topic 825, Financial Instruments, other than for those measured at fair value on a recurring and nonrecurring basis discussed above, are as follows:
Cash and cash equivalents: The carrying amounts of cash and cash equivalents approximate their fair value.
Loans and loans held for sale: For variable-rate loans that reprice frequently and have no significant changes in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (for example, one-to-four family residential), commercial real estate and commercial loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.
Federal Home Loan Bank of Dallas and other restricted stock: The carrying value of restricted securities such as stock in the Federal Home Loan Bank of Dallas and Independent Bankers Financial Corporation approximates fair value.
Deposits: The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is their carrying amounts). The carrying amounts of variable-rate certificates of deposit (CDs) approximate their fair values at the reporting date. Fair values for fixed-rate CDs are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.
Federal Home Loan Bank advances, line of credit and federal funds purchased: The fair value of advances maturing within 90 days approximates carrying value. Fair value of other advances is based on the Company’s current borrowing rate for similar arrangements.
Repurchase agreements and other borrowings: The carrying value of repurchase agreements approximates fair value due to the short term nature. The fair values of private subordinated debentures are based upon prevailing rates on similar debt in the market place. The subordinated notes that are publicly traded are valued based on indicative bid prices based upon market pricing observations in the current market.
Junior subordinated debentures: The fair value of junior subordinated debentures is estimated using discounted cash flow analyses based on the Company’s current incremental borrowing rates for similar types of borrowing arrangements.
Accrued interest: The carrying amounts of accrued interest approximate their fair values.
Off-balance sheet instruments: Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not material.

The carrying amount, estimated fair value and the level of the fair value hierarchy of the Company's financial instruments were as follows at September 30, 2015 and December 31, 2014:

			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)
September 30, 2015					
Financial assets:					
Cash and cash equivalents	$353,950	$353,950	$353,950	$—	$—
Securities available for sale	200,188	200,188	—	200,188	—
Loans held for sale	6,218	6,218	—	6,218	—
Loans, net	3,503,081	3,511,799	—	3,508,718	3,081
FHLB of Dallas stock and other restricted stock	13,187	13,187	—	13,187	—
Accrued interest receivable	9,046	9,046	—	9,046	—
Financial liabilities:					
Deposits	3,534,040	3,536,984	—	3,536,984	—
Accrued interest payable	1,791	1,791	—	1,791	—
FHLB advances	263,346	270,994	—	270,994	—
Other borrowings	71,139	72,967	—	72,967	—
Junior subordinated debentures	18,147	18,126	—	18,126	—
Off-balance sheet assets (liabilities):					
Commitments to extend credit	—	—	—	—	—
Standby letters of credit	—	—	—	—	—
December 31, 2014					
Financial assets:					
Cash and cash equivalents	$324,047	$324,047	$324,047	$—	$—
Securities available for sale	206,062	206,062	—	206,062	—
Loans held for sale	4,453	4,453	—	4,453	—
Loans, net	3,182,045	3,203,337	—	3,200,261	3,076
FHLB of Dallas stock and other restricted stock	12,321	12,321	—	12,321	—
Accrued interest receivable	9,655	9,655	—	9,655	—
Financial liabilities:					
Deposits	3,249,598	3,252,114	—	3,252,114	—
Accrued interest payable	2,919	2,919	—	2,919	—
FHLB advances	229,405	228,607	—	228,607	—
Repurchase agreements	4,012	4,012	—	4,012	—
Other borrowings	72,730	75,164	—	75,164	—
Junior subordinated debentures	18,147	18,134	—	18,134	—
Off-balance sheet assets (liabilities):					
Commitments to extend credit	—	—	—	—	—
Standby letters of credit	—	—	—	—	—

Note 9. Stock Awards and Stock Warrants

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

The following table summarizes the activity in nonvested shares for the nine months ended September 30, 2015 and 2014:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested shares, December 31, 2014	373,886	$41.58
Granted during the period	90,124	31.84
Vested during the period	(80,641)	42.12
Forfeited during the period	(14,599)	28.82
Nonvested shares, September 30, 2015	368,770	$40.46
Nonvested shares, December 31, 2013	306,524	$22.75
Granted during the period	189,069	56.70
Vested during the period	(121,364)	19.93
Forfeited during the period	(1,194)	30.37
Nonvested shares, September 30, 2014	373,035	$40.85

Compensation expense related to these awards is recorded based on the fair value of the award at the date of grant and totaled $1,115 and $3,214 for the three and nine months ended September 30, 2015, respectively and $841 and $2,011 for the three and nine months ended September 30, 2014, respectively. Compensation expense is recorded in salaries and employee benefits in the accompanying consolidated statements of income. At September 30, 2015, future compensation expense is estimated to be $11,663 and will be recognized over a remaining weighted average period of 3.23 years.

The fair value of common stock awards that vested during the nine months ended September 30, 2015 and 2014 was $3,192 and $6,288, respectively. The Company has recorded $(63) and $1,326 to additional paid in capital, which represents the income tax deficiency and excess tax benefit, respectively, recognized on the vested shares for the nine months ended September 30, 2015 and 2014, respectively.

At September 30, 2015, the future vesting schedule of the nonvested shares is as follows:

First year	123,787
Second year	117,592
Third year	90,791
Fourth year	34,600
Fifth year	2,000
Total nonvested shares	368,770

The Company has warrants outstanding representing the right to purchase 150,544 shares of Company stock at $17.19 per share to certain Company directors and shareholders. The warrants were issued in return for the shareholders' agreement to repurchase the subordinated debt outstanding to an unaffiliated bank in the event of Company default.

The subordinated debt was paid off by the Company in 2013. The warrants expire in December 2018.

Note 10. Regulatory Matters

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

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

In July 2013, the Federal Reserve published final rules for the adoption of the Basel III regulatory capital framework (the "Basel III Capital Rules"). The Basel III Capital Rules, among other things, (i) introduce a new capital measure called "Common Equity Tier 1" ("CET1"), (ii) specify that Tier 1 capital consist of Common Equity Tier 1 and "Additional Tier 1 Capital" instruments meeting specified requirements, (iii) define Common Equity Tier 1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to Common Equity Tier 1 and not to the other components of capital and (iv) expand the scope of the deductions/adjustments as compared to existing regulations. The Basel III Capital Rules became effective for the Company on January 1, 2015 with certain transition provisions fully phased in on January 1, 2019.

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 September 30, 2015 and December 31, 2014, the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of September 30, 2015 and December 31, 2014, the Bank’s capital ratios exceeded those levels necessary to be categorized as “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as “well capitalized," the Bank must maintain minimum total risk based, CET1, Tier 1 risk based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank’s category.

The actual capital amounts and ratios of the Company and Bank as of September 30, 2015 and December 31, 2014, are presented in the following table:

	Actual			Minimum for Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
September 30, 2015									
Total capital to risk weighted assets:									
Consolidated	$443,245	11.86	%	$299,064	8.00	%	N/A	N/A	
Bank	437,353	11.72		298,397	8.00		$372,996	10.00	%
Tier 1 capital to risk weighted assets:									
Consolidated	350,224	9.37		224,298	6.00		N/A	N/A	
Bank	412,265	11.05		223,798	6.00		298,397	8.00	%
Common equity tier 1 to risk weighted assets									
Consolidated	308,686	8.26		168,224	4.50		N/A	N/A	
Bank	412,265	11.05		167,848	4.50		242,447	6.50	%
Tier 1 capital to average assets:									
Consolidated	350,224	8.67		161,513	4.00		N/A	N/A	
Bank	412,265	10.21		161,453	4.00		201,817	5.00	%
December 31, 2014									
Total capital to risk weighted assets:									
Consolidated	$402,326	12.59	%	$255,633	8.00	%	N/A	N/A	
Bank	397,512	12.46		255,219	8.00		$319,024	10.00	%
Tier 1 capital to risk weighted assets:									
Consolidated	314,136	9.83		127,817	4.00		N/A	N/A	
Bank	378,960	11.88		127,609	4.00		191,414	6.00	%
Tier 1 capital to average assets:									
Consolidated	314,136	8.15		154,270	4.00		N/A	N/A	
Bank	378,960	9.93		152,598	4.00		190,747	5.00	%

Note 11. Business Combinations

BOH Holdings

During the nine months ended September 30, 2015, the Company made measurement-period adjustments to previously-reported acquisition accounting estimates for the April 15, 2014 acquisition of BOH Holdings. Additional termination accruals were identified that related to BOH accounts that existed prior to the acquisition and resulted in increases of $118 to goodwill and $63 to deferred tax asset and a decrease of $181 to other liabilities. The measurement period for the BOH Holdings acquisition ended April 15, 2015.

Houston Community Bancshares

During the nine months ended September 30, 2015, the Company made measurement-period adjustments to previously-reported acquisition accounting estimates for the October 1, 2014 acquisition of Houston Community Bancshares (HCB). The adjustments related to the disposition of two other real estate owned properties and the writedown of one other real estate owned property due to a restriction on the property which the Company became aware of that affected the marketability. The adjustment resulted in increases of $243 to goodwill and $130 to deferred tax asset and a decrease to other real estate owned of $373. The measurement period for the HCB acquisition ended October 1, 2015.

Grand Bank

On July 23, 2015, the Company announced that it has entered into a definitive agreement to acquire Grand Bank in Dallas, Texas for an approximate $80.1 million purchase price to be paid with a combination of cash and stock. The transaction is subject to certain conditions, including the approval by Grand Bank’s shareholders and customary regulatory approvals and is expected to close during the fourth quarter of 2015.

Note 12. Subsequent Event

Declaration of Dividends

On October 30, 2015, the Company declared a quarterly cash dividend in the amount of $0.08 per share of common stock to the stockholders of record on November 9, 2015. The dividend will be paid on November 20, 2015.

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

Cautionary Note Regarding Forward Looking Statements

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

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

- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the SEC and Public Company Accounting Oversight Board:
- governmental monetary and fiscal policies;
- changes in the scope and cost of FDIC insurance and other coverage;
- the effects of war or other conflicts, acts of terrorism (including cyber attacks) or other catastrophic events, including storms, droughts, tornadoes and flooding, that may affect general economic conditions;

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

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

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

Overview

This Management's Discussion and Analysis of Financial Condition and Results of Operations analyzes the major elements of the Company's financial condition and results of operation as reflected in the interim consolidated financial statements and accompanying notes appearing in this Quarterly Report on Form 10-Q. This section should be read in conjunction with the Company's interim consolidated financial statements and accompanying notes included elsewhere in this report and with the consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2014.

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

The Company operates 40 full service banking locations, with 22 located in the Dallas/North Texas region, 7 located in the Austin/Central Texas region and 11 in the Houston region. The Company's headquarters are located at 1600 Redbud, Suite 400, McKinney, Texas 75069, and its telephone number is (972) 562-9004. The Company's website address is www.ibtx.com. Information contained on the Company's website is not incorporated by reference into this Quarterly Report on Form 10-Q and is not part of this or any other report.

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

Certain Events Affect Year-over-Year Comparability

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

	Acquisition Date	Total Assets	Gross Loans	Deposits
Live Oak Financial Corp.	January 1, 2014	$131.0 million	$71.3 million	$105.0 million
BOH Holdings	April 15, 2014	1.2 billion	785.2 million	820.8 million
Houston Community Bancshares, Inc.	October 1, 2014	350.7 million	194.9 million	303.1 million

The comparability of the Company's results of operations for the three and nine months ended September 30, 2015 and 2014 are affected by these acquisitions.

Discussion and Analysis of Results of Operations for the Three and Nine Months Ended September 30, 2015 and 2014

The following discussion and analysis of our results of operations compares our results of operations for the three and nine months ended September 30, 2015 with the three and nine months ended September 30, 2014. The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results of operations that may be expected for all of the year ending December 31, 2015.

Results of Operations

For the three months ended September 30, 2015, net income available to common shareholders was $8.1 million ($0.47 per common share on a diluted basis) compared with $8.9 million ($0.54 per common share on a diluted basis) for the three months ended September 30, 2014. The Company posted annualized returns on average common equity of 5.96% and 7.60%, returns on average assets of 0.76% and 0.95% and efficiency ratios of 61.66% and 60.48% for the three months ended September 30, 2015 and 2014, respectively. The efficiency ratio is calculated by dividing total noninterest expense (which does not include the provision for loan losses) by net interest income plus noninterest income.

For the nine months ended September 30, 2015, net income available to common shareholders was $28.0 million ($1.63 per common share on a diluted basis) compared with $18.8 million ($1.25 per common share on a diluted basis) for the nine months ended September 30, 2014. The Company posted annualized returns on average common equity of 7.04% and 6.54%, returns on average assets of 0.89% and 0.81% and efficiency ratios of 60.31% and 66.5% for the nine months ended September 30, 2015 and 2014, respectively.

Net Interest Income

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

Net interest income was $38.1 million for the three months ended September 30, 2015, an increase of $5.7 million, or 17.4%, from $32.4 million for the three months ended September 30, 2014. This increase is due primarily to a $518.9 million increase, or 16.3%, in average interest earning assets to $3.7 billion for the three months ended September 30, 2015 compared to $3.2 billion for the three months ended September 30, 2014. The greatest part of the increases in interest-earning assets and interest-bearing deposits occurred as a result of the acquisition the Company completed in October 2014 but was also due in part to organic loan and deposit growth. The net interest margin for the three months ended September 30, 2015 increased four basis points to 4.08% compared to 4.04% for the three months ended September 30, 2014. The increase from the prior year is due primarily to a decrease in the cost of borrowings due to principal payments made on higher cost subordinated debt. The average yield on interest earning assets increased two basis points from 4.60% for the three months ended September 30, 2014 to 4.62% for the three months ended September 30, 2015 primarily due to a shift in interest earning assets from securities to loans. The average yield on interest-bearing liabilities decreased three basis points to 0.70% for the three months ended September 30, 2015 compared to 0.73% for the three months ended September 30, 2014. This change was primarily due to a decrease in the cost of subordinated debt due to principal payments made on higher cost issuances during 2015.

Net interest income was $111.9 million for the nine months ended September 30, 2015, an increase of $26.0 million, or 30.2%, from $86.0 million for the nine months ended September 30, 2014. This increase is due primarily to a $903.0 million increase, or 32.7%, in average interest earning assets to $3.7 billion for the nine months ended September 30, 2015 compared to $2.8 billion for the nine months ended September 30, 2014. The greatest part of the increases in interest-earning assets and interest-bearing deposits occurred as a result of the acquisition the Company completed in October 2014 but was also due to organic loan and deposit growth. The net interest margin for the nine months ended September 30, 2015 decreased eight basis points to 4.08% compared to 4.16% for the nine months ended September 30, 2014. The decrease from the prior year is primarily due to a decrease in loan yields of 16 basis points from the prior year. The average yield on interest earning assets decreased eight basis points from 4.70% to 4.62% while the average rate paid on interest bearing liabilities decreased one basis point from 0.70% to 0.69%.

Average Balance Sheet Amounts, Interest Earned and Yield Analysis. The following table presents average balance sheet information, interest income, interest expense and the corresponding average yields earned and rates paid for the three and nine months ended September 30, 2015 and 2014. The average balances are principally daily averages and, for loans, include both performing and nonperforming balances.

	For The Three Months Ended September 30,							
	2015				2014			
	Average Outstanding Balance	Interest	Yield/ Rate [3]		Average Outstanding Balance	Interest	Yield/ Rate [3]	
(dollars in thousands)								
Interest-earning assets:								
Loans [1]	$3,411,536	$42,145	4.90	%	$2,878,566	$35,633	4.91	%
Taxable securities	119,997	393	1.30		170,804	711	1.65	
Nontaxable securities	65,440	461	2.79		69,784	404	2.30	
Interest-bearing deposits and other	109,031	131	0.48		67,908	192	1.12	
Total interest-earning assets	3,706,004	$43,130	4.62		3,187,062	$36,940	4.60	
Noninterest-earning assets	564,600				534,261			
Total assets	$4,270,604				$3,721,323			
Interest-bearing liabilities:								
Checking accounts	$1,279,575	$1,416	0.44		$1,126,424	$1,288	0.45	
Savings accounts	143,914	66	0.18		125,027	92	0.29	
Money market accounts	289,895	211	0.29		111,675	94	0.33	
Certificates of deposit	841,009	1,374	0.65		696,272	1,056	0.60	
Total deposits	2,554,393	3,067	0.48		2,059,398	2,530	0.49	
FHLB advances	212,267	773	1.44		303,458	975	1.27	
Repurchase agreements and other borrowings	76,313	1,064	5.53		56,413	871	6.13	
Junior subordinated debentures	18,147	137	3.00		18,147	133	2.91	
Total interest-bearing liabilities	2,861,120	5,041	0.70		2,437,416	4,509	0.73	
Noninterest-bearing checking accounts	836,212				785,054			
Noninterest-bearing liabilities	7,395				10,647			
Stockholders' equity	565,877				488,206			
Total liabilities and equity	$4,270,604				$3,721,323			
Net interest income		$38,089				$32,431		
Interest rate spread			3.92	%			3.87	%
Net interest margin [2]			4.08				4.04	
Average interest earning assets to interest bearing liabilities			129.53				130.76	

(1) Average loan balances include nonaccrual loans.

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

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

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	For The Nine Months Ended September 30,							
	2015				2014			
	Average Outstanding Balance	Interest	Yield/ Rate [3]		Average Outstanding Balance	Interest	Yield/ Rate [3]	
(dollars in thousands)								
Interest-earning assets:								
Loans [1]	$3,336,034	$123,350	4.94	%	$2,454,773	$93,637	5.10	%
Taxable securities	127,250	1,553	1.63		177,144	2,187	1.65	
Nontaxable securities	67,603	1,324	2.62		54,414	1,028	2.53	
Interest-bearing deposits and other	136,420	386	0.38		77,940	328	0.56	
Total interest-earning assets	3,667,307	$126,613	4.62		2,764,271	$97,180	4.70	
Noninterest-earning assets	554,655				323,291			
Total assets	$4,221,962				$3,087,562			
Interest-bearing liabilities:								
Checking accounts	$1,287,810	$4,206	0.44		$1,012,012	$3,522	0.47	
Savings accounts	143,539	198	0.18		123,862	273	0.29	
Money market accounts	260,768	490	0.25		101,243	232	0.31	
Certificates of deposit	839,155	3,900	0.62		626,008	2,847	0.61	
Total deposits	2,531,272	8,794	0.46		1,863,125	6,874	0.49	
FHLB advances	212,005	2,243	1.41		243,232	2,792	1.53	
Repurchase agreements and other borrowings	76,605	3,229	5.64		26,946	1,142	5.67	
Junior subordinated debentures	18,147	400	2.95		18,147	402	2.96	
Total interest-bearing liabilities	2,838,029	14,666	0.69		2,151,450	11,210	0.70	
Noninterest-bearing checking accounts	819,649				528,481			
Noninterest-bearing liabilities	7,722				8,968			
Stockholders’ equity	556,562				398,663			
Total liabilities and equity	$4,221,962				$3,087,562			
Net interest income		$111,947				$85,970		
Interest rate spread			3.93	%			4.00	%
Net interest margin [2]			4.08				4.16	
Average interest earning assets to interest bearing liabilities			129.22				128.48	

(1) Average loan balances include nonaccrual loans.

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

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

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Provision for Loan Losses

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

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

The Company made a $3.9 million provision for loan losses for the three months ended September 30, 2015 compared to $976 thousand for the comparable period in 2014. Provision expense for the nine months ended September 30, 2015 was $7.3 million compared to $3.6 million for the same period in 2014. Provision expense is directly related to organic loan in the respective periods as well as an additional $1.2 million and $2.5 million in specific reserves on an impaired energy loan for the three and nine months ended September 30, 2015, respectively. Also, during the quarter ended September 30, 2015, qualitative factors related to lower commodity prices necessitated additional increases to the allowance for the energy portfolio. Net chargeoffs were $608 thousand and $355 thousand for the three months ended September 30, 2015 and 2014, respectively. Net chargeoffs were $725 thousand and $728 thousand for the nine months ended September 30, 2015 and 2014, respectively.

Noninterest Income

The following table sets forth the components of noninterest income for the three and nine months ended September 30, 2015 and 2014 and the period-over-period variations in such categories of noninterest income:

	For the Three Months Ended September 30,		Variance	For the Nine Months Ended September 30,		Variance
(dollars in thousands)	2015	2014	2015 v. 2014	2015	2014	2015 v. 2014
Noninterest Income						
Service charges on deposit accounts	$2,165	$1,541	$624	$5,878	$4,205	$1,673
Mortgage fee income	1,353	1,080	273	4,082	2,777	1,305
Gain on sale of loans	116	1,078	(962)	116	1,078	(962)
Gain on sale of other real estate	41	20	21	220	59	161
Gain on sale of securities available for sale	—	—	—	90	—	90
Loss on sale of premises and equipment	(374)	(22)	(352)	(374)	(22)	(352)
Increase in cash surrender value of bank owned life insurance	268	281	(13)	806	690	116
All other noninterest income	230	232	(2)	1,056	876	180
Total noninterest income	$3,799	$4,210	$(411)	$11,874	$9,663	$2,211

Total noninterest income decreased $411 thousand, or 9.8% for the three months ended September 30, 2015 and increased $2.2 million, or 22.9% for the nine months ended September 30, 2015, compared to the same periods in 2014. Significant changes in the components of noninterest income are discussed below.

Service charges on deposit accounts. Service charges on deposit accounts increased $624 thousand, or 40.5% and $1.7 million, or 39.8% for the three and nine months ended September 30, 2015, respectively as compared to the same periods in 2014. The increase in service charge income is due to an increase in deposit accounts due primarily to the acquisition closed in October 2014.

Mortgage fee income. Mortgage fee income for the three and nine months ended September 30, 2015 increased $273 thousand, or 25.3% and $1.3 million, or 47.0% compared to the same periods in 2014. This increase is due to improved home purchase activity in our Austin and north Texas markets, as well as added commissioned producers in our mortgage group.

Gain on sale of loans. The Company recognized gains on the sale of loans totaling $116 thousand and $1.1 million for the three and nine months ended September 30, 2015 and 2014, respectively. During the third quarter 2015, the Company sold its indirect lending portfolio, which resulted in the $116 thousand gain while in August 2014, the SBA portfolio totaling $12.0 million acquired in the BOH transaction was sold resulting in the $1.1 million gain.

Loss on sale of premises and equipment, net. The Company recognized net losses of $374 thousand and $22 thousand on the sale of premises and equipment for the three and nine months ended September 30, 2015 and 2014, respectively. The majority of the loss recognized in 2015 is due to a loss on sale of the Company's aircraft in the amount of $385 thousand.
Change in cash surrender value of bank owned life insurance. Earnings on bank owned life insurance decreased $13 thousand, or 4.6% and increased $116 thousand, or 16.8% for the three and nine months ended September 30, 2015 compared to the same periods in 2014. The increase in year to date earnings is due to insurance policies acquired in the BOH Holdings acquisition in April 2014.
Other noninterest income. Other noninterest income for the three months ended September 30, 2015 decreased $2 thousand, compared to the same period in 2014 and increased $180 thousand, or 20.5% for the nine months ended September 30, 2015 compared to the same period in 2014. The increase for the nine month period is primarily due to minor increases in income due to the acquisition completed in October 2014 and an increase in wealth management income.

Noninterest Expense
Noninterest expense increased $3.7 million, or 16.6% and increased $11.1 million, or 17.4% for the three and nine months ended September 30, 2015, respectively, as compared to the same periods in 2014. Generally, increases in noninterest expense accounts are due to acquisition activity in 2014, but also in part due to organic growth. The following table sets forth the components of the Company’s noninterest expense for the three and nine months ended September 30, 2015 and 2014 and the period-over-period variations in such categories of noninterest expense:

	For the Three Months Ended September 30,		Variance	For the Nine Months Ended September 30,		Variance
(dollars in thousands)	2015	2014	2015 v. 2014	2015	2014	2015 v. 2014
Noninterest Expense						
Salaries and employee benefits	$14,918	$12,551	$2,367	$43,992	$37,797	$6,195
Occupancy	4,117	3,435	682	12,054	9,200	2,854
Data processing	786	472	314	2,140	1,420	720
FDIC assessment	541	426	115	1,553	1,246	307
Advertising and public relations	313	204	109	912	618	294
Communications	550	498	52	1,643	1,220	423
Other real estate owned expense, net	88	122	(34)	184	258	(74)
Net expenses of operations of IBG Adriatica	—	—	—	—	23	(23)
Impairment of other real estate	10	22	(12)	35	22	13
Core deposit intangible amortization	363	361	2	1,102	859	243
Professional fees	841	828	13	2,008	1,792	216
Acquisition expense, including legal	293	629	(336)	793	2,628	(1,835)
Other	3,010	2,614	396	8,255	6,498	1,757
Total noninterest expense	$25,830	$22,162	$3,668	$74,671	$63,581	$11,090

Salaries and Employee Benefits. Salaries and employee benefits expense, which historically has been the largest component of the Company’s noninterest expense, increased $2.4 million, or 18.9% for the three months ended September 30, 2015, compared to the same period in 2014 and increased $6.2 million, or 16.4% for the nine months ended September 30, 2015 as compared to the same period in 2014. Salaries and employee benefits expenses increased for the three and nine months ended September 30, 2015 over the same periods in 2014 due to an increase in the number of the Company’s full-time equivalent employees resulting from the acquisitions the Company completed in April and October 2014, the addition of new lending personnel in our growth markets as well as added support staff to support our loan growth over these periods.

Occupancy Expense. Occupancy expense increased $682 thousand, or 19.9%, and $2.9 million, or 31.0% for the three and nine months ended September 30, 2015, respectively, compared to the same periods in 2014. The increase for both periods resulted from higher maintenance contract expense, building lease expenses and property taxes, attributable primarily to the acquisitions completed in April and October 2014. Ten branches were added as a result of these acquisitions. In addition, the

majority of tenants that leased space in the corporate headquarters building moved out in 2015 to allow for the Company's growth, significantly reducing rental income that offset some occupancy expenses.
Data Processing. Data processing fees increased $314 thousand, or 66.5%, and $720 thousand, or 50.7%, for the three and nine months ended September 30, 2015, respectively, compared to the same periods in 2014. The increase in both periods is due to increased online banking fees and other costs related directly to an increase in accounts over the same period prior year, related both to organic growth and growth through acquisitions.
FDIC Assessment. FDIC assessment expense increased $115 thousand, or 27.0% for the three months ended September 30, 2015, compared to the same period in 2014 and increased $307 thousand, or 24.6% for the nine months ended September 30, 2015 over the same period in 2014. The increase in the nine month period is due to a higher assessment associated with an increase in deposit accounts, both due to organic growth and growth through acquisitions.
Advertising and Public Relations. Advertising and public relations expense increased $109 thousand, or 53.4%, and $294 thousand, or 47.6% for the three and nine months ended September 30, 2015, respectively as compared to the same periods in 2014. The increase in both periods is due to the Company's entrance into the Houston market in 2014.
Communications. Communications expense increased $52 thousand, or 10.4%, and $423 thousand, or 34.7% for the three months and nine months ended September 30, 2015, respectively, as compared to the same periods in 2014. The change was due to increased telephone and data line expenses related to the acquisition activity in 2014 as the Company added nine branches in April 2014 and four branches in October 2014.
Core Deposit Intangible Amortization. Amortization expense on core deposit intangibles increased $2 thousand and $243 thousand for the three and nine months ended September 30, 2015, respectively, over the same periods in 2014. The increase is due to core deposit intangibles acquired in the acquisitions occurring in 2014, $7.3 million in April 2014 and $2.5 million in October 2014. Core deposit intangibles are being amortized on the straight line method over 10 years.
Professional Fees. Professional fees increased $13 thousand, or 1.6%, and $216 thousand, or 12.1% for the three and nine months ended September 30, 2015, respectively, over the same periods in 2014. The increase is due to increased audit fees and consulting fees for energy lending and IT related projects.
Acquisition Expenses. Acquisition expenses decreased $336 thousand, or 53.4%, and $1.8 million, or 69.8% for the three and nine month periods ending September 30, 2015 compared to the same periods in 2014. The decrease is directly related to the decrease in acquisition activity in 2015. Acquisition expense in 2015 is related to the announced Grand Bank acquisition and is expected to continue through year end 2015.
Other. Other expense increased by $396 thousand, or 15.1%, and $1.8 million, or 27.0%, for the three and nine months ended September 30, 2015, respectively, compared to the same periods in 2014. The majority of the increases relate to general increases in various operating expenses, including deposit and loan-related expenses, lockbox expenses and charitable contributions due to acquisition activity in 2014 and Company growth.
Income Tax Expense
Income tax expense was $3.9 million and $13.7 million for the the three and nine months ended September 30, 2015, respectively, and $4.5 million and $9.6 million for the same periods in 2014. The effective tax rates were 32.4% and 32.6% for the three and nine months ended September 30, 2015, respectively, compared to 33.6% for the same periods in 2014.

Discussion and Analysis of Financial Condition
The following discussion and analysis of the Company's financial condition discusses and analyzes the financial condition of the Company as of September 30, 2015 and December 31, 2014.
Assets
The Company's total assets increased by $345.7 million, or 8.4%, to $4.5 billion as of September 30, 2015, from $4.1 billion at December 31, 2014.
Loan Portfolio
The following table presents the balance and associated percentage of each major category in our loan portfolio as of September 30, 2015 and December 31, 2014:

(dollars in thousands)	September 30, 2015		December 31, 2014	
Commercial	$668,001	18.9 %	$672,052	21.0 %
Real estate:				
Commercial	1,777,401	50.3	1,450,434	45.2
Commercial construction, land and land development	324,007	9.2	334,964	10.5
Residential [1]	555,951	15.7	518,478	16.2
Single family interim construction	140,144	4.0	138,278	4.3
Agricultural	37,207	1.0	38,822	1.2
Consumer	32,621	0.9	52,267	1.6
Other	161	—	242	—
	3,535,493	100.0 %	3,205,537	100.0 %
Deferred loan fees	(1,106)		(487)	
Allowance for loan losses	(25,088)		(18,552)	
Total loans, net	$3,509,299		$3,186,498	

[1] Includes mortgage loans held for sale as of September 30, 2015 and December 31, 2014 of $6.2 million and $4.5 million, respectively.

Our loan portfolio is the largest category of our earning assets. As of September 30, 2015 and December 31, 2014, loans, net of allowance for loan losses, totaled $3.509 billion and $3.186 billion, respectively, which is an increase of 10.1% between the two dates.

Asset Quality
Nonperforming Assets. The Company has established procedures to assist the Company in maintaining the overall quality of the Company's loan portfolio. In addition, the Company has adopted underwriting guidelines to be followed by the Company's lending officers and which require significant senior management review of proposed extensions of credit exceeding certain thresholds. When delinquencies exist, the Company rigorously monitors the levels of such delinquencies for any negative or adverse trends. The Company's loan review procedures include approval of lending policies and underwriting guidelines by Independent Bank's board of directors, an annual independent loan review, approval of large credit relationships by Independent Bank's Executive Loan Committee and loan quality documentation procedures. The Company, like other financial institutions, is subject to the risk that its loan portfolio will be subject to increasing pressures from deteriorating borrower credit due to general economic conditions.
The Company discontinues accruing interest on a loan when management of the Company believes, after considering the Company's collection efforts and other factors, that the borrower's financial condition is such that collection of interest of that loan is doubtful. Loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans, including troubled debt restructurings, that are placed on nonaccrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future

payments are reasonably assured.

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

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

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

(dollars in thousands)	September 30, 2015	December 31, 2014
Nonaccrual loans		
Commercial	$4,297	$1,449
Real estate:		
Commercial real estate, construction, land and land development	32	70
Residential real estate	496	2,117
Consumer	119	67
Total nonaccrual loans (1)	4,944	3,703
Loans delinquent 90 days or more and still accruing		
Commercial	16	157
Real estate:		
Residential real estate	95	288
Consumer	—	6
Total loans delinquent 90 days or more and still accruing	111	451
Troubled debt restructurings, not included in nonaccrual loans		
Commercial	—	30
Real estate:		
Commercial real estate, construction, land and land development	4,081	4,668
Residential real estate	2,576	1,254
Consumer	—	8
Total troubled debt restructurings, not included in nonaccrual loans	6,657	5,960
Total nonperforming loans	11,712	10,114
Other real estate owned and other repossessed assets:		
Commercial real estate, construction, land and land development	2,323	4,763
Commercial	1,058	—
Total other real estate owned and other repossessed assets	3,381	4,763
Total nonperforming assets	$15,093	$14,877
Ratio of nonperforming loans to total loans	0.33 %	0.32 %
Ratio of nonperforming assets to total assets	0.34	0.36

(1) Nonaccrual loans include troubled debt restructurings of $12 thousand and $1.3 million as of September 30, 2015 and December 31, 2014, respectively.

Nonaccrual loans increased to $4.9 million at September 30, 2015 from $3.7 million as of December 31, 2014. The increase in nonaccruals is primarily due to one energy loan totaling $4.2 million that was added to nonaccrual in the first quarter. This was offset by one residential real estate loan totaling $1.3 million that was removed from nonaccrual status due to continued payment performance and the removal of a $1.4 million commercial loan which was removed from nonaccrual due to the repossession of collateral. Troubled debt restructurings that were also on nonaccrual status totaled $12thousand and $1.3 million at September 30, 2015 and December 31, 2014, respectively. The decrease in this trend was due to the same residential real estate loan discussed above that was removed from nonaccrual status during the nine months ended September 30, 2015. However, this loan continues to be classified as a troubled debt restructuring, and accounts for the majority of the net increase in troubled debt restructings not on nonaccrual status for the period from December 31, 2014 to September 30, 2015. That increase is offset by paydowns of $481 thousand on a real estate construction loan and smaller paydowns on other loans. The net decrease in other real estate owned and repossessed assets is due to the disposition of $2.1 million in other real estate properties during the year offset by the repossession of an airplane totaling $1.1 million that was collateral on a loan.

As of September 30, 2015, the Company had a total of 58 substandard loans with an aggregate principal balance of $39.8 million that were not currently nonaccrual loans, 90 days past due loans or troubled debt restructurings, but where the Company had information about possible credit problems of the borrowers that caused the Company's management to have serious concerns as to the ability of the borrowers to comply with present loan repayment terms and that could result in those loans becoming nonaccrual loans, 90 days past due loans or troubled debt restructurings in the future.

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

Allowance for Loan Losses. The allowance for loan losses is established through charges to earnings in the form of a provision for loan losses. The Company's allowance for loan losses represents the Company's estimate of probable and reasonably estimable loan losses inherent in loans held for investment as of the respective balance sheet date. The Company's methodology for assessing the adequacy of the allowance for loan losses includes a general allowance for performing loans, which are grouped based on similar characteristics, and an allocated allowance for individual impaired loans. Actual credit losses or recoveries are charged or credited directly to the allowance. As of September 30, 2015, the allowance for loan losses amounted to $25.1 million, or 0.71% of total loans, compared with $18.6 million, or 0.58% of total loans as of December 31, 2014. The increase in the allowance is due to organic loan growth, specific allocations on impaired assets, and increased qualitative factors in the general allocation in recognition of decreases in commodity prices to serve as an additional energy-related allocation.

The allowance for loan losses to nonperforming loans has increased from 183.43% at December 31, 2014 to 214.21% at September 30, 2015 due to the higher level of allowance due to organic loan growth and increased specific and general allocations relative to the energy portfolio. Nonperforming loans have increased to $11.7 million at September 30, 2015 compared to $10.1 million at December 31, 2014 primarily due to one energy loan totaling $4.2 million that was added to nonaccrual in the first quarter. This was offset by one residential real estate loan totaling $1.3 million that was removed from nonaccrual status due to continued payment performance and the removal of a $1.4 million commercial loan which was removed from nonaccrual due to the repossession of collateral.

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.

During the three and nine months ended September 30, 2015, the Company recognized gains on sales of securities of $0 and $90 thousand, respectively. The Company had no sales of securities during the three and nine months ended September 30, 2014. Securities represented 4.5 and 5.0% of the Company's total assets at September 30, 2015 and December 31, 2014, respectively.

Management evaluates securities for other-than-temporary impairment (OTTI) on at least a quarterly basis and more frequently when economic of market conditions warrant such an evaluation. Management does not intend to sell any debt securities it holds and believes the Company more likely than not will not be required to sell any debt securities it holds before their anticipated recovery, at which time the Company will receive full value for the securities. Management has the ability and intent to hold the securities classified as available for sale that were in a loss position as of September 30, 2015 for a period of time sufficient for an entire recovery of the cost basis of the securities. For those securities that are impaired, the unrealized losses are largely due to interest rate changes. The fair value is expected to recover as the securities approach their maturity date. Management believes any impairment in the Company’s securities at September 30, 2015 is temporary and no other-than-temporary impairment has been realized in the Company’s consolidated financial statements.

Capital Resources and Regulatory Capital Requirements

Total stockholder’s equity was $568.3 million at September 30, 2015 compared with $540.9 million at December 31, 2014, an increase of approximately $27.4 million. The increase was due primarily to net income of $28.2 million earned by the Company during the nine months ended September 30, 2015, as well as stock awards amortization of $3.2 million and an increase of $460 thousand in unrealized gain (loss) on available for sale securities offset by dividends paid of $4.3 million and offering costs related to an acquired bank of $144 thousand.

Banking regulators measure capital adequacy by means of the risk-based capital ratio and leverage ratio. As disclosed in the Company's Form 10-K, in July 2013, the Federal Reserve Board and the FDIC issued final rules implementing the Basel III regulatory capital framework and related Dodd-Frank Wall Street Reform and Consumer Protection Act changes. The rules revise minimum capital requirements and adjust prompt corrective action thresholds. The final rules revise the regulatory capital elements, add a new common equity Tier I capital ratio, increase the minimum Tier 1 capital ratio requirements and implement a new capital conservation buffer. The rules also permit certain banking organizations to retain, through a one-time election, the existing treatment for accumulated other comprehensive income. The Company has made the election to retain the existing treatment for accumulated other comprehensive income. The final rules took effect for the Company on January 1, 2015, subject to a transition period for certain parts of the rules.

The risk based capital rules provide for the weighting of assets and off-balance-sheet commitments and contingencies according to prescribed risk categories ranging from 0% to 400%. Regulatory capital is then divided by risk weighted assets to determine the risk adjusted capital ratios. The leverage ratio is computed by dividing shareholders’ equity less intangible assets by quarter-to-date average assets less intangible assets. The final rules also include changes for the calculation of risk weighted assets. The amount of risk weighted assets increased during first quarter 2015 due in part to an increase in the required risk weighting of unfunded commitments with terms of less than one year that previously were weighted at 0% and now range from 20% to 50%.

As of September 30, 2015, the Company exceeded all capital ratio requirements under prompt corrective action and other regulatory requirements, as detailed in the table below:

	As of September 30, 2015			
	Actual		Required to be considered well capitalized	Required to be considered adequately capitalized
	Ratio		Ratio	Ratio
Tier 1 capital to average assets ratio	8.67	%	≥5.00%	4.00-5.00%
Common equity tier 1 capital to risk-weighted assets ratio	8.26		≥6.50	4.50-6.50
Tier 1 capital to risk-weighted assets ratio	9.37		≥8.00	6.00-8.00
Total capital to risk-weighted assets ratio	11.86		≥10.00	8.00-10.00

Liquidity Management

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

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

In addition to the liquidity provided by the sources described above, Independent Bank maintains correspondent relationships with other banks in order to sell loans or purchase overnight funds should additional liquidity be needed. As of September 30, 2015 the Bank had established federal funds lines of credit with eight unaffiliated banks totaling $180.0 million with no amounts advanced against those lines at that time. In addition, the Company has an unsecured line of credit totaling $50.0 million at an unaffiliated commercial bank. Based on the values of stock, securities, and loans pledged as collateral, as of September 30, 2015, the Company had additional borrowing capacity with the FHLB of $815.8 million.

Contractual Obligations

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

Other than normal changes in the ordinary course of business, there have been no significant changes in the types of contractual obligations or amounts due since December 31, 2014.

Off-Balance Sheet Arrangements

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

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

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

Independent Bank's commitments to extend credit and outstanding standby letters of credit were $720.3 million and $7.3 million, respectively, as of September 30, 2015. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements. The Company manages the Company's liquidity in light of the aggregate amounts of commitments to extend credit and outstanding standby letters of credit in effect from time to time to ensure that the Company will have adequate sources of liquidity to fund such commitments and honor drafts under such letters of credit.

Pending Acquisition. On July 23, 2015, the Company announced the planned acquisition of Grand Bank in Dallas, Texas for an estimated purchase price of $80.1 million to be paid with a combination of cash and stock. Grand Bank currently has two branches in Dallas, Texas and total assets of $592 million as September 30, 2015. The transaction is expected to close on November 1, 2015.

Critical Accounting Policies and Estimates

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

Accounting policies, as described in detail in the notes to the Company’s consolidated financial statements, are an integral part of the Company’s financial statements. A thorough understanding of these accounting policies is essential when reviewing the Company’s reported results of operations and the Company’s financial position. The Company believes that the critical accounting policies and estimates discussed below require the Company to make difficult, subjective or complex judgments about matters that are inherently uncertain. Changes in these estimates, that are likely to occur from period to period, or the use of different estimates that the Company could have reasonably used in the current period, would have a material impact on the Company’s financial position, results of operations or liquidity.

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

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

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

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

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

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

Goodwill and Core Deposit Intangible. The excess purchase price over the fair value of net assets from acquisitions, or goodwill, is evaluated for impairment at least annually and on an interim basis if an event or circumstance indicates that it is likely an impairment has occurred. Prior to 2012, the evaluation of goodwill impairment was a two-step test. Under current accounting standards, the Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, the Company determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two step impairment test is unnecessary. If the Company concludes otherwise, then it is required to perform the first step of the two step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. The Company performs its impairment test annually as of December 31. There have been no circumstances since December 31, 2014 that would indicate any impairment has occurred, therefore, management does not believe goodwill is impaired as of September 30, 2015. Core deposit intangibles are acquired customer relationships that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset, or liability. Core deposit intangibles are being amortized on a straight-line basis over their estimated useful lives of ten years. Core deposit intangibles are tested for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

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

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

Our interest rate risk model indicated that we were in a balanced to slightly liability sensitive position in terms of interest rate sensitivity as of September 30, 2015. The table below illustrates the impact of an immediate and sustained 200 and 100 basis point increase and a 100 basis point decrease in interest rates on net interest income based on the interest rate risk model as of September 30, 2015:

Hypothetical Shift in Interest Rates (in bps)	% Change in Projected Net Interest Income
200	(0.96)%
100	(0.73)%
(100)	(4.01)%

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

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ITEM 4. CONTROLS AND PROCEDURES

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

Changes in internal control over financial reporting. There were no changes in the Company’s internal control over financial reporting during the three months ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II

Item 1. LEGAL PROCEEDINGS
In the normal course of business, the Company and Independent Bank are named as defendants in various lawsuits. Management of the Company and Independent Bank, following consultation with legal counsel, do not expect the ultimate disposition of any, or a combination, of these matters to have a material adverse effect on the business of the Company or Independent Bank. A legal proceeding that the Company believes could become material is described below.

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

On May 1, 2015, the plaintiffs filed a motion requesting permission to file a Second Amended Class Action Complaint in this case, which motion was subsequently granted. The Second Amended Class Action Complaint asserts previously unasserted claims, including aiding and abetting or participation in a fraudulent scheme based upon the large amount of deposits that the Stanford Entities held at BOH and the alleged knowledge of certain BOH officers. Given the new allegations, Independent Bank notified its insurance carriers of the claims and the Company is pursuing insurance coverage for theseclaims.

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

Item 1A. RISK FACTORS

In evaluating an investment in our common stock, investors should consider carefully, among other things, the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10 K for the year ended December 31, 2014, as well as the information contained in this Quarterly Report on Form 10-Q and our other reports and registrations statements filed with the SEC.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
None

Item 3. DEFAULTS UPON SENIOR SECURITIES

None

Item 4. MINE SAFETY DISCLOSURES

Not applicable

Item 5. OTHER INFORMATION

None

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Item 6. EXHIBITS
The following documents are filed as exhibits to this Quarterly Report on Form 10-Q:

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

	Form of certificate representing shares of the Registrant's Series A preferred stock, which is incorporated herein by reference to Exhibit 4.3 to the S-3 Registration Statement
Exhibit 4.4	Subordinated Debt Indenture, dated as of June 25, 2014, between Independent Bank Group, Inc. and Wells Fargo Bank, National Association, in its capacity as Indenture Trustee, which is incorporated herein by reference to Exhibit 4.6 to the Registrant's Amendment No. 1 to the S-3 Registration Statement filed with the SEC on June 25, 2014
Exhibit 4.5	First Supplemental Indenture, dated as of July 17, 2014, between Independent Bank Group, Inc. and Wells Fargo Bank Shareowner Services, in its capacity as Indenture Trustee, which is incorporated herein by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K, dated July 17, 2014.

Exhibit 4.6	Form of Global Note to represent the 5.875% Subordinated Notes due August 1, 2024, of the Registrant, which is incorporated herein by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K, dated July 17, 2014.
Exhibit 4.7	Independent Bank 401(k) Profit Sharing Plan, including related Adoption Agreement, which is incorporated herein by reference to Exhibit 4.9 to the Registrant's Registration Statement on Form S-8 filed with the SEC on August 29, 2014.

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

Exhibit 10.1	Agreement and Plan of Reorganization, dated as of July 23, 2015, by and among Independent Bank Group, Inc. and Grand Bank, which is incorporated by reference to Appendix A to Amendment No. 1 to the Registrant's Registration Statement on Form S 4 (Registration No. 333 206747) filed with the SEC on September 24, 2015 (the "Grand Bank Registration Statement")
Exhibit 10.2.1	Credit Agreement, dated as of July 22, 2015, between Independent Bank Group, Inc., U.S. Bank National Association and Frost Bank, which is incorporated by reference to Exhibit 10.29.1 to the Grand Bank Registration Statement filed with the SEC on September 24, 2015
Exhibit 10.2.2	Revolving Credit Note, dated July 22, 2015, by Independent Bank Group, Inc., in favor of U.S. Bank National Association, which is incorporated by reference to Exhibit 10.29.2 to the Grand Bank Registration Statement filed with the SEC on September 24, 2015
Exhibit 10.2.3	Revolving Credit Note, dated July 22, 2015, by Independent Bank Group, Inc., in favor of Frost Bank, which is incorporated by reference to Exhibit 10.29.3 to the Grand Bank Registration Statement filed with the SEC on September 24, 2015
Exhibit 10.2.4	Negative Pledge Agreement, dated as of July 22, 2015, by Independent Bank Group, Inc., in favor of U.S. Bank National Association, which is incorporated by reference to Exhibit 10.29.4 to the Grand Bank Registration Statement filed with the SEC on September 24, 2015
Exhibit 31.1*	Chief Executive Officer Section 302 Certification
Exhibit 31.2*	Chief Financial Officer Section 302 Certification
Exhibit 32.1**	Chief Executive Officer Section 906 Certification
Exhibit 32.2**	Chief Financial Officer Section 906 Certification
Exhibit 101.INS *	XBRL Instance Document
	XBRL Taxonomy Extension Schema Document

Exhibit 101.SCH *	
Exhibit 101.CAL *	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.DEF *	XBRL Taxonomy Extension Definition Linkbase Document
Exhibit 101.LAB *	XBRL Taxonomy Extension Label Linkbase Document
Exhibit 101.PRE *	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith as an Exhibit.
** Furnished herewith as an Exhibit.

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Signatures

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

	Independent Bank Group, Inc.
Date: October 30, 2015	By: /s/ David R. Brooks
	David R. Brooks Chairman and Chief Executive Officer
Date: October 30, 2015	By: /s/ Michelle S. Hickox
	Michelle S. Hickox Executive Vice President Chief Financial Officer