



2019 ANNUAL REPORT



BUSINESS BANKING \ BETTER BANKING

At CommunityBank of Texas, relationships are the bedrock of our business. They are a reflection of our deep commitment to building strong, honest partnerships in all we do, and our mandate to measure our performance by the success we create for our partners.

Service to others, both financially and philanthropically, is a core pillar of our brand, and we pledge that every time is the right time to put our clients' and our communities' needs first.

We're proud to be here, to live in and serve the cities and communities of Southeast Texas. Thank you for trusting our



UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549 FORM 10-K ☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 2019 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: 001-38280 CBTX, Inc. (Exact name of registrant as specified in its charter) Texas (State or other jurisdiction of incorporation or organization) 20-8339782 (I.R.S. employer identification no.) 9 Greenway Plaza, Suite 110 Houston, Texas 77046 (Address of principal executive offices) (713) 210-7600 (Registrant’s telephone number, including area code)		
Securities registered pursuant to Section 12(b) of the Act:		
Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value \$0.01 per share	CBTX	The Nasdaq Global Select Market
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒		
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒		
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐		
Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐		
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and emerging growth company in Rule 12b-2 of the Exchange Act.		
Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☒		
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☒		
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒		
As of June 30, 2019, the aggregate market value of the registrant’s common stock held by non-affiliates was approximately \$498.7 million.		
As of February 21, 2020, there were 25,195,123 shares of the registrant’s common stock, par value \$0.01 per share outstanding, including 210,400 shares of unvested restricted stock deemed to have beneficial ownership.		
Document Incorporated by Reference: Portions of the registrant’s Definitive Proxy Statement relating to the 2020 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K to the extent stated herein. Such Definitive Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the end of the registrant’s fiscal year ended December 31, 2019.		

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PART I.

Item 1. Business

The disclosures set forth in this item are qualified by Item 1A. “Risk Factors” and the section captioned “Cautionary Note Regarding Forward-Looking Statements” in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Annual Report on Form 10-K and other cautionary statements set forth elsewhere in this Annual Report on Form 10-K.

CBTX, Inc., is a bank holding company incorporated in Texas in 2007. All references to “we,” “our,” “us,” “ourselves,” and “the Company” refer to CBTX, Inc. and its consolidated subsidiaries and all references to “CommunityBank of Texas” or “the Bank” refer to CommunityBank of Texas, National Association, its wholly-owned bank subsidiary, unless otherwise indicated or the context otherwise requires. All references to “Houston” refer to the Houston-The Woodlands-Sugar Land Metropolitan Statistical Area, or MSA and surrounding counties references to “Beaumont” refer to the Beaumont-Port Arthur MSA and surrounding counties and references to “Dallas” refer to the Dallas-Fort Worth-Arlington MSA and surrounding counties.

The Bank’s headquarters are located at 5999 Delaware Street, Beaumont, Texas 77706 and the telephone number is (409) 861-7200. A majority of the Company’s executives are located in our Houston office at 9 Greenway Plaza, Suite 110, Houston, Texas 77046 and the telephone number is (713) 210-7600. The Company completed an initial public offering of its common stock on November 10, 2017. The Company’s common stock is listed on the Nasdaq Global Select Market, or Nasdaq, under the symbol “CBTX.”

The Bank operates 19 branches located in the Houston market, 15 branches located in the Beaumont market and one branch in the Dallas market. The Company has experienced significant organic growth since commencing banking operations, as well as growth through mergers, acquisitions and *de novo* branches. The Company is focused on controlled profitable growth. Total assets increased from \$2.6 billion at December 31, 2014 to \$3.5 billion as of December 31, 2019 and return on average assets improved from 0.9% for the year ended December 31, 2014 to 1.50% for the year ended December 31, 2019.

The Company’s merger, acquisition and expansion history includes the following:

<u>(Dollars in millions)</u>	<u>Date Acquired/Added</u>	<u>Assets Acquired</u>	<u>Branches Acquired/Added</u>	<u>Location</u>
Bank Acquired ⁽¹⁾				
County Bancshares, Inc./County Bank, N.A.	August 2007	\$ 130	-	Beaumont
Crosby Bancshares, Inc. (Crosby State Bank).	December 2008	439	8	Houston
Founders Bank, SSB	July 2011	124	1	Houston
VB Texas, Inc. (Vista Bank Texas).	July 2013	665	7	Houston
MC Bancshares, Inc. (Memorial City Bank).	February 2015	268	2	Houston
Branch Added				
Pasadena Branch	July 2012	-	1	Houston

The Bank is primarily a business bank and its focus is on providing commercial banking solutions to small and mid-sized businesses and professionals including attorneys, accountants and other professional service providers with operations in our markets. The Bank offers a broad range of banking products, including commercial and industrial loans, commercial real estate loans, construction and development loans, 1-4 family residential mortgage loans, multi-family residential loans consumer loans, agricultural loans, treasury services, traditional retail deposits and a full suite of online banking services. The Bank has a relationship-based approach, and at December 31, 2019, 82.1% of the Bank's loan customers had a deposit relationship with the Bank.

The banking and financial services industry is highly competitive, and the Company competes with a wide range of financial institutions within its markets, including local, regional and national commercial banks and credit unions. The Company also competes with mortgage companies, brokerage firms, consumer finance companies, mutual funds, securities firms, insurance companies, third-party payment processors, financial technology, or fintech companies and other financial intermediaries for certain of our products and services. Some of the Company's competitors are not subject to the same regulatory restrictions and the level of regulatory supervision applicable to the Company.

Interest rates on loans and deposits, as well as prices on fee-based services, are typically significant competitive factors within the banking and financial services industry. Many of the Company's competitors are much larger financial institutions that have greater financial resources and compete aggressively for market share. These competitors attempt to gain market share through their financial product mix, pricing strategies and banking center locations. Other important competitive factors in our industry and markets include office locations and hours, quality of customer service, community reputation, continuity of personnel and services, capacity and willingness to extend credit and ability to offer sophisticated banking products and services.

The Bank seeks to remain competitive with respect to fees charged, interest rates and pricing and the Bank believes that its broad and sophisticated suite of financial solutions, high-quality customer service culture, positive reputation and long-standing community relationships enables it to compete successfully within its markets and enhances its ability to attract and retain customers.

Employees

The Company's success depends on its ability to attract and retain highly qualified senior and middle management and other skilled employees. Competition for qualified employees can be intense and it may be difficult to locate personnel with the necessary combination of skills, attributes and business relationship.

Additionally, the Company is committed to employee development, including a mentorship program, which provides retail staff with one on one training with experienced employees. The Company also has an officer development program with formal in-house training programs for junior bankers including guidance from senior banking team members.

As of December 31, 2019, the Company employed 500 full-time equivalent employees.

Available Information

The Company's website address is www.communitybankoftx.com. The Company makes available free of charge on or through its website its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, as soon as reasonably practicable after such materials are electronically filed with or furnished to the Securities and Exchange Commission, or SEC. Information contained on the Company's website is not incorporated by reference into this Annual Report on Form 10-K and is not part of this or any other report that the Company files with or furnishes to the SEC. The SEC maintains an internet site that contains reports, proxy statements and other information that the Company files with or furnishes to the SEC and these reports may be accessed at <http://www.SEC.gov>.

Supervision and Regulation

The United States, or U.S., banking industry is highly regulated under federal and state law. Consequently, our growth and earnings performance will be affected not only by management decisions and general and local economic

conditions, but also by the statutes administered by, and the regulations and policies of, various governmental regulatory authorities. These authorities include the Board of Governors of the Federal Reserve System, or Federal Reserve, Office of the Comptroller of the Currency, or OCC, Federal Deposit Insurance Corporation, or FDIC, Consumer Financial Protection Bureau, or CFPB, Internal Revenue Service, or IRS, and state taxing authorities. The effect of these statutes, regulations and policies, and any changes to such statutes, regulations and policies, can be significant and cannot be predicted.

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

Financial Services Industry Reform. On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank Act, was enacted. The Dodd-Frank Act has had a broad impact on the financial services industry, including significant regulatory and compliance changes such as, among many other things, (i) enhanced resolution authority of troubled and failing banks and their holding companies; (ii) increased regulatory examination fees; (iii) creation of the CFPB, an independent organization dedicated to promulgating and enforcing consumer protection laws applicable to all entities offering consumer financial products or services; and (iv) numerous other provisions designed to improve supervision and oversight of, and strengthen safety and soundness for, the financial services sector. Additionally, the Dodd-Frank Act established a new framework for systemic risk oversight within the financial system to be distributed among new and existing federal regulatory agencies, including the Financial Stability Oversight Council, the Federal Reserve, the OCC and the FDIC.

On May 24, 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act, or the Regulatory Relief Act, was enacted. The Regulatory Relief Act repealed or modified several provisions of the Dodd-Frank Act and included a number of burden reduction measures for community banks, including, among other things, directing the federal banking regulators to develop a community bank leverage ratio for banking organizations that have less than \$10.0 billion in total assets and have certain risk profiles, exempting certain banking organizations with less than \$10.0 billion or less in total assets from the Volcker Rule (discussed below), narrowing and simplifying the definition of high volatility commercial real estate, and requiring the federal banking regulators to raise the asset threshold under the Small Bank Holding Company and Savings and Loan Holding Company Policy Statement from \$1.0 billion to \$3.0 billion.

The Regulatory Relief Act also expands the eligibility for certain small banks to undergo 18-month examination cycles, rather than annual cycles, raising the consolidated asset threshold from \$1.0 billion to \$3.0 billion for eligible banks. In addition, the Regulatory Relief Act added certain protections for consumers, including veterans and active duty military personnel and student borrowers, expanded credit freezes and created an identity theft protection database. The Regulatory Relief Act requires the enactment of a number of implementing regulations, the details of which may have a material effect on the ultimate impact of the law.

Regulatory Capital Rules. The Company and the Bank are each required to comply with applicable capital adequacy standards established by the Federal Reserve and the OCC. The current risk-based capital standards applicable to the Company and the Bank are based on the December 2010 final capital framework for strengthening international capital standards, known as Basel III, of the Basel Committee on Banking Supervision, or Basel Committee. In July 2013, the federal bank regulators approved final rules, the Basel III Capital Rules, implementing the Basel III framework as well as certain provisions of the Dodd-Frank Act. The Basel III Capital Rules became effective for the Company and the Bank on January 1, 2015 (subject to a phase-in period for certain provisions). The Basel III Capital Rules require banks and bank holding companies, including the Company and the Bank, to maintain four minimum capital standards: (1) a Tier 1 capital-to-adjusted total assets ratio, or leverage capital ratio, of at least 4.0%; (2) a Tier 1 capital to risk-weighted assets ratio, or Tier 1 risk-based capital ratio, of at least 6.0%; (3) a total risk-based capital (Tier 1 plus Tier 2) to risk-weighted assets ratio, or total risk-based capital ratio, of at least 8.0%; and (4) a Common Equity Tier 1, or CET1, capital ratio of at least 4.5%.

The Basel III Capital Rules also require bank holding companies and banks to maintain a “capital conservation buffer” on top of the minimum risk-based capital ratios. The buffer is intended to help ensure that banking organizations conserve capital when it is most needed, allowing them to better weather periods of economic stress. The buffer, which became fully phased in on January 1, 2019, requires banking organizations to hold CET1 capital in excess of the minimum risk-based capital ratios by at least 2.5% to avoid limits on capital distributions and certain discretionary bonus payments to executive officers and similar employees.

The Basel III Capital Rules attempted to improve the quality of capital by implementing changes to the definition of capital. Among the most important changes were stricter eligibility criteria for regulatory capital instruments that disallow the inclusion of certain instruments, such as trust preferred securities (other than grandfathered trust preferred securities), in Tier 1 capital, new constraints on the inclusion of minority interests, mortgage-servicing assets, deferred tax assets and certain investments in the capital of unconsolidated financial institutions, and the requirement that most regulatory capital deductions be made from CET1 capital. The Basel III Capital Rules also changed the methods of calculating certain risk-weighted assets, which in turn affected the calculation of risk-based ratios. Under the Basel III Capital Rules, higher or more sensitive risk weights are assigned to various categories of assets, including certain credit facilities that finance the acquisition, development or construction of real property, certain exposures or credits that are 90 days past due or on nonaccrual status, foreign exposures and certain corporate exposures. In addition, these rules include greater recognition of collateral and guarantees, and revised capital treatment for derivatives and repo-style transactions.

The Basel III Capital Rules permit the Federal Reserve and the OCC to set higher capital requirements for individual institutions whose circumstances warrant it. For

influence over the management or policies of the bank holding company or bank. The Federal Reserve regulations include a presumption that control does not exist only when a company owns or controls less than 5.0% of the outstanding shares of any class of voting securities. Companies that propose to acquire between 5.0% and 25.0% of any class of voting securities usually consult with the Federal Reserve in advance and often must make written commitments not to exercise control. As a matter of policy, the Federal Reserve has in a number of cases required a company to take certain actions to avoid control if it proposes to acquire 25.0% or more but less than 33.0% of the total equity of a bank or bank holding company through the acquisition of both voting and non-voting shares, even if the voting shares are less than 25.0% of a class. The Federal Reserve generally deems the acquisition of 33.0% or more of the total equity of a bank or bank holding company to represent control.

The BHC Act does not apply to acquisitions by individuals or certain trusts, but if an individual, trust, or company proposes to acquire control of a bank or bank holding company, the Change in Bank Control Act, or CIBC Act, requires prior notice to the bank’s primary federal regulator or to the Federal Reserve in the case of a bank holding company. The CIBC Act uses the same definition of control as the BHC Act, but agency regulations under the CIBC Act presume in many cases that a change in control occurs when an individual, trust, or company acquires 10.0% or more of any class of voting securities. The notice is not required for a company required to file an application under the BHC Act for the same transaction.

The requirements of the BHC Act and the CIBC Act could limit our access to capital

“adequately capitalized,” “undercapitalized,” “significantly undercapitalized” and “critically undercapitalized.” Under the current capital rules, which became effective on January 1, 2015, a well capitalized bank has a total risk-based capital ratio of 10.0% or higher, a Tier 1 risk-based capital ratio of 8.0% or higher, a leverage ratio of 5.0% or higher, a CET1 capital ratio of 6.5% or higher and is not subject to any written agreement, order or directive requiring it to maintain a specific capital level for any capital measure. An adequately capitalized bank has a total risk-based capital ratio of 8.0% or higher, a Tier 1 risk-based capital ratio of 6.0% or higher, a leverage ratio of 4.0% or higher, a CET1 capital ratio of 4.5% or higher and does not meet the criteria for a well capitalized bank. A bank is undercapitalized if it fails to meet any one of the ratios required to be adequately capitalized.

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

As a national bank’s capital decreases, the OCC is statutorily required to take increasingly severe actions against the bank. If a national bank is significantly undercapitalized, the OCC must, among other actions, require the bank to engage in capital raising activities, restrict interest rates paid by the bank, restrict the bank’s activities or asset growth, require the bank to dismiss certain directors and senior executive officers, restrict

federal regulatory agencies proposed rules that would require enhanced disclosure of incentive-based compensation arrangements initially in April 2011 and again in April and May 2016. The scope and content of the U.S. banking regulators’ policies on executive compensation are continuing to develop and are likely to continue evolving in the near future.

Audits. For insured institutions with total assets of \$500 million or more, financial statements prepared in accordance with accounting principles generally accepted in the U.S., or GAAP, as well as management’s certifications signed by our and the Bank’s chief executive officer and chief accounting or financial officer concerning management’s responsibility for the financial statements, must be submitted to the FDIC. If the insured institution has consolidated total assets of more than \$1.0 billion, it must additionally submit an attestation by the auditors regarding the institution’s internal controls. Insured institutions with total assets of \$500 million or more must also have an audit committee consisting exclusively of outside directors (the majority of whom must be independent of management), and insured institutions with total assets of \$1.0 billion or more must have an audit committee that is entirely independent. The committees of institutions with total assets of more than \$3.0 billion must include members with experience in banking or financial management, must have access to outside counsel and must not include representatives of large customers. The Bank’s audit committee consists entirely of independent directors and includes members with experience in banking or related financial management.

Deposit Insurance Assessments. The FDIC insures the deposits of federally insured banks up to prescribed statutory limits for each depositor through the Deposit Insurance Fund and safeguards the safety and soundness of the banking and thrift industries. The maximum amount of deposit insurance for banks and savings institutions is \$250,000 per

“know your customer” program involving due diligence to confirm the identity of persons seeking to open accounts and to deny accounts to those persons unable to demonstrate their identities; (iv) identify and verify the identity of beneficial owners of legal entity customers, subject to certain exclusions and exemptions; (v) take additional precautions with respect to customers that pose heightened risk; (vi) monitor, investigate and report suspicious transactions or activity; (vii) file currency transaction reports for deposits and withdrawals of large amounts of cash; (viii) verify and certify money laundering risk with respect to private banking and foreign correspondent banking relationships; (ix) maintain records for certain minimum periods of time; and (x) respond to requests for information by law enforcement. The Financial Crimes Enforcement Network, or FinCEN, and the federal banking regulators have imposed significant civil money penalties against banks found to be violating these obligations.

The Office of Foreign Assets Control, or OFAC, administers laws and Executive Orders that prohibit U.S. entities from engaging in transactions with certain prohibited parties. OFAC publishes lists of persons and organizations suspected of aiding, harboring or engaging in terrorist acts, known as Specially Designated Nationals and Blocked Persons. Generally, if a bank identifies a transaction, account or wire transfer relating to a person or entity on an OFAC list, it must freeze the account or block the transaction, file a suspicious activity report and notify the appropriate authorities.

Bank regulators routinely examine institutions for compliance with these obligations and they must consider an institution’s compliance in connection with the regulatory review of applications, including applications for bank mergers and acquisitions. In addition, other government agencies have the authority to conduct investigations of an institution’s compliance with these obligations. Failure of a financial institution to maintain

We have made loans to and accepted deposits from related parties.

From time to time, we have made loans to and accepted deposits from certain of our directors and officers and the directors and officers of the Bank in compliance with applicable regulations and our written policies. Our business relationships with related parties are highly regulated. In particular, our ability to do business with related parties is limited with respect to, among other things, extensions of credit described in the Federal Reserve’s Regulation O and covered transactions described in sections 23A and 23B of the Federal Reserve Act and the Federal Reserve’s Regulation W. If we were to fail to comply with any of these regulations, we could be subject to enforcement and other legal actions by the Federal Reserve.

We could be adversely impacted by the unexpected loss of the services of our executive management team and other key employees.

Our success depends in large part on the performance of our executive management team and other key personnel, as well as on our ability to attract, motivate and retain highly qualified senior and middle management and other skilled employees. Competition for qualified employees is intense and the process of locating qualified key personnel may be lengthy and expensive. We may not be successful in retaining our key employees or finding adequate replacements for lost personnel.

Our growth strategy, which includes acquisitions and de novo branching, includes a number of risks.

We intend to pursue acquisition

Our most important source of funds is deposits, which have historically been stable sources of funds. However, deposits are subject to potentially dramatic fluctuations in availability or price due to factors that may be outside of our control, including increasing competitive pressure from other financial services firms for consumer or corporate customer deposits, changes in interest rates and returns on other investment classes. As a result, there could be significant outflows of deposits within short periods of time or significant changes in pricing necessary to maintain current customer deposits or attract additional deposits, increasing our funding costs and reducing our net interest income and net income.

Our access to funding sources, such as through our line of credit, capital markets offerings, borrowing from the Federal Reserve Bank of Dallas and the Federal Home Loan Bank, or from other third-parties, in amounts adequate to finance or capitalize our activities, or on terms that are acceptable to us, could be impaired by factors that affect us directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry.

We have unfunded credit commitments, which could adversely impact our liquidity.

We have unfunded commitments to extend credit, which are formal agreements to lend funds to customers as long as there are no violations of any conditions established in the contracts. Unfunded credit commitments are not reflected on our consolidated balance sheet and are generally not drawn upon. Borrowing needs of our customers may exceed our expectations, especially during a challenging economic environment where clients are more dependent on our credit commitments. Increased borrowings under these commitments could adversely impact our liquidity.

The holders of our debt obligations have priority over our common stock with respect to payment in the event of liquidation, dissolution or winding up and with respect to the payment of interest.

In the event of any liquidation, dissolution or winding up of the Company, our common stock would rank below all claims of debt holders against us. Our debt obligations are senior to our shares of common stock. As a result, we must make payments on our debt obligations before any dividends can be paid on our common stock. In the event of bankruptcy, dissolution or liquidation, the holders of our debt obligations must be satisfied before any distributions can be made to the holders of our common stock. To the extent that we issue additional debt obligations they will be of equal rank with, or senior to, our existing debt obligations and senior to our shares of common stock.

We may issue shares of preferred stock in the future.

Our certificate of formation authorizes us to issue up to 10,000,000 shares of one or more series of preferred stock. Our Board of Directors will have the authority to determine the preferences, limitations and relative rights of shares of preferred stock and to fix the number of shares constituting any series and the designation of such series, without any further vote or action by our shareholders. Our preferred stock could be issued with voting, liquidation, dividend and other rights superior to the rights of our common stock. The potential issuance of preferred stock may delay or prevent a change in control of us, discourage bids for our common stock at a premium over the market price and materially adversely impact the market price and the voting and other rights of the holders of our common stock.

Item 2. Properties

The Bank operates 35 banking locations, all of which are in Texas. The headquarters of the Bank is located at 5999 Delaware Street, Beaumont, Texas 77706 and the telephone number is (409) 861-7200. A majority of the Company’s executives are located in Houston at 9 Greenway Plaza, Suite 110, Houston, Texas 77046 and the telephone number is (713) 210-7600. The Bank operates branches in the following Texas locations:

	Number of Branches	Owned	Leased
Houston Market			
Baytown.....	1	1	—
Boling.....	1	1	—
Crosby.....	2	2	—
Houston.....	9	3	6
Humble.....	1	1	—
Pasadena.....	1	1	—
Sugar Land.....	1	—	

The Company’s stock compensation plans allow employees to elect to have shares withheld to satisfy their tax liabilities related to options exercised or restricted stock vested or to pay the exercise price of the options. When this settlement method is elected by the employee, the Company repurchases the shares withheld upon vesting of the award stock.

Period	Number of Shares Purchased	Average Price Paid per Share	Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares That May Yet be Purchased Under a Plan at the End of the Period ⁽¹⁾
October 1, 2019 - October 31, 2019	-	-	-	1,396,063
November 1, 2019 - November 30, 2019 . .	6,001	\$ 29.35	-	1,354,919
December 1, 2019 - December 31, 2019 . . .	1,475	\$ 29.43	-	1,285,257

(1) Computed based on the closing share price of the Company’s common stock as of the end of the periods shown.

	As of and for the Years Ended December 31,				
(Dollars in thousands, except per share data)	2019	2018	2017	2016	2015
Performance Ratios:					
Return on average assets.	1.50%	1.50%	0.93%	0.94%	0.85%
Return on average shareholders’ equity.	9.81%	10.18%	7.18%	7.79%	7.16%
Net interest margin - tax equivalent basis	4.42%	4.35%	4.06%	3.96%	3.85%
Efficiency ratio ⁽²⁾	58.30%	59.04%	64.19%	62.66%	62.89%
Selected Ratios:					

industry. Many of the Company’s competitors are much larger financial institutions that have greater financial resources and compete aggressively for market share. Through the Company’s relationship-driven, community banking strategy, a significant portion of its continued growth has been through referral business from existing customers and professionals in the Company’s markets including attorneys, accountants and other professional service providers.

The Bank is the subject of an investigation by FinCEN regarding the Bank’s compliance with the BSA and anti-money laundering laws and regulations. The Bank is cooperating with this investigation. The costs to respond to and cooperate with FinCEN’s investigation have been material over the course of the period of this report, and the Bank may continue to incur material fees and expenses regarding this matter at least through the completion of FinCEN’s investigation.

Results of Operations

Year Ended December 31, 2019 vs Year Ended December 31, 2018

Net income for the year ended December 31, 2019 increased 6.8%, compared to the year ended December 31, 2018. This increase is primarily due to increased net interest income and noninterest income, partially offset by a higher provision for loan losses and higher noninterest expense. See further analysis of these fluctuations in the related discussions that follow.

(Dollars in thousands, except per share data and percentages)

The following tables present information regarding changes in interest income and interest expense for the periods indicated for each major component of interest-earning assets and interest-bearing liabilities and distinguishes between the changes attributable to changes in volume and changes attributable to changes in interest rates. For purposes of these tables, changes attributable to both rate and volume that cannot be segregated have been allocated to rate.

(Dollars in thousands)	Year Ended December 31, 2019, Compared to Year Ended December 31, 2018		
	Increase (Decrease) due to		Total
	Rate	Volume	
Interest-earning assets:			
Total loans	\$ 6,299	\$ 11,194	\$ 17,493
Securities	(230)	164	(66)
Other interest-earning assets	540	(237)	303
Equity investments	(71)	(23)	(94)
Total increase in interest income	6,538	11,098	17,63

enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Income tax expense and effective tax rates for the periods shown below were as follows:

(Dollars in thousands)	Years Ended December 31,	
	2019	2018
Income tax expense.....	\$ 11,571	\$ 11,364
Effective tax rate	18.64%	19.37%

For 2019, the difference between the federal statutory rate of 21% and the effective tax rates presented in the table above was largely attributable to the non-taxable gain related to bank-owned life insurance and the effective tax rates for both 2019 and 2018 were impacted by tax exempt interest income. See “Item 8—Financial Statements and Supplementary Data—Note 21.”

Year Ended December 31, 2018 vs Year Ended December 31, 2017

The following table presents information regarding the changes in interest income and interest expense for the periods indicated for each major component of interest-earning assets and interest-bearing liabilities and distinguishes between the changes attributable to changes in volume and changes attributable to changes in interest rates. For purposes of this table, changes attributable to both rate and volume that cannot be segregated have been allocated to rate.

(Dollars in thousands)	Year Ended December 31, 2018 Compared to 2017		
	Increase (Decrease) due to		Total
	Volume	Rate	
Interest-earning assets:			
Total loans	\$ 9,041	\$ 7,486	\$ 16,527
Securities	156	517	673
Other interest-earning assets	(204)	2,030	1,826
Equity investments	30	44	74
Total increase in interest income	9,023	10,07	

nonperforming and potential problem loans. The Company actively manages the composition of the loan portfolio, including credit concentrations. Management administers a risk-based approach to effectively identify, measure, monitor, mitigate, control and manage concentration risks.

The contractual maturity ranges of loans in the loan portfolio and loans with fixed and variable interest rates in each maturity range as of date indicated were as follows:

<u>(Dollars in thousands)</u>	<u>1 Year or Less</u>	<u>1 Year Through 5 Years</u>	<u>After 5 Years</u>	<u>Total</u>
<i>December 31, 2019</i>				
Commercial and industrial	\$ 280,806	\$ 218,921	\$ 27,880	\$ 527,607
Real estate:				
Commercial real estate	111,814	591,833	197,099	900,746
Construction and development	150,054	323,800	53,958	

1-4 family residential mortgage loans—the borrower’s ability to repay the loan, including a consideration of the debt-to-income ratio and employment and income stability, the loan-to-value ratio and the age, condition and marketability of the collateral; and

Construction and development loans—the perceived feasibility of the project including the ability to sell developed lots or improvements constructed for resale or the ability to lease property constructed for lease, the quality and nature of contracts for presale or prelease, if any, experience and ability of the developer and loan-to-value ratio.

Activity in the allowance for loan losses for the periods indicated was as follows:

(Dollars in thousands)	Years Ended December 31,				
	2019	2018	2017	2016	2015
Allowance for loan losses at beginning of period	\$ 23,693	\$ 24,778	\$ 25,006	\$ 25,315	\$ 24,952
Provision for					

Contractual maturities and weighted-average yields by security type based on estimated annual income divided by the average amortized cost of the Company’s debt securities portfolio as of the date indicated was as follows:

(Dollars in thousands)	1 Year or Less		After 1 Year to 5 years		After 5 Years to 10 Years		After 10 Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total	Yield
December 31, 2019										
State and municipal securities	\$ 1,360	2.7%	\$ 1,409	2.5%	\$ 8,132	2.7%	\$ 42,378	2.9%	\$ 53,279	2.9%

PART III.

Item 10. Directors, Executive Officers and Corporate Governance

Code of Ethics.

We have adopted a code of business conduct and ethics (the “Code of Ethics”) that applies to all employees, including executive officers, and to directors. The Code of Ethics is available on the Corporate Governance page of our website at www.communitybankoftx.com. If we were to amend or waive any provision of our Code of Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or any person performing similar functions, we intend to satisfy our disclosure obligations with respect to any such waiver or amendment by posting such information on our internet website set forth above.

All other information called for by this item is set forth in the Definitive Proxy Statement relating to the 2020 Annual Meeting of Shareholders, or the 2020 Proxy Statement, to be filed with the SEC pursuant to Regulation 14A under the Exchange Act within 120 days of the end of the fiscal year ended December 31, 2019 and is incorporated herein by reference.

Item 11. Executive Compensation

The information called for by this item is set forth in the 2020 Proxy Statement, to be filed with the SEC within

10.7†	Amendment to Employment Agreement between CBFH, Inc. and J. Pat Parsons, dated December 31, 2008 (incorporated by reference to Exhibit 10.7 to the Company’s Form S-1 filed with the Commission on October 13, 2017, File No. 333-220930)
10.8†	Amendment to Employment Agreement between CBFH, Inc. and J. Pat Parsons, dated March 6, 2013 (incorporated by reference to Exhibit 10.8 to the Company’s Form S-1 filed with the Commission on October 13, 2017, File No. 333-220930)
10.9†*	Employment Agreement between Community Bank of Texas, N.A. and Travis Jagers, dated January 4, 2016.
10.10†	CBTX, Inc. 2017 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.9 to the Company’s Form S-1 filed with the Commission on October 30, 2017, File No. 333-220930)
10.11†	Form of Restricted Stock Award Agreement under the CBTX, Inc. 2017 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.10 to the Company’s Form S-1 filed with the Commission on October 13, 2017, File No. 333-220930)
10.12†	Form of Restricted Stock Unit Award Agreement under the CBTX, Inc. 2017 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.11 to the Company’s Form S-1 filed with the Commission on October 13, 2017,

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized in Houston, Texas, on February 26, 2020.

CBTX, INC.
By: /s/ Robert R. Franklin, Jr.
Robert R. Franklin, Jr.
Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities indicated on the dates set forth below.

Signature	Title	Date
<u>/s/ Robert R. Franklin, Jr.</u> Robert R. Franklin, Jr.	Chairman, President and Chief Executive Officer (Principal Executive Officer)	February 26, 2020
<u>/s/ Robert T. Pigott, Jr.</u> Robert T. Pigott, Jr.	Senior Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 26, 2020
<u>/s/ Michael A. Havard</u> Michael A. Havard	Director	February 26, 2020
<u>/s/ Tommy W. Lott</u> Tommy W. Lott	Director	February 26, 2020
<u>/s/ Glen W. Morgan</u> Glen W. Morgan	Director	February 26, 2020
<u>/s/ J. Pat Parsons</u> J. Pat Parsons	Vice Chairman	February 26, 2020
<u>/s/ Joe E. Penland, Sr.</u> Joe E. Penland, Sr.	Director	February 26, 2020
<u>/s/ Wayne A. Reaud</u> Wayne A. Reaud	Director	February 26, 2020
<u>/s/ Joseph B. Swinbank</u> Joseph B. Swinbank	Director	February 26, 2020
<u>/s/ Sheila G. Umphrey</u> Sheila G. Umphrey	Director	February 26, 2020
<u>/s/ John E. Williams, Jr.</u> John E. Williams, Jr.	Director	February 26, 2020
<u>/s/ William E. Wilson, Jr.</u> William E. Wilson, Jr.	Director	February 26, 2020

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
CBTX, Inc.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of CBTX, Inc. (a Texas corporation) and subsidiary (the “Company”) as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, changes in shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

Basis for opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

CBTX, INC. AND SUBSIDIARY
Consolidated Statements of Income
(Dollars in thousands, except per share amounts)

	Years Ended December 31,		
	2019	2018	2017
Interest income			
Interest and fees on loans	\$ 141,388	\$ 123,895	\$ 107,368
Securities	5,954	6,020	5,347
Other interest-earning assets	5,333	5,030	3,204
Equity investments	720	814	740
Total interest income	<u>153,395</u>	<u>135,759</u>	<u>116,659</u>
Interest expense			
Deposits	1		

