

2020

ANNUAL REPORT



LETTER TO SHAREHOLDERS

FELLOW SHAREHOLDERS:

2020 was a year of significant challenges, and for Independent Bank Group it was also a year of opportunity to step forward to help our customers and communities weather the storm. Our company's strong financial performance in the face of last year's economic uncertainty stands as a testament to the strength of our culture and reflects our longstanding commitment to operating a granular, regional community banking model in resilient markets.

The sudden onset of lockdowns and social distancing presented a tremendous challenge to all relationship businesses, and it was no different for our bank. Many of our employees are used to seeing familiar faces walk into a branch or make regular calls on their customers at their offices. Fortunately, by leveraging our long history of fostering meaningful customer relationships, we were able to quickly pivot to virtual calls and socially distant face-to-face meetings.

Throughout the course of the year, our teams remained actively engaged in providing a lifeline to those who needed it most. Following the passage of the CARES Act, our company provided relief to our existing small business customers by rapidly originating over 6,300 Paycheck Protection Program loans for an aggregate \$824 million across our footprint. In addition, our officers worked with relationship borrowers to provide payment deferrals for customers impacted by the pandemic. We also donated over \$190,000 to food banks and other support services across our footprint, and we celebrated the opening of the new facility for the Family Health Center on Virginia, which has proven to be an important addition to the public health infrastructure in North Texas since its creation in 2018.

This collective focus on taking care of our customers and communities led our company to post solid full-year adjusted earnings of \$4.87 per share, record tangible book value of \$33.23 per share at year-end, and resilient credit metrics that continue to outperform both the Texas and broader U.S. banking industry aggregates. Due to our strong capital levels and healthy balance sheet, we were able to deliver continued returns for shareholders by increasing our quarterly dividend and reauthorizing our share repurchase program.

Maintaining strong customer relationships is the cornerstone of what we do – it allowed us to best serve the individuals and small businesses across Texas and Colorado who needed us most in the darkest days of the pandemic, and it enabled us to continue to post strong results for our shareholders each quarter during a challenging year.

Looking ahead, we remain committed to building on our strong foundation and finding new opportunities to serve our markets across Texas and Colorado as the economic recovery accelerates. We are adding new team members and product sets to ensure we are prepared to serve the entire range of our customers' needs. We are also continuing to enhance our technology suite to ensure we're providing our customers with a superior digital experience. In 2021 and beyond, we remain focused on continuing to roll up our sleeves and do the hard work to create sustainable, long-term value for all our stakeholders.

Warmest regards,



David R. Brooks
Chairman, Chief Executive Officer and President

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

(Mark One)

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

For The Fiscal Year Ended December 31, 2020.

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

For the transition period from _____ to _____.

Commission file number 001-35854

Independent Bank Group, Inc.

(Exact name of registrant as specified in its charter)

Texas
(State or other jurisdiction of incorporation or organization)

13-4219346

(I.R.S. Employer Identification No.)

7777 Henneman Way

McKinney,

Texas

(Address of principal executive offices)

75070-1711

(Zip Code)

(972) 562-9004

(Registrant's telephone number, including area code)

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

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

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

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

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
		Emerging Growth Company	<input type="checkbox"/>

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes No

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

The aggregate market value of the shares of common stock held by non-affiliates based on the closing price of the common stock on the Nasdaq Global Select Market on June 30, 2020 was approximately \$1,494,273,058.

At February 25, 2021, the Company had outstanding 43,192,020 shares of common stock, par value \$.01 per share.

Documents Incorporated By Reference:

Portions of the Company's Proxy Statement relating to the 2021 Annual Meeting of Shareholders, which will be filed within 120 days after December 31, 2020, are incorporated by reference into Part III, Items 10 - 14 of this Annual Report on Form 10-K.

INDEPENDENT BANK GROUP, INC. AND SUBSIDIARIES
Annual Report on Form 10-K
December 31, 2020

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PART I

ITEM 1. BUSINESS

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

General

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

As of December 31, 2020, the Company had consolidated total assets of approximately \$17.8 billion, total loans of approximately \$13.0 billion, total deposits of approximately \$14.4 billion and total stockholders' equity of approximately \$2.5 billion.

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

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

Business Strategy

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

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

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

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

The Company's Community Banking Services

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

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

The Company's strategy is to maintain a broadly diversified loan portfolio by type and location. The Company's loan portfolio consists of real estate loans, commercial and industrial loans, residential mortgage loans, residential construction loans, agricultural loans and consumer loans. Real estate secured loans are spread among a variety of types of borrowers, including owner-occupied offices for small businesses, medical practices and offices, retail operations and multi-family properties. The Company's loans are diversified geographically throughout the Company's Dallas/North Texas region (approximately 45%), the Company's Houston region (approximately 20%), the Company's Austin/Central Texas region (approximately 11%) and the Company's Colorado Front Range region (approximately 24%). See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Loan Portfolio" for a more detailed description of the Company's lending operations.

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

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

The Company has recently initiated a retail banking strategy designed to enhance products and services to consumers. Through this strategy, the Company intends to provide personalized and consumer focused services to retail customers through the Company's branch structure.

Competition

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

According to S&P Global Market Intelligence, as of June 30, 2020, the Company had the 13th largest deposit market share in Texas and the 13th largest deposit market share in Colorado. We believe that our strong market share is a reflection of the Company's ability to compete with more prominent banking franchises in our markets.

COVID-19 Impact and Response

COVID-19 Impact and Legislative Response. In December of 2019, a novel strain of coronavirus, COVID-19, was reported in Wuhan China. COVID-19 virus rapidly spread to many other countries, including the United States, and the World Health Organization formally declared the coronavirus outbreak a pandemic in March of 2020. In response, federal and many state governments, including Colorado and Texas, implemented measures, including “stay at home” orders, restricting the operations of businesses and the activities of individuals. These orders and other effects of COVID-19 have had significant and widespread impact on the macroeconomic environment, leading to lower interest rates, depressed market valuations, heightened unemployment, heightened volatility in the financial, commodities (including oil and gas) and other markets, and significant disruption in banking and other financial activity in the areas in which the Company operates. COVID-19 also had a significant economic impact on a broad range of industries in which the customers of the Company operate.

In March of 2020, the Coronavirus Aid, Relief and Economic Security (“CARES Act”) took effect to address the impact of COVID-19. The CARES Act included the Paycheck Protection Program (“PPP”), a nearly \$350 billion program designed to aid small and medium sized businesses through federally guaranteed loans distributed through banks (“PPP Round 1”). The PPP loans carried with them certain requirements for use of funds to pay for payroll costs, as well as certain other operational costs, to help businesses remain viable in the face of the economic uncertainty created by the COVID-19 pandemic. In April of 2020, Congress passed another bill to provide additional PPP loan funding and authority. In June of 2020, the Paycheck Protection Program Flexibility Act (the “Flexibility Act”) increased flexibility in the PPP loan program to address pervasive issues experienced by small businesses, such as hiring and continued operational constraints negatively impacting their businesses. Among other modifications, the Flexibility Act extended the period of time businesses had to use PPP loan funds from 8 weeks to 24 weeks, relaxed measures to qualify for PPP loan forgiveness, and extended deferral periods for PPP loans. In July of 2020, Congress again responded to small business needs by extending the deadline to apply for PPP Round 1 funding to August of 2020. In December of 2020, Congress enacted the Economic Aid to Hard-Hit Small Business, Nonprofits, and Venues Act, which allocated an additional \$284 billion for PPP loans, extended authority to make PPP loans to March 31, 2021, modified provisions related to making PPP loans and forgiveness of PPP loans, and set forth requirements to obtain a second draw loan (“PPP Round 2”).

In addition to providing stimulus packages to maintain the viability of U.S. businesses, the CARES Act, and subsequent amendments thereto, also permitted financial institutions to delay adoption of the new accounting measure for estimating allowances for loan losses and provision known as the current expected credit loss model or CECL. Further discussion of the impact of these legislative measures on the Bank is addressed below under “Supervision and Regulation, Regulation of the Bank, Measurement for Loan Allowances and Provision” and under Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations - “Recent Development: COVID-19”.

Our Company’s COVID-19 Response. In the face of the challenges presented by COVID-19, our team and our customers have continued to demonstrate resilience, creativity and flexibility. Our team swept into action to close over 6,300 PPP loans during PPP Round 1. As of February 25, 2021, our team has originated over 1,600 loans for PPP Round 2. Aside from PPP loans, our teams have actively worked with our customers on a one-on-one basis to provide payment relief through prudent loan modifications, including deferrals and payment reductions. Refer to Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations - “Recent Developments: COVID-19” for additional discussion of the impact of the pandemic on the Company’s financial condition.

In addition, the Company’s business continuity team instituted measures to maintain the health and safety of our employees and the customers we serve. We adjusted operating hours, instituted 50/50 staff rotation schedules and modified branch lobby configurations to promote social distancing and installed plexi-glass shields where appropriate to provide additional protections. Employees are required to wear face coverings, particularly when team members are engaging with customers. Surfaces are routinely cleaned and sanitized, work-from-home measures are in place, with cybersecurity protocols heightened to accommodate those measures, and protocols are in place to track and address exposures and potential exposures to COVID-19. We distribute routine communication to employees pertaining to pandemic related resources, updates and protocol reminders. Business travel also remains limited. Aside from these safety measures, the Company did not lay off or furlough any of its workforce and provided Special Circumstance Pay to employees impacted by COVID-19 so they are not required to exhaust Personal Time Off to deal with the challenges the pandemic has created in their daily lives. These measures have allowed us to successfully sustain operations in an incredibly challenging environment. However, as more thoroughly discussed under Item 1A, Risk Factors, Other Risk Affecting Our Business, the prolonged nature of the pandemic and its impact on the economy could lengthen, exacerbate, and prolong the risks identified in the Company’s 10-K.

Our Company also focused on the needs of the greater community in these difficult times by providing over \$100,000 in donations to support food banks across Texas and Colorado. This investment contributed to the delivery of over 300,000 meals to families in need, and provided meaningful paid employment to unemployed shift workers. In addition, the Bank provided more than \$95,000 in additional donations to non-profits focused on small business support, housing and shelter, employment, remote learning technology, childcare and health care.

Human Capital Management

As of December 31, 2020, we employed 1,513 employees. The average tenure of senior executives within the Company is 13 years, and the attrition rate for all employees in 2020 was 16.1%. None of the Company's employees are represented by any collective bargaining unit nor are they parties to any collective bargaining agreement. We believe our employee relations to be good.

We are a high performing company that provides meaningful and engaging employee experience while serving as a powerful force for positive change in the communities we serve. We believe in a corporate culture where all people are empowered to reach their full potential. The Company's Board of Directors fosters this belief by ensuring that senior management adopt strategies that result in the Company keeping a continuous pulse on both employee performance and satisfaction at every level. One of these strategies includes developing measures that focus on recruitment, retention and advancement of a diverse workforce. To that end, the Company launched a new Diversity and Inclusion Program in the fourth quarter of 2020 built upon the three core principles of people, culture and community. The Company's Diversity Council, comprised of 18 cross-functional leaders diverse in gender, race and ethnicity, was created as part of this initiative. The Company has also adopted and enforces codes of conduct that establish principles of integrity, respect, and excellence at all levels of the Company.

To attract and retain talent, the Company offers competitive compensation and benefits to our employees, and is heavily invested in the health, safety and welfare of each employee. Aside from the measures taken by the Company to protect our employee's health and financial well-being in the midst of the COVID-19 pandemic described above, the Company's standard benefits package includes an active health and wellness program that engages employees throughout the year with the goal of generating positive health outcomes for our team members. The program includes access to telemedicine, health savings accounts, flexible spending accounts, insurance premium reductions for those who complete certain health and fitness tasks in the year, and an Employee Assistance Program offering confidential emotional support, work-life solutions, and legal and financial planning resources. The Company also empowers employees to plan for their financial futures by matching 100% of the first 6% of contributions made to the Company's 401-K plan. The Company also offers a competitive employee bonus incentive plan. In 2020, the Company paid 100% of the employee bonus incentive plan to its employees, despite the challenges presented by the COVID-19 pandemic.

The Company also encourages every employee to effect positive change in the communities we serve throughout Texas and Colorado. Senior management has designed programs that encourage and celebrate community service by providing additional paid time off to employees to accommodate participation in service related activities and by highlighting contributions made by our team throughout the year. In 2020, our employees volunteered over 6,500 hours for a volunteer value of over \$178,000.

The Company firmly believes that one of its greatest assets is its employees. We strive year after year to build and enhance our corporate culture so that our workforce continues to feel valued, understood, appreciated, encouraged and empowered to professionally thrive and make a difference within the Company and the communities we serve.

Available Information

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

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

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

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

Supervision and Regulation

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

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

Independent Bank Group as a Bank Holding Company

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

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

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

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

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

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

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

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

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

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

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

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

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

Under the Federal Reserve's and FDIC's prompt corrective action standards, in order to be considered well-capitalized, the Company and the Bank must have a ratio of CET1 capital to risk-weighted assets of 6.5%, a ratio of Tier 1 capital to risk-weighted assets of 8%, a ratio of total capital to risk-weighted assets of 10%, and a leverage ratio of 5%; and must not be subject to any written agreement, order, capital directive, or prompt corrective action directive to meet and maintain a specific capital level for any capital measure. In order to be considered adequately capitalized, an institution must have the minimum capital ratios described above. As of December 31, 2020, the Company and the Bank each were "well-capitalized." An institution that is not well capitalized is subject to certain restrictions on brokered deposits and interest rates on deposits.

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

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

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

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

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

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

On January 30, 2020, the Federal Reserve finalized a rule that simplifies and increases transparency of its rules for determining when one company controls another company for purposes of the BHC Act. The rule became effective September 30, 2020. The rule has and will likely continue to have a meaningful impact on control determinations related to investments in banks and bank holding companies and investments by bank holding companies in nonbank companies.

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

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

Regulation of the Bank

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

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

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

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

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

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

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

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

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

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

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

Examinations by CFPB. The Bank is subject to supervision and examination by the CFPB. The CFPB maintains authority over the Bank with respect to substantially all federal statutes and regulations protecting the interests of consumers of financial services, including but not limited to the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the Fair Debt Collection Practices Act, the Truth in Savings Act, the Right to Financial Privacy Act and the Electronic Funds Transfer Act and their respective related regulations. Violation of these laws and regulations could subject the Bank to lawsuits and administrative penalties, including civil monetary penalties, payments to affected consumers, and orders to halt or materially change our consumer banking activities. The CFPB has broad authority to pursue enforcement actions, including investigations, civil actions and cease and desist proceedings and can refer civil and criminal findings to the Department of Justice for prosecution. The Bank is also subject to other federal and state consumer protection laws that, among other things, prohibit unfair, deceptive and abusive, corrupt or fraudulent business practices, untrue or misleading advertising and unfair competition.

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

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

Measurement for Loan Allowances and Provision. The Bank is subject to accounting standards updates (ASU) set forth by the Financial Accounting Standards Board (FASB). In June 2016, FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments." ASU 2016-13 along with several other subsequent codification updates related to accounting for credit losses, requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the credit loss measurement guidance for available for sale debt securities and purchased financial assets with credit deterioration. Under prior US GAAP, companies generally recognized credit losses when it was probable that the loss has been incurred (Incurred Loss Model). ASU 2016-13 requires a new credit loss methodology, the current expected credit loss model (CECL), which requires the recognition of an allowance for lifetime expected credit losses on loans, held-to-maturity debt securities and other receivables measured at amortized cost at the time the financial asset is originated or acquired. Under CECL, credit losses will be immediately recognized through net income; the amount recognized will be based on the current estimate of contractual cash flows not expected to be collected over the financial asset's contractual term. ASU 2016-13 initially became effective for the Company on January 1, 2020.

On March 27, 2020, the CARES Act was enacted, which included an option for financial institutions to delay the implementation of ASU 2016-13 until the earlier of the termination date of the national emergency declaration relating to the COVID-19 pandemic or December 31, 2020. Due to the uncertainty of the economic forecast resulting from COVID-19 and the potential impact of future government economic stimulus measures, the Company delayed adoption of CECL under ASU 2016-13 and continued to calculate and record its provision for loan losses under the Incurred Loss Model.

The CARES Act was further amended by the Consolidated Appropriations Act, 2021 signed into law on December 27, 2020, which permitted companies to further delay the adoption of CECL until as late as January 1, 2022. The Company elected to adopt CECL as of January 1, 2021 and utilized the Incurred Loss Model for 2020. Item 1A, Risk Factors and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations - "Recent Development: COVID-19, *Credit and Asset Quality*" contain additional discussion of the impact resulting from this decision.

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

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

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

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

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

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

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

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

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

On June 22, 2020, the FDIC issued a rule that mitigates the deposit insurance assessment effects of participating in the PPP loan program first enacted under the CARES Act. Pursuant to the final rule, the FDIC will generally remove the effect of PPP lending in calculating an institution's deposit insurance assessment. The final rule also provides an offset to an institution's total assessment amount for the increase in its assessment base attributable to participation in the PPP loan program. Further, on October 20, 2020, the FDIC issued a final rule to allow institutions that experienced temporary growth from participation in the PPP loan program to determine whether they are subject to the requirements of Part 363 of the FDIC's regulations (which imposes annual audit and reporting requirements on insured deposit institutions with \$500 million or more in consolidated total assets) for fiscal years ending in 2021 based on the consolidated assets of December 31, 2019.

Brokered Deposit Restrictions. Adequately capitalized institutions cannot accept, renew or roll over brokered deposits, without receiving a waiver from the FDIC, and are subject to restrictions on the interest rates that can be paid on any deposits. Undercapitalized institutions may not accept, renew or roll over brokered deposits. In December 2020, the FDIC finalized a rule that is intended to bring the brokered deposit regulations in line with modern deposit taking methods, which may result in a reduction in the amount of deposits that would be classified as brokered.

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

Community Reinvestment Act. The CRA and the regulations issued thereunder are intended to encourage banks to help meet the credit needs of their entire service area, including low and moderate income neighborhoods, consistent with the safe and sound operations of such banks. These regulations also provide for regulatory assessment of a bank's record in meeting the needs of its service area when considering applications to establish branches, merger applications and applications to acquire the assets and assume the liabilities of another bank. The FIRREA requires federal banking agencies to make public a rating of a bank's performance under the CRA. In the case of a bank holding company, the CRA performance record of the banks involved in the transaction are reviewed in connection with the filing of an application to acquire ownership or control of shares or assets of a bank or to merge with any other bank holding company. An unsatisfactory CRA record could substantially delay approval or result in denial of an application. In December 2019, the FDIC and the OCC jointly proposed rules that change the existing regulations in four key ways: (i) clarifying what activities will qualify for CRA credit; (ii) updating where activities count for CRA credit; (iii) providing a more transparent and objective method for measuring CRA performance; and (iv) revising CRA-related data collection, record keeping, and reporting. While the OCC issued its final rule, which took effect October 1, 2020, the FDIC has not yet finalized revisions to its CRA rules.

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

Federal regulators have issued advisory statements regarding cybersecurity. Generally, federal regulators expect that financial institutions should design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing internet-based services of the financial institution. In addition, a financial institution's management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution's operations after a cyber-attack involving destructive malware. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber-attack. If the Company fails to observe the regulatory guidance, the Company could be subject to various regulatory sanctions, including financial penalties. In December of 2020, federal banking agencies issued a Notice of Proposed Rulemaking that would require banking organizations to notify their primary federal regulator within 36 hours of becoming aware of a "computer-security incident" or a "notification incident." The Notice of Proposed Rulemaking also would require specific and immediate notifications by bank service providers that become aware of similar incidents.

State regulators have also been increasingly active in implementing privacy and cybersecurity standards and regulations. Recently, several states, have adopted regulations requiring certain financial institutions to implement cybersecurity programs and providing detailed requirements with respect to these programs, including data encryption requirements. Many states, including Texas and Colorado, have implemented or modified their data breach notification and data privacy requirements. The Texas banks are required to promptly report material cybersecurity incidents to the Texas Banking Commissioner.

The Company expects this trend of both federal and state-level attention to cybersecurity to continue, and is continually monitoring developments at the federal level and in the states in which its customers are located.

Limits on Compensation. The Federal Reserve, OCC and FDIC in 2010 issued comprehensive final guidance on incentive compensation policies for executive management of banks and bank holding companies. This guidance was intended to ensure that the incentive compensation policies of banking organizations do not undermine their safety and soundness by encouraging excessive risk-taking. The objective of the guidance is to assure that incentive compensation arrangements (i) provide incentives that do not encourage excessive risk-taking, (ii) are compatible with effective internal controls and risk management and (iii) are supported by strong corporate governance, including oversight by the board of directors. In 2016, the Federal Reserve and the FDIC proposed rules that would, depending upon the assets of the institution, directly regulate incentive compensation arrangements and would require enhanced oversight and recordkeeping. As of December 31, 2020, these rules have not been implemented.

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

The Anti-Money Laundering Act of 2020 (the "AMLA"), which amends the Bank Secrecy Act of 1970 (BSA), was enacted in January 2021. The AMLA is intended to be a comprehensive reform and modernization to the U.S. bank secrecy and anti-money laundering laws. Among other things, it codifies a risk-based approach to anti-money laundering compliance for financial institutions, requires the development of standards for evaluating technology and internal process for BSA compliance, and expands enforcement and investigation-related authority, including increasing available sanctions for certain BSA violations and instituting BSA whistleblower incentives and protections.

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

Changes in Laws, Regulations or Policies

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

Enforcement Powers of Federal and State Banking Agencies

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

Effect on Economic Environment

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

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

ITEM 1A. RISK FACTORS

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

Summarized below are the most significant risks and uncertainties that we believe could adversely affect our business, financial condition or results of operations. Following this summary, we discuss each risk in greater detail under each risk's respective headings, organized by Risks Related to the Company's Business and Risks Related to an Investment in the Company's Common Stock. We also separately discuss how COVID-19 has heightened certain of these risks and any new risks directly resulting from the pandemic. You should read both the summary and the detailed descriptions of each risk before investing in the Company's securities.

RISKS RELATED TO THE COMPANY'S BUSINESS

Operational Risk

- *The Company must effectively manage the need for technological change.*
- *The Company may experience system failure or cybersecurity breaches.*
- *The Company's success depends significantly on its management team.*
- *The Company is reliant on third party service providers.*
- *The Company is subject to data processing failures, control failures and fraud.*
- *New lines of business or new products and services subject the Company to additional risks.*
- *The Company's accounting estimates and risk management programs rely on analytical and forecasting models.*
- *The Company is subject to counterparty risk.*
- *The value of the Company's goodwill could become impaired.*

Strategic Risk

- *The Company may not be able to continue to grow.*
- *The Company may not be able to continue its acquisition strategy.*
- *The Company must effectively manage risk associated with its acquisition strategy.*
- *The Company has a geographic concentration in Texas and Colorado.*

Credit Risk

- *The Company must manage credit risk.*
- *The Company has a significant concentration in commercial real estate loans.*
- *The Company has exposure to credit risk related to the energy industry.*
- *The Company's Allowance for Loan Losses may be insufficient to absorb loan losses.*
- *The adoption of CECL may impact future loan loss provisions.*
- *The Company's mortgage business subjects the Company to additional risk.*

Interest Rate Risk

- *The Company must manage interest rate risk.*
- *The replacement of LIBOR may subject the Company to additional risk.*
- *The Company could experience losses on its investment securities in volatile rate environments.*

Liquidity and Capital Risk

- *The Company is subject to liquidity risk.*
- *The Company must maintain adequate capital.*
- *The Federal Reserve may require the Company to commit capital resources to support the Bank.*

Legal, Regulatory and Compliance Risk

- *The Company is subject to legal and regulatory risk.*
- *The Company operates in a highly regulated environment and, as a result, is subject to extensive regulation and supervision.*
- *The Company must devote significant resources to compliance.*
- *The Company is subject to continuous examination.*
- *The Company may be required to pay significantly higher FDIC deposit insurance assessments in the future.*
- *The Company faces a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.*
- *There are substantial regulatory limitations on changes of control of bank holding companies.*

Other Risks Affecting Our Business

- *Volatile market conditions and macro economic trends, including the impact of the COVID-19 pandemic, could adversely affect the Company.*
- *The Company operates in a competitive environment.*
- *The Company is reliant on deposits as a significant source of funding.*
- *The Company may be adversely impacted by natural disasters, health pandemics, and other local and worldwide events beyond the Company's control.*
- *The Company could be subject to environmental risk.*
- *Monetary policies and regulations of the Federal Reserve could adversely affect the Company's business, financial condition and results of operations.*

RISKS RELATED TO AN INVESTMENT IN THE COMPANY'S COMMON STOCK

- *The Company's stock price can be volatile.*
- *The Company is dependent upon the Bank for cash flow, and the Bank's ability to make cash distributions is restricted.*
- *The Company's dividend policy may change without notice, and the Company's future ability to pay dividends is subject to restrictions.*
- *The Company's largest shareholder and board of directors have historically, and currently, exert a controlling influence on the Company.*
- *The Company's corporate organizational documents and the provisions of Texas law make it more difficult or prevent an attempted acquisition of the Company that you may favor.*
- *Other debt and equity instruments have priority over the Company's common stock.*
- *An investment in the Company's common stock is not an insured deposit.*

RISKS RELATED TO THE COVID-19 PANDEMIC

- *The pandemic has heightened credit risk.*
- *The pandemic has increased interest rate risk.*
- *The pandemic has heightened operational risk, particularly with respect to cybersecurity.*
- *The pandemic has increased legal and regulatory risk.*
- *The full extent of impact from the pandemic is uncertain.*

RISKS RELATED TO THE COMPANY'S BUSINESS

Operational Risk

The Company must effectively manage the need for technological change.

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

The Company may experience system failure or cybersecurity breaches.

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

As of March 1, 2021, the Company has not discovered any material cybersecurity incidents.

The Company's success depends significantly on its management team.

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

The Company is reliant on third party service providers.

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

The Company is subject to data processing failures, control failures and fraud.

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

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

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

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

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

The Company's accounting estimate and risk management programs rely on analytical and forecasting models.

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

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

The Company is subject to counterparty risk.

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

The value of the Company's goodwill could become impaired.

Goodwill represents the amount by which the cost of an acquisition exceeded the fair value of net assets that the Company acquired in connection with the purchase of another financial institution. The Company reviews goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate that the carrying value of the asset might be impaired. Significant and sustained decline in the Company's stock price and material adverse changes in economic conditions may result in taking future write downs related to the impairment of goodwill.

The Company determines impairment by comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Any such adjustments are reflected in the Company's results of operations in the periods in which they become known. As of December 31, 2020, we had \$1.1 billion of goodwill and other intangible assets. While the Company has not recorded any such impairment charges since the Company initially recorded the goodwill, there can be no assurance that the Company's future evaluations of goodwill will not result in findings of impairment and related write-downs, which may have a material adverse effect on the Company's financial condition and results of operations. Refer to Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations - "Critical Accounting Policies and Estimates" for further discussions of goodwill valuation.

Strategic Risk

The Company may not be able to continue to grow.

To achieve its past levels of growth, the Company has focused on both internal growth and acquisitions. The Company may not be able to sustain its historical rate of growth or may not be able to grow at all. More specifically, the Company may not be able to grow earning assets, specifically loans, and the Company may not be able to find suitable acquisition candidates. Various factors, such as economic conditions and competition, may impede or prohibit loan growth and the completion of acquisitions. Further, the Company may be unable to attract and retain experienced bankers, which could adversely affect its internal growth. If the Company is not able to continue its historical levels of growth, it may not be able to maintain its historical earnings trends. If the Company does not manage the Company's growth effectively, the Company's business, financial condition, results of operations and future prospects could be negatively affected, and the Company may not be able to continue to implement the Company's business strategy and successfully conduct the Company's operations.

The Company may not be able to continue its acquisition strategy.

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

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

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

The Company must effectively manage risk associated with its acquisition strategy.

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

The Company has a geographic concentration in Texas and Colorado.

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

Credit Risk

The Company must manage credit risk.

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

The Company has a significant concentration in commercial real estate loans.

As of December 31, 2020, approximately 51% of the Company's loan portfolio was comprised of loans with real estate as a primary or secondary component of collateral, excluding agricultural loans secured by real estate. As a result, adverse developments affecting real estate values in the Company's market areas could increase the credit risk associated with the Company's real estate loan portfolio. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the area in which the real estate is located. Adverse changes affecting real estate values and the liquidity of real estate in one or more of the Company's markets could increase the credit risk associated with the Company's loan portfolio, and could result in losses that would adversely affect credit quality, financial condition, and results of operation. Negative changes in the economy affecting real estate values and liquidity in the Company's market areas could significantly impair the value of property pledged as collateral on loans and affect the Company's ability to sell the collateral upon foreclosure without a loss or additional losses. Collateral may have to be sold for less than the outstanding balance of the loan, which could result in losses on such loans. Such declines and losses would have a material adverse impact on the Company's business, results of operations and growth prospects. If real estate values decline, it is also more likely that the Company would be required to increase the Company's allowance for loan losses, which could adversely affect the Company's financial condition, results of operations and cash flows.

The Company has exposure to credit risk related to the energy industry.

As of December 31, 2020, approximately 1.8% of the Company's loan portfolio was composed of loans made to companies engaged in oil production and oilfield services. The significant decline in oil prices during 2020 adversely effected some of these borrowers' ability to repay these loans and impaired the value of collateral securing some of these loans. Further, because energy is a material segment of the overall Texas economy, the decline and volatility in oil prices could have an impact on other segments of the Texas economy, including real estate. The Houston market economy in particular could be adversely affected. The Company's asset quality and results of operations could be adversely impacted by the direct and indirect effects of current and future conditions in the Texas energy industry.

The Company's Allowance for Loan Losses may be insufficient to absorb losses.

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

As of December 31, 2020, the Company's allowance for loan losses as a percentage of total loans was 0.76% and as a percentage of total nonperforming loans was 170.80%. Additional loan losses will likely occur in the future and may occur at a rate greater than the Company has previously experienced. The Company may be required to take additional provisions for loan losses in the future to further supplement the allowance for loan losses, either due to management's decision to do so or requirements by the Company's banking regulators. In addition, bank regulatory agencies will periodically review the Company's allowance for loan losses and the value attributed to nonaccrual loans or to real estate acquired through foreclosure. Such regulatory agencies may require the Company to recognize future charge-offs. If the assessment of loan losses is inaccurate, or if economic and market conditions experience material unanticipated changes, including as a result of the COVID-19 pandemic, then the Company will need to make provisions to increase the allowance, which will adversely impact earnings. See also Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations - Provision for Loan Losses for additional discussion of financial impact of the allowance for loan losses. These adjustments may adversely affect the Company's business, financial condition and results of operations.

The adoption of CECL may impact future loan loss provisions.

As discussed under Item 1, Business - "Supervision and Regulation-Regulation of the Bank", the Bank adopted CECL effective January 1, 2021. As a result of the implementation of CECL, the Company has implemented controls and procedures to measure and estimate the lifetime expected credit loss at the time a financial asset is initially added to the balance sheet and periodically thereafter.

The Company has determined that the implementation of CECL will result in an increase in its combined allowance for loan losses and reserves for unfunded commitments (the "ALLL"). The Company's current estimate of the range of expected increase in the ALLL resulting from the implementation of CECL is further discussed at "Part IV Item 15, Exhibits and Financial Statements - Note 2, Recent Accounting Pronouncements - ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326: Measurement of Credit Losses on Financial Instruments)*". The ultimate impact of the implementation of CECL could differ from the expectation.

The impact of CECL in future periods will be significantly influenced by the composition, characteristics and quality of the Company's loan portfolio, as well as the prevailing economic conditions and forecasts utilized. Should these factors materially change, the Company may be required to increase or decrease its allowance for credit losses, decreasing or increasing the Company's reported income, and introducing additional volatility into its reported earnings. In addition, CECL requires the application of greater management judgment that is supported by new models and more data elements than the previous allowance standard. The Company's adoption of the CECL model is expected to increase the complexity, and associated risk, of the analysis and processes relying on management judgment, which could negatively impact the Company's financial condition and results of operations.

The Company's mortgage business subjects the Company to additional risk.

The Company originates and sells residential mortgage loans through the Bank's mortgage division and purchases and sells residential mortgages through its mortgage warehouse business. As of December 31, 2020, mortgage warehouse purchase loans totaled \$1.5 billion, or 11.1% of total loans held for investment, which represents a significant increase in this line of business. Mortgage lending and mortgage warehouse purchase lending include credit risk associated with commercial bank lending. This line of business is also subject to market volatility, changes in interest rates, volume volatility and changing appetite of investors for certain mortgage products.

Through its mortgage warehouse business, the Company provides guidance lines of credit to mortgage companies that originate and sell residential mortgages. As part of this process, the Bank funds and purchases the mortgage at closing, the mortgage company sells the mortgage to an institutional buyer, and the proceeds from that sale are the primary source of repurchase of the mortgage from the Bank. This process exposes the Bank to market and interest rate risk in the event that the mortgage is not sold. The Bank is also subject to risk of fraud by mortgage company employees and customers. While the Company has insurance against fraud in the mortgage process, fraud loss in excess of insurance limits or which is not covered by insurance could have an adverse effect on the Company's business, financial condition and results of operation.

The Company has entered into loan purchase commitments and forward sales commitments to mitigate the interest rate risk related to mortgage origination activities. While the Company believes that its hedging strategies will be successful in mitigating exposure to interest rate risk associated with the origination and purchase of mortgage loans, no hedging strategy can completely mitigate risk. Poorly designed strategies, improperly executed transactions, or inaccurate assumptions regarding future interest rates or market conditions could have a material adverse effect on the Company's financial condition and results of operations.

Mortgage lending and mortgage warehouse purchase lending is subject to counterparty risk. The Company is from time to time required to hold or repurchase mortgage loans or reimburse investors as a result of breaches in contractual representations and warranties under the agreements pursuant to which it purchases and sells mortgage loans. While agreements with the originators and sellers of mortgage loans provide legal recourse that may allow the Company to recover some or all of losses, these companies are frequently not financially capable of paying large amounts of damages and as a result the Company can offer no assurance that it will not suffer loss as a result of these arrangements.

The Company may incur other costs and losses as a result of actual or alleged violations of regulations related to the origination and purchase of residential mortgage loans. The origination of residential mortgage loans is governed by a variety of federal and state laws and regulations, which are frequently changing. The Company sells residential mortgage loans that it has purchased or that it originated to various parties, including Ginnie Mae and GSEs such as Fannie Mae or Freddie Mac and other financial institutions that purchase mortgage loans for investment or private label securitization. These types of costs and losses arising from the Company's mortgage business would negatively impact the Company's business, financial condition and results of operation.

Interest Rate Risk

The Company must manage interest rate risk.

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

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

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

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

The replacement of LIBOR may subject the Company to additional risk.

In 2017, the U.K. Financial Conduct Authority announced that it would no longer compel banks to submit rates for the calculation of LIBOR after 2021. The administrator of LIBOR has proposed to extend publication of the most commonly used U.S. Dollar LIBOR settings to June 23, 2023 and to cease publishing other LIBOR settings on December 31, 2021. The U.S. federal banking agencies have issued guidance strongly encouraging banking organizations to cease using U.S. dollar LIBOR as a reference rate in new contracts as soon as practicable, and in any event, by December 31, 2021. It is not possible to predict whether banks will continue to provide LIBOR submissions to the administrator of LIBOR, use LIBOR as a reference rate or what rate will be viewed as an acceptable reference rate. Although the Company has established a working group to address the LIBOR transition, the full extent of impact of these developments on the Company's business and financial results is not yet known. The transition from LIBOR may cause the Company to incur increased costs and additional risk. Uncertainty as to the nature of alternative reference rates and as to potential changes in or other reforms to LIBOR may adversely affect LIBOR rates and the value of LIBOR-based loans originated prior to 2021. If LIBOR rates are no longer available, any successor or replacement interest rates may perform differently, which may affect net interest income, change market risk profile and require changes to risk, pricing and hedging strategies. Any failure to adequately manage this transition could adversely affect impact the Company's reputation.

The Company could experience losses on its investment securities in volatile rate environments.

While the Company attempts to invest a significant percentage of its assets in loans (the Company's loan to deposit ratio was 90.8% as of December 31, 2020), the Company invests a percentage of its total assets (approximately 6.5% as of December 31, 2020) in investment securities as part of its overall liquidity strategy. As of December 31, 2020, the fair value of the Company's securities portfolio was approximately \$1.2 billion.

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

Liquidity and Capital Risk

The Company is subject to liquidity risk.

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

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

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

The Company must maintain adequate capital.

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

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

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

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

Legal, Regulatory and Compliance Risk

The Company is subject to legal and regulatory risk.

The Company, like all financial institutions, has been and may in the future become involved in legal and regulatory proceedings. Litigation arises in a variety of contexts, including lending and deposit operations, intellectual property claims related to the technology used in business operations, employment practices, operating activities, fiduciary responsibilities, and other general business matters. The Company considers most of these proceedings to be in the normal course of business or typical for the industry. However, it is inherently difficult to assess the outcome of these matters. Any material legal or regulatory proceeding could impose substantial cost and cause management to divert its attention from the Company's business and operations. Any adverse determination in a legal or regulatory proceeding could have a material adverse effect on the Company's business, financial condition and results of operations. See Item 3, Legal Proceedings for a description of a legal proceeding which could have a material adverse effect on the Company's financial condition.

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

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

The Dodd-Frank Act, enacted in July 2010, instituted major changes to the banking and financial institutions regulatory regimes in light of the recent performance of and government intervention in the financial services sector. Additional legislation and regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could significantly affect the Company's powers, authority and operations, or the powers, authority and operations of the Bank in substantial and unpredictable ways. The Dodd-Frank Act created the Consumer Financial Protection Bureau, or the CFPB, with broad powers to supervise and enforce consumer protection laws. The CFPB has broad rule-making authority, including the authority to prohibit unfair, deceptive, and abusive acts and practices. These rules may result in increased regulatory compliance costs and subject the Company to increased potential liabilities related to its consumer banking business and residential mortgage lending activities.

Regulators have significant discretion and power to prevent or remedy unsafe or unsound practices or violations of laws by banks and bank holding companies in the performance of their supervisory and enforcement duties. The exercise of this regulatory discretion and power could have a negative impact on the Company. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company must devote significant resources to compliance.

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

The Company and the Bank exceeded \$10 billion in total consolidated assets (a) calculates FDIC deposits assessment base using a performance score and loss-severity score system; and (b) is subject to supervision and enforcement by the CFPB in connection with compliance with federal consumer protection laws.

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

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

The Company is subject to continuous examination.

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

The Company may be required to pay significantly higher FDIC deposit insurance assessments in the future.

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

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

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

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

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

Other Risks Affecting Our Business

Volatile market conditions and macro economic trends, including the impact of the COVID-19 pandemic, could adversely affect the Company.

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

Furthermore, as more fully discussed above under Item 1, Business - COVID Impact & Response and below under Risks Related to the COVID-19 Pandemic, the pandemic has created increased market volatility and impacted the Company's business, financial condition and operations in a number of ways. If the COVID-19 pandemic continues to impact national, state, and local economies, the Company could experience credit and operating losses.

The Company operates in a competitive environment.

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

The Company is reliant on deposits as a significant source of funding.

The Company relies on customer deposits as a significant source of funding. Competition among U.S. banks for customer deposits is intense, and may increase the cost of deposits or prevent new deposits, and may otherwise negatively affect the Company's ability to grow its deposit base. The Company's deposit accounts may decrease in the future, and any such decrease could have an adverse impact on the Company's sources of funding, which impact could be material. Any changes the Company makes to the rates offered on its deposit products to remain competitive with other financial institutions may adversely affect the Company's profitability and liquidity. The demand for the deposit products the Company offers may also be reduced due to a variety of factors, such as digital banking technology, demographic patterns, changes in customer preferences, reductions in consumers' disposable income, regulatory actions that decrease customer access to particular products or the availability of competing products. In addition, a portion of the Company's deposits are brokered deposits and FDIC uninsured deposits. The levels of these types of deposits that the Company holds may be more volatile during changing economic conditions. As of December 31, 2020, approximately \$1.5 billion, or 10.56%, of the Company's deposits consisted of brokered deposits.

The Company may be adversely impacted by natural disasters, health pandemics, and other local and worldwide events beyond the Company's control.

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

Hurricanes, tornadoes, wildfires, earthquakes and other natural disasters and severe weather events have caused, and in the future may cause, widespread property damage and significantly and negatively affect the local economies in which the Company operates. The effect of catastrophic weather events if they were to occur, could have a materially adverse impact on the Company's financial condition, results of operations and business, as well as potentially increase the Company's exposure to credit losses and liquidity risks.

The Company could be subject to environmental risks.

The Company is subject to growing risk from climate change. Among the risks associated with climate change are more frequent severe weather events. As discussed in the previous factors, severe weather events subject the Company to significant risks and more frequent severe weather events magnify those risks. Actions to address climate change, such as efforts to reduce reliance on fossil fuels and green energy initiatives, could have a significant impact on the Texas economy, in particular. While the Texas economy is more diversified than in the past and energy companies are working to adapt to climate change initiatives, the oil and gas industry has had, and continues to have, a significant impact on the overall Texas economy. Further, banking regulators are beginning to consider the risk presented by climate change on the financial system and may pass new regulations, such as climate related stress testing, to address this risk. The potential losses and costs associated with climate change related risks could have a material adverse effect upon the Company's business, financial condition and results of operation.

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

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

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

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

RISKS RELATED TO AN INVESTMENT IN THE COMPANY'S COMMON STOCK

The Company's stock price can be volatile.

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

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

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

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

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

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

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

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

The Company's largest shareholder and board of directors have historically, and currently, exert a controlling influence on the Company.

Collectively, as of February 25, 2021, Messrs. Vincent Viola and David Brooks owned 11.9% of the Company's outstanding common stock on a fully diluted basis. Vincent Viola, the largest shareholder of the Company, currently owns 10.3% of the Company's outstanding common stock, and David Brooks, the Company's Chairman of the Board and Chief Executive Officer, currently owns 1.6% of the Company's common stock, each calculated on a fully diluted basis. Further, as of the date hereof, the Company's other directors and executive officers currently own collectively approximately 1.9% of the Company's outstanding common stock. These individuals have historically, and currently, exert controlling influence in the Company's management and policies.

In addition, Michael Viola, a director of the Company, is the son of Vincent Viola. Further, David Brooks, the Company's Chairman and Chief Executive Officer, has a 33 year history of ownership and operation of the Bank with Vincent Viola; and he has a joint investment with Mr. Viola outside of the Company. Given these close relationships, even though he does not serve on the Company's board, Mr. Viola has and will continue to have an influence over the direction and operation of the Company.

The Company's corporate organizational documents and the provisions of Texas law make more difficult or prevent an attempted acquisition of the Company that you may favor.

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

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

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

Other debt and equity instruments have priority over the Company's common stock.

In the event of any winding up and termination of the Company, the Company common stock would rank below all claims of the holders of the Company's debt and any preferred stock then outstanding. The Company has a senior, revolving credit facility under which the Company may borrow up to \$100 million. As of December 31, 2020, the Company had \$6.5 million drawn upon this credit facility, which was subsequently paid down and has no borrowings as of March 1, 2021. Further, as of December 31, 2020, the Company had outstanding

- \$310 million of aggregate principal amount of subordinated indebtedness; and
- \$57.3 million of subordinated debentures issued in connection with trust preferred securities

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

An investment in the Company's common stock is not an insured deposit.

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

RISKS RELATED TO THE COVID-19 PANDEMIC

The pandemic has heightened credit risk.

The pandemic has heightened the credit risks described above, particularly with respect to loans made to businesses in the hospitality and retail sectors, which have been hardest hit by the economic dislocation caused by the COVID-19 pandemic. As of December 31, 2020, 3.8% and 15.4% of the Company's total loans held for investment (excluding mortgage warehouse purchase loans) were loans made to companies engaged in the hospitality business and companies that own and operate retail real estate, respectively. The financial performance of the Company is dependent upon the ability of borrowers to repay their loans and the value of the collateral supporting loans. The pandemic has caused and is likely to cause significant disruption in the business of our customers. Continued unfavorable market conditions and uncertainty due to the COVID-19 pandemic has caused and is likely to continue to cause a deterioration in the credit quality of borrowers, an increase in the number of loan delinquencies, defaults and charge-offs, additional provisions for loan losses, adverse asset values of the collateral securing loans and an overall material adverse effect on the quality of the loan portfolio of the Company. Various state governments and federal agencies are requiring lenders to provide forbearance and other relief to borrowers. Regulatory programs and governmental policies, including the PPP loan program as discussed under Item 1, Business - COVID-19 Impact and Response, may impact the Company's ability to resolve credit delinquencies and risk of holding unforgiven PPP loans at unfavorable interest rates.

The pandemic has increased interest rate risk.

Following the outbreak of the pandemic, market interest rates declined significantly to historic lows. The reductions in interest rates, and continued fluctuations in the interest rate environment as a result of changes in monetary policies of the Federal Reserve Board, including in connection with efforts to address the economic fallout from the COVID-19 pandemic, could have significant adverse effects on the yields received by the Company on its earning assets and otherwise compress the Company's net interest margin which is an important component of the Company's earnings. Continued volatility in interest rates could have a significant adverse effect on the Company's earnings, financial condition and results of operations.

The pandemic has heightened operational risk, particularly with respect to cybersecurity.

The pandemic has also heightened the operational risks described above. As discussed under Item 1, Business - COVID-19 Impact and Response, COVID-19 has caused the Company to change its business operations in a number of ways to protect the health and safety of its customers and employees, and to comply with governmental directives. These changes may have detrimental impacts on the Company's business due to reduced effectiveness of operations and unavailability of personnel. In addition, there is heightened sensitivity and exposure to cybersecurity risks resulting from the Company's increased use of and dependence on remote working technology. The Company may take further action that it determines is in the best interest of employees, customers and the communities the Company serves, or as may be required by government regulations and ordinances. To date, the measures taken by the Company have not materially impaired the Company's ability to support employees, conduct business and serve its customers, but there is no assurance that these measures will mitigate all risk associated with COVID-19, or that the Company's ability to operate will not be materially impacted in the future. Similarly, if any of the Company's vendors or business partners upon which it relies are unable to deliver their products and services as a result of limitations on operations imposed by COVID-19, the Company's ability to serve customers could be impaired.

The change in business operations and continued market uncertainty could also have a detrimental effect on the Company's relationship with its customers as well as reduce demand for loans and other products and services offered by the Company upon which it relies to drive growth.

The pandemic has increased legal and regulatory risk.

The PPP loan program, as discussed under Item 1 COVID-19 Impact and Response, including but not limited to PPP Round 2, was launched within a significantly compressed timeframe, with updates and guidance rapidly changing and emerging. In addition, the health and safety measures required by federal, state and local governments is unprecedented. Litigation related to banks' implementation of the PPP loan program, as well as companies health and safety practices instituted to address the pandemic has already begun to emerge. Litigation arising out of pandemic related issues could have a material adverse effect on the Company's business, financial condition and results of operations.

The full extent of impact from the pandemic is uncertain.

The full extent to which the pandemic impacts the Company's business will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the pandemic and the actions required to contain and treat it, including but not limited to the effectiveness and availability of vaccinations, reactions by companies, clients, investors, governmental entities and financial, commodities (including oil and gas) and other markets to such actions, and the effect of the pandemic on short- and long-term general economic conditions, among other factors. There can be no assurance that efforts by the Company to address the adverse impacts of COVID-19 will be effective. If the significant effects of the pandemic are prolonged and if the Company is unable to recover from this business disruption on a timely basis, the Company's business, financial condition and results of operations may be significantly adversely affected.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

On January 19, 2021, the Company announced that construction had begun on phase two of the corporate headquarters located on a 10.4 acre parcel of land at State Highway 121 and Grand Ranch Parkway at the entrance to the McKinney Corporate Center Craig Ranch in McKinney, Texas. The approximately 198,000 square-foot, six story facility will allow space for the Company's continued growth. The building is expected to be completed in 2022, although delays could occur.

As of December 31, 2020, the Company had 93 full-service branches. The Company believes that its facilities are in good condition and are adequate to meet the Company's operating needs for the foreseeable future. At December 31, 2020, the Company owns 72 of the branches, and leases the remaining facilities. Our branches are located in the Dallas/North Texas area, including McKinney, Dallas, Fort Worth, and Sherman/Denison, the Austin/Central Texas area, including Austin and Waco, the Houston Texas metropolitan area and along the Colorado Front Range area, including Denver, Colorado Springs and Fort Collins.

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

ITEM 3. LEGAL PROCEEDINGS

In the normal course of business, the Company and the Bank are named as defendants in various lawsuits. Management of the Company and the 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 the Bank. A legal proceeding that the Company believes could become material is described below.

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

On May 1, 2015, the plaintiffs filed a motion requesting permission to file a Second Amended Class Action Complaint in this case, which motion was subsequently granted. The Second Amended Class Action Complaint presents previously unasserted claims, including aiding and abetting or participation in a fraudulent scheme based upon the large amount of deposits that the Stanford Entities held at BOH and the alleged knowledge of certain BOH officers. The plaintiffs seek recovery from the Bank and other defendants for their losses. The case has been inactive due to a Court-ordered discovery stay issued March 2, 2015 pending the Court's ruling on plaintiff's motion for class certificate and designation of class representatives and counsel. On November 7, 2017, the Court issued an order denying the plaintiff's motion. In addition, the Court lifted the previously ordered discovery stay. On January 11, 2018, the Court entered a scheduling order providing that the case be ready for trial on January 27, 2020. Due to agreed upon extensions of discovery on July 25, 2019, the Court amended the scheduling order to provide that the case be ready for trial on January 11, 2021. In light of additional agreed upon extensions of discovery deadlines, the Court entered a new scheduling order on March 9, 2020, which provided that the case be ready for trial March 15, 2021. In light of delays in discovery associated with the COVID-19 pandemic, the parties agreed to amend the scheduling order with new ready for trial date of May 6, 2021. Defendants have filed a motion to remand the case to the Southern District of Texas and are awaiting a ruling. It is anticipated that the schedule will change upon remand. The Bank also filed its motion for summary judgment on February 12, 2021 individually, and joined in on an omnibus motion for summary judgment based on procedural issues common to all Defendants in this matter. The Company has experienced an increase in legal fees associated with the defense of this claim and anticipates further increases in legal fees as the case proceeds to trial.

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

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market for Common Stock

Since January 2, 2014, the Company's common stock has traded on the Nasdaq Global Select Market under the symbol "IBTX." Quotations of the sales volume and the closing sales prices of the common stock of the Company are listed daily in the Nasdaq Global Select Market's listings. As of February 25, 2021, there were 559 holders of record for the Company's common stock.

Recent Sales of Unregistered Securities

In 2020, the Company issued an aggregate of 363,814 shares of its common stock to certain employees under its 2013 Equity Incentive Plan and 401(k) Plan in reliance upon the private placement exemption in Section 4(a)(2) of the Securities Act, as transactions not involving a public offering. No consideration was received by the Company for the grants of 310,290 shares of common stock under the 2013 Equity Incentive Plan and \$2.0 million in consideration was paid by employee participants for 53,524 shares of common stock purchased under the 401k Plan. The recipients of shares in such transactions acquired the shares for investment purposes only and without a view to or for the sale in connection with any distribution thereof. All recipients had adequate access, through their relationship with the Company, to information regarding the Company.

The following table provides information as of December 31, 2020, regarding the Company's equity compensation plans under which the Company's equity securities are authorized for issuance:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	—	N/A	1,150,617 ⁽¹⁾
Equity compensation plans not approved by security holders	—	N/A	—

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

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Stock Repurchase Program: From time to time, the Company's board of directors has authorized stock repurchase programs which allow the Company to purchase its common stock generally over a one-year period at various prices in the open market or in privately negotiated transactions. On October 22, 2020, the Company's board of directors authorized a \$150.0 million stock repurchase program allowing the Company to purchase shares of its common stock through October 31, 2021. Under this program, the Company repurchased 109,548 shares at a total cost of \$5.7 million through December 31, 2020. Under prior stock repurchase programs, the Company repurchased 897,738 shares of Company stock at a total cost of \$49.0 million during 2019 and none during 2018.

The following table summarizes the Corporation's repurchase activity during the fourth quarter 2020.

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Repurchase Plan	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plan (thousands)
October 2020	36,000	\$ 50.51	36,000	\$ 148,182
November 2020	73,548	52.18	73,548	144,344
December 2020	—	—	—	144,344
Total fourth quarter 2020	<u>109,548</u>	<u>\$ 51.63</u>	<u>109,548</u>	<u>\$ 144,344</u>

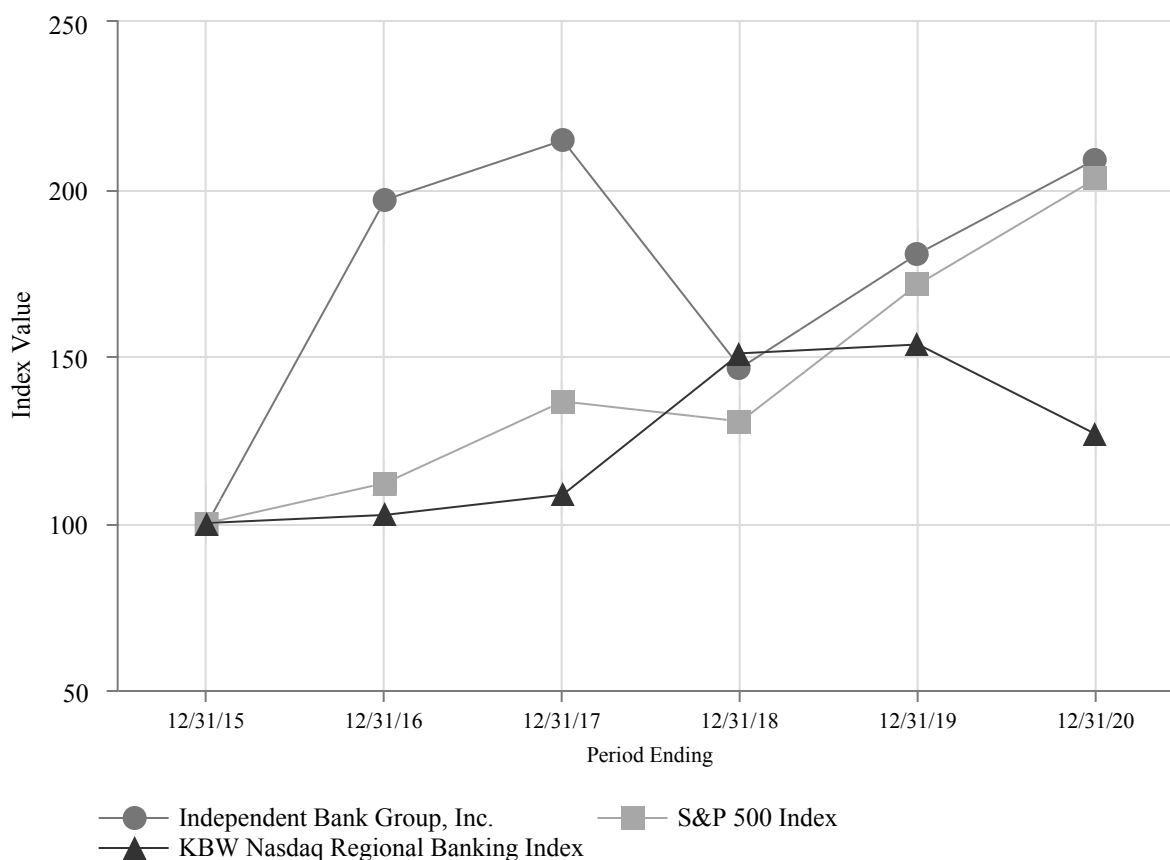
Performance Graph

The following Performance Graph compares the cumulative total shareholder return on the Company's common stock for the period December 31, 2015 through December 31, 2020, with the cumulative total return of the S&P 500 Total Return Index and the KBW Nasdaq Regional Banking Index for the same period. Dividend reinvestment has been assumed. The Performance Graph assumes \$100 invested on December 31, 2015, in the Company's common stock, the S&P 500 Total Return Index and KBW Nasdaq Regional Banking Index. The historical stock price performance for the Company's common stock shown on the graph below is not necessarily indicative of future stock performance.

Comparison of Cumulative Total Return

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

Comparison of Cumulative Total Return



	December 31, 2015	December 31, 2016	December 31, 2017	December 31, 2018	December 31, 2019	December 31, 2020
Independent Bank Group, Inc.	100.00	196.78	214.55	146.45	180.66	208.88
S&P 500 Index	100.00	111.96	136.40	130.42	171.49	203.04
KBW Nasdaq Regional Banking Index	100.00	102.42	108.48	150.80	153.45	126.59

(Source: S&P Global, Inc.)

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data of the Company for, and as of, the end of each of the years in the five-year period ended December 31, 2020, is derived from and should be read in conjunction with the Company's consolidated financial statements and the notes thereto appearing elsewhere in this Annual Report on Form 10-K.

You should read the following financial information relating to the Company in conjunction with other information contained in this Annual Report on Form 10-K, including the information set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" under Part II, Item 7, beginning on page 43 and the consolidated financial statements of the Company and related accompanying notes included elsewhere in this Annual Report on Form 10-K. The Company's historical results for any prior period are not necessarily indicative of results to be expected in any future period. As described elsewhere in this Annual Report on Form 10-K, the Company has consummated several acquisitions in recent fiscal periods. The results and other financial information of those acquired operations are not included in the information below for the periods prior to their respective acquisition dates and, therefore, the results for these prior periods are not comparable in all respects and may not be predictive of the Company's future results.

<i>(dollars in thousands except per share data)</i>	As of and for the Year Ended December 31,				
	2020	2019	2018	2017	2016
Selected Income Statement Data					
Interest income	\$ 611,506	\$ 652,932	\$ 407,290	\$ 307,914	\$ 210,049
Interest expense	95,060	148,175	81,038	42,436	26,243
Net interest income	516,446	504,757	326,252	265,478	183,806
Provision for loan losses	42,993	14,805	9,860	8,265	9,440
Net interest income after provision for loan losses	473,453	489,952	316,392	257,213	174,366
Noninterest income	85,063	78,176	42,224	41,287	19,555
Noninterest expense	306,134	321,864	198,619	176,813	113,790
Income tax expense	51,173	53,528	31,738	45,175	26,591
Net income	201,209	192,736	128,259	76,512	53,540
Preferred stock dividends	—	—	—	—	8
Net income available to common shareholders	201,209	192,736	128,259	76,512	53,532
Per Share Data (Common Stock)					
Earnings:					
Basic	\$ 4.67	\$ 4.46	\$ 4.33	\$ 2.98	\$ 2.89
Diluted ⁽¹⁾	4.67	4.46	4.33	2.97	2.88
Dividends	1.05	1.00	0.54	0.40	0.34
Book value ⁽²⁾	58.31	54.48	52.50	47.28	35.63
Selected Period End Balance Sheet Data					
Total assets	\$ 17,753,476	\$ 14,958,207	\$ 9,849,965	\$ 8,684,463	\$ 5,852,801
Cash and cash equivalents	1,813,987	565,170	130,779	431,102	505,027
Securities available for sale	1,153,693	1,085,936	685,350	763,002	316,435
Loans, held for sale	82,647	35,645	32,727	39,202	9,795
Loans, held for investment, excluding mortgage warehouse purchase ⁽³⁾	11,622,298	10,928,653	7,717,510	6,309,549	4,572,771
Mortgage warehouse purchase loans	1,453,797	687,317	170,290	164,694	—
Allowance for loan losses	87,820	51,461	44,802	39,402	31,591
Goodwill and other intangible assets	1,082,091	1,094,762	766,839	664,702	272,496
Other real estate owned	475	4,819	4,200	7,126	1,972
Noninterest-bearing deposits	4,164,800	3,240,185	2,145,930	1,907,770	1,117,927
Interest-bearing deposits	10,234,127	8,701,151	5,591,864	4,725,052	3,459,182
Borrowings (other than junior subordinated debentures)	687,175	527,251	427,316	667,578	568,045
Junior subordinated debentures ⁽⁴⁾	54,023	53,824	27,852	27,654	18,147
Total stockholders' equity	2,515,371	2,339,773	1,606,433	1,336,018	672,365
Selected Performance Metrics					
Return on average assets ⁽⁵⁾	1.23 %	1.32 %	1.35 %	0.96 %	0.98 %
Return on average equity ⁽⁵⁾	8.26	8.50	8.69	6.71	8.42
Return on average common equity ⁽⁵⁾	8.26	8.50	8.69	6.71	8.42
Net interest margin ⁽⁶⁾	3.55	3.95	3.97	3.84	3.81

	As of and for the Year Ended December 31,				
	2020	2019	2018	2017	2016
<i>(dollars in thousands except per share data)</i>					
Efficiency ratio ⁽⁶⁾	48.79	53.01	52.35	56.13	54.99
Dividend payout ratio ⁽⁸⁾	22.48	22.42	12.47	13.42	11.76
Credit Quality Ratios ⁽⁹⁾⁽¹⁰⁾⁽¹¹⁾					
Nonperforming assets to total assets	0.29 %	0.21 %	0.17 %	0.26 %	0.34 %
Nonperforming loans to total loans held for investment	0.44	0.24	0.16	0.24	0.39
Allowance for loan losses to nonperforming loans	170.80	193.35	354.73	255.62	177.06
Allowance for loan losses to total loans held for investment	0.76	0.47	0.58	0.62	0.69
Net charge-offs to average loans outstanding (unaudited)	0.05	0.07	0.06	0.01	0.12
Capital Ratios					
Common equity tier 1 capital to risk-weighted assets	10.33 %	9.76 %	10.05 %	9.61 %	8.20 %
Tier 1 capital to average assets	9.12	9.32	9.57	8.92	7.82
Tier 1 capital to risk-weighted assets	10.74	10.19	10.41	10.05	8.55
Total capital to risk-weighted assets	13.32	11.83	12.58	12.56	11.38
Total stockholders' equity to total assets	14.17	15.64	16.31	15.38	11.49
Total common equity to total assets ⁽¹²⁾	14.17	15.64	16.31	15.38	11.49

- (1) The Company calculates its diluted earnings per share for each period shown as its net income divided by the weighted-average number of its common shares outstanding during the relevant period adjusted for the dilutive effect of its outstanding warrants to purchase shares of common stock. The increase in 2016 relates to the weighted effect of the shares issued in November 2015 along with shares issued in a private offering during 2016, the increase in 2017 relates to shares issued in the acquisition completed in April 2017 along with shares issued in a public offering during 2017, the increase in 2018 relates to the shares issued in the acquisition completed June 1, 2018 and the increase in 2019 relates to the shares issued in the acquisition completed January 1, 2019. See Note 1, Summary of Significant Accounting Policies, to the Company's consolidated financial statements appearing elsewhere in this Annual Report on Form 10 K for more information regarding the dilutive effect of its outstanding warrants and regarding certain nonvested shares of common stock, the effect of which is anti-dilutive. The Company's outstanding warrants were all exercised prior to December 31, 2018. Earnings per share on a basic and diluted basis were calculated using the following outstanding share amounts, which includes participating shares (those shares with dividend rights):

	For the Year Ended December 31,				
	2020	2019	2018	2017	2016
Weighted average shares outstanding-basic	43,116,965	43,245,418	29,599,119	25,636,292	18,501,663
Weighted average shares outstanding-diluted	43,116,965	43,245,418	29,599,119	25,742,362	18,588,309

- (2) Book value per share equals the Company's total common stockholders' equity (excludes preferred stock) as of the date presented divided by the number of shares of its common stock outstanding as of the date presented. The number of shares of its common stock outstanding as of December 31, 2020, 2019, 2018, 2017 and 2016 was 43,137,104 shares, 42,950,228 shares, 30,600,582 shares, 28,254,893 shares and 18,870,312 shares, respectively.
- (3) Loans held for investment includes SBA PPP loans of \$804,397 at December 31, 2020
- (4) Each of nine wholly owned, but nonconsolidated, subsidiaries of the Company holds a series of the Company's junior subordinated debentures purchased by the subsidiary in connection with, and paid for with the proceeds of, the issuance of trust issued preferred securities by that subsidiary. The Company has guaranteed the payment of the amounts payable under each of those issues of trust preferred securities. During 2019 the Company assumed two trusts with the acquisition of Guaranty and during 2017 the Company assumed two trusts with the Carlile acquisition.
- (5) The Company has calculated its return on average assets and return on average equity for a period by dividing net income for that period by its average assets and average equity, as the case may be, for that period. The Company calculates its average assets and average equity for a period by dividing the sum of its total asset balance or total stockholder's equity balance, as the case may be, as of the close of business on each day in the relevant period and dividing by the number of days in the period. The Company calculates its return on average common equity by excluding the preferred stock dividends to derive at net income available to common shareholders and excluding the average balance of its Series A preferred stock from the total average equity to derive at common average equity.
- (6) Net interest margin for a period represents net interest income for that period divided by average interest-earning assets for that period.
- (7) Efficiency ratio for a period represents noninterest expenses, excluding the amortization of other intangible assets, for that period divided by the sum of net interest income and noninterest income for that period.
- (8) The Company calculates its dividend payout ratio for each period presented as the dividends paid per share for such period divided by its basic earnings per share for such period.
- (9) Nonperforming loans include nonaccrual loans, loans past due 90 days or more and still accruing interest, and accruing loans modified under troubled debt restructurings, excludes loans acquired with deteriorated credit quality.
- (10) Loans held for investment excludes mortgage warehouse purchase loans.
- (11) Nonperforming loans and assets excludes loans acquired with deteriorated credit quality.
- (12) The Company calculates common equity as of the end of the period as total stockholders' equity less the preferred stock at period end.

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

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

Cautionary Note Regarding Forward Looking Statements

This Annual Report on Form 10-K, our other filings with the SEC, and other press releases, documents, reports and announcements that we make, issue or publish may contain statements that we believe are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 that are subject to risks and uncertainties and are made pursuant to the safe harbor provisions of Section 27A of the Securities Act, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and other related federal security laws. These forward-looking statements include information about our possible or assumed 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, but not exclusively, identified by the use in the statements of words or phrases such as "aim," "anticipate," "estimate," "expect," "goal," "guidance," "intend," "is anticipated," "is estimated," "is expected," "is intended," "objective," "plan," "projected," "projection," "will affect," "will be," "will continue," "will decrease," "will grow," "will impact," "will increase," "will incur," "will reduce," "will remain," "will result," "would be," variations of such words or phrases (including where the word "could," "may" or "would" is used rather than the word "will" in a phrase) and similar words and phrases indicating that the statement addresses some future result, occurrence, plan or objective. The forward-looking statements that we make are based on the Company's current expectations and assumptions regarding its business, the economy, and other future conditions. Because forward-looking statements relate to future results and occurrences, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. The Company's actual results may differ materially from those contemplated by the forward-looking statements, which are neither statements of historical fact nor guarantees or assurances of future performance. Many possible events or factors could affect our future financial results and performance and could cause those results or performance to differ materially from those expressed in the forward-looking statements. These possible events or factors include, but are not limited to:

- the disruption to local, regional, national and global economic activity caused by infectious disease outbreaks, including the recent outbreak of coronavirus, or COVID-19 and the significant impact that such outbreak has had and may have on our growth, operations, earnings and asset quality;
- our ability to sustain our current internal growth rate and total growth rate;
- changes in geopolitical, business and economic events, occurrences and conditions, including changes in rates of inflation or deflation, nationally, regionally and in our target markets, particularly in Texas and Colorado;
- worsening business and economic conditions nationally, regionally and in our target markets, particularly in Texas and Colorado, and the geographic areas in those states in which we operate;
- our dependence on our management team and our ability to attract, motivate and retain qualified personnel;
- the concentration of our business within our geographic areas of operation in Texas and Colorado;
- changes in asset quality, including increases in default rates on loans and higher levels of nonperforming loans and loan charge-offs, generally, and specifically resulting from the economic dislocation caused by the COVID-19 pandemic;
- concentration of the loan portfolio of the Bank, before and after the completion of acquisitions of financial institutions, in commercial and residential real estate loans and changes in the prices, values and sales volumes of commercial and residential real estate;
- the ability of the Bank to make loans with acceptable net interest margins and levels of risk of repayment and to otherwise invest in assets at acceptable yields and presenting acceptable investment risks;
- inaccuracy of the assumptions and estimates that the managements of our Company and the financial institutions that we acquire make in establishing reserves for probable loan losses and other estimates, generally, and specifically as a result of the effect of the COVID-19 pandemic;
- lack of liquidity, including as a result of a reduction in the amount of sources of liquidity we currently have;

- material increases or decreases in the amount of deposits held by the Bank or other financial institutions that we acquire and the cost of those deposits;
- our access to the debt and equity markets and the overall cost of funding our operations;
- regulatory requirements to maintain minimum capital levels or maintenance of capital at levels sufficient to support our anticipated growth;
- changes in market interest rates that affect the pricing of the loans and deposits of each of the Bank and the financial institutions that we acquire and that affect the net interest income, other future cash flows, or the market value of the assets of each of the Bank and the financial institutions that we acquire, including investment securities;
- fluctuations in the market value and liquidity of the securities we hold for sale, including as a result of changes in market interest rates;
- effects of competition from a wide variety of local, regional, national and other providers of financial, investment and insurance services;
- changes in economic and market conditions, including the economic dislocation resulting from the COVID-19 pandemic, that affect the amount and value of the assets of the Bank and of financial institutions that we acquire;
- the institution and outcome of, and costs associated with, litigation and other legal proceedings against one of more of the Company, the Bank and financial institutions that we acquire or to which any of such entities is subject;
- the occurrence of market conditions adversely affecting the financial industry generally, including the economic dislocation resulting from the COVID-19 pandemic;
- the impact of recent and future legislative regulatory changes, including changes in banking, securities, and tax laws and regulations and their application by the Company's regulators, and changes in federal government policies, as well as regulatory requirements applicable to, and resulting from regulatory supervision of, the Company and the Bank as a financial institution with total assets greater than \$10 billion;
- changes in accounting policies, practices, principles and guidelines, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the SEC and the Public Company Accounting Oversight Board, as the case may be;
- governmental monetary and fiscal policies, including changes resulting from the implementation of the new Current Expected Credit Loss accounting standard;
- changes in the scope and cost of FDIC insurance and other coverage;
- the effects of war or other conflicts, acts of terrorism (including cyber attacks) or other catastrophic events, including natural disasters such as storms, droughts, tornadoes, hurricanes and flooding, that may affect general economic conditions;
- our actual cost savings resulting from previous or future acquisitions are less than expected, we are unable to realize those cost savings as soon as expected, or we incur additional or unexpected costs;
- our revenues after previous or future acquisitions are less than expected;
- the liquidity of, and changes in the amounts and sources of liquidity available to, us, before and after the acquisition of any financial institutions that we acquire;
- deposit attrition, operating costs, customer loss and business disruption before and after our completed acquisitions, including, without limitation, difficulties in maintaining relationships with employees, may be greater than we expected;
- the effects of the combination of the operations of financial institutions that we have acquired in the recent past or may acquire in the future with our operations and the operations of the Bank, the effects of the integration of such operations being unsuccessful, and the effects of such integration being more difficult, time consuming, or costly than expected or not yielding the cost savings we expect;
- the impact of investments that the Company or the Bank may have made or may make and the changes in the value of those investments;
- the quality of the assets of financial institutions and companies that we have acquired in the recent past or may acquire in the future being different than we determined or determine in our due diligence investigation in connection with the acquisition of such financial institutions and any inadequacy of loan loss reserves relating to, and exposure to unrecoverable losses on, loans acquired;
- our ability to continue to identify acquisition targets and successfully acquire desirable financial institutions to sustain our growth, to expand our presence in our markets and to enter new markets;
- general business and economic conditions in our markets change or are less favorable than expected, generally, and specifically as a result of the COVID-19 pandemic;
- changes occur in business conditions and inflation, generally, and specifically as a result of the COVID-19 pandemic;
- an increase in the rate of personal or commercial customers' bankruptcies, generally, and specifically as a result of the COVID-19 pandemic;
- technology-related changes are harder to make or are more expensive than expected;

- attacks on the security of, and breaches of, the Company's and the Bank's digital information systems, the costs we or the Bank incur to provide security against such attacks and any costs and liability the Company or the Bank incurs in connection with any breach of those systems;
- the potential impact of technology and “FinTech” entities on the banking industry generally;
- the other factors that are described or referenced in Part I, Item 1A. of this Annual Report on Form 10-K under the caption “Risk Factors”; and
- other economic, competitive, governmental, regulatory, technological and geopolitical factors affecting the Company’s operations, pricing and services.

We urge you to consider all of these risks, uncertainties and other factors carefully in evaluating all such forward-looking statements made by us. As a result of these and other matters, including changes in facts and 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 in this 10-K or made by us in any report, filing, document, or information incorporated by reference in this 10-K speaks only as of the date on which it is made. The Company undertakes no obligation to update any such 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 that these assumptions or bases have been chosen in good faith and that they are reasonable. However, the Company cautions you that assumptions as to future occurrences or results almost always vary from actual future occurrences or results, and the differences between assumptions and actual occurrences and results can be material. Therefore, the Company cautions you not to place undue reliance on the forward-looking statements contained in this 10-K or incorporated by reference herein.

Overview

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

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

The Company intends for this discussion and analysis to provide the reader with information that will assist in understanding the Company’s financial statements, the changes in certain key items in those financial statements from period to period and the primary factors that accounted for those changes. This discussion relates to the Company and its consolidated subsidiaries and should be read in conjunction with the Company’s consolidated financial statements as of December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018, and the accompanying notes, appearing elsewhere in this Annual Report on Form 10-K. The Company’s year ends on December 31. The following discussion and analysis presents the more significant factors that affected our financial condition as of December 31, 2020 and 2019 and results of operations for each of the years then ended. Refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2019 and 2018 Annual Reports on Form 10-K, as amended, filed with the SEC on March 6, 2020 and February 28, 2019, respectively, for discussion of our results of operations for the years ended December 31, 2019 and 2018.

Recent Developments: COVID-19

In March 2020, the outbreak of the Coronavirus Disease 2019 (COVID-19) was recognized as a pandemic by the World Health Organization and almost all public commerce and related business activities have been curtailed, to varying degrees. As a result of the shelter-at-home mandate that was in force early in the second quarter of 2020, commercial activity throughout the state of Texas and Colorado, as well as nationally, decreased significantly. As of December 31, 2020, many of the more restrictive government orders eased on a national level and more specifically in the Company's markets of Texas and Colorado, allowing businesses to reopen at varying capacity levels, which has improved commercial and consumer activity but has not returned to pre-pandemic levels. In addition, the risk of a resurgence in infections and possible reimplementations of restrictions remains significant.

In response to the COVID-19 pandemic, the Company has taken several actions to offer various forms of support to our employees, customers, and communities that have experienced impacts during this unprecedented time. For discussion related to the impact of COVID-19 on the Company's business operations, legislative measures and the Company's response, refer to Item 1, Business - "COVID-19 Impact and Response".

In addition, the Company continues to take deliberate actions to ensure the continued health and strength of its balance sheet in order to serve its clients and communities, including increases in liquidity and managing our assets and liabilities in order to maintain a strong capital position.

Impact on our Financial Condition and Results of Operations

The Company's business has been, and continues to be, impacted by the recent and ongoing outbreak of COVID-19. The Company continues to monitor developments related to the pandemic and its impact on the Company's business, customers, employees, counterparties, vendors, and service providers. Refer to Item 1A, Risk Factors - "RISKS RELATED TO THE COVID-19 PANDEMIC" for additional discussion.

During the twelve months ended December 31, 2020, the most notable financial impact to the Company's results of operations include a higher provision for loan losses primarily as a result of deterioration in macroeconomic variables, as well as lower service charge income and deposit and loan related expenses, as more fully discussed throughout the various sections of this discussion and analysis.

Lending Operations and Accommodations to Borrowers

The Company has participated in the CARES Act PPP as discussed in Item 1, Business - "COVID-19 Impact and Response". As of December 31, 2020, the Company has outstanding balances of \$804.4 million to 5,003 customers. Management believes that the majority of these loans will ultimately be forgiven by the SBA in accordance with the terms of the program.

The Company continues to actively work with its borrowers on an individual, one-on-one basis to assess and understand the impact of pandemic-related economic hardships and provide prudent modifications allowing for payment deferrals or payment relief where appropriate. Through December 31, 2020, the Company has granted temporary COVID-19 modifications on over 2,100 loans totaling approximately \$2.6 billion. The number of loans on active payment deferral has significantly declined since the beginning of the pandemic, and the vast majority of borrowers who were provided temporary payment relief have returned to paying as originally agreed. As of December 31, 2020, 79 loans with a total outstanding balance of \$223.4 million remain in deferral status, of which \$159.3 million are on second deferrals and \$54.0 million are on third deferrals. Under current guidance, such modifications are currently exempt from the accounting guidance for TDRs (Refer to Note 6, Loans, Net and Allowance for Loan Losses, to the Company's consolidated financial statements included elsewhere in this report). As of January 15, 2021, the amount of loans with active deferrals declined to \$205.7 million across 74 accounts, which represents 1.7% of the Company's outstanding total loans held for investment balances, excluding PPP loans, as of fourth quarter end and 0.37% of the Company's outstanding total loan accounts at fourth quarter end. The \$205.7 million in active deferrals, of which \$126.1 million are second deferrals and \$68.0 million are third deferrals, include \$127.3 million, or 61.9%, in hotel and motel; \$5.0 million, or 2.4%, in retail; \$763 thousand, or 0.4%, in office; \$22.8 million, or 11.1%, in other commercial real estate (CRE) and construction and development (C&D); and \$45.2 million, or 22.0% in general C&I, with the remainder spread throughout other portfolios.

Capital and Liquidity

The Company's capital remains strong, with ratios of the Company, and its subsidiary bank, well above the standards to be considered well-capitalized under regulatory requirements. Refer to the section captioned "Regulatory Capital Requirements" elsewhere in this discussion for additional information related to the Company's regulatory capital.

The Company's liquidity remains strong and continues to reflect excess balances, with cash and securities representing approximately 16.7% of total assets as of December 31, 2020. The Company maintains the ability to access considerable sources of contingent liquidity at the Federal Home Loan Bank and the Federal Reserve. Management considers the Company's current liquidity position to be adequate to meet short-term and long-term liquidity needs. Refer to the section captioned "Liquidity Management" elsewhere in this discussion for additional information regarding the Company's liquidity position.

Credit and Asset Quality

Under the CARES Act, the Company elected to defer the adoption of the CECL accounting standard and has continued its consistent application of the incurred loss method for estimating the allowance for loan losses and applicable provision for 2020. Refer to Note 1, Summary of Significant Accounting Policies, to the Company's consolidated financial statements included elsewhere in this report for additional discussion of the impact resulting from this discussion. Due to the macroeconomic environment brought on by the pandemic and energy price volatility, the Company recorded a provision of \$43.0 million during 2020, increasing the allowance for loan losses to \$87.8 million as of December 31, 2020. Management believes that the allowance adequately supports inherent credit losses within the loan portfolio. Refer to Note 6, Loans, Net and Allowance for Loan Losses as well as, the sections captioned "Provision for Loan Losses" and "Asset Quality" elsewhere in this discussion for additional information related to the factors considered by management in estimating the necessary level of allowance for loan losses.

During third and fourth quarter 2020, the Company adjusted the risk grades of several of its loans as the pandemic's impacts on borrowers became clearer. Classified loans have increased year to date by \$115.2 million to \$229.5 million, or 2.0% of loans held for investment, net of mortgage warehouse purchase loans, as of December 31, 2020. Loans on special mention also increased by \$318.6 million during the year. These increases are mainly due to the migration of several hotel loans as well as a few loans in the office and senior living portfolios. This prudent adjustment of risk grades is reflective of the Company's longstanding credit culture with a lender focus to continue to facilitate constructive engagement with borrowers through these challenging times. Overall, asset quality remains solid, reflecting the Company's disciplined underwriting and conservative lending philosophy which has supported strong credit performance during prior financial crises. Refer to Note 6, Loans, Net and Allowance for Loan Losses, to the Company's consolidated financial statements included elsewhere in this report and to the section captioned "Asset Quality" elsewhere in this discussion for additional disclosures related to asset quality of the Company's loan portfolio.

While all industries could experience adverse impacts as a result of the COVID-19 pandemic, the Company has an increased level of COVID-19 industry exposure risk in the following loan categories as of December 31, 2020:

- Commercial real estate (CRE) loans were \$6.1 billion with an average loan size in the CRE portfolio is \$1.2 million.
- Construction and Development (C&D) loans were \$1.6 billion. The average loan size in the C&D portfolio was \$639.2 thousand and the average loan-to-value was 58.6%. Construction activity continues across Texas and Colorado, and 98.4% of the Company's C&D loans are located within these states. Of the Company's C&D loans, 39.4% are for owner-occupied properties.
- The Company's Retail CRE loans were approximately \$1.8 billion, with the average loan size of \$1.8 million. The mix of the portfolio consists of loans secured by 73.5% in strip centers properties, 13.9% in free standing/single tenant properties, 10.6% in mixed use properties, and 2.0% in big box properties.
- The Company has approximately \$438.3 million of loans secured by hotel and motel properties, with the average loan size of \$5.7 million and the average loan-to-value of 53.1%. The mix of the portfolio consists of 62.1% of loans secured by limited service properties, 15.8% secured by full-service properties, 13.8% secured by extended stay properties, and 8.3% secured by boutique/independent properties.
- Energy loans were \$205.5 million, or 1.8% of total loans held for investment, excluding mortgage warehouse purchase loans. Energy loans are secured 92.6% by exploration and production of oil and gas, and 7.4% by energy services companies. Energy allowance for loan losses represents 5.8% of the total energy loan portfolio.

This pandemic crisis has been impactful and the timing and magnitude of recovery cannot be predicted. The Company continues to closely monitor the impact of COVID-19 on its customers, the communities it serves and the economy as a whole; however, the extent to which the pandemic will continue to impact operations and financial results in 2021 is uncertain.

Certain Events Affect Year-over-Year Comparability

Acquisitions

There were no acquisitions completed in 2020. The Company completed an acquisition in 2019 and 2018. These acquisitions increased total assets, gross loans and deposits on their respective acquisition date as detailed below.

<i>(dollars in millions)</i>	Acquisition Date	Total Assets	Gross Loans	Deposits
Integrity Bancshares, Inc.	June 1, 2018	\$852	\$652	\$593
Guaranty Bancorp	January 1, 2019	3,943	2,790	3,109

The Company issued an aggregate 15,251,729 shares of common stock in connection with these acquisitions. The comparability of the Company's consolidated results of operations for the years ended December 31, 2020, 2019 and 2018 are affected by these acquisitions.

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

Termination of proposed merger with Texas Capital Bancshares, Inc.: On December 9, 2019, the Company and Texas Capital Bancshares, Inc. (TCBI) and its subsidiary, Texas Capital Bank, had entered into an Agreement and Plan of Merger (Merger Agreement) providing for the merger of TCBI with and into the Company. On May 22, 2020, the Company and TCBI entered into a mutual agreement to terminate the Merger Agreement. The termination was approved by each company's board of directors after careful consideration of the significant impact of the COVID-19 pandemic on global markets and on the companies' ability to fully realize the benefits expected to be achieved through the merger. Neither party paid a termination fee in connection with the termination of the Merger Agreement. Refer to Note 22, Business Combinations, to the Company's consolidated financial statements included elsewhere in this report for additional information on the termination.

Discussion and Analysis of Results of Operations

The following discussion and analysis of the Company's results of operations compares its results of operations for the years ended December 31, 2020 and 2019.

Results of Operations

The Company's net income available to common shareholders increased by \$8.5 million, or 4.4%, to \$201.2 million (\$4.67 per common share on a diluted basis) for the year ended December 31, 2020, from \$192.7 million (\$4.46 per common share on a diluted basis) for the year ended December 31, 2019. The increase in net income for 2020 over 2019 was primarily due to growth in net interest income and noninterest income as well as a reduction in acquisition related expenses. Net income in 2020 also included a provision for credit losses of \$43.0 million compared to \$14.8 million in 2019. The increased provision reflects the stress on the loan portfolio from the economic impact of the Covid 19 pandemic. The Company posted returns on average common equity of 8.26% and 8.50%, returns on average assets of 1.23% and 1.32%, and efficiency ratios of 48.79% and 53.01% for the years ended December 31, 2020 and 2019, respectively. The efficiency ratio is calculated by dividing total noninterest expense (which does not include the provision for loan losses and the amortization of core deposits intangibles) by net interest income plus noninterest income. The Company's dividend payout ratio was 22.48% and 22.42% and the equity to assets ratio was 14.17% and 15.64% for the years ended December 31, 2020 and 2019, respectively.

Net Interest Income

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

The Company earned net interest income of \$516.4 million for the year ended December 31, 2020, an increase of \$11.7 million, or 2.3%, from \$504.8 million for the year ended December 31, 2019. The increase in net interest income from the previous year was primarily due to decreased funding costs due to a declining rate environment which more than offset decreased purchase accounting accretion. The Company's net interest margin for 2020 decreased to 3.55% from 3.95% in 2019, and the Company's interest rate spread for 2020 decreased to 3.26% from the 3.47% interest rate spread for 2019. The average balance of interest-earning assets for 2020 increased by \$1.8 billion, or 13.9%, to \$14.6 billion from an average balance of \$12.8 billion for 2019. The increase from the prior year was primarily related to increased average loan balances including PPP loans and mortgage warehouse loans, as well as an increase in average interest-bearing deposits with correspondent banks due to significant deposit growth during 2020. The Company's net interest margin for the year ended December 31, 2020 was negatively impacted by a 91 basis point decrease in the weighted-average yield on interest-earning assets to 4.20% for the year ended December 31, 2020, from 5.11% for the year ended December 31, 2019. The decrease from the prior year is due primarily to an increase in average interest-bearing deposits, decreased loan accretion, and the addition of lower yielding PPP loans to the portfolio. The year ended December 31, 2020 includes \$30.4 of loan accretion compared to \$46.1 million for the year ended December 31, 2019. The cost of interest bearing liabilities, including borrowings, was 0.94% for the year ended December 31, 2020 compared to 1.64% for the year ended December 31, 2019. The decrease from the prior year is primarily due to lower rates offered on our deposit products, as well as rate decreases on short-term FHLB advances and other debt. In response to the unprecedented Fed Funds rate decrease to combat the effects of COVID-19 on the economy, during first quarter 2020, the Company strategically lowered rates on certain deposit products and purchased lower rate advances to compensate for higher priced advances rolling off early second quarter 2020.

Average Balance Sheet Amounts, Interest Earned and Yield Analysis. The following table presents average balance sheet information, interest income, interest expense and the corresponding average yields earned and rates paid for the years ended December 31, 2020, 2019 and 2018. The average balances are principally daily averages and, for loans, include both performing and nonperforming balances.

	For the Years Ended December 31,								
	2020			2019			2018		
	Average Outstanding Balance	Interest	Yield/Rate	Average Outstanding Balance	Interest	Yield/Rate	Average Outstanding Balance	Interest	Yield/Rate
<i>(dollars in thousands)</i>									
Interest-earning assets:									
Loans ⁽¹⁾	\$ 12,329,965	\$ 579,085	4.70 %	\$ 11,179,161	\$ 611,589	5.47 %	\$ 7,254,635	\$ 384,791	5.30 %
Taxable securities	749,273	19,150	2.56	770,927	21,324	2.77	603,474	14,007	2.32
Nontaxable securities	344,609	8,472	2.46	329,687	8,482	2.57	177,348	4,580	2.58
Interest bearing deposits and other	1,141,164	4,799	0.42	504,309	11,537	2.29	179,411	3,912	2.18
Total interest-earning assets	14,565,011	\$ 611,506	4.20	12,784,084	\$ 652,932	5.11	8,214,868	\$ 407,290	4.96
Noninterest-earning assets	1,792,725			1,771,231			1,264,066		
Total assets	<u>\$ 16,357,736</u>			<u>\$ 14,555,315</u>			<u>\$ 9,478,934</u>		
Interest-bearing liabilities:									
Checking accounts	\$ 4,577,137	\$ 28,244	0.62 %	\$ 3,953,986	\$ 44,171	1.12 %	\$ 2,943,519	\$ 26,593	0.90 %
Savings accounts	607,996	1,067	0.18	540,741	1,335	0.25	290,325	703	0.24
Money market accounts	2,368,980	21,089	0.89	2,047,554	40,837	1.99	998,916	19,043	1.91
Certificates of deposit	1,645,014	25,866	1.57	1,795,391	37,041	2.06	1,009,644	14,428	1.43
Total deposits	9,199,127	76,266	0.83	8,337,672	123,384	1.48	5,242,404	60,767	1.16
FHLB advances	613,251	4,170	0.68	464,404	10,173	2.19	515,479	10,264	1.99
Other borrowings and repurchase agreements	224,489	12,462	5.55	201,066	11,590	5.76	137,549	8,398	6.11
Junior subordinated debentures	53,931	2,162	4.01	53,733	3,028	5.64	27,761	1,609	5.80
Total interest-bearing liabilities	10,090,798	95,060	0.94	9,056,875	148,175	1.64	5,923,193	81,038	1.37
Noninterest-bearing checking accounts	3,736,230			3,139,805			2,052,675		
Noninterest-bearing liabilities	95,234			91,532			26,378		
Stockholders' equity	2,435,474			2,267,103			1,476,688		
Total liabilities and equity	<u>\$ 16,357,736</u>			<u>\$ 14,555,315</u>			<u>\$ 9,478,934</u>		
Net interest income		<u>\$ 516,446</u>			<u>\$ 504,757</u>			<u>\$ 326,252</u>	
Interest rate spread			3.26 %			3.47 %			3.59 %
Net interest margin ⁽²⁾			3.55			3.95			3.97
Net interest income and margin (tax equivalent basis) ⁽³⁾		<u>\$ 520,274</u>	3.57		<u>\$ 508,498</u>	3.98		<u>\$ 328,090</u>	3.99
Average interest earning assets to interest bearing liabilities			144.34			141.15			138.69

(1) Average loan balances include nonaccrual loans.

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

(3) A tax-equivalent adjustment has been computed using a federal income tax rate of 21%.

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

<i>(dollars in thousands)</i>	For the Year Ended December 31, 2020 v. 2019			For the Year Ended December 31, 2019 v. 2018		
	Increase (Decrease) Due to		Total Increase (Decrease)	Increase (Decrease) Due to		Total Increase (Decrease)
	Volume	Rate		Volume	Rate	
Interest-earning assets						
Loans	\$ 58,990	\$ (91,494)	\$ (32,504)	\$ 214,103	\$ 12,695	\$ 226,798
Taxable securities	(588)	(1,586)	(2,174)	4,306	3,011	7,317
Nontaxable securities	368	(378)	(10)	3,920	(18)	3,902
Interest bearing deposits and other	7,363	(14,101)	(6,738)	7,419	206	7,625
Total interest-earning assets	<u>\$ 66,133</u>	<u>\$ (107,559)</u>	<u>\$ (41,426)</u>	<u>\$ 229,748</u>	<u>\$ 15,894</u>	<u>\$ 245,642</u>
Interest-bearing liabilities						
Checking accounts	\$ 6,161	\$ (22,088)	\$ (15,927)	\$ 10,267	\$ 7,311	\$ 17,578
Savings accounts	150	(418)	(268)	603	29	632
Limited access money market accounts	5,595	(25,343)	(19,748)	20,958	836	21,794
Certificates of deposit	(2,910)	(8,265)	(11,175)	14,439	8,174	22,613
Total deposits	8,996	(56,114)	(47,118)	46,267	16,350	62,617
FHLB advances	2,546	(8,549)	(6,003)	(1,069)	978	(91)
Other borrowings and repurchase agreements	1,307	(435)	872	3,696	(504)	3,192
Junior subordinated debentures	11	(877)	(866)	1,464	(45)	1,419
Total interest-bearing liabilities	<u>12,860</u>	<u>(65,975)</u>	<u>(53,115)</u>	<u>50,358</u>	<u>16,779</u>	<u>67,137</u>
Net interest income	<u>\$ 53,273</u>	<u>\$ (41,584)</u>	<u>\$ 11,689</u>	<u>\$ 179,390</u>	<u>\$ (885)</u>	<u>\$ 178,505</u>

Interest Income. The Company's total interest income decreased \$41.4 million, or 6.3%, to \$611.5 million for the year ended December 31, 2020, from \$652.9 million for the year ended December 31, 2019. The following tables set forth the major components of the Company's interest income for the years ended December 31, 2020 and 2019 and the period-over-period variations in such categories of interest income:

<i>(dollars in thousands)</i>	For the Years Ended December 31,		Variance		For the Years Ended December 31,		Variance	
	2020	2019	2020 v. 2019		2019	2018	2019 v. 2018	
Interest income								
Interest and fees on loans	\$ 579,085	\$ 611,589	\$ (32,504)	(5.3)%	\$ 611,589	\$ 384,791	\$ 226,798	58.9 %
Interest on taxable securities	19,150	21,324	(2,174)	(10.2)	21,324	14,007	7,317	52.2
Interest on nontaxable securities	8,472	8,482	(10)	(0.1)	8,482	4,580	3,902	85.2
Interest on interest-bearing deposits and other	4,799	11,537	(6,738)	(58.4)	11,537	3,912	7,625	194.9
Total interest income	<u>\$ 611,506</u>	<u>\$ 652,932</u>	<u>\$ (41,426)</u>	<u>(6.3)%</u>	<u>\$ 652,932</u>	<u>\$ 407,290</u>	<u>\$ 245,642</u>	<u>60.3 %</u>

The Company's interest and fees on loans decreased 5.3% for the year ended December 31, 2020, compared to the year ended December 31, 2019, and was primarily attributable to \$15.7 million less purchase accounting loan accretion and reductions in loan rates as a result of decreases in the Fed Funds rate directly related to combating the pandemic during the first half of 2020. The average balance on loans increased \$1.2 billion to \$12.3 billion during the year ended 2020 as compared with the average balance of \$11.2 billion for the year ended 2019. The increase primarily resulted from the addition of PPP loans and increased volume of mortgage warehouse purchased loans.

The interest the Company earned on taxable securities, which consists primarily of government agencies, municipals and residential pass-through securities, decreased 10.2% for the year ended December 31, 2020 from the year ended December 31, 2019 as a result of a decrease in the average portfolio balance from \$770.9 million for the year ended December 31, 2019 to \$749.3 million for the year ended December 31, 2020. This decrease was primarily related to maturities during the year not being reinvested due to uncertainties within the market.

The interest the Company earned on nontaxable securities slightly decreased 0.1% for the year ended December 31, 2020 while there was a 4.5% increase in the average balance of nontaxable securities from \$329.7 million for the year ended December 31, 2019 to \$344.6 million for the year ended December 31, 2020.

The 58.4% decrease in the Company's interest on interest-bearing deposits and other for the year ended December 31, 2020, from the year ended December 31, 2019 was primarily attributable to lower rates being offered due to the decrease in the Fed Funds rate as a direct result of the pandemic. The average balance of interest-bearing deposits increased 126.3% from \$504.3 million for the year ended December 31, 2019 to \$1.1 billion for the year ended December 31, 2020. The higher average balance in 2020 primarily resulted from slower loan growth and substantial organic deposit growth after the pandemic started in March 2020.

Interest Expense. Total interest expense on the Company's interest-bearing liabilities decreased \$53.1 million, or 35.8%, to \$95.1 million for the year ended December 31, 2020, from \$148.2 million in the prior year. The following table sets forth the major components of the Company's interest expense for the years ended December 31, 2020 and 2019 and the period-over-period variations in such categories of interest expense:

<i>(dollars in thousands)</i>	For the Years Ended December 31,		Variance		For the Years Ended December 31,		Variance	
	2020	2019	2020 v. 2019		2019	2018	2019 v. 2018	
Interest Expense								
Interest on deposits	\$ 76,266	\$ 123,384	\$ (47,118)	(38.2)%	\$ 123,384	\$ 60,767	\$ 62,617	103.0 %
Interest of FHLB advances	4,170	10,173	(6,003)	(59.0)	10,173	10,264	(91)	(0.9)
Interest on other borrowings	12,462	11,590	872	7.5	11,590	8,398	3,192	38.0
Interest on junior subordinated debentures	2,162	3,028	(866)	(28.6)	3,028	1,609	1,419	88.2
Total interest expense	<u>\$ 95,060</u>	<u>\$ 148,175</u>	<u>\$ (53,115)</u>	<u>(35.8)%</u>	<u>\$ 148,175</u>	<u>\$ 81,038</u>	<u>\$ 67,137</u>	<u>82.8 %</u>

Interest expense on deposits decreased by \$47.1 million, or 38.2% for the year over year period, primarily due to the declining rate environment during 2020. Average interest-bearing deposit balances increased 10.3% year-over-year from \$8.3 billion in 2019 to \$9.2 billion in 2020 primarily due to robust organic growth of \$2.1 billion, or 17.3%, for the year over year period. The average rate on the Company's deposits decreased by 65 basis points to 0.83% for 2020 compared to 1.48% for 2019. This decrease in cost of funds primarily resulted from lower rates offered on promotional certificates of deposit and money market accounts during the majority of 2020 due to decreased interest rates on deposit products tied to Fed Funds rates.

Interest expense on FHLB advances for 2020 decreased by \$6.0 million, or 59.0%, due primarily to rate decreases on short-term FHLB advances. The increase in average balance of such advances over the period, from \$464.4 million in 2019 to \$613.3 million in 2020, is a result of management strategically purchasing lower rate advances during first quarter 2020 to compensate for higher priced advances rolling off in early second quarter 2020, as well as, borrowings during second quarter to provide additional liquidity in light of economic uncertainty and to facilitate funding for the PPP loan program.

Interest expense on other borrowings for 2020 increased by \$872 thousand, or 7.5% from 2019, primarily as a result of the interest expense recognized on a \$130.0 million of subordinated debentures issued in third quarter 2020, offset by a reduction of interest expense related to borrowings against the Company's unsecured revolving line of credit and Federal Reserve's PPP Liquidity Facility with a total average year to date outstanding balance of \$7.8 million for 2020 compared to a \$21.6 million average year to date outstanding line of credit balance for 2019.

Interest expense on junior subordinated debentures decreased \$866 thousand, or 28.6% from the prior year due to decreased interest rates from the year over year period.

Provision for Loan Losses

Under the CARES Act and as amended, the Company elected to defer the adoption of the CECL accounting standard and has continued its consistent application of the incurred loss method for estimating its allowance for loan losses and provision for 2020. The Company adopted the CECL accounting standard as of January 1, 2021.

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

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

The Company increased its allowance for loan losses to \$87.8 million at December 31, 2020, by making provisions for loan losses totaling \$43.0 million during the year ended December 31, 2020. This is an increase of \$28.2 million, or 190.4% in provision expense compared to total provision expense of \$14.8 million made by the Company in 2019. Provision expense is elevated primarily due to general provision expense for economic factors related to COVID-19 and energy price volatility as well as charge-offs and specific reserves taken during the year. The 2020 provision is also reflective of net charge-offs totaling \$6.6 million, which is 0.05% of the Company's average loans outstanding during the period. The 2020 charge-offs were primarily related to partial charge-offs of two energy credit relationships totaling \$4.1 million and a commercial credit relationship totaling \$1.1 million.

The balance of the provision for loan losses was made based on the Company's assessment of the credit quality of the Company's loan portfolio and in view of the amount of the Company's net charge-offs in that period. The Company did not make any material provision for loan losses with respect to the loans acquired in the Guaranty acquisition completed on January 1, 2019 because, in accordance with acquisition accounting standards, the Company recorded the loans acquired in the acquisition at fair value without a reserve and determined that the Company's fair value adjustments appropriately reflected the probability of losses on those loans as of the acquisition date. The Company does not believe there has been any material deterioration of credit of these acquired loans since the acquisition. As of December 31, 2020, the discount on acquired loans totaled \$59.3 million.

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

Noninterest Income

The following table sets forth the major components of noninterest income for the years ended December 31, 2020 and 2019 and the period-over-period variations in such categories of noninterest income:

<i>(dollars in thousands)</i>	For the Years Ended December 31,		Variance		For the Years Ended December 31,		Variance		
	2020	2019	2020 v. 2019		2019	2018	2019 v. 2018		
Noninterest income:									
Service charges on deposit accounts	\$ 9,303	\$ 12,145	\$ (2,842)	(23.4)%	\$ 12,145	\$ 7,039	\$ 5,106	72.5 %	
Investment management and trust	7,546	9,330	(1,784)	(19.1)	9,330	—	9,330	100.0	
Mortgage banking revenue	36,491	15,461	21,030	136.0	15,461	15,512	(51)	(0.3)	
Gain on sale of loans	356	6,779	(6,423)	N/M	6,779	—	6,779	N/M	
Gain on sale of branches	—	1,549	(1,549)	N/M	1,549	—	1,549	N/M	
Gain on sale of trust business	—	1,319	(1,319)	N/M	1,319	—	1,319	N/M	
(Loss) gain on sale of other real estate	(36)	875	(911)	N/M	875	269	606	N/M	
Gain (loss) on sale of securities available for sale	382	275	107	N/M	275	(581)	856	N/M	
Gain (loss) on sale and disposal of premises and equipment	370	(585)	955	N/M	(585)	123	(708)	N/M	
Increase in cash surrender value of BOLI	5,347	5,525	(178)	(3.2)	5,525	3,170	2,355	74.3	
Other	25,304	25,503	(199)	(0.8)	25,503	16,692	8,811	52.8	
Total noninterest income	<u>\$ 85,063</u>	<u>\$ 78,176</u>	<u>\$ 6,887</u>	<u>8.8 %</u>	<u>\$ 78,176</u>	<u>\$ 42,224</u>	<u>\$ 35,952</u>	<u>85.1 %</u>	

N/M - Not meaningful

Noninterest income increased \$6.9 million, or 8.8%, to \$85.1 million for the year ended 2020 from \$78.2 million for the year ended 2019. Significant changes in the components of noninterest income are discussed below.

Service charges on deposit accounts. Service charges on deposit accounts decreased \$2.8 million, or 23.4%, for the year ended December 31, 2020, as compared to the same period in 2019. The decrease in service charges on deposit accounts reflects decreased income related to transaction volumes such as non-sufficient funds and service charge fees that have been adversely impacted by the pandemic during 2020.

Investment management and trust. Investment management and trust decreased \$1.8 million, or 19.1%, for the year ended December 31, 2020, as compared to the same period in 2019. The decrease was primarily a result of the sale of the trust business in October 2019 coupled with a decline in assets under management, resulting from the market decline during 2020.

Mortgage banking revenue. Mortgage banking revenue increased \$21.0 million, or 136.0% for the year ended December 31, 2020, as compared to the same period in 2019. The increase was reflective of increased mortgage origination and refinance activity resulting from the low interest rate environment during 2020.

Noninterest Expense

Noninterest expense decreased \$15.7 million, or 4.9%, to \$306.1 million for the year ended 2020 from \$321.9 million for the year ended 2019. Significant changes in the components of noninterest expense are discussed below.

The following table sets forth the major components of the Company's noninterest expense for the years ended December 31, 2020 and 2019 and the period-over-period variations in such categories of noninterest expense:

	For the Years Ended December 31,		Variance		For the Years Ended December 31,		Variance	
	2020	2019	2020 v. 2019		2019	2018	2019 v. 2018	
<i>(dollars in thousands)</i>								
Noninterest expense:								
Salaries and employee benefits	\$ 157,540	\$ 162,683	\$ (5,143)	(3.2)%	\$ 162,683	\$ 111,697	\$ 50,986	45.6 %
Occupancy	39,210	37,654	1,556	4.1	37,654	24,786	12,868	51.9
Communications and technology	23,113	22,248	865	3.9	22,248	14,107	8,141	57.7
FDIC assessment	6,912	1,065	5,847	N/M	1,065	3,306	(2,241)	(67.8)
Advertising and public relations	2,416	2,527	(111)	(4.4)	2,527	1,907	620	32.5
Other real estate owned expenses, net	487	418	69	16.5	418	318	100	31.4
Impairment of other real estate	784	1,801	(1,017)	(56.5)	1,801	85	1,716	N/M
Amortization of other intangible assets	12,671	12,880	(209)	(1.6)	12,880	5,739	7,141	124.4
Professional fees	12,630	7,936	4,694	59.1	7,936	4,556	3,380	74.2
Acquisition expense, including legal	16,225	33,445	(17,220)	(51.5)	33,445	6,157	27,288	443.2
Other	34,146	39,207	(5,061)	(12.9)	39,207	25,961	13,246	51.0
Total noninterest expense	<u>\$ 306,134</u>	<u>\$ 321,864</u>	<u>\$ (15,730)</u>	<u>(4.9)%</u>	<u>\$ 321,864</u>	<u>\$ 198,619</u>	<u>\$ 123,245</u>	<u>62.1 %</u>

N/M - not meaningful

Salaries and employee benefits. Salaries and employee benefits expense, which historically has been the largest component of the Company's noninterest expense, decreased \$5.1 million, or 3.2%, for the year ended December 31, 2020, compared to the year ended December 31, 2019. The change is primarily due to increased salary cost deferrals of \$9.8 million primarily related to the origination of the PPP loans and other COVID-related loan modifications/deferrals during second quarter 2020. Severance and retention expense of \$5.7 million was recognized in 2019 primarily due to payments made to employees not retained from the Guaranty acquisition as well as the 2019 branch restructuring and also a \$3.0 million separation agreement with a former executive officer in 2019. Offsetting these decreases were increases of \$2.4 million in overall salaries expense due to increased headcount, \$5.3 million in commission and mortgage incentive expense due to higher mortgage and refinance activity and \$1.9 million in contract labor costs due to various infrastructure projects and PPP resources, as well \$2.8 million in severance and accelerated stock grant amortization related to departmental and business line restructurings in 2020, \$1.4 million in bonus and overtime costs related to the Company's participation in the PPP, \$996 thousand in COVID-related hazard pay and \$550 thousand in employee paid time off.

FDIC assessment. FDIC assessment expense increased \$5.8 million for the year ended December 31, 2020, compared to the same period in 2019. The Company recorded a \$3.2 million Small Bank Assessment Credit in third quarter 2019. In addition, the FDIC assessment was impacted by the Company becoming a large institution under regulatory guidelines, effective January 1, 2020, which resulted in higher assessment costs for the year over year period.

Professional fees. Professional fees increased \$4.7 million, or 59.1%, for the year ended December 31, 2020 compared to the same period in 2019. The increase is primarily due to higher legal expenses related to ongoing acquired litigation and increased consulting expenses related to a compliance project and new system implementations.

Acquisition expense. Acquisition expense is primarily legal, advisory and accounting fees associated with services to facilitate the acquisition of other banks. Acquisition expenses also include data processing conversion costs and contract termination costs. Total acquisition expenses for the year ended December 31, 2020, decreased \$17.2 million, or 51.5% over the same period in 2019. The decrease in acquisition expense is primarily due to elevated expenses in 2019 related to the Guaranty transaction including \$8.7 million in change in control payments to Guaranty executives as well as an increase in professional fees, conversion-related expenses and contract termination fees, including \$6.9 million related to Guaranty's debit card provider expensed in the third quarter of 2019. Off-setting these decreases are elevated expense in 2020 for the terminated merger including \$8.8 million in integration costs and \$6.0 million in legal and advisory fees.

Other. Other noninterest expense for the year ended December 31, 2020 decreased by \$5.1 million, or 12.9%, compared to the same period in 2019. The decrease in noninterest expense is primarily due to lower deposit-related expenses and auto and travel expenses due to the pandemic disruption in 2020. In addition, the decrease is reflective of an operations loss recognized in second quarter 2019 which was partially recovered in second quarter 2020, resulting in a net total loss of \$974 thousand for the year over year period.

Income Tax Expense

Income tax expense was \$51.2 million for the year ended December 31, 2020, which is an effective tax rate of 20.3%. Income tax expense was \$53.5 million for the year ended December 31, 2019, which is an effective tax rate of 21.7%. The lower effective tax rate compared to prior year is primarily a result of the 2019 provision to return adjustment related to state income tax and an adjustment to the Company's estimated 2020 state income tax rates recorded in second quarter 2020, as well as an \$856 thousand tax benefit recorded in first quarter 2020 due to the net operating loss carryback provision allowed through the enactment of the CARES Act. In addition, the change in the year over year period is reflective of a higher effective tax rate in 2019 due to \$1.4 million in deductibility limitations related to the change in control payments made to Guaranty employees and nondeductible acquisition expenses in addition to increased state income tax expense for the period.

No valuation allowance for deferred tax assets was recorded at December 31, 2020 and 2019, as management believes it is more likely than not that all of the deferred tax assets will be realized.

Quarterly Financial Information

The following table presents certain unaudited consolidated quarterly financial information regarding the Company's results of operations for the quarters ended December 31, September 30, June 30 and March 31 in the years ended December 31, 2020 and 2019. This information should be read in conjunction with the Company's consolidated financial statements as of and for the years ended December 31, 2020 and 2019 appearing elsewhere in this Annual Report on Form 10-K.

	Quarter Ended 2020			
	December 31	September 30	June 30	March 31
	(unaudited)			
<i>(dollars in thousands, except per share data)</i>				
Interest income	\$ 152,062	\$ 151,798	\$ 151,241	\$ 156,405
Interest expense	19,236	19,791	22,869	33,164
Net interest income	132,826	132,007	128,372	123,241
Provision for loan losses	3,871	7,620	23,121	8,381
Net interest income after provision for loan losses	128,955	124,387	105,251	114,860
Noninterest income	19,912	25,165	25,414	14,572
Noninterest expense	75,227	73,409	83,069	74,429
Income before income taxes	73,640	76,143	47,596	55,003
Provision for income taxes	15,366	16,068	8,903	10,836
Net income	<u>\$ 58,274</u>	<u>\$ 60,075</u>	<u>\$ 38,693</u>	<u>\$ 44,167</u>
Comprehensive income	<u>\$ 55,491</u>	<u>\$ 60,261</u>	<u>\$ 46,951</u>	<u>\$ 55,529</u>
Basic earnings per share	\$ 1.35	\$ 1.39	\$ 0.90	\$ 1.03
Diluted earnings per share	1.35	1.39	0.90	1.03

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

Discussion and Analysis of Financial Condition

The following discussion and analysis of the Company's financial condition discusses and analyzes the financial condition of the Company as of December 31, 2020 and 2019 and certain changes in that financial condition from December 31, 2019 to December 31, 2020.

Assets

The Company's total assets increased by \$2.8 billion, or 18.7%, to \$17.8 billion as of December 31, 2020 from \$15.0 billion at December 31, 2019. The increase is due primarily to deposit organic growth in addition to loan and deposit growth related to the PPP program.

Loan Portfolio

The Company's loan portfolio is the largest category of the Company's earning assets. The following table presents the balance and associated percentage of each major category in the Company's loan portfolio as of December 31, 2020, 2019, 2018, 2017 and 2016:

<i>(dollars in thousands)</i>	2020		2019		2018		2017		2016	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Commercial ⁽¹⁾⁽²⁾	\$ 3,902,266	29.7 %	\$ 2,482,356	21.3 %	\$ 1,361,104	17.2 %	\$ 1,059,984	16.3 %	\$ 630,805	13.7 %
Real estate:										
Commercial	6,096,676	46.3	5,872,653	50.4	4,141,356	52.3	3,369,892	51.7	2,459,221	53.7
Commercial construction, land and land development	1,245,801	9.5	1,236,623	10.6	905,421	11.4	744,868	11.5	531,481	11.6
Residential ⁽³⁾	1,435,112	10.9	1,550,872	13.3	1,082,248	13.7	931,495	14.3	644,340	14.1
Single-family interim construction	326,575	2.5	378,120	3.2	331,748	4.2	289,680	4.4	235,475	5.1
Agricultural	85,014	0.6	97,767	0.9	66,638	0.8	82,583	1.3	53,548	1.2
Consumer	66,952	0.5	32,603	0.3	31,759	0.4	34,639	0.5	27,530	0.6
Other	346	—	621	—	253	—	304	—	166	—
	<u>13,158,742</u>	<u>100.0 %</u>	<u>11,651,615</u>	<u>100.0 %</u>	<u>7,920,527</u>	<u>100.0 %</u>	<u>6,513,445</u>	<u>100.0 %</u>	<u>4,582,566</u>	<u>100.0 %</u>
Deferred loan fees ⁽²⁾	(10,037)		(1,695)		(3,303)		(2,568)		(2,117)	
Allowance for loan losses	(87,820)		(51,461)		(44,802)		(39,402)		(31,591)	
Total loans, net	<u>\$ 13,060,885</u>		<u>\$ 11,598,459</u>		<u>\$ 7,872,422</u>		<u>\$ 6,471,475</u>		<u>\$ 4,548,858</u>	

(1) Includes mortgage warehouse purchase loans of \$1.5 billion, \$687.3 million, \$170.3 million, \$164.7 million and \$0 at December 31, 2020, 2019, 2018, 2017 and 2016, respectively.

(2) Includes SBA PPP loans of \$804.4 million with net deferred loan fees of \$9.8 million at December 31, 2020.

(3) Includes loans held for sale of \$82.6 million, \$35.6 million, \$32.7 million, \$39.2 million and \$9.8 million at December 31, 2020, 2019, 2018, 2017 and 2016, respectively.

As of December 31, 2020, the Company's loan portfolio, net of the allowance for loan losses and deferred fees, totaled \$13.1 billion, which is an increase of 12.6% over total net loans as of December 31, 2019. The majority of the increase was due to the addition of \$804.4 million in PPP loans funded during second quarter as well as an increase of \$766.5 million year over year in the volume of mortgage warehouse purchase loans.

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

Commercial loans. The Company provides a mix of variable and fixed rate commercial loans. The loans are typically made to small-and medium-sized manufacturing, wholesale, retail, energy related service businesses and medical practices for working capital needs and business expansions. Commercial loans generally include lines of credit and loans with maturities of five years or less. The loans are generally made with operating cash flows as the primary source of repayment, but may also include collateralization by inventory, accounts receivable, equipment and/or personal guarantees. Additionally, our commercial loan portfolio includes loans made to customers in the energy industry, which is a complex, technical and cyclical industry. Experienced bankers with specialized energy lending experience originate our energy loans. Companies in this industry produce, extract, develop, exploit and explore for oil and natural gas. Loans are primarily collateralized with proven producing oil and gas reserves based on a technical evaluation of these reserves. The Company has a mortgage warehouse purchase program providing mortgage inventory financing for residential mortgage loans originated by mortgage banker clients across a broad geographic scale. Proceeds from the sale of mortgages is the primary source of repayment for warehouse inventory financing via approved investor takeout commitments. These loans are reported as commercial loans since the loans are secured by notes receivable, not real estate.

With the passage of the CARES Act PPP, administered by the Small Business Administration (SBA), the Company has participated in originating loans to its customers through the program. PPP loans have terms of two to five years and earn interest at 1%. In return for processing and funding the loans, the SBA paid the lenders a processing fee tiered by the size of the loan. Based on published program guidelines, these loans funded through the PPP are fully guaranteed by the U.S. government. Management believes that the majority of these loans will ultimately be forgiven by the SBA in accordance with the terms of the program with any remaining loan balances, after the forgiveness of any amounts, still fully guaranteed by the SBA.

The Company's commercial loan portfolio increased \$1.4 billion, or 57.2%, to \$3.9 billion as of December 31, 2020, from \$2.5 billion as of December 31, 2019. The increase in this portfolio type for the current year is primarily due to the addition of PPP loans as well as an increase in the warehouse portfolio for the year over year period.

Commercial real estate loans (CRE). The Company's commercial real estate loans generally are used by customers to finance their purchase of office buildings, retail centers, medical facilities and mixed-use buildings. Approximately 29% and 30% of the Company's commercial real estate loans as of December 31, 2020 and 2019, respectively, were owner-occupied. Such loans generally involve less risk than loans on investment property. The Company expects that commercial real estate loans will continue to be a significant portion of the Company's total loan portfolio and an area of emphasis in the Company's lending operations.

Commercial real estate loans increased \$224.0 million, or 3.8%, to \$6.1 billion as of December 31, 2020 from \$5.9 billion as of December 31, 2019. The increase was due to organic loan growth in this loan type during the year.

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

Commercial construction, land and land development loans increased \$9.2 million, or 0.7% to \$1.2 billion at December 31, 2020 from \$1.2 billion at December 31, 2019, through organic loan growth in this type of loan.

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

The Company's residential real estate loan portfolio declined by \$115.8 million, or 7.5%, to a balance of \$1.4 billion as of December 31, 2020 from \$1.6 billion as of December 31, 2019. The decrease in this category was primarily a result of higher than normal payoffs due to refinancings because of the historically low mortgage rate environment.

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

The balance of single-family interim construction loans in the Company's loan portfolio decreased by \$51.5 million, or 13.6%, to \$326.6 million as of December 31, 2020 from \$378.1 million as of December 31, 2019. The decrease in this category was due to more borrowers opting for a one time close product rather than traditional interim construction loans because of low mortgage rates.

Other Categories of Loans. Other categories of loans included in the Company's loan portfolio include agricultural loans made to farmers and ranchers relating to their operations and consumer loans made to individuals for personal purposes, including automobile purchase loans and personal loans. None of these categories of loans represents more than 1% of the Company's total loan portfolio as of December 31, 2020 and 2019 and such categories continue to be a very small percentage of the Company's total loan portfolio.

The following table sets forth the contractual maturities, including scheduled principal repayments, of the Company's loan portfolio (which includes balloon notes) and the distribution between fixed and adjustable interest rate loans as of December 31, 2020:

<i>(dollars in thousands)</i>	Within One Year		One Year to Five Years		After Five Years		Total	
	Fixed Rate	Adjustable Rate	Fixed Rate	Adjustable Rate	Fixed Rate	Adjustable Rate	Fixed Rate	Adjustable Rate
Commercial	\$ 1,563,540	\$ 308,933	\$ 1,111,926	\$ 590,984	\$ 174,057	\$ 152,826	\$ 2,849,523	\$ 1,052,743
Real estate:								
Commercial real estate	532,461	273,206	2,328,535	645,916	591,928	1,724,630	3,452,924	2,643,752
Commercial construction, land and land development	132,286	199,777	338,044	363,310	32,383	180,001	502,713	743,088
Residential real estate	90,329	37,132	481,025	49,338	414,099	363,189	985,453	449,659
Single-family interim construction	50,933	143,683	11,368	39,805	41,525	39,261	103,826	222,749
Agricultural	11,387	10,896	29,192	5,591	5,743	22,205	46,322	38,692
Consumer	10,619	27,038	11,142	13,452	2,177	2,524	23,938	43,014
Other	346	—	—	—	—	—	346	—
Total loans	<u>\$ 2,391,901</u>	<u>\$ 1,000,665</u>	<u>\$ 4,311,232</u>	<u>\$ 1,708,396</u>	<u>\$ 1,261,912</u>	<u>\$ 2,484,636</u>	<u>\$ 7,965,045</u>	<u>\$ 5,193,697</u>

Asset Quality

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

The Company discontinues accruing interest on a loan when management of the Company believes, after considering the Company's collection efforts and other factors, that the borrower's financial condition is such that collection of interest of that loan is doubtful. Loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans, including troubled debt restructurings, that are placed on nonaccrual status or charged off is reversed against interest income. Cash collections on nonaccrual loans are generally credited to the loan receivable balance, and no interest income is recognized on those loans until the principal balance has been collected. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. The Company did not make any changes in the Company's nonaccrual policy during the years of 2020 or 2019.

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

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

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

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

As a result of the current economic environment caused by the COVID-19 outbreak, the Company has worked with its borrowers on an individual, one-on-one basis to assess and understand the impact of pandemic-related economic hardship on the borrowers and provide prudent modifications allowing for short-term payment deferrals or other payment relief where appropriate. The deferred payments along with interest accrued during the deferral period are due and payable on the maturity date. Under applicable accounting and regulatory guidance, such modifications are not considered troubled debt restructurings. It is possible that the Company's asset quality measures could worsen at future measurement periods if the effects of COVID-19 are prolonged. Refer to the above discussion under "Recent Developments: COVID-19, *Lending Operations and Accommodations to Borrowers*" and Note 6, Loans, Net and Allowance for Loan Losses, in the accompanying notes to the consolidated financial statements included elsewhere in this report for additional discussion related to COVID-19 loan modifications.

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

<i>(dollars in thousands)</i>	As of December 31,				
	2020	2019	2018	2017	2016
Nonaccrual loans					
Commercial	\$ 25,898	\$ 3,130	\$ 5,224	\$ 10,304	\$ 7,718
Real estate:					
Commercial real estate, construction, land and land development	20,072	6,461	1,329	2,716	5,885
Residential real estate	2,372	1,820	1,775	998	866
Single-family interim construction	—	—	3,578	—	884
Agricultural	613	114	—	—	—
Consumer	42	22	32	55	273
Total nonaccrual loans ⁽¹⁾	48,997	11,547	11,938	14,073	15,626
Loans delinquent 90 days or more and still accruing					
Commercial	433	14,529	—	8	—
Real estate:					
Commercial real estate, construction, land and land development	—	—	—	120	—
Residential real estate	—	—	—	8	—
Consumer	—	—	5	—	—
Total loans delinquent 90 days or more and still accruing	433	14,529	5	136	—
Troubled debt restructurings, not included in nonaccrual loans					
Commercial	—	—	114	—	1
Real estate:					
Commercial real estate, construction, land and land development	1,808	352	405	455	1,204
Residential real estate	178	188	168	730	1,011
Consumer	—	—	—	20	—
Total troubled debt restructurings, not included in nonaccrual loans	1,986	540	687	1,205	2,216
Total nonperforming loans	51,416	26,616	12,630	15,414	17,842
Other real estate owned and other repossessed assets (Bank only):					
Commercial real estate, construction, land and land development	—	4,819	4,200	5,400	783
Residential real estate	—	—	—	764	1,189
Single-family interim construction	475	—	—	963	—
Consumer	114	114	114	114	4
Total other real estate owned and other repossessed assets	589	4,933	4,314	7,241	1,976
Total nonperforming assets	\$ 52,005	\$ 31,549	\$ 16,944	\$ 22,655	\$ 19,818
Ratio of nonperforming loans to total loans held for investment ⁽²⁾	0.44 %	0.24 %	0.16 %	0.24 %	0.39 %
Ratio of nonperforming assets to total assets	0.29	0.21	0.17	0.26	0.34

(1) Nonaccrual loans include troubled debt restructurings of \$578 thousand, \$668 thousand, \$506 thousand, \$1.0 million and \$209 thousand as of December 31, 2020, 2019, 2018, 2017 and 2016, respectively and excludes loans acquired with deteriorated credit quality of \$6.7 million, \$10.9 million, \$7.0 million, \$7.9 million and \$1.0 million as of December 31, 2020, 2019, 2018, 2017 and 2016, respectively.

(2) Excluding mortgage warehouse purchase loans of \$1.5 billion, \$687.3 million, \$170.3 million, \$164.7 million and \$0 as of December 31, 2020, 2019 and 2018, 2017 and 2016, respectively.

The Company had \$49.0 million and \$11.5 million in loans on nonaccrual status (excluding loans acquired with deteriorated credit quality) as of December 31, 2020 and 2019, respectively. The increase from December 31, 2019 to December 31, 2020 was primarily due to additions of two energy credits totaling \$22.8 million, two CRE credits totaling \$15.9 million and a commercial loan totaling \$1.7 million, offset by \$2.2 million in charge-offs and a \$1.9 million CRE loan that moved to OREO. The increase in troubled debt restructurings was primarily due to a \$1.5 million CRE loan modified during first quarter 2020. Loans delinquent 90 days or more and still accruing decreased to \$433 thousand as of December 31, 2020. The decrease was due to a \$14.1 million energy loan that was moved to nonaccrual during first quarter 2020 with a subsequent charge-off of \$3.5 million during fourth quarter 2020.

As of December 31, 2020, the Company had other real estate owned and other repossessed assets of \$589 thousand, which is a decrease from the balance of \$4.9 million for prior year. The decrease is primarily due to sales of \$4.8 million.

The Company did not recognize any interest income on nonaccrual loans during 2020 or 2019 while the loans were in nonaccrual status. The amount of interest the Company included in the Company's net interest income for the years ended 2020 and 2019 with respect to nonperforming loans was \$1.2 million and \$901 thousand, respectively. Additional interest income that the Company would have recognized on these nonperforming loans had they been current in accordance with their original terms was \$356 thousand and \$481 thousand during the years ended 2020 and 2019, respectively.

As of December 31, 2020, the Company had a total of 115 substandard and doubtful loans with an aggregate principal balance of \$158.2 million that were not currently impaired loans or purchase credit impaired loans, nonaccrual loans, 90 days past due loans or troubled debt restructurings, but where the Company had information about possible credit problems of the borrowers that caused the Company's management to have serious concerns as to the ability of the borrowers to comply with present loan repayment terms and that could result in those loans becoming nonaccrual loans, 90 days past due loans or troubled debt restructurings in the future.

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

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

Allowance for Loan Losses. As discussed elsewhere in this discussion and analysis, the Company elected to defer the adoption of the CECL accounting standard and has continued its consistent application of the incurred loss method for estimating the allowance for loan losses and applicable provision in 2020. The allowance for loan losses is established through charges to earnings in the form of a provision for loan losses. The Company's allowance for loan losses represents the Company's estimate of probable and reasonably estimable loan losses inherent in loans held for investment as of the respective balance sheet date. The Company's methodology for assessing the adequacy of the allowance for loan losses includes a general allowance for performing loans, which are grouped based on similar characteristics, and an allocated allowance for individual impaired loans. Actual credit losses or recoveries are charged or credited directly to the allowance.

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

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

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

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

	As of December 31,									
	2020		2019		2018		2017		2016	
	Amount	% of Total Loans ⁽¹⁾	Amount	% of Total Loans ⁽¹⁾	Amount	% of Total Loans ⁽¹⁾	Amount	% of Total Loans ⁽¹⁾	Amount	% of Total Loans ⁽¹⁾
<i>(dollars in thousands)</i>										
Commercial loans	\$ 27,311	29.7 %	\$ 12,844	21.3 %	\$ 11,793	17.2 %	\$ 10,599	16.3 %	\$ 8,593	13.7 %
Real estate:										
Commercial real estate, construction, land and land development	50,123	55.8	33,085	61.0	27,795	63.7	23,301	63.2	18,399	65.3
Residential real estate	6,786	10.9	3,678	13.3	3,320	13.7	3,447	14.3	2,760	14.1
Single-family interim construction	2,156	2.5	1,606	3.2	1,402	4.2	1,583	4.4	1,301	5.1
Agricultural	337	0.6	332	0.9	241	0.8	250	1.3	207	1.2
Consumer	442	0.5	226	0.3	186	0.4	205	0.5	242	0.6
Other	242	—	5	—	3	—	(32)	—	29	—
Unallocated	423	—	(315)	—	62	—	49	—	60	—
Total allowance for loan losses	<u>\$ 87,820</u>	<u>100.0 %</u>	<u>\$ 51,461</u>	<u>100.0 %</u>	<u>\$ 44,802</u>	<u>100.0 %</u>	<u>\$ 39,402</u>	<u>100.0 %</u>	<u>\$ 31,591</u>	<u>100.0 %</u>

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

As of December 31, 2020, the allowance for loan losses amounted to \$87.8 million, or 0.76%, of total loans held for investment, excluding mortgage warehouse purchase loans, compared with \$51.5 million, or 0.47%, as of December 31, 2019. The dollar and percentage increase during 2020 is primarily due to added reserves for economic concerns related to the pandemic as well as increases in specific reserves and charge-offs in the year over year period. As of December 31, 2020, the discount on acquired loans totaled \$59.3 million compared to \$93.6 million as of December 31, 2019.

The allowance for loan losses as a percentage of nonperforming loans decreased from 193.35% at December 31, 2019, to 170.80% at December 31, 2020, due to increase in total nonperforming loans primarily resulting from additions to nonaccrual for energy credits totaling \$22.8 million and CRE credits totaling \$15.9 million as discussed above under the nonperforming asset section. As of December 31, 2020, the Company had made a specific allowance for loan losses of \$8.5 million for impaired loans totaling \$64.4 million, compared with a specific allowance of \$358 thousand for impaired loans totaling \$12.1 million as of December 31, 2019. The increase in specific reserves was due primarily to additions of \$7.2 million on two energy credits and \$1.1 million on a commercial loan that were added to the impaired listing during 2020. The increase in impaired loans during 2020 was primarily due to the \$38.7 million additions in nonaccrual loans noted above, offset by a \$1.9 million commercial real estate loan moved to other real estate and subsequently sold during 2020.

Although the allowance for loan losses to nonperforming loans has decreased over the periods presented in the Company's consolidated financial statements appearing in this Annual Report on Form 10-K, the Company believes the allowance is appropriate and has been derived from consistent application of its methodology. The allowance is primarily related to loans evaluated collectively and will continue to increase as the Company's loan portfolio grows. Additional provision expense will vary depending on future credit quality trends within the portfolio. Refer to Note 1, Summary of Significant Accounting Policies, and Note 6, Loans, Net and Allowance for Loan Losses, in the notes to the Company's audited consolidated financial statements included elsewhere in this report for additional details of the allowance for loan losses.

The following table provides an analysis of the provisions for loan losses, net charge-offs and recoveries for the years ended December 31, 2020, 2019, 2018, 2017 and 2016 and the effects of those items on the Company's allowance for loan losses:

<i>(dollars in thousands)</i>	As of and for the Years Ended December 31,				
	2020	2019	2018	2017	2016
Allowance for loan losses-balance at beginning of year	<u>\$ 51,461</u>	<u>\$ 44,802</u>	<u>\$ 39,402</u>	<u>\$ 31,591</u>	<u>\$ 27,043</u>
Charge-offs					
Commercial	(5,670)	(7,709)	(3,863)	(81)	(4,384)
Real estate:					
Commercial real estate, construction, land and land development	(735)	(3)	(435)	(15)	(54)
Residential real estate	—	(140)	(6)	—	(401)
Single-family interim construction	(82)	(3)	—	(134)	—
Consumer	(44)	(79)	(93)	(182)	(27)
Other	(342)	(430)	(228)	(190)	(104)
Total charge-offs	<u>(6,873)</u>	<u>(8,364)</u>	<u>(4,625)</u>	<u>(602)</u>	<u>(4,970)</u>
Recoveries					
Commercial	112	90	84	28	13
Real estate:					
Commercial real estate, construction, land and land development	4	4	20	31	10
Residential real estate	—	—	3	4	12
Consumer	37	48	5	46	8
Other	86	76	53	39	35
Total recoveries	<u>239</u>	<u>218</u>	<u>165</u>	<u>148</u>	<u>78</u>
Net charge-offs	<u>(6,634)</u>	<u>(8,146)</u>	<u>(4,460)</u>	<u>(454)</u>	<u>(4,892)</u>
Provision for loan losses	<u>42,993</u>	<u>14,805</u>	<u>9,860</u>	<u>8,265</u>	<u>9,440</u>
Allowance for loan losses-balance at end of year	<u>\$ 87,820</u>	<u>\$ 51,461</u>	<u>\$ 44,802</u>	<u>\$ 39,402</u>	<u>\$ 31,591</u>
Ratios					
Net charge-offs to average loans outstanding	0.05 %	0.07 %	0.06 %	0.01 %	0.12 %
Allowance for loan losses to nonperforming loans at end of year	170.80	193.35	354.73	255.62	177.06
Allowance for loan losses to total loans at end of year ⁽¹⁾	0.76	0.47	0.58	0.62	0.69

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

The Company's ratio of allowance to loan losses to total loans as of December 31, 2020 was 0.76%, increasing from 0.47% at December 31, 2019. The increase in the allowance for loan losses as a percentage of loans from prior year reflects increases in reserves due to the pandemic as well as increased specific reserves. The ratio of net charge-offs to average loans outstanding during the year ended December 31, 2020 decreased to 0.05% from 0.07% for the year ended December 31, 2019. The decrease in charge-offs during 2020 was primarily related to elevated energy charge-offs during 2019.

Securities Available for Sale

The Company's investment strategy aims to maximize earnings while maintaining liquidity in securities with minimal credit, interest rate and duration risk. The types and maturities of securities purchased are primarily based on the Company's current and projected liquidity and interest rate sensitivity positions. The following table sets forth the book value, which is equal to fair market value because all investment securities the Company held were classified as available for sale as of the applicable date, and the percentage of each category of securities as of December 31, 2020, 2019 and 2018:

<i>(dollars in thousands)</i>	As of December 31,					
	2020		2019		2018	
	Book Value	% of Total	Book Value	% of Total	Book Value	% of Total
Securities available for sale						
U.S. Treasury securities	\$ 44,708	3.9 %	\$ 48,796	4.5 %	\$ 29,643	4.3 %
Government agency securities	249,017	21.6	179,296	16.5 %	150,230	21.9
Obligations of state and municipal subdivisions	393,165	34.1	343,859	31.7 %	185,007	27.0
Corporate bonds	22,102	1.9	7,218	0.7 %	—	—
Residential pass-through securities	443,501	38.4	505,567	46.5 %	320,470	46.8
Other securities	1,200	0.1	1,200	0.1 %	—	—
Total securities available for sale	<u>\$ 1,153,693</u>	<u>100.0 %</u>	<u>\$ 1,085,936</u>	<u>100.0 %</u>	<u>\$ 685,350</u>	<u>100.0 %</u>

The Company recognized net gains on the sale of securities of \$382 thousand for the year ended December 31, 2020 and net gains on the sale of securities of \$275 thousand for the year ended December 31, 2019. Securities represented 6.5% and 7.3% of the Company's total assets at December 31, 2020 and 2019, respectively.

Certain investment securities are valued at less than their historical cost. Management evaluates securities for other-than-temporary impairment (OTTI) on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation. Management does not intend to sell any debt securities it holds and believes the Company more likely than not will not be required to sell any debt securities it holds before their anticipated recovery, at which time the Company will receive full value for the securities. Management has the ability and intent to hold the securities classified as available for sale that were in a loss position as of December 31, 2020 for a period of time sufficient for an entire recovery of the cost basis of the securities. For those securities that are impaired, the unrealized losses are largely due to interest rate changes. The fair value is expected to recover as the securities approach their maturity date. Management believes any impairment in the Company's securities at December 31, 2020 is temporary and no other-than-temporary impairment has been realized in the Company's consolidated financial statements.

The following table sets forth the book value, scheduled maturities and weighted average yields for the Company's investment portfolio as of December 31, 2020:

<i>(dollars in thousands)</i>	Book Value	% of Total Investment Securities	Weighted Average Yield
U.S. Treasury securities			
Maturing within one year	\$ 18,153	1.6 %	2.15 %
Maturing in one to five years	26,555	2.3	2.41
Maturing in five to ten years	—	—	—
Maturing after ten years	—	—	—
Total U.S. Treasury securities	\$ 44,708	3.9 %	2.30 %
Government agency securities			
Maturing within one year	\$ 6,507	0.6 %	2.21 %
Maturing in one to five years	21,304	1.8	2.33
Maturing in five to ten years	96,187	8.3	1.70
Maturing after ten years	125,019	10.8	1.79
Total government agency securities	\$ 249,017	21.5 %	1.81 %
Obligations of state and municipal subdivisions			
Maturing within one year	\$ 14,254	1.2 %	2.26 %
Maturing in one to five years	82,526	7.3	2.36
Maturing in five to ten years	95,822	8.3	2.48
Maturing after ten years	200,563	17.4	2.66
Total obligations of state and municipal subdivisions	\$ 393,165	34.2 %	2.54 %
Corporate bonds			
Maturing within one year	\$ 1,029	0.1 %	3.85 %
Maturing in one to five years	4,186	0.4	3.82
Maturing in five to ten years	16,887	1.5	4.51
Maturing after ten years	—	—	—
Total corporate bonds	\$ 22,102	2.0 %	4.35 %
Residential pass through securities			
Maturing within one year	\$ 11,784	1.0 %	2.96 %
Maturing in one to five years	15,721	1.3	2.90
Maturing in five to ten years	90,414	7.8	2.62
Maturing after ten years	325,582	28.2	2.73
Total residential pass through securities	\$ 443,501	38.3 %	2.96 %
Other securities			
Maturing within one year	\$ —	— %	— %
Maturing in one to five years	700	0.1	2.29
Maturing in five to ten years	500	—	2.10
Maturing after ten years	—	—	—
Total other securities	\$ 1,200	0.1 %	2.25 %
Total investment securities	\$ 1,153,693	100.0 %	2.73 %

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

<i>(dollars in thousands)</i>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Securities available for sale				
As of December 31, 2020				
U.S. treasuries	\$ 43,060	\$ 1,648	\$ —	\$ 44,708
Government agency securities	247,764	3,169	(1,916)	249,017
Obligations of state and municipal subdivisions	373,017	20,168	(20)	393,165
Corporate bonds	21,496	608	(2)	22,102
Mortgage-backed securities guaranteed by FHLMC, FNMA and GNMA	421,916	21,678	(93)	443,501
Other securities	1,200	—	—	1,200
	<u>\$ 1,108,453</u>	<u>\$ 47,271</u>	<u>\$ (2,031)</u>	<u>\$ 1,153,693</u>
As of December 31, 2019				
U.S. treasuries	\$ 48,060	\$ 743	\$ (7)	\$ 48,796
Government agency securities	178,953	926	(583)	179,296
Obligations of state and municipal subdivisions	332,715	11,150	(6)	343,859
Corporate bonds	7,011	207	—	7,218
Mortgage-backed securities guaranteed by FHLMC, FNMA and GNMA	493,915	11,981	(329)	505,567
Other securities	1,200	—	—	1,200
	<u>\$ 1,061,854</u>	<u>\$ 25,007</u>	<u>\$ (925)</u>	<u>\$ 1,085,936</u>
As of December 31, 2018				
U.S. treasuries	\$ 30,110	\$ —	\$ (467)	\$ 29,643
Government agency securities	152,969	80	(2,819)	\$ 150,230
Obligations of state and municipal subdivisions	187,366	727	(3,086)	\$ 185,007
Residential pass through securities guaranteed by FNMA, GNMA and FHLMC	326,168	128	(5,826)	\$ 320,470
	<u>\$ 696,613</u>	<u>\$ 935</u>	<u>\$ (12,198)</u>	<u>\$ 685,350</u>

The Company's available for sale securities, carried at fair value, increased \$67.8 million, or 6.2%, during 2020. The increase in 2020 was primarily due to investing excess liquidity balances.

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

Cash and Cash Equivalents

Cash and cash equivalents increased by \$1.2 billion, or 221.0% to \$1.8 billion at December 31, 2020 from \$565.2 million at December 31, 2019, of which \$1.1 billion was held with the Federal Reserve Bank at year end 2020. Cash and cash equivalent balances can vary due to cash needs and volatility of several large title company and commercial accounts. Balances as of December 31, 2020 is due to significantly increased organic deposit growth during the year over year period.

Goodwill

Goodwill represents the excess of the consideration paid over the fair value of the net assets acquired. The Company's total goodwill was \$994.0 million as of December 31, 2020 and December 31, 2019.

Liabilities

Total liabilities increased \$2.6 billion, or 20.8%, to \$15.2 billion as of December 31, 2020, from \$12.6 billion as of December 31, 2019, primarily due to increased deposits of \$2.5 billion mainly as a result of organic growth and \$127.5 million, net of issuance costs, related to subordinated debentures issued in third quarter 2020.

Deposits

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

Total deposits increased \$2.5 billion, or 20.6%, to \$14.4 billion as of December 31, 2020 from \$11.9 billion as of December 31, 2019. The increase is primarily due to organic growth as well as approximately \$395 million of commercial deposits related to PPP loans that were funded by the Company in the second quarter and remain on deposit at year end 2020. Brokered deposits totaled \$1.5 billion and \$894.1 million at December 31, 2020 and 2019, respectively. As of December 31, 2020 and 2019, noninterest-bearing demand, interest-bearing checking, savings deposits and limited access money market accounts accounted for 90.2% and 84.7%, respectively, of the Company's total deposits, while individual retirement accounts and certificates of deposit made up 9.8% and 15.3%, respectively, of total deposits. Noninterest-bearing demand deposits totaled \$4.2 billion, or 28.9% of total deposits, as of December 31, 2020, compared with \$3.2 billion, or 27.1% of total deposits, as of December 31, 2019. The total cost of deposits decreased 49 basis points from 1.08% at December 31, 2019 to 0.59% at December 31, 2020. The average cost of interest-bearing deposits was 0.83% per annum for 2020 compared with 1.48% for 2019. The decrease in cost of funds is primarily due to rate cuts on the Company's deposit products after the Federal Reserve reduced the target rate to zero (0) to 25 basis points.

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

<i>(dollars in thousands)</i>	As of December 31,					
	2020		2019		2018	
	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate
Deposit Type						
Noninterest-bearing demand accounts	\$ 3,736,230	— %	\$ 3,139,805	— %	\$ 2,052,675	— %
Interest-bearing checking accounts	4,577,137	0.62	3,953,986	1.12	2,943,519	0.90
Savings accounts	607,996	0.18	540,741	0.25	290,325	0.24
Limited access money market accounts	2,368,980	0.89	2,047,554	1.99	998,916	1.91
Certificates of deposit, including individual retirement accounts (IRA)	1,645,014	1.57	1,795,391	2.06	1,009,644	1.43
Total deposits	<u>\$ 12,935,357</u>	0.59 %	<u>\$ 11,477,477</u>	1.08 %	<u>\$ 7,295,079</u>	0.83 %

The following table sets forth the maturity of time deposits (including IRA deposits) of \$100,000 or more as of December 31, 2020:

<i>(dollars in thousands)</i>	Maturity within:				
	Three Months	Three to Six Months	Six to Twelve Months	After Twelve Months	Total
Individual retirement accounts	\$ 5,724	\$ 6,327	\$ 13,955	\$ 8,103	\$ 34,109
Certificates of deposit (excluding CDARS)	322,351	256,269	391,919	88,900	1,059,439
CDARS	29,592	7,626	6,652	3,359	47,229
Total	<u>\$ 357,667</u>	<u>\$ 270,222</u>	<u>\$ 412,526</u>	<u>\$ 100,362</u>	<u>\$ 1,140,777</u>

Short-Term Borrowings

The Company's deposits have historically provided the Company with a major source of funds to meet the daily liquidity needs of the Company's customers and fund growth in earning assets. However, from time to time the Company may also engage in short-term borrowings. At December 31, 2020 and 2019, the Company had \$31.5 million and \$124.5 million, respectively, in short-term borrowings outstanding, of which \$25.0 million and \$100.0 million were short-term FHLB advances and \$6.5 million and \$24.5 million were borrowings against its revolving line of credit at December 31, 2020 and 2019, respectively.

These were recorded on the balance sheet under FHLB advances and other borrowings. The Company has not historically needed to engage in significant short-term borrowing through sources such as federal funds purchased, securities sold under agreements to repurchase or Federal Reserve Discount Window advances to meet the daily liquidity needs of the Company's customers or fund growth in earning assets.

FHLB Advances

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

The Company's FHLB borrowings totaled \$375.0 million as of December 31, 2020, compared with \$325.0 million as of December 31, 2019. The change in FHLB borrowings from prior year reflects the use of short-term FHLB advances as needed for liquidity and to fund mortgage warehouse purchase loans. As of December 31, 2020 and 2019, the Company had \$4.1 billion and \$3.7 billion, respectively, in unused and available advances from the FHLB. At December 31, 2020, the Company's FHLB advances are collateralized by assets, including a blanket lien on certain loans along with specific listed loans for an aggregate available carrying value of \$5.7 billion and FHLB stock. As of December 31, 2020 and 2019, the Company had \$1.2 billion and \$1.1 billion, respectively, in undisbursed advance commitments (letters of credit) with the FHLB. The FHLB letters of credit were obtained in lieu of pledging securities to secure public fund deposits that are over the FDIC insurance limit. There were no disbursements against the advance commitments as of December 31, 2020 or 2019.

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

<i>(dollars in thousands)</i>	As of December 31,		
	2020	2019	2018
Fixed-rate, fixed term, at rates from 0.27% to 1.33%, with a weighted-average of 0.62% (maturing July 2021 through February 2035)	\$ 375,000	\$ —	\$ —
Fixed-rate, fixed term, at rates from 1.33% to 2.59%, with a weighted-average of 2.17% (maturing January 2020 through July 2021)	—	325,000	—
Fixed-rate, fixed term, at rates from 1.02% to 2.59%, with a weighted-average of 2.17% (maturing January 2019 through July 2021)	—	—	290,000

As of December 31, 2020, the scheduled maturities of the Company's FHLB advances were as follows (dollars in thousands):

<u>Maturing Within</u>	<u>Principal Amount to Mature</u> <u>As of December 31, 2020</u>
First Year	\$ 25,000
Second Year	—
Third Year	200,000
Fourth Year	—
Fifth Year	—
Thereafter	150,000
	<u>\$ 375,000</u>

Other Long-Term Indebtedness

As of December 31, 2020 and 2019, the Company had \$305.7 million and \$177.8 million, respectively, of long-term indebtedness (other than FHLB advances and junior subordinated debentures) outstanding, which included subordinated debentures. The increase from December 31, 2019 to December 31, 2020 was due to \$127.5 million, net of issuance costs, of subordinated debentures issued during third quarter 2020 as well as the discount accretion and fee amortization on the debentures.

As of December 31, 2020, the Company's long-term gross indebtedness of \$110.0 million, \$30.0 million, \$40.0 million and \$130.0 million will mature on August 1, 2024, December 31, 2027, July 20, 2026, and September 15, 2030, respectively, with the \$30.0 million, \$40.0 million and \$130.0 million debentures having an optional redemption date of December 31, 2022, July 20, 2021 and September 15, 2025, respectively.

Junior Subordinated Debentures

As of December 31, 2020 and 2019, the Company had outstanding an aggregate principal amount of \$57.3 million of nine series of junior subordinated securities issued to nine unconsolidated subsidiary trusts. Each series of debentures was purchased by one of the trusts with the net proceeds of the issuance by such trust of floating rate trust preferred securities. These junior subordinated debentures are unsecured and will mature between March 2033 and September 2037. Each of the series of debentures bears interest at a per annum rate equal to three-month LIBOR plus a spread that ranges from 1.60% to 3.25%, with a weighted average rate of 2.74%. Interest on each series of these debentures is payable quarterly, although the Company may, from time to time defer the payment of interest on any series of these debentures. A deferral of interest payments would, however, restrict the Company's right to declare and pay cash distributions, including dividends on the Company's common stock, or making distributions with respect to any of the Company's future debt instruments that rank equally or are junior to such debentures. The Company may redeem the debentures, which are intended to qualify as Tier 1 capital, at the Company's option, subject to approval of the Federal Reserve.

Capital Resources and Liquidity Management

Capital Resources

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

Total stockholder's equity was \$2.5 billion at December 31, 2020, compared with \$2.3 billion at December 31, 2019, an increase of approximately \$175.6 million. The increase was primarily due to net income earned for the year totaling \$201.2 million, stock based compensation of \$8.5 million and an increase of \$17.0 million in unrealized gain on available for sale securities offset by stock repurchased by the Company totaling \$5.8 million and dividends paid of \$45.3 million.

Liquidity Management

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

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

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

In addition to the liquidity provided by the sources described above, the Company maintains correspondent relationships with other banks in order to sell loans or purchase overnight funds should additional liquidity be needed. As of December 31, 2020 and 2019 the Company had established federal funds lines of credit with various unaffiliated banks totaling \$365 million and \$375 million, respectively. Based on the values of stock, securities, and loans pledged as collateral, as of December 31, 2020 and 2019, the Company had additional borrowing capacity with the FHLB of \$4.1 billion and \$3.7 billion, respectively.

The Company also maintains a secured line of credit with the Federal Reserve Bank with an availability to borrow approximately \$716.7 million and \$895.1 million at December 31, 2020 and 2019, respectively. Approximately \$1.0 billion and \$1.2 billion of commercial loans were pledged as collateral at December 31, 2020 and 2019, respectively. There were no borrowings against this line as of December 31, 2020 or 2019.

The Company also participates in an exchange that provides direct overnight borrowings with other financial institutions. The funds are provided on an unsecured basis. Borrowing availability totaled \$694.0 million and \$484.0 million at December 31, 2020 and 2019, respectively. There were no borrowings as of December 31, 2020 and 2019.

The Company has a \$100 million unsecured revolving line of credit with an unrelated commercial bank. The line bears interest at LIBOR plus 1.75% and matured on January 17, 2021. As of December 31, 2020 and 2019, the line had \$6.5 million and \$24.5 million outstanding, respectively. The Company is required to meet certain financial covenants on a quarterly basis, which includes maintaining \$5 million in cash at Independent Bank Group and meeting minimum capital ratios and bears a non-usage fee of 0.30% per year on the unused commitment at the end of each fiscal quarter. On January 17, 2020, the line of credit was renewed. As of March 1, 2021, the Company had no borrowings outstanding against this line.

In April 2020, the Company began originating loans to qualified small businesses under the CARES Act PPP administered by the SBA. During April 2020, the Company borrowed a \$300.0 million advance from the FHLB that provided supplemental funding for the PPP loan originations. The short-term, full-recourse advance bore interest at an annualized rate of 0.35% and expired on July 15, 2020. During second quarter 2020, the Company participated in the Federal Reserve's PPP Facility, which, through March 31, 2021, extends loans to banks who were loaning money to small businesses under the PPP. The amounts borrowed under the facility during second quarter 2020 totaled \$7.6 million, bore interest at a rate of 0.35% and matured at the same time as the maturity date of the PPP loan pledged to secure the borrowing. As of the end of third quarter 2020, the Company had repaid all borrowings under the PPP Facility. Federal bank regulatory agencies issued an interim final rule that permits banks to neutralize the regulatory capital effects of participating in the PPP and the PPP Facility. Specifically, all PPP loans have a zero percent risk weight under applicable risk-based capital rules. Additionally, a bank may exclude all PPP loans pledged as collateral to the PPP Facility from its average total consolidated assets for the purposes of calculating its leverage ratio, while PPP loans that are not pledged as collateral to the PPP Facility will be included.

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

Regulatory Capital Requirements

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

The Company is subject to the Basel III regulatory capital framework (the Basel III Capital Rules). The Basel III Capital Rules require that the Company maintain a 2.5% capital conservation buffer above the minimum risk-based capital adequacy requirements. The capital conservation buffer is designed to absorb losses during periods of economic stress and requires increased capital levels for the purpose of capital distributions and other payments. Failure to meet the full amount of the buffer will result in restrictions on the Company's ability to make capital distributions, including dividend payments and stock repurchases and to pay discretionary bonuses to executive officers.

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

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

As of December 31, 2020 and 2019, the Company and Bank exceeded the Basel III capital requirements under prompt corrective action and other regulatory requirements, as detailed in the table below.

As of December 31, 2020

	Actual Consolidated	Actual Bank	Required Minimum Capital - Basel III	Required to be Considered Well Capitalized (Bank Only)
	Ratio	Ratio	Ratio	Ratio
Tier 1 capital to average assets ratio	9.12%	11.01%	4.00%	≥5.00%
Common equity tier 1 to risk-weighted assets ratio	10.33	12.97	7.00	≥6.50
Tier 1 capital to risk-weighted assets ratio	10.74	12.97	8.50	≥8.00
Total capital to risk-weighted assets ratio	13.32	13.61	10.50	≥10.00

As of December 31, 2019

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

Stock Repurchase Program. From time to time, the Company's board of directors has authorized stock repurchase programs which allow the Company to purchase its common stock generally over a one-year period at various prices in the open market or in privately negotiated transactions. On October 22, 2020, the Company's board of directors authorized a \$150.0 million stock repurchase program allowing the Company to purchase shares of its common stock through October 31, 2021. Under this program, the Company repurchased 109,548 shares at a total cost of \$5.7 million through March 1, 2021. Under prior stock repurchase programs, the Company repurchased 897,738 shares of Company stock at a total cost of \$49.0 million during 2019 and none during 2018. In July 2019, the federal bank regulators adopted final rules that, among other things, eliminated the standalone prior approval requirement for any repurchase of common stock. However, the Company remains subject to a Federal Reserve Board guideline that requires consultation with the Federal Reserve regarding plans for share repurchases on a quarterly basis. The Company's repurchases of its common stock may be subject to a prior approval or notice requirement under other regulations, policies or supervisory expectations of the Federal Reserve Board. Any redemption or repurchase of preferred stock or subordinated debt remains subject to the prior approval of the Federal Reserve Board. See Part II, Item 5 - Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities, in this report for additional information.

Contractual Obligations

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

The following table contains supplemental information regarding the Company's total contractual obligations as of December 31, 2020:

<i>(dollars in thousands)</i>	Payments Due				Total
	Within One Year	One to Three Years	Three to Five Years	After Five Years	
Deposits without a stated maturity	\$ 12,983,289	\$ —	\$ —	\$ —	\$ 12,983,289
Time deposits	1,263,633	136,883	15,117	5	1,415,638
FHLB advances	25,000	200,000	—	150,000	375,000
Subordinated debt	—	—	110,000	200,000	310,000
Junior subordinated debentures	—	—	—	57,324	57,324
Operating leases	5,615	8,930	6,192	5,700	26,437
Total contractual obligations	<u>\$ 14,277,537</u>	<u>\$ 345,813</u>	<u>\$ 131,309</u>	<u>\$ 413,029</u>	<u>\$ 15,167,688</u>

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

Other than normal changes in the ordinary course of business and the items mentioned above, there have been no significant changes in the types of contractual obligations or amounts due since December 31, 2019.

Off-Balance Sheet Arrangements

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

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

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

Commitments to extend credit were \$2.3 billion as of December 31, 2020 and 2019. Outstanding standby letters of credit were \$25.9 million and \$23.4 million, as of December 31, 2020 and 2019, respectively. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements. The Company manages the Company's liquidity in light of the aggregate amounts of commitments to extend credit and outstanding standby letters of credit in effect from time to time to ensure that the Company will have adequate sources of liquidity to fund such commitments and honor drafts under such letters of credit.

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

Asset/Liability Management and Interest Rate Risk

The principal objective of the Company's asset and liability management function is to evaluate the interest rate risk within the balance sheet and pursue a controlled assumption of interest rate risk while maximizing net income and preserving adequate levels of liquidity and capital. The Investment Committee of Independent Bank's Board of Directors has oversight of Independent Bank's asset and liability management function, which is managed by the Company's Treasurer. The Treasurer meets with the Company's Chief Financial Officer and senior executive 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 the Company.

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

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

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

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

The Company's interest rate risk model indicated that it was in an asset sensitive position in terms of interest rate sensitivity as of December 31, 2020. The table below illustrates the impact of an immediate and sustained 200 and 100 basis point increase and a 100 basis point decrease in interest rates on net interest income based on the interest rate risk model as of December 31, 2020:

Hypothetical Shift in Interest Rates (in bps)	% Change in Projected Net Interest Income
200	5.16%
100	2.08
(100)	(4.37)

The Company's model indicates that its projected balance sheet at December 31, 2020 is more asset sensitive in comparison to its balance sheet as of December 31, 2019. The shift to a more asset sensitive position was primarily due to an increase in the relative proportion of interest bearing deposits (primarily amounts held in an interest-bearing account at the Federal Reserve). Interest-bearing deposits are more immediately impacted by changes in interest rates in comparison to our other categories of earning assets.

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

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

As part of the Company's asset/liability management strategy, the Company's management has emphasized the origination of shorter duration loans to limit the negative exposure to rate changes. The average duration of the loan portfolio is less than four years. The Company's strategy with respect to liabilities has been to emphasize transaction accounts, particularly noninterest or low interest-bearing nonmaturing deposit accounts, which are less sensitive to changes in interest rates. In response to this strategy, nonmaturing deposit accounts have been a large portion of total deposits and totaled 90.2% and 84.7% of total deposits as of December 31, 2020 and 2019, respectively. The Company had brokered deposits, including CDARS totaling \$1.5 billion and \$894.1 million, at December 31, 2020 and 2019, respectively. The Company intends to focus on the Company's strategy of increasing noninterest or low interest-bearing nonmaturing deposit accounts, but may consider the use brokered deposits as a stable source of lower cost funding.

Inflation and Changing Prices

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

Critical Accounting Policies and Estimates

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

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

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

Acquired loans from the transactions accounted for as a business combination include both loans with evidence of credit deterioration since their origination date and performing loans. The Company accounts for performing loans under ASC Paragraph 310-20, *Nonrefundable Fees and Other Costs*, with the related difference in the initial fair value and unpaid principal balance (the discount) recognized as interest income on a level yield basis over the life of the loan. The Company accounts for the nonperforming loans acquired in accordance with ASC Paragraph 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. At the date of the acquisition, acquired loans are recorded at their fair value with no valuation allowance.

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

Upon an acquisition, the Company generally continues to use the classification of acquired loans classified nonaccrual or 90 days and still 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. ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which requires a new credit loss methodology, the current expected credit loss (CECL) model, became effective for the Company on January 1, 2020. As provided to financial institutions under the CARES Act enacted on March 27, 2020 and as amended by the Consolidated Appropriations Act, 2021 signed into law on December 27, 2020, the Company elected to defer the adoption of the current expected credit loss (CECL) accounting standard and has continued its consistent application of the incurred loss method for estimating its allowance for loan losses and provision for 2020. The Company adopted the CECL accounting standard as of January 1, 2021. Refer to Note 2, Recent Accounting Pronouncements, in the notes to the Company's consolidated financial statements included elsewhere in this report for additional information.

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 Other Intangible Assets. The excess purchase price over the fair value of net assets from acquisitions, or goodwill, is evaluated for impairment at least annually and on an interim basis if an event or circumstance indicates that it is likely an impairment has occurred. The Company first assesses qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, the Company determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing a quantitative impairment test is unnecessary. If the Company concludes otherwise, then it is required to perform an 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. During the period ended March 31, 2020, the economic turmoil and market volatility resulting from the COVID-19 pandemic crisis resulted in a substantial decrease in the Company's stock price and market capitalization. Management believed such decrease was a triggering indicator requiring an interim goodwill impairment quantitative analysis which resulted in no impairment charge for the period ended March 31, 2020. Subsequently, the Company's stock price and market capitalization has seen continued improvement through December 31, 2020. Refer to Note 1, Summary of Significant Accounting Policies, in the notes to the Company's consolidated financial statements included elsewhere in this report for additional information.

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

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

Recently Issued Accounting Pronouncements

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements, the reports thereon, the notes thereto and supplementary data commence at page 89 of this Annual Report on Form 10-K.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

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

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

As of December 31, 2020, management, including the Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control-Integrated Framework," issued by the Committee of Sponsoring Organizations, or COSO, of the Treadway Commission (2013 framework). Based on the assessment, management determined that the Company maintained effective internal control over financial reporting, as of December 31, 2020, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

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

Attestation report of the registered public accounting firm. The Company's independent registered public accounting firm that audited the Company's consolidated financial statements included in this Annual Report on Form 10-K has issued an attestation report on the Company's internal control over financial reporting. The attestation report of RSM US LLP, which expresses an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2020, appears below.

Report of Independent Registered Public Accounting Firm

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

Opinion on the Internal Control Over Financial Reporting

We have audited Independent Bank Group, Inc.'s (the Company) internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2020 and 2019, and the related statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2020, and our report dated March 1, 2021 expressed an unqualified opinion.

Basis for Opinion

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

RSM US LLP

Dallas, Texas
March 1, 2021

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item 10 is incorporated herein by reference to the information under the captions “Election of Directors,” “Our Board of Directors,” “Identification & Evaluation of Director Candidates,” “Nominee for Election,” “Continuing Directors,” “Executive Officers,” “Board Governance,” “Stock Ownership of Directors, Nominees, Executive Officers and Principal Shareholders,” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the Company’s definitive Proxy Statement for its 2021 Annual Meeting of Shareholders (the “2021 Proxy Statement”) to be filed with the Commission pursuant to Regulation 14A under the Exchange Act within 120 days of the Company’s fiscal year end.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is incorporated herein by reference to the information under the caption “Compensation Discussion & Analysis” in the 2021 Proxy Statement.

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

Certain information required by this Item 12 is included under “Securities Authorized for Issuance under Equity Compensation Plans” in Part II, Item 5 of this Annual Report on Form 10-K. The other information required by this Item is incorporated herein by reference to the information under the caption “Stock Ownership of Directors, Nominees, Executive Officers and Principal Shareholders” in the 2021 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this Item 13 is incorporated herein by reference to the information under the captions “Election of Directors,” “Board Governance-Director Independence” and “Related Person and Certain Other Transactions” in the 2021 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item 14 is incorporated herein by reference to the information under the caption “Fees Paid to Independent Registered Public Accounting Firm” and “Audit Committee Pre-Approval Policies and Procedures” in the 2021 Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

1. Consolidated Financial Statements. Reference is made to the Consolidated Financial Statements, the report thereon and the notes thereto commencing at page 89 of this Annual Report on Form 10-K. Set forth below is an index of such Consolidated Financial Statements:

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Consolidated Balance Sheets as of December 31, 2020 and 2019	89
Consolidated Statements of Income for the Years Ended December 31, 2020, 2019 and 2018	90
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2020, 2019 and 2018	91
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2020, 2019 and 2018	92
Consolidated Statements of Cash Flows for the Years Ended December 31, 2020, 2019 and 2018	93
Notes to Consolidated Financial Statements	95

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

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

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

EXHIBIT LIST

Exhibit Number	Description
3.1	Amended and Restated Certificate of Formation of the Company (incorporated herein by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 filed with the SEC on February 27, 2013 (Registration No. 333-186912) (the "Form S-1 Registration Statement"))
3.2	Certificate of Amendment to Amended and Restated Certificate of Formation of the Company (incorporated herein by reference to Exhibit 3.3 to Amendment No. 2 to the Form S-1 Registration Statement filed with SEC on April 1, 2013)
3.3	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Independent Bank Group, Inc. (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on May 28, 2019)
3.4	Statement of Designations of Senior Non-Cumulative Perpetual Preferred Stock, Series A of Independent Bank Group, Inc., as filed with the Office of the Secretary of State of the State of Texas on April 15, 2014 (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on April 17, 2014)
3.5	Fourth Amended and Restated Bylaws of Independent Bank Group, Inc. (incorporated herein by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on May 28, 2019)
3.6	Certificate of Merger, dated January 2, 2014, of Live Oak Financial Corp. with and into Independent Bank Group, Inc. (incorporated herein by reference to Exhibit 3.5 to Amendment No. 1 to the Company's Registration Statement on Form S-3 (Registration No. 333-196627 filed with the SEC on June 25, 2014 (the "Form S-3 Registration Statement"))
3.7	Certificate of Merger, dated April 15, 2014, of BOH Holdings, Inc. with and into Independent Bank Group, Inc. (incorporated herein by reference to Exhibit 3.6 to Amendment No. 1 to the Form S-3 Registration Statement filed with the SEC on June 25, 2014)
3.8	Certificate of Merger, dated September 30, 2014, of Houston City Bancshares, Inc. with and into Independent Bank Group, Inc. (incorporated by reference to Exhibit 3.7 to the Company's Quarterly Report on Form 10-Q, for the quarter ended June 30, 2015, filed with the SEC on July 31, 2015)
3.9	Certificate of Merger, dated March 31, 2017, of Carlile Bancshares, Inc. with and into Independent Bank Group, Inc. (incorporated by reference to Exhibit 3.8 to the Company's Quarterly Report on Form 10-Q, for the quarter ended March 31, 2017 filed with the SEC on April 27, 2017)
3.10	Certificate of Merger, dated October 23, 2017, of Washington Investment Company with and into Independent Bank Group, Inc. (incorporated by reference to Exhibit 3.9 to the Registrant's Current Report on Form 10-Q filed with the SEC on July 26, 2018)
3.11	Certificate of Merger, dated May 31, 2018, of Integrity Bancshares, Inc. with and into Independent Bank Group, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 10-Q filed with the SEC on July 26, 2018)
3.12	Certificate of Merger, dated December 27, 2018, but effective January 1, 2019, of Guaranty Bancorp with and into Independent Bank Group, Inc. (incorporated herein by reference to Exhibit 3.10 to the Company's Annual Report on Form 10-K for the year December 31, 2018, filed with the SEC on February 28, 2019)
4.1	Form of certificate representing shares of the Company's common stock (incorporated herein by reference to Exhibit 4.1 to Amendment No. 1 to the Form S-1 Registration Statement filed with the SEC on March 18, 2013)
4.2	Subordinated Debt Indenture, dated as of June 25, 2014, between Independent Bank Group, Inc. and Wells Fargo Bank, National Association, in its capacity as Indenture Trustee (incorporated herein by reference to Exhibit 4.6 to Amendment No. 1 to the S-3 Registration Statement filed with the SEC on June 25, 2014)
4.3	First Supplemental Indenture, dated as of July 17, 2014, between Independent Bank Group, Inc. and Wells Fargo Bank Shareowner Services, in its capacity as Indenture Trustee (incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, dated July 17, 2014)
4.4	Second Supplemental Indenture, dated as of December 19, 2017, between Independent Bank Group, Inc. and Wells Fargo Bank, National Association, as trustee (incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, dated December 19, 2017)
4.5	Third Supplemental Indenture, dated as of September 15, 2020, between Independent Bank Group, Inc. and Wells Fargo Bank, National Association, as trustee (incorporated herein by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K dated September 15, 2020)

- 4.6 Form of Global Note to represent the 5.875% Subordinated Notes due August 1, 2024, of the Company (incorporated herein by reference to Exhibit 4.5 in the Company's Quarterly Report on Form 10-Q, for the quarter ended September 30, 2017, filed with the SEC on October 26, 2017)
- 4.7 Form of Global Note to represent the 5.875% Subordinated Notes due August 1, 2024, of the Company (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, dated June 22, 2016)
- 4.8 Form of 5.00% Fixed-to-Floating Rate Subordinated Note due December 31, 2027 (incorporated by reference to Exhibit 4.2 to Independent Bank Group, Inc.'s Current Report on Form 8-K dated December 19, 2017)
- 4.9 Form of 4.00% Fixed-to-Floating Rate Subordinated Notes due 2030 (incorporated by reference to Exhibit 4.3 (included in exhibit 4.2) to the Company's Current Report on Form 8-K dated September 15, 2020)
- 4.10 Indenture, dated July 18, 2016, between Guaranty Bancorp and Wells Fargo Bank, National Association, in its capacity of Trustee*
- 4.11 First Supplemental Indenture, dated July 16, 2016, between Guaranty Bancorp and Wells Fargo Bank, National Association, in its capacity as Trustee, Paying Agent and Registrar*
- 4.12 Second Supplemental Indenture, dated July 16, 2016, between Guaranty Bancorp and Wells Fargo Bank, National Association, in its capacity as Trustee, Paying Agent and Registrar*
- 4.13 Form of 5.75% Fixed-to-Floating Rate Subordinated Note due July 20, 2026*
- 4.14 Description of Registrant's Securities*

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

- 4.15 Fifth Amendment to Independent Bank 401(k) Profit Sharing Plan*
- 10.1 Form of Indemnification Agreement for directors and officers (incorporated herein by reference to Exhibit 10.16 to the Form S-1 Registration Statement)
- 10.2 2015 Performance Award Plan (incorporated herein by reference to Annex A of the Company's definitive Proxy Statement for its 2015 Annual Meeting of Shareholders, dated April 13, 2015)
- 10.3(a) 2013 Equity Incentive Plan, with form of Restricted Stock Award Agreement (incorporated herein by reference to Exhibit 10.20 to the Form S-1 Registration Statement)
- 10.3(b) First Amendment to the 2013 Equity Incentive Plan (incorporated by reference to Appendix A to the Company's proxy statement for its 2018 Annual Meeting of Shareholders filed with the SEC on April 26, 2018)
- 10.3(c) Second Amendment to the 2013 Equity Incentive Plan (incorporated by reference to Exhibit 10.3(c) to the Company's Annual Report on Form 10-K/A dated March 6, 2020)
- 10.3(d) Form of Performance Restricted Stock Unit Agreement for performance based restricted stock units (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2020, filed with the SEC on October 29, 2020)
- 10.3(e) Form of Restricted Stock Agreement for restricted stock grants with ratable vesting (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2020, filed with the SEC on October 29, 2020)
- 10.4(a) Credit Agreement, dated as of January 17, 2019, between Independent Bank Group, Inc., in favor of U.S. Bank National Association (incorporated herein by reference to Exhibit 10.1(a) to the Company's Current Report on Form 8-K, dated January 17, 2019)
- 10.4(b) Revolving Credit Note, dated January 17, 2019, by Independent Bank Group, Inc. in favor of U.S. Bank National Association (incorporated herein by reference to Exhibit 10.1(b) to the Company's Current Report on Form 8-K, dated January 17, 2019)
- 10.4(c) Negative Pledge Agreement, dated as of January 17, 2019, by the Company, in favor of U.S. Bank National Association (incorporated herein by reference to Exhibit 10.1(c) to the Company's Current Report on Form 8-K, dated January 17, 2019)
- 10.4(d) First Amendment to Credit Agreement between Independent Bank Group, Inc. and U.S. Bank National Association, dated January 17, 2020 (incorporated by reference to Exhibit 10.4(d) to the Company's Annual Report on Form 10-K/A dated March 6, 2020)
- 10.4(e) Second Amendment to Credit Agreement between Independent Bank Group, Inc. and U.S. Bank National Association, dated January 17, 2021*

10.5	Employment Agreement, dated March 25, 2016, between Independent Bank and James C. White and joined in by the Company (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2016, filed with the SEC on July 27, 2016)
10.6(a)	Form of Change in Control Agreement, dated July 26, 2016, between the Company and certain Executive Officers (incorporated herein by reference to Exhibit 10.1(a) to the Company's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2016, filed with the SEC on October 27, 2016)
10.6(b)	Schedule of Executive Officers who have executed a Change in Control Agreement*
10.7	Separation Agreement between Brian Hobart, Independent Bank and Independent Bank Group, Inc., dated November 11, 2019 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, dated November 11, 2019)
21.1	Subsidiaries of Independent Bank Group, Inc. (incorporated by reference to Exhibit 21.1 to the Company's Annual Report on Form 10-K/A dated March 6, 2020)
23.1	Consent of RSM US LLP, Independent Registered Public Accounting Firm of Independent Bank Group, Inc.*
31.1	Chief Executive Officer Section 302 Certification*
31.2	Chief Financial Officer Section 302 Certification*
32.1	Chief Executive Officer Section 906 Certification***
32.2	Chief Financial Officer Section 906 Certification***
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*
104	Cover Page Interactive Data File (the cover page XBRL tags are embedded within the Inline XBRL document)

* Filed herewith as an Exhibit

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

*** Furnished herewith as an Exhibit

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

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

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Independent Bank Group, Inc. and its subsidiaries (the Company) as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 1, 2021 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

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

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

Critical Audit Matters

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

Allowance for Loan Losses

As described in Note 6 of the consolidated financial statements, the Company's allowance for loan losses totaled \$87.8 million as of December 31, 2020, including \$79.1 million allocated to the collectively evaluated loans and \$8.7 million allocated to individually evaluated loans. The Company determines the allowance for loan losses by estimating probable and reasonably estimable loan losses inherent in loans held for investment as of the balance sheet date. The allowance for loan losses contains provisions for probable losses that have been identified relating to specifically identified loans (reserve for loans individually evaluated), as well as probable losses inherent in the loan portfolio and credit undertakings that are not specifically identified (reserve for loans collectively evaluated). The reserve for loans individually evaluated is established utilizing either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of collateral if the loan is collateral dependent. The reserve for loans collectively evaluated is established through historical loss experience adjusted for qualitative factors. Qualitative factors used by the Company include considerations such as 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. The measurement of the qualitative factors considered in the allowance for loans collectively evaluated requires a significant amount of judgment by management and the estimate is highly sensitive to changes in significant assumptions.

We identified the determination of qualitative factors applied to the collectively evaluated reserve of the allowance for loan losses as a critical audit matter because auditing the qualitative factors of the allowance required a high degree of auditor judgment, as the assumptions determined by management are highly subjective and the estimate is highly sensitive to changes in significant assumptions.

Our audit procedures related to the qualitative factors applied to loans collectively evaluated included the following, among others:

- We obtained an understanding of the relevant controls related to the development of qualitative factors and tested such controls for design and operating effectiveness, including controls over management's establishment, review and approval of the qualitative factors and data used in determining the qualitative factors.
- We tested management's process and evaluated the reasonableness of their judgements and assumptions to develop the qualitative factors, which included:
 - Testing the accuracy of the data inputs used by management as a basis for the adjustments for qualitative factors by comparing to internal and external source data and assessing the reasonableness of the magnitude and directional consistency of the adjustments.
 - Evaluating whether management's conclusions were consistent with Company-provided internal data or independently sourced data and agreeing the impact to the allowance calculation.

Goodwill

As described in Notes 1 and 8 of the consolidated financial statements, the Company's recorded goodwill was \$994.0 million as of December 31, 2020. The Company tests goodwill of a reporting unit for impairment annually on December 31 or on an interim basis if an event or circumstance indicates it is more likely than not that the fair value of the reporting unit is less than its carrying amount. During the quarter ended March 31, 2020, the economic turmoil and market volatility resulting from the COVID-19 crisis resulted in a substantial decrease in the Company's stock price and market capitalization. Management determined such decrease was a triggering event requiring an interim quantitative impairment test. The Company estimates the fair value of the reporting unit by making significant estimates and assumptions related to the specific circumstances of the reporting unit such as net interest income and net income projections, based on historical results and industry data, and the selection of an appropriate discount rate and control premium as well as consideration of transactions involving banks similar to the Company and related multiples. The application of these valuation methodologies and necessary assumptions requires a significant amount of judgment by management and the estimate is highly sensitive to changes in significant assumptions.

We identified the interim goodwill impairment assessment as a critical audit matter because of the complexity of the analysis and certain significant assumptions, including the projected cash flows, effective discount rate, control premium and comparable market companies. Auditing management's assumptions required significant auditor judgment and increased audit effort, including the use of our internal valuation specialists.

Our audit procedures related to the interim goodwill impairment assessment included the following, among others:

- We obtained an understanding of the relevant controls related to the interim goodwill impairment assessment and tested such controls for design and operating effectiveness, including controls over management's preparation of cash flow projections, review of the significant assumptions such as discount rate, control premium and price multiples of comparable market companies and review of the computations made within the assessment.
- We evaluated the reasonableness of management's cash flow projections by comparing prior forecasts to historical data and by comparison of operating ratios such as return on assets, loan to deposit ratios and net interest margin to historical and peer group results.
- We utilized our internal valuation specialists to assist in:
 - Evaluating the reasonableness of the control premium used by comparing to premiums paid in transactions where similar companies were acquired.
 - Evaluating the price multiples of comparable market companies by comparing management's assumptions to information publicly available.
 - Evaluating the effective discount rate by comparing to publicly available market data.

RSM US LLP

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

Dallas, Texas
March 1, 2021

Independent Bank Group, Inc. and Subsidiaries
Consolidated Balance Sheets
December 31, 2020 and 2019
(Dollars in thousands, except share information)

Assets	December 31,	
	2020	2019
Cash and due from banks	\$ 250,485	\$ 186,299
Interest-bearing deposits in other banks	1,563,502	378,871
Cash and cash equivalents	1,813,987	565,170
Certificates of deposit held in other banks	4,482	5,719
Securities available for sale, at fair value	1,153,693	1,085,936
Loans held for sale (includes \$71,769 and \$29,204 carried at fair value, respectively)	82,647	35,645
Loans, net	12,978,238	11,562,814
Premises and equipment, net	249,467	242,874
Other real estate owned	475	4,819
Federal Home Loan Bank (FHLB) of Dallas stock and other restricted stock	20,305	30,052
Bank-owned life insurance (BOLI)	220,428	215,081
Deferred tax asset	3,933	6,943
Goodwill	994,021	994,021
Other intangible assets, net	88,070	100,741
Other assets	143,730	108,392
Total assets	\$ 17,753,476	\$ 14,958,207
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing	\$ 4,164,800	\$ 3,240,185
Interest-bearing	10,234,127	8,701,151
Total deposits	14,398,927	11,941,336
FHLB advances	375,000	325,000
Other borrowings	312,175	202,251
Junior subordinated debentures	54,023	53,824
Other liabilities	97,980	96,023
Total liabilities	15,238,105	12,618,434
Commitments and contingencies		
Stockholders' equity:		
Preferred stock (0 and 0 shares outstanding, respectively)	—	—
Common stock (43,137,104 and 42,950,228 shares outstanding, respectively)	431	430
Additional paid-in capital	1,934,807	1,926,359
Retained earnings	543,800	393,674
Accumulated other comprehensive income	36,333	19,310
Total stockholders' equity	2,515,371	2,339,773
Total liabilities and stockholders' equity	\$ 17,753,476	\$ 14,958,207

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries
Consolidated Statements of Income
Years Ended December 31, 2020, 2019 and 2018
(Dollars in thousands, except per share information)

	Years Ended December 31,		
	2020	2019	2018
Interest income:			
Interest and fees on loans	\$ 579,085	\$ 611,589	\$ 384,791
Interest on taxable securities	19,150	21,324	14,007
Interest on nontaxable securities	8,472	8,482	4,580
Interest on interest-bearing deposits and other	4,799	11,537	3,912
Total interest income	611,506	652,932	407,290
Interest expense:			
Interest on deposits	76,266	123,384	60,767
Interest on FHLB advances	4,170	10,173	10,264
Interest on other borrowings	12,462	11,590	8,398
Interest on junior subordinated debentures	2,162	3,028	1,609
Total interest expense	95,060	148,175	81,038
Net interest income	516,446	504,757	326,252
Provision for loan losses	42,993	14,805	9,860
Net interest income after provision for loan losses	473,453	489,952	316,392
Noninterest income:			
Service charges on deposit accounts	9,303	12,145	7,039
Investment management and trust	7,546	9,330	—
Mortgage banking revenue	36,491	15,461	15,512
Gain on sale of loans	356	6,779	—
Gain on sale of branches	—	1,549	—
Gain on sale of trust business	—	1,319	—
(Loss) gain on sale of other real estate	(36)	875	269
Gain (loss) on sale of securities available for sale	382	275	(581)
Gain (loss) on sale and disposal of premises and equipment	370	(585)	123
Increase in cash surrender value of BOLI	5,347	5,525	3,170
Other	25,304	25,503	16,692
Total noninterest income	85,063	78,176	42,224
Noninterest expense:			
Salaries and employee benefits	157,540	162,683	111,697
Occupancy	39,210	37,654	24,786
Communications and technology	23,113	22,248	14,107
FDIC assessment	6,912	1,065	3,306
Advertising and public relations	2,416	2,527	1,907
Other real estate owned expenses, net	487	418	318
Impairment of other real estate	784	1,801	85
Amortization of other intangible assets	12,671	12,880	5,739
Professional fees	12,630	7,936	4,556
Acquisition expense, including legal	16,225	33,445	6,157
Other	34,146	39,207	25,961
Total noninterest expense	306,134	321,864	198,619
Income before taxes	252,382	246,264	159,997
Income tax expense	51,173	53,528	31,738
Net income	\$ 201,209	\$ 192,736	\$ 128,259
Basic earnings per share	\$ 4.67	\$ 4.46	\$ 4.33
Diluted earnings per share	\$ 4.67	\$ 4.46	\$ 4.33

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2020, 2019 and 2018
(Dollars in thousands)

	Years Ended December 31,		
	2020	2019	2018
Net income	\$ 201,209	\$ 192,736	\$ 128,259
Other comprehensive income (loss) before tax:			
Change in net unrealized gains (losses) on available for sale securities during the year	21,540	35,620	(10,182)
Reclassification for amount realized through sales of securities available for sale included in net income	(382)	(275)	581
Other comprehensive income (loss) before tax	21,158	35,345	(9,601)
Income tax expense (benefit)	4,135	7,730	(2,016)
Other comprehensive income (loss), net of tax	17,023	27,615	(7,585)
Comprehensive income	\$ 218,232	\$ 220,351	\$ 120,674

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2020, 2019 and 2018
(Dollars in thousands, except for par value, share and per share information)

	Preferred Stock \$0.01 Par Value 10 million shares authorized	Common Stock \$0.01 Par Value 100 million shares authorized		Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
		Shares	Amount				
Balance, December 31, 2017	\$ —	28,254,893	\$ 283	\$ 1,151,990	\$ 184,232	\$ (487)	\$ 1,336,018
Cumulative effect of change in accounting principles	—	—	—	—	233	(233)	—
Adjusted beginning balance	—	28,254,893	283	1,151,990	184,465	(720)	1,336,018
Net income	—	—	—	—	128,259	—	128,259
Other comprehensive loss, net of tax	—	—	—	—	—	(7,585)	(7,585)
Stock issued for acquisition of bank, net of offering costs of \$209	—	2,071,981	21	157,033	—	—	157,054
Restricted stock forfeited	—	(3,845)	—	—	—	—	—
Restricted stock granted	—	130,212	1	(1)	—	—	—
Stock based compensation expense	—	—	—	6,062	—	—	6,062
Exercise of warrants	—	147,341	1	2,532	—	—	2,533
Cash dividends (\$0.54 per share)	—	—	—	—	(15,908)	—	(15,908)
Balance, December 31, 2018	\$ —	30,600,582	\$ 306	\$ 1,317,616	\$ 296,816	\$ (8,305)	\$ 1,606,433
Cumulative effect of change in accounting principles	—	—	—	—	(926)	—	(926)
Adjusted beginning balance	—	30,600,582	306	1,317,616	295,890	(8,305)	1,605,507
Net income	—	—	—	—	192,736	—	192,736
Other comprehensive income, net of tax	—	—	—	—	—	27,615	27,615
Stock issued for acquisition of bank, net of offering costs of \$804	—	13,179,748	132	600,936	—	—	601,068
Common stock repurchased	—	(952,844)	(9)	—	(51,650)	—	(51,659)
Restricted stock forfeited	—	(15,866)	—	—	—	—	—
Restricted stock granted	—	138,608	1	(1)	—	—	—
Stock based compensation expense	—	—	—	7,808	—	—	7,808
Cash dividends (\$1.00 per share)	—	—	—	—	(43,302)	—	(43,302)
Balance, December 31, 2019	\$ —	42,950,228	\$ 430	\$ 1,926,359	\$ 393,674	\$ 19,310	\$ 2,339,773
Net income	—	—	—	—	201,209	—	201,209
Other comprehensive income, net of tax	—	—	—	—	—	17,023	17,023
Common stock repurchased	—	(112,499)	(1)	—	(5,818)	—	(5,819)
Restricted stock forfeited	—	(10,915)	—	—	—	—	—
Restricted stock granted	—	310,290	2	(2)	—	—	—
Stock based compensation expense	—	—	—	8,450	—	—	8,450
Cash dividends (\$1.05 per share)	—	—	—	—	(45,265)	—	(45,265)
Balance, December 31, 2020	\$ —	43,137,104	\$ 431	\$ 1,934,807	\$ 543,800	\$ 36,333	\$ 2,515,371

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2020, 2019 and 2018
(Dollars in thousands)

	Years Ended December 31,		
	2020	2019	2018
Cash flows from operating activities:			
Net income	\$ 201,209	\$ 192,736	\$ 128,259
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	12,728	11,783	8,391
Accretion of income recognized on acquired loans	(30,378)	(46,071)	(13,523)
Amortization of other intangibles assets	12,671	12,880	5,739
Amortization of premium on securities, net	2,892	2,671	3,316
Amortization of discount and origination costs on borrowings	720	633	633
Stock based compensation expense	8,450	7,808	6,062
Excess tax expense (benefit) on restricted stock vested	243	21	(646)
FHLB stock dividends	(567)	(854)	(791)
(Gain) loss on sale and disposal of premises and equipment	(370)	585	(123)
Gain on sale of loans	(356)	(6,779)	—
Gain on sale of branch	—	(1,549)	—
Gain on sale of trust business	—	(1,319)	—
(Gain) loss on sale of securities available for sale	(382)	(275)	581
Loss (gain) on sale of other real estate owned	36	(875)	(269)
Impairment of other real estate	784	1,801	85
Impairment of other assets	462	1,173	—
Deferred tax (benefit) expense	(1,633)	14,102	1,937
Provision for loan losses	42,993	14,805	9,860
Increase in cash surrender value of BOLI	(5,347)	(5,525)	(3,170)
Net gain on mortgage loans held for sale	(38,175)	(15,133)	(13,794)
Originations of loans held for sale	(901,163)	(435,076)	(384,178)
Proceeds from sale of loans held for sale	892,336	447,291	404,447
Net change in other assets	(35,025)	(5,878)	(14,352)
Net change in other liabilities	(7,833)	(15,636)	20,277
Net cash provided by operating activities	154,295	173,319	158,741
Cash flows from investing activities:			
Proceeds from maturities, calls and pay downs of securities available for sale	5,507,844	5,400,634	3,660,624
Proceeds from sale of securities available for sale	13,862	192,417	102,647
Purchases of securities available for sale	(5,570,815)	(5,390,543)	(3,674,396)
Purchases of certificates of deposit held in other banks	—	(5,705)	—
Proceeds from maturities of certificates of deposit held in other banks	1,237	1,473	11,760
Proceeds from surrender of bank owned life insurance contracts	—	802	—
Purchase of bank owned life insurance contracts	—	—	(5,000)
Purchases of FHLB stock and other restricted stock	(27,037)	(9,397)	(6,144)
Proceeds from redemptions of FHLB stock and other restricted stock	37,351	34,863	12,606
Proceeds from sale of loans	19,181	90,025	—
Net loans originated held for investment	(674,142)	(469,023)	(746,804)
Originations of mortgage warehouse purchase loans	(25,833,339)	(12,835,522)	(5,128,767)
Proceeds from pay-offs of mortgage warehouse purchase loans	25,066,859	12,318,495	5,123,171
Additions to premises and equipment	(21,135)	(31,680)	(38,110)
Proceeds from sale of premises and equipment	2,022	2,100	14,479
Proceeds from sale of other real estate owned	6,724	8,207	3,520
Cash acquired in connection with acquisition	—	39,913	44,723
Cash paid in connection with acquisition	—	(9)	(31,016)
Selling costs paid in connection with branch sale	—	(144)	—
Net cash transferred in branch sale	—	(25,163)	—
Proceeds from sale of trust business	—	4,269	—
Net cash used in investing activities	(1,471,388)	(673,988)	(656,707)

Independent Bank Group, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2020, 2019 and 2018
(Dollars in thousands)

	Years Ended December 31,		
	2020	2019	2018
Cash flows from financing activities:			
Net increase in demand deposits, money market and savings accounts	2,871,869	876,842	363,003
Net (decrease) increase in time deposits	(414,278)	237,136	148,891
Repayments of FHLB advances	(1,550,000)	(1,807,653)	(1,985,667)
Proceeds from FHLB advances	1,600,000	1,700,000	1,685,000
Proceeds from other borrowings	156,489	65,000	—
Repayments of other borrowings	(47,086)	(40,500)	—
Proceeds from exercise of common stock warrants	—	—	2,533
Offering costs paid in connection with acquired bank	—	(804)	(209)
Repurchase of common stock	(5,819)	(51,659)	—
Dividends paid	(45,265)	(43,302)	(15,908)
Net cash provided by financing activities	2,565,910	935,060	197,643
Net change in cash and cash equivalents	1,248,817	434,391	(300,323)
Cash and cash equivalents at beginning of period	565,170	130,779	431,102
Cash and cash equivalents at end of period	<u>\$ 1,813,987</u>	<u>\$ 565,170</u>	<u>\$ 130,779</u>

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands, except for share and per share information)

Note 1. Summary of Significant Accounting Policies

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

On January 1, 2019, the Company acquired Guaranty Bancorp (Guaranty) and its wholly owned subsidiary, Guaranty Bank and Trust Company (Guaranty Bank) and its wholly owned subsidiary, Private Capital Management, LLC. Guaranty was merged into the Company and dissolved and Guaranty Bank and its subsidiary was merged with the Bank as of acquisition date. The Company also acquired two statutory business trusts in connection with the acquisition as disclosed in Note 12, Junior Subordinated Debentures. See Note 22, Business Combinations, for more details of the Guaranty acquisition.

Basis of presentation: The accompanying consolidated financial statements include the accounts of IBG and all other entities in which IBG has controlling financial interest. All material intercompany transactions and balances have been eliminated in consolidation. In addition, the Company wholly-owns nine statutory business trusts that were formed for the purpose of issuing trust preferred securities and do not meet the criteria for consolidation (See Note 12, Junior Subordinated Debentures).

Accounting standards codification: The Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) is the officially recognized source of authoritative U.S. generally accepted accounting principles (GAAP) applicable to all public and non-public non-governmental entities. Rules and interpretive releases of the SEC under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered non-authoritative. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure.

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

Reclassifications: Certain prior period financial statement and disclosure amounts have been reclassified to conform to current period presentation. The reclassifications have no effect on net income or stockholders' equity as previously reported.

Use of estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates. The material estimates included in the financial statements relate to the allowance for loan losses, the valuation of goodwill and valuation of assets and liabilities acquired in business combinations.

Cash and cash equivalents: For the purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold. All highly liquid investments with an initial maturity of less than ninety days are considered to be cash equivalents. The Company maintains deposits with other financial institutions in amounts that exceed FDIC insurance coverage. The Company's management monitors the balance in these accounts and periodically assesses the financial condition of the other financial institutions. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks on cash or cash equivalents.

Certificates of deposit: Certificates of deposit are FDIC insured deposits in other financial institutions that mature within 18 months and are carried at cost.

Independent Bank Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollars in thousands, except for share and per share information)

Securities: Securities classified as available for sale are those debt securities that the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors.

Securities available for sale are reported at fair value with unrealized gains or losses reported as a separate component of other comprehensive income, net of tax. The amortization of premiums and accretion of discounts, computed by the interest method generally over their contractual lives, are recognized in interest income. Premiums on callable securities are amortized to their earliest call date. Prior to the adoption of a new accounting standard in 2019, as further discussed in Note 2, Recent Accounting Pronouncements, premiums on callable securities were amortized to their respective maturity dates unless such securities were included in pools for the purposes of assessing prepayment expectations.

Realized gains or losses, determined on the basis of the cost of specific securities sold, are included in earnings on the trade date.

In estimating other than temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent of the Company to retain its investment and whether it is more likely than not the Company will be required to sell its investment before its anticipated recovery in fair value. When the Company does not intend to sell the security, and it is more likely than not that it will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other than temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income.

Loans held for sale: The Company originates residential mortgage loans that may subsequently be sold to unaffiliated third parties. The Company elected the fair value option for certain residential mortgage loans held for sale originated after July 1, 2018 in accordance with ASC 825, *Financial Instruments*. This election allows for a more effective offset of the changes in fair values of the loans and the derivative instruments used to economically hedge them without the burden of complying with the requirements for hedge accounting under ASC 815, *Derivatives and Hedging*. The Company has not elected the fair value option for other residential mortgage loans held for sale primarily because they are not economically hedged using derivative instruments. Mortgage loans originated and intended for sale not recorded under the fair value option are carried at the lower of aggregate cost or fair value, as determined by aggregate outstanding commitments from investors. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. All mortgage loans held for sale are sold without servicing rights retained. Gains and losses on sales of loans are recognized in noninterest income at settlement dates and are determined by the difference between the sales proceeds and the carrying value of the loans.

Acquired loans: Acquired loans from the transactions accounted for as a business combination include both nonperforming loans with evidence of credit deterioration since their origination date and performing loans. The Company is accounting for the nonperforming loans acquired in accordance with ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. The performing loans are being accounted for under ASC 310-20, *Nonrefundable Fees and Other Costs*, with the related difference in the initial fair value and unpaid principal balance (the discount) recognized as interest income on a level yield basis over the life of the loan. At the date of the acquisition, the acquired loans are recorded at their fair value with no valuation allowance.

Purchased credit impaired loans are accounted for individually or aggregated into pools of loans based on common risk. The Company estimates the amount and timing of undiscounted expected cash flows for each loan, and the expected cash flows in excess of fair value is recorded as interest income over the remaining life of the loan (accretable yield). The excess of the loan's contractual principal and interest over expected cash flows is not recorded (nonaccretable difference).

Over the life of the loan, expected cash flows continue to be estimated. If the expected cash flows decrease, an impairment loss is recorded. If the expected cash flows increase, it is recognized as part of future interest income.

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Loans, net: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balance, net of unearned interest, purchase premiums and discounts, deferred loan fees or costs and an allowance for loan losses. Loan origination fees, net of direct origination costs, are deferred and recognized as an adjustment to the related loan yield using the effective interest method without anticipating prepayments. Prior to the year ended December 31, 2019, fees and costs associated with originating loans were generally recognized in the period they were incurred. Management believes that not deferring such fees and costs did not materially affect the financial position or results of operations of the Company.

Allowance for loan losses: The allowance for loan losses is maintained at a level considered adequate by management to provide for probable loan losses. The allowance is increased by provisions charged to expense. Loans are charged against the allowance for loan losses when management believes that collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance. The provision for loan losses is the amount, which, in the judgment of management, is necessary to establish the allowance for loan losses at a level that is adequate to absorb known and inherent risks in the loan portfolio. See Note 6, Loans, Net and Allowance for Loan Losses, for further information on the Company's policies and methodology used to estimate the allowance for loan losses.

Premises and equipment, net: Land is carried at cost. Bank premises, furniture and equipment and aircraft are carried at cost, less accumulated depreciation computed principally by the straight-line method over the estimated useful lives of the assets, which range from three to thirty years. Real property acquired after January 1, 2019, accounts for depreciation using the straight-line method over the estimated useful lives of the assets considering the salvage value of the real property.

Leasehold improvements are carried at cost and are depreciated over the shorter of the estimated useful life or the lease period.

Software: Costs incurred in connection with development or purchase of internal use software and cloud computing arrangements, including in-substance software licenses, are capitalized. Amortization is computed on a straight-line basis over the estimated useful life of the asset, which generally ranges from one to five years. Capitalized software is included in other assets in the consolidated balance sheets.

Leases: On January 1, 2019, the Company adopted ASU 2016-02, *Leases (Topic 842)*, as further explained below and in Note 2, Recent Accounting Pronouncements.

For operating leases with a term greater than one year, the Company recognizes operating right-of-use (ROU) lease assets and operating lease liabilities, which are recorded in other assets and other liabilities, respectively, in the consolidated balance sheets. The Company determines if an arrangement is a lease at inception. Operating ROU lease assets and related liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate referenced to the Federal Home Loan Bank Secure Connect advance rates for borrowings of similar terms in determining the present value of lease payments. The operating ROU lease asset also includes any lease pre-payments made and excludes lease incentives. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company has lease agreements with lease and non-lease components, which the Company has elected to account for separately as the non-lease component amounts are readily determinable under most leases.

Long-term assets: Premises and equipment and other long-term assets are reviewed for impairment when events indicate that their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Other real estate owned: Real estate properties acquired through, or in lieu of, loan foreclosure are initially recorded at fair value less estimated selling costs at the date of foreclosure, establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less cost to sell.

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Revenue and expenses from operations of other real estate owned and impairment charges on other real estate are included in noninterest expense. Gains and losses on sale of other real estate are included in noninterest income.

Goodwill and other intangible assets, net: Goodwill represents the excess of costs over fair value of net assets of businesses acquired. Goodwill is tested for impairment annually on December 31 or on an interim basis if an event triggering impairment may have occurred. On January 1, 2020, ASU 2017-04, Intangibles - *Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment* became effective for the Company as further explained in Note 2, Recent Accounting Pronouncements. Under the new guidance, if a reporting unit's carrying amount exceeds its fair value, an entity will record an impairment charge based on that difference. During the period ended March 31, 2020, the economic turmoil and market volatility resulting from the COVID-19 crisis resulted in a substantial decrease in the Company's stock price and market capitalization. Management believed such decrease was a triggering indicator requiring an interim goodwill impairment quantitative analysis. Under the new simplified guidance, the Company's estimated fair value to a market participant as of March 31, 2020, exceeded its carrying amount resulting in no impairment charge for the period. Over subsequent periods, the Company's stock price and market capitalization has continued to increase and management's future projections have not materially changed. As of December 31, 2020, the fair value of the Company's stock price and calculated market capitalization exceeds its carrying value.

Core deposit intangibles and other acquired customer relationship intangibles arising from bank acquisitions are amortized on a straight-line basis over their estimated useful lives of ten years and thirteen years, respectively. Other intangible assets are tested for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable from future undiscounted cash flows.

Restricted stock: The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB of Dallas and other restricted stock do not have readily determinable fair values as ownership is restricted and they lack a ready market. As a result, these stocks are carried at cost and evaluated periodically by management for impairment. Both cash and stock dividends are reported as income.

Bank-owned life insurance: Bank-owned life insurance is recorded at the amount that can be realized under the insurance contracts at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. Changes in the net cash surrender value of the policies, as well as insurance proceeds received are reflected in noninterest income.

Income taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities (excluding deferred tax assets and liabilities related to business combinations or components of other comprehensive income). Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. The effect of a change in tax rates on deferred assets and liabilities is recognized in income taxes during the period that includes the enactment date. A valuation allowance, if needed, reduces deferred tax assets to the expected amount more likely than not to be realized. Realization of deferred tax assets is dependent upon the level of historical income, prudent and feasible tax planning strategies, reversals of deferred tax liabilities and estimates of future taxable income.

The Company evaluates uncertain tax positions at the end of each reporting period. The Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefit recognized in the financial statements from any such position is measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. Any interest and/or penalties related to income taxes are reported as a component of income tax expense.

Loan commitments and related financial instruments: In the ordinary course of business, the Company has entered into certain off-balance-sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

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Management estimates losses on off-balance-sheet financial instruments using the same methodology as for portfolio loans. Estimated losses on off-balance-sheet financial instruments are recorded by charges to the provision for losses and credits to other liabilities in the Company's consolidated balance sheet. There were no estimated losses on off-balance sheet financial instruments as of December 31, 2020 or 2019.

Stock based compensation: Compensation cost is recognized for restricted stock awards/stock units issued to employees based on the market price of the Company's common stock on the grant date. Stock-based compensation expense is generally recognized using the straight-line method over the requisite service period for time-based awards. Compensation expense for performance stock units is recognized over the service period of the award based upon the probable number of units expected to vest. The impact of forfeitures of stock-based payment awards on compensation expense is recognized as forfeitures occur.

Transfers of financial assets: Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Advertising costs: Advertising costs are expensed as incurred.

Business combinations: The Company applies the acquisition method of accounting for business combinations. Under the acquisition method, the acquiring entity in a business combination recognizes 100% of the assets acquired and liabilities assumed at their acquisition date fair values. Management utilizes valuation techniques appropriate for the asset or liability being measured in determining these fair values. Any excess of the purchase price over amounts allocated to assets acquired, including identifiable intangible assets, and liabilities assumed is recorded as goodwill. Where amounts allocated to assets acquired and liabilities assumed is greater than the purchase price, a bargain purchase gain is recognized. Adjustments identified during the measurement period are recognized in the reporting period in which the adjustment amounts are determined. Acquisition-related costs are expensed as incurred.

Comprehensive income: Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income. Gains and losses on available for sale securities are reclassified to net income as the gains or losses are realized upon sale of the securities. The credit component of other than temporary impairment charges are reclassified to net income at the time of the charge.

Fair values of financial instruments: Accounting standards define fair value, establish a framework for measuring fair value in U.S. generally accepted accounting principles, and require certain disclosures about fair value measurements (see Note 18, Fair Value Measurements). In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

Derivative financial instruments: The Company enters into certain derivative financial instruments: interest rate lock commitments, forward mortgage-backed securities trades and interest rate swaps. These financial instruments are not designated as hedging instruments and are used for asset and liability management related to the Company's mortgage banking activities and commercial customers' financing needs. All derivatives are carried at fair value in either other assets or other liabilities (see Note 19, Derivative Financial Instruments).

Mortgage banking: This revenue category reflects the Company's mortgage production revenue, including fees and income derived from mortgages originated with the intent to sell, gains on sales of mortgage loans and the initial and subsequent changes in the fair value of the mortgage derivatives. Interest earned on mortgage loans is recorded in interest income.

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Revenue recognition: ASC Topic 606, *Revenue from Contracts with Customers (ASC 606)*, establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The majority of the Company's revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as loans, letters of credit, and investment securities, as well as revenue related to mortgage banking activities, and BOLI, as these activities are subject to other accounting guidance. Descriptions of revenue-generating activities that are within the scope of ASC 606, and are presented in the accompanying Consolidated Statements of Income as components of noninterest income, are as follows:

- Service charges on deposit accounts - these represent general service fees for monthly account maintenance and activity or transaction-based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Revenue is recognized when the performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed (such as a wire transfer). Payment for such performance obligations are generally received at the time the performance obligations are satisfied.
- Investment management and trust - includes income related to providing investment management and trust services to customers under investment management and trust contracts. Also included are fees received from a third party broker-dealer as part of a revenue-sharing agreement for fees earned from customers that are referred to a third party. The investment management fees and referral fees are billed and paid on a quarterly basis and recognized ratably throughout the quarter as performance obligations are satisfied.
- Gains/losses on the sale of other real estate owned - generally recognized when the performance obligation is complete which is typically at delivery of control over the property to the buyer at time of each real estate closing.
- Other noninterest income - includes the Company's correspondent bank earnings credit, mortgage warehouse purchase program fees, acquired loan recoveries, other deposit fees, and merchant interchange income. The majority of these fees in other noninterest income are not subject to the requirements of ASC 606. The other deposit fees and merchant interchange income are in the scope of ASC 606, and payment for such performance obligations are generally received at the time the performance obligations are satisfied.

The Company has made no significant judgments in applying the revenue guidance prescribed in ASC 606 that affect the determination of the amount and timing of revenue from the above-described contracts with customers.

Subsequent events: Companies are required to evaluate events and transactions that occur after the balance sheet date but before the date the financial statements are issued. They must recognize in the financial statements the effect of all events or transactions that provide additional evidence of conditions that existed at the balance sheet date, including the estimates inherent in the financial statement preparation process. Entities shall not recognize the impact of events or transactions that provide evidence about conditions that did not exist at the balance sheet date but arose after that date. The Company has evaluated subsequent events through the date of filing these financial statements with the Securities and Exchange Commission (SEC) and noted no subsequent events requiring financial statement recognition or disclosure, except as disclosed in Note 24.

Earnings per share: Basic earnings per common share is calculated as net income available to common shareholders divided by the weighted average number of common shares outstanding during the period. The unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation. The participating nonvested common stock was not included in dilutive shares as it was anti-dilutive for the years ended December 31, 2020, 2019 and 2018.

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The following table presents a reconciliation of net income available to common shareholders and the number of shares used in the calculation of basic and diluted earnings per common share.

	Years Ended December 31,		
	2020	2019	2018
Basic earnings per share:			
Net income	\$ 201,209	\$ 192,736	\$ 128,259
Less:			
Undistributed earnings allocated to participating securities	1,311	971	976
Dividends paid on participating securities	380	281	139
Net income available to common shareholders	\$ 199,518	\$ 191,484	\$ 127,144
Weighted average basic shares outstanding	42,754,606	42,964,393	29,341,843
Basic earnings per share	\$ 4.67	\$ 4.46	\$ 4.33
Diluted earnings per share:			
Net income available to common shareholders	\$ 199,518	\$ 191,484	\$ 127,144
Total weighted average basic shares outstanding	42,754,606	42,964,393	29,341,843
Total weighted average diluted shares outstanding	42,754,606	42,964,393	29,341,843
Diluted earnings per share	\$ 4.67	\$ 4.46	\$ 4.33
Anti-dilutive participating securities	58,359	73,546	114,087

Note 2. Recent Accounting Pronouncements

Adoption of new accounting standards

Delayed implementation of new accounting standard: ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* and subsequent updates. ASU 2016-13 requires a new credit loss methodology, the current expected credit loss (CECL) model, which requires the recognition of an allowance for lifetime expected credit losses on loans, held-to-maturity debt securities and other receivables measured at amortized cost at the time the financial asset is originated or acquired. Credit losses will be immediately recognized through net income; the amount recognized will be based on the current estimate of contractual cash flows not expected to be collected over the financial asset's contractual term. ASU 2016-13 became effective for the Company on January 1, 2020.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed by the President of the United States that included an option for financial institutions to delay the implementation of ASU 2016-13 until the earlier of the termination date of the national emergency declaration by the President or December 31, 2020. Due to the uncertainty of the economic forecast resulting from the coronavirus (COVID-19) pandemic and the potential impact of the government economic stimulus measures, the Company delayed its implementation of ASU 2016-13. On December 27, 2020, the Consolidated Appropriations Act, 2021 (Act 2021), was signed into law which further extended the implementation date of CECL to the earlier of the first day of the entity's fiscal year that begins after the date on which the COVID-19 national emergency terminates or January 1, 2022. With regard to Act 2021 amendments, the SEC staff indicated it would not object to a registrant early adopting on December 31, 2020, retrospective to January 1, 2020, or January 1, 2021, effective as of January 1, 2021. Under this guidance, the Company is electing to adopt ASU 2016-13 with an effective implementation date of January 1, 2021. As a result, for 2020, the Company has calculated and recorded its provision for loan losses under the incurred loss model that existed prior to ASU 2016-13.

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Upon adoption, the Company expects to increase its combined allowance for loan losses and reserves for unfunded commitments by approximately \$68,000 to \$84,000, of which approximately \$13,000 is attributable to purchase credit deteriorated loans. The Company will apply the standard's provisions as a cumulative-effect adjustment to retained earnings. The expected increase in the allowance for loan losses is a result of changing from an incurred loss model, which encompasses allowances for current known and inherent losses within the portfolio, to a CECL model, which encompasses allowances for losses expected to be incurred over the life of the portfolio. The majority of the increase is attributable to applying the CECL model to the Company's acquired loans, which, under prior guidance, were recorded at fair value without an allowance at acquisition date. Furthermore, ASU 2016-13 necessitates that the Company establish an allowance for expected credit losses for certain debt securities and other financial assets; however, such allowances, if any, are not expected to be significant.

ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment*. This ASU simplifies the accounting for goodwill impairment for all entities by requiring impairment charges to be based on the first step in today's two-step impairment test. Under the new guidance, if a reporting unit's carrying amount exceeds its fair value, an entity will record an impairment charge based on that difference. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit. The standard eliminates today's requirement to calculate a goodwill impairment charge using Step 2, which requires an entity to calculate any impairment charge by comparing the implied fair value of goodwill with its carrying amount. ASU 2017-04 became effective for the Company on January 1, 2020, and did not have a significant impact on its financial statements.

ASU 2018-13, *Fair Value Measurement (Topic 820) - Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU modifies the disclosure requirements on fair value measurements by requiring that Level 3 fair value disclosures include the range and weighted average of significant unobservable inputs used to develop those fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements. ASU 2018-13 became effective for the Company on January 1, 2020 and did not have a significant impact on its financial statements and disclosures.

ASU 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40) - Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by these amendments. This ASU became effective for the Company on January 1, 2020 and did not have a significant impact on its financial statements and disclosures.

ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* and subsequent updates. This ASU provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The new guidance provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. The ASU is intended to help stakeholders during the global market-wide reference rate transition period. This ASU became effective upon issuance and generally can be applied through December 31, 2022. The Company anticipates this ASU will simplify any modifications it executes and is not expected to have a significant impact on its financial statements and disclosures.

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ASU 2016-02, *Leases (Topic 842)* and subsequent updates. This ASU, among other things, requires lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under this guidance, lessor accounting is largely unchanged. This ASU became effective for annual and interim periods for the Company on January 1, 2019. The Company adopted the standard by applying the alternative transition method whereby comparative periods were not restated, and an immaterial cumulative effect adjustment to the opening balance of retained earnings was recognized as of January 1, 2019. The Company also elected the ASU's package of three practical expedients, which allowed the Company to forego a reassessment of (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases and (iii) the initial direct costs for any existing leases. The Company also elected not to apply the recognition requirements of the ASU to any short-term leases (as defined by related accounting guidance) and will account for lease and non-lease components separately. The adoption of this standard resulted in the Company recognizing lease right-of-use assets and related lease liabilities totaling \$38,812 and \$33,953, respectively, as of January 1, 2019. The difference between the lease assets and the lease liabilities was \$4,949 of prepaid rent, which was reclassified to lease assets, and the remainder, net of the deferred tax impact, was recorded as an adjustment reducing retained earnings in the amount of \$70. The adoption of this ASU did not have a significant impact on the Company's consolidated statement of income. See Note 1, Summary of Significant Accounting Policies, and Note 13, Leases, for required disclosures.

ASU 2017-08, *Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20)*, *Premium Amortization on Purchased Callable Debt Securities*. This ASU requires certain premiums on callable debt securities to be amortized to the earliest call date. The amortization period for callable debt securities purchased at a discount is not impacted. Under current GAAP, premiums on callable debt securities are generally amortized over the contractual life of the security. ASU 2017-08 became effective for the Company on January 1, 2019 and, upon adoption, the Company recognized a cumulative effect adjustment reducing retained earnings by \$856, net of the deferred tax impact, but otherwise did not have a significant impact to the Company's consolidated financial statements and disclosures.

ASU 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220) - Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The amendments in this update allow reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (TCJA) which was signed into law on December 22, 2017. The Company elected to early adopt ASU 2018-02 in the first quarter of 2018 and apply the guidance to the beginning of the period, effective January 1, 2018. The impact of adopting the amendment resulted in a cumulative effect adjustment to the consolidated balance sheet as of January 1, 2018 to reclassify approximately \$233 of tax expense from accumulated other comprehensive loss to retained earnings as reflected in the accompanying Consolidated Statements of Changes in Stockholders' Equity.

Newly issued but not yet effective accounting standards

ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. The guidance issued in this update simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in ASC 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition for deferred tax liabilities for outside basis differences. ASU 2019-12 also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. ASU 2019-12 will be effective for the Company on January 1, 2021, with early adoption permitted, and is not expected to have a significant impact on our financial statements.

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Note 3. Restrictions on Cash and Due From Banks

On March 15, 2020, in response to COVID-19 pandemic, the Federal Reserve reduced the reserve requirement ratio to zero effective March 26, 2020 and continuing through December 31, 2020. At December 31, 2019, the Company had a required reserve balance of \$63,739 with the Federal Reserve. Additionally, as of December 31, 2020 and 2019, the Company had \$23,829 and \$4,350, respectively, in cash collateral on deposit with other financial institution counterparties to interest rate swap transactions.

Note 4. Statement of Cash Flows

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

	Years Ended December 31,		
	2020	2019	2018
Cash transactions:			
Interest expense paid	\$ 97,246	\$ 144,775	\$ 79,509
Income taxes paid	\$ 54,842	\$ 40,504	\$ 25,109
Noncash transactions:			
Transfers of loans to other real estate owned	\$ 5,239	\$ 544	\$ 410
Loans to facilitate the sale of other real estate owned	\$ 2,039	\$ 517	\$ —
Securities purchased, not yet settled	\$ —	\$ 9,975	\$ —
Transfers of loans held for investment to loans held for sale	\$ —	\$ 83,526	\$ —
Right-of-use assets obtained in exchange for lease liabilities	\$ 105	\$ 35,553	\$ —
Loans purchased, not yet settled	\$ 9,442	\$ —	\$ —
Transfer of bank premises to other real estate	\$ —	\$ 7,896	\$ —
Transfer of repurchase agreements to deposits	\$ —	\$ 8,475	\$ —

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Supplemental schedule of noncash investing activities from a branch sale during 2019 is as follows:

	Year ended December 31, <u>2019</u>
Noncash assets transferred:	
Loans, including accrued interest	\$ 796
Premises and equipment	94
Other assets	2
Total assets	<u>\$ 892</u>
Noncash liabilities transferred:	
Deposits, including interest	\$ 27,721
Other liabilities	27
Total liabilities	<u>\$ 27,748</u>
Cash and cash equivalents transferred in branch sales	<u>\$ 206</u>
Deposit premium received	<u>\$ 1,386</u>
Cash paid to buyer, net of deposit premium	<u>\$ 24,957</u>

Supplemental schedule of noncash investing activities from sale of trust business during 2019 is as follows:

	Year ended December 31, <u>2019</u>
Noncash assets transferred:	
Customer relationship intangible assets, net	\$ 2,939
Other assets	11
Total assets	<u>\$ 2,950</u>
Net cash received from sale	<u>\$ 4,269</u>

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Supplemental schedule of noncash investing activities from acquisitions is as follows:

	Years ended December 31,		
	2020	2019	2018
Noncash assets acquired			
Certificates of deposit held in other banks	\$ —	\$ 262	\$ —
Securities available for sale	—	561,052	24,721
Restricted stock	—	27,794	3,357
Loans	—	2,789,868	651,769
Premises and equipment	—	65,786	4,863
Other real estate owned	—	1,829	—
Goodwill	—	272,224	100,339
Other intangible assets	—	71,518	7,537
Bank owned life insurance	—	80,837	8,181
Other assets	—	31,987	6,385
Total assets acquired	<u>\$ —</u>	<u>\$ 3,903,157</u>	<u>\$ 807,152</u>
Noncash liabilities assumed:			
Deposits	\$ —	\$ 3,108,810	\$ 593,078
Repurchase agreements	—	8,475	—
FHLB advances	—	142,653	60,000
Other borrowings	—	40,000	—
Junior subordinated debentures	—	25,774	—
Other liabilities	—	15,477	10,518
Total liabilities assumed	<u>\$ —</u>	<u>\$ 3,341,189</u>	<u>\$ 663,596</u>
Cash and cash equivalents acquired from acquisitions	<u>\$ —</u>	<u>\$ 39,913</u>	<u>\$ 44,723</u>
Cash paid to shareholders of acquired banks	<u>\$ —</u>	<u>\$ 9</u>	<u>\$ 31,016</u>
Fair value of common stock issued to shareholders of acquired banks	<u>\$ —</u>	<u>\$ 601,872</u>	<u>\$ 157,263</u>

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Note 5. Securities Available for Sale

Securities available for sale have been classified in the consolidated balance sheets according to management's intent. The amortized cost of securities and their approximate fair values at December 31, 2020 and 2019, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>Securities Available for Sale</u>				
December 31, 2020				
U.S. treasuries	\$ 43,060	\$ 1,648	\$ —	\$ 44,708
Government agency securities	247,764	3,169	(1,916)	249,017
Obligations of state and municipal subdivisions	373,017	20,168	(20)	393,165
Corporate bonds	21,496	608	(2)	22,102
Mortgage-backed securities guaranteed by FHLMC, FNMA and GNMA	421,916	21,678	(93)	443,501
Other securities	1,200	—	—	1,200
	<u>\$ 1,108,453</u>	<u>\$ 47,271</u>	<u>\$ (2,031)</u>	<u>\$ 1,153,693</u>
December 31, 2019				
U.S. treasuries	\$ 48,060	\$ 743	\$ (7)	\$ 48,796
Government agency securities	178,953	926	(583)	179,296
Obligations of state and municipal subdivisions	332,715	11,150	(6)	343,859
Corporate bonds	7,011	207	—	7,218
Mortgage-backed securities guaranteed by FHLMC, FNMA and GNMA	493,915	11,981	(329)	505,567
Other securities	1,200	—	—	1,200
	<u>\$ 1,061,854</u>	<u>\$ 25,007</u>	<u>\$ (925)</u>	<u>\$ 1,085,936</u>

Securities with a carrying amount of approximately \$738,519 and \$571,843 at December 31, 2020 and 2019, respectively, were pledged primarily to secure deposits.

Proceeds from sale of securities available for sale and gross gains and gross losses for the years ended December 31, 2020, 2019 and 2018 were as follows:

	Years Ended December 31,		
	2020	2019	2018
Proceeds from sale	<u>\$ 13,862</u>	<u>\$ 192,417</u>	<u>\$ 102,647</u>
Gross gains	<u>\$ 385</u>	<u>\$ 306</u>	<u>\$ 268</u>
Gross losses	<u>\$ 3</u>	<u>\$ 31</u>	<u>\$ 849</u>

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The amortized cost and estimated fair value of securities available for sale at December 31, 2020, by contractual maturity, are shown below. Maturities of mortgage-backed securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>December 31, 2020</u>	
	<u>Securities Available for Sale</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in one year or less	\$ 39,579	\$ 39,943
Due from one year to five years	128,804	135,272
Due from five to ten years	203,387	209,396
Thereafter	314,767	325,581
	<u>686,537</u>	<u>710,192</u>
Mortgage-backed securities guaranteed by FHLMC, FNMA and GNMA	421,916	443,501
	<u>\$ 1,108,453</u>	<u>\$ 1,153,693</u>

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The number of securities, unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2020 and 2019, are summarized as follows:

Description of Securities	Less Than 12 Months			Greater Than 12 Months			Total	
	Number of Securities	Estimated Fair Value	Unrealized Losses	Number of Securities	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Securities Available for Sale								
December 31, 2020								
Government agency securities	20	\$ 112,897	\$ (1,916)	—	\$ —	\$ —	\$ 112,897	\$ (1,916)
Obligations of state and municipal subdivisions	2	3,786	(20)	—	—	—	3,786	(20)
Corporate bonds	1	998	(2)	—	—	—	998	(2)
Mortgage-backed securities guaranteed by FHLMC, FNMA and GNMA	10	41,344	(93)	—	—	—	41,344	(93)
	<u>33</u>	<u>\$ 159,025</u>	<u>\$ (2,031)</u>	<u>—</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 159,025</u>	<u>\$ (2,031)</u>
December 31, 2019								
U.S. treasuries	—	\$ —	\$ —	2	\$ 8,097	\$ (7)	\$ 8,097	\$ (7)
Government agency securities	13	52,790	(495)	6	15,911	(88)	68,701	(583)
Obligations of state and municipal subdivisions	5	2,793	(1)	1	423	(5)	3,216	(6)
Mortgage-backed securities guaranteed by FHLMC, FNMA and GNMA	13	46,512	(317)	1	1,193	(12)	47,705	(329)
	<u>31</u>	<u>\$ 102,095</u>	<u>\$ (813)</u>	<u>10</u>	<u>\$ 25,624</u>	<u>\$ (112)</u>	<u>\$ 127,719</u>	<u>\$ (925)</u>

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

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Note 6. Loans, Net and Allowance for Loan Losses

Loans, net at December 31, 2020 and 2019, consisted of the following:

	December 31,	
	2020	2019
Commercial	\$ 3,902,266	\$ 2,482,356
Real estate:		
Commercial	6,096,676	5,872,653
Commercial construction, land and land development	1,245,801	1,236,623
Residential	1,352,465	1,515,227
Single-family interim construction	326,575	378,120
Agricultural	85,014	97,767
Consumer	66,952	32,603
Other	346	621
Total loans	<u>13,076,095</u>	<u>11,615,970</u>
Deferred loan fees, net	(10,037)	(1,695)
Allowance for loan losses	(87,820)	(51,461)
Total loans, net	<u>\$ 12,978,238</u>	<u>\$ 11,562,814</u>

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

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. The Company's management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. These cash flows, however, may not be as expected and the value of collateral securing the loans may fluctuate. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short term loans may be made on an unsecured basis. Additionally, our commercial loan portfolio includes loans made to customers in the energy industry, which is a complex, technical and cyclical industry. Experienced bankers with specialized energy lending experience originate our energy loans. Companies in this industry produce, extract, develop, exploit and explore for oil and natural gas. Loans are primarily collateralized with proven producing oil and gas reserves based on a technical evaluation of these reserves. At December 31, 2020 and 2019, there were approximately \$205,496 and \$189,781 of energy-related loans outstanding, respectively. The Company has a mortgage warehouse purchase program providing mortgage inventory financing for residential mortgage loans originated by mortgage banker clients across a broad geographic scale. Proceeds from the sale of mortgages is the primary source of repayment for warehouse inventory financing via approved investor takeout commitments. These loans typically have a very short duration ranging between a few days to 15 days. In some cases, loans to larger mortgage originators may be financed for up to 60 days. These loans are reported as commercial loans since the loans are secured by notes receivable, not real estate. As of December 31, 2020 and 2019, mortgage warehouse purchase loans outstanding totaled \$1,453,797 and \$687,317, respectively.

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With the passage of the CARES Act Paycheck Protection Program (PPP), administered by the Small Business Administration (SBA), the Company has participated in originating loans to its customers through the program. PPP loans have terms of two to five years and earn interest at 1%. In return for processing and funding the loans, the SBA paid the lenders a processing fee tiered by the size of the loan. At December 31, 2020, there were approximately \$804,397 in PPP loans outstanding included in the commercial loan portfolio. In addition, the Company has recorded net deferred fees associated with PPP loans of \$9,770 as of December 31, 2020. Based on published program guidelines, these loans funded through the PPP are fully guaranteed by the U.S. government. Management believes that the majority of these loans will ultimately be forgiven by the SBA in accordance with the terms of the program with any remaining loan balances, after the forgiveness of any amounts, still fully guaranteed by the SBA.

Commercial real estate loans are subject to underwriting standards and processes similar to commercial loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's commercial real estate portfolio are diverse in terms of type and geographic location. Management monitors the diversification of the portfolio on a quarterly basis by type and geographic location. Management also tracks the level of owner-occupied property versus non owner-occupied property. At December 31, 2020, the portfolio consisted of approximately 29% of owner-occupied property.

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

Residential real estate and single-family interim construction loans are underwritten primarily based on borrowers' credit scores, documented income and minimum collateral values. Relatively small loan amounts are spread across many individual borrowers which minimizes risk in the residential portfolio. In addition, management evaluates trends in past dues and current economic factors on a regular basis.

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

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

Consumer loans represent less than 1% of the outstanding total loan portfolio. Collateral consists primarily of automobiles and other personal assets. Credit score analysis is used to supplement the underwriting process.

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Most of the Company's lending activity occurs within the State of Texas, primarily in the north, central and southeast Texas regions and the State of Colorado, specifically along the Front Range area. As of December 31, 2020, loans in the Colorado region represented about 24% of the total portfolio. A large percentage of the Company's portfolio consists of commercial and residential real estate loans. As of December 31, 2020 and 2019, there were no concentrations of loans related to a single industry in excess of 10% of total loans.

The allowance for loan losses is an amount that management believes will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio.

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

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

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

Loans requiring an allocated loan loss provision are generally identified at the servicing officer level based on review of weekly past due reports and/or the loan officer's communication with borrowers. In addition, the status of past due loans are routinely discussed within each lending region as well as credit committee meetings to determine if classification is warranted. The Company's internal loan review department has implemented an internal risk based loan review process to identify potential internally classified loans that supplements the independent external loan review. External loan reviews cover a wide range of the loan portfolio, including large lending relationships and recently acquired loan portfolios. As such, the external loan review generally covers loans exceeding \$3,500. These reviews include analysis of borrower's financial condition, payment histories and collateral values to determine if a loan should be internally classified. Generally, once classified, an impaired loan analysis is completed by the credit department to determine if the loan is impaired and the amount of allocated allowance required.

Following unprecedented declines caused by the pandemic and volatile energy prices, the Texas economy, specifically in the Company's lending areas of north, central and southeast Texas, and the Colorado economy expanded at a moderate pace by the end of the fourth quarter of 2020. Activity in the manufacturing and service sectors picked up while the retail sector activity remained weak. Energy activity showed mounting signs of improvement after a prolonged contraction. Loan volume increased during the year, driven by a sharp rise in residential real estate lending. Loan pricing fell further, and credit standards and terms continue to tighten with expectations for future loan demand turning slightly negative. Outlooks are generally positive, but uncertainty remains high with continued concerns about rising COVID-19 infection rates impacting the overall economic recovery mitigated slightly by optimism about the vaccine paving the way to a resumption of normal economic activity in 2021. The pandemic crisis has been impactful and the timing and magnitude of recovery cannot be predicted. The risk of loss associated with all segments of the portfolio could increase due to these factors.

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The economy and other risk factors are minimized by the Company's underwriting standards which include the following principles: 1) financial strength of the borrower including strong earnings, high net worth, significant liquidity and acceptable debt to worth ratio, 2) managerial business competence, 3) ability to repay, 4) loan to value, 5) projected cash flow and 6) guarantor financial statements as applicable. The following is a summary of the activity in the allowance for loan losses by loan class for the years ended December 31, 2020, 2019 and 2018:

	Commercial	Commercial Real Estate, Construction, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Unallocated	Total
<u>Year ended December 31, 2020</u>									
Balance at beginning of year	\$ 12,844	\$ 33,085	\$ 3,678	\$ 1,606	\$ 332	\$ 226	\$ 5	\$ (315)	\$ 51,461
Provision for loan losses	20,025	17,769	3,108	632	5	223	493	738	42,993
Charge-offs	(5,670)	(735)	—	(82)	—	(44)	(342)	—	(6,873)
Recoveries	112	4	—	—	—	37	86	—	239
Balance at end of year	<u>\$ 27,311</u>	<u>\$ 50,123</u>	<u>\$ 6,786</u>	<u>\$ 2,156</u>	<u>\$ 337</u>	<u>\$ 442</u>	<u>\$ 242</u>	<u>\$ 423</u>	<u>\$ 87,820</u>
<u>Year ended December 31, 2019</u>									
Balance at beginning of year	\$ 11,793	\$ 27,795	\$ 3,320	\$ 1,402	\$ 241	\$ 186	\$ 3	\$ 62	\$ 44,802
Provision for loan losses	8,670	5,289	498	207	91	71	356	(377)	14,805
Charge-offs	(7,709)	(3)	(140)	(3)	—	(79)	(430)	—	(8,364)
Recoveries	90	4	—	—	—	48	76	—	218
Balance at end of year	<u>\$ 12,844</u>	<u>\$ 33,085</u>	<u>\$ 3,678</u>	<u>\$ 1,606</u>	<u>\$ 332</u>	<u>\$ 226</u>	<u>\$ 5</u>	<u>\$ (315)</u>	<u>\$ 51,461</u>
<u>Year ended December 31, 2018</u>									
Balance at beginning of year	\$ 10,599	\$ 23,301	\$ 3,447	\$ 1,583	\$ 250	\$ 205	\$ (32)	\$ 49	\$ 39,402
Provision for loan losses	4,973	4,909	(124)	(181)	(9)	69	210	13	9,860
Charge-offs	(3,863)	(435)	(6)	—	—	(93)	(228)	—	(4,625)
Recoveries	84	20	3	—	—	5	53	—	165
Balance at end of year	<u>\$ 11,793</u>	<u>\$ 27,795</u>	<u>\$ 3,320</u>	<u>\$ 1,402</u>	<u>\$ 241</u>	<u>\$ 186</u>	<u>\$ 3</u>	<u>\$ 62</u>	<u>\$ 44,802</u>

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The following table details the amount of the allowance for loan losses and recorded investment in loans by class as of December 31, 2020 and 2019:

	Commercial	Commercial Real Estate, Construction, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Unallocated	Total
<u>December 31, 2020</u>									
Allowance for losses:									
Individually evaluated for impairment	\$ 8,281	\$ 243	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 8,524
Collectively evaluated for impairment	18,836	49,880	6,786	2,156	337	442	242	423	79,102
Loans acquired with deteriorated credit quality	194	—	—	—	—	—	—	—	194
Ending balance	<u>\$ 27,311</u>	<u>\$ 50,123</u>	<u>\$ 6,786</u>	<u>\$ 2,156</u>	<u>\$ 337</u>	<u>\$ 442</u>	<u>\$ 242</u>	<u>\$ 423</u>	<u>\$ 87,820</u>
Loans:									
Individually evaluated for impairment	\$ 39,298	\$ 21,880	\$ 2,550	\$ —	\$ 613	\$ 42	\$ —	\$ —	\$ 64,383
Collectively evaluated for impairment	3,823,982	7,149,610	1,345,234	326,575	84,284	66,895	346	—	12,796,926
Acquired with deteriorated credit quality	38,986	170,987	4,681	—	117	15	—	—	214,786
Ending balance	<u>\$ 3,902,266</u>	<u>\$ 7,342,477</u>	<u>\$ 1,352,465</u>	<u>\$ 326,575</u>	<u>\$ 85,014</u>	<u>\$ 66,952</u>	<u>\$ 346</u>	<u>\$ —</u>	<u>\$ 13,076,095</u>
<u>December 31, 2019</u>									
Allowance for losses:									
Individually evaluated for impairment	\$ 357	\$ —	\$ —	\$ —	\$ —	\$ 1	\$ —	\$ —	\$ 358
Collectively evaluated for impairment	12,108	32,615	3,678	1,606	332	225	5	(315)	50,254
Loans acquired with deteriorated credit quality	379	470	—	—	—	—	—	—	849
Ending balance	<u>\$ 12,844</u>	<u>\$ 33,085</u>	<u>\$ 3,678</u>	<u>\$ 1,606</u>	<u>\$ 332</u>	<u>\$ 226</u>	<u>\$ 5</u>	<u>\$ (315)</u>	<u>\$ 51,461</u>
Loans:									
Individually evaluated for impairment	\$ 3,130	\$ 6,813	\$ 2,008	\$ —	\$ 114	\$ 22	\$ —	\$ —	\$ 12,087
Collectively evaluated for impairment	2,416,569	6,883,639	1,505,896	378,120	93,837	32,556	621	—	11,311,238
Acquired with deteriorated credit quality	62,657	218,824	7,323	—	3,816	25	—	—	292,645
Ending balance	<u>\$ 2,482,356</u>	<u>\$ 7,109,276</u>	<u>\$ 1,515,227</u>	<u>\$ 378,120</u>	<u>\$ 97,767</u>	<u>\$ 32,603</u>	<u>\$ 621</u>	<u>\$ —</u>	<u>\$ 11,615,970</u>

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Nonperforming loans by loan class (excluding loans acquired with deteriorated credit quality) at December 31, 2020 and 2019, are summarized as follows:

	Commercial	Commercial Real Estate, Construction, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Total
<u>December 31, 2020</u>								
Nonaccrual loans	\$ 25,898	\$ 20,072	\$ 2,372	\$ —	\$ 613	\$ 42	\$ —	\$ 48,997
Loans past due 90 days and still accruing	433	—	—	—	—	—	—	433
Troubled debt restructurings (not included in nonaccrual or loans past due and still accruing)	—	1,808	178	—	—	—	—	1,986
	<u>\$ 26,331</u>	<u>\$ 21,880</u>	<u>\$ 2,550</u>	<u>\$ —</u>	<u>\$ 613</u>	<u>\$ 42</u>	<u>\$ —</u>	<u>\$ 51,416</u>
<u>December 31, 2019</u>								
Nonaccrual loans	\$ 3,130	\$ 6,461	\$ 1,820	\$ —	\$ 114	\$ 22	\$ —	\$ 11,547
Loans past due 90 days and still accruing	14,529	—	—	—	—	—	—	14,529
Troubled debt restructurings (not included in nonaccrual or loans past due and still accruing)	—	352	188	—	—	—	—	540
	<u>\$ 17,659</u>	<u>\$ 6,813</u>	<u>\$ 2,008</u>	<u>\$ —</u>	<u>\$ 114</u>	<u>\$ 22</u>	<u>\$ —</u>	<u>\$ 26,616</u>

The accrual of interest is discontinued on a loan when management believes that, after considering collection efforts and other factors, the borrower's financial condition is such that collection of interest is doubtful. All interest accrued but not collected for loans that are placed on nonaccrual status or charged-off is reversed against interest income. Cash collections on nonaccrual loans are generally credited to the loan receivable balance, and no interest income is recognized on those loans until the principal balance has been collected. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Impaired loans are those loans where it is probable that all amounts due according to contractual terms of the loan agreement will not be collected. The Company has identified these loans through its normal loan review procedures. Impaired loans are measured based on 1) the present value of expected future cash flows discounted at the loan's effective interest rate; 2) the loan's observable market price; or 3) the fair value of collateral if the loan is collateral dependent. Substantially all of the Company's impaired loans are measured at the fair value of the collateral. In limited cases, the Company may use other methods to determine the level of impairment of a loan if such loan is not collateral dependent.

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

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Impaired loans by loan class (excluding loans acquired with deteriorated credit quality) at December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018, are summarized as follows:

	Commercial	Commercial Real Estate, Construction, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Total
<u>December 31, 2020</u>								
Recorded investment in impaired loans:								
Impaired loans with an allowance for loan losses	\$ 24,540	\$ 475	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 25,015
Impaired loans with no allowance for loan losses	14,758	21,405	2,550	—	613	42	—	39,368
Total	<u>\$ 39,298</u>	<u>\$ 21,880</u>	<u>\$ 2,550</u>	<u>\$ —</u>	<u>\$ 613</u>	<u>\$ 42</u>	<u>\$ —</u>	<u>\$ 64,383</u>
Unpaid principal balance of impaired loans	<u>\$ 63,817</u>	<u>\$ 22,543</u>	<u>\$ 2,742</u>	<u>\$ —</u>	<u>\$ 650</u>	<u>\$ 44</u>	<u>\$ —</u>	<u>\$ 89,796</u>
Allowance for loan losses on impaired loans	<u>\$ 8,281</u>	<u>\$ 243</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 8,524</u>
<u>December 31, 2019</u>								
Recorded investment in impaired loans:								
Impaired loans with an allowance for loan losses	\$ 1,580	\$ —	\$ —	\$ —	\$ —	\$ 1	\$ —	\$ 1,581
Impaired loans with no allowance for loan losses	1,550	6,813	2,008	—	114	21	—	10,506
Total	<u>\$ 3,130</u>	<u>\$ 6,813</u>	<u>\$ 2,008</u>	<u>\$ —</u>	<u>\$ 114</u>	<u>\$ 22</u>	<u>\$ —</u>	<u>\$ 12,087</u>
Unpaid principal balance of impaired loans	<u>\$ 8,580</u>	<u>\$ 6,967</u>	<u>\$ 2,197</u>	<u>\$ —</u>	<u>\$ 123</u>	<u>\$ 24</u>	<u>\$ —</u>	<u>\$ 17,891</u>
Allowance for loan losses on impaired loans	<u>\$ 357</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ 358</u>
<u>For the year ended December 31, 2020</u>								
Average recorded investment in impaired loans	<u>\$ 21,559</u>	<u>\$ 9,497</u>	<u>\$ 2,362</u>	<u>\$ —</u>	<u>\$ 442</u>	<u>\$ 30</u>	<u>\$ —</u>	<u>\$ 33,890</u>
Interest income recognized on impaired loans	<u>\$ 168</u>	<u>\$ 139</u>	<u>\$ 208</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 515</u>
<u>For the year ended December 31, 2019</u>								
Average recorded investment in impaired loans	<u>\$ 6,266</u>	<u>\$ 3,979</u>	<u>\$ 1,746</u>	<u>\$ 716</u>	<u>\$ 57</u>	<u>\$ 30</u>	<u>\$ —</u>	<u>\$ 12,794</u>
Interest income recognized on impaired loans	<u>\$ 30</u>	<u>\$ 39</u>	<u>\$ 39</u>	<u>\$ 119</u>	<u>\$ —</u>	<u>\$ 6</u>	<u>\$ —</u>	<u>\$ 233</u>
<u>For the year ended December 31, 2018</u>								
Average recorded investment in impaired loans	<u>\$ 8,919</u>	<u>\$ 2,667</u>	<u>\$ 2,033</u>	<u>\$ 716</u>	<u>\$ —</u>	<u>\$ 46</u>	<u>\$ —</u>	<u>\$ 14,381</u>
Interest income recognized on impaired loans	<u>\$ 119</u>	<u>\$ 65</u>	<u>\$ 81</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ 268</u>

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

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A TDR 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. Modifications primarily relate to extending the amortization periods of the loans and interest rate concessions. The majority of these loans were identified as impaired prior to restructuring; therefore, the modifications did not materially impact the Company's determination of the allowance for loan losses. The recorded investment in troubled debt restructurings, including those on nonaccrual, was \$2,564 and \$1,208 as of December 31, 2020 and 2019, respectively.

Following is a summary of loans modified under troubled debt restructurings during the years ended December 31, 2020 and 2019:

	Commercial	Commercial Real Estate, Construction, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Total
Troubled debt restructurings during the year ended December 31, 2020								
Number of contracts	—	1	—	—	—	—	—	1
Pre-restructuring outstanding recorded investment	\$ —	\$ 1,517	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,517
Post-restructuring outstanding recorded investment	\$ —	\$ 1,517	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,517
Troubled debt restructurings during the year ended December 31, 2019								
Number of contracts	—	—	1	—	—	—	—	1
Pre-restructuring outstanding recorded investment	\$ —	\$ —	\$ 29	\$ —	\$ —	\$ —	\$ —	\$ 29
Post-restructuring outstanding recorded investment	\$ —	\$ —	\$ 29	\$ —	\$ —	\$ —	\$ —	\$ 29

At December 31, 2020 and 2019, there were no loans modified under troubled debt restructurings during the previous twelve month period that subsequently defaulted during the years ended December 31, 2020 and 2019.

At December 31, 2020 and 2019, the Company had no commitments to lend additional funds to any borrowers with loans whose terms have been modified under troubled debt restructurings.

Under ASC Subtopic 310-40 and federal banking agencies interagency guidance, certain short-term loan modifications made on a good faith basis in response to COVID-19 (as defined by the guidance) are not considered TDRs. Additionally, under section 4013 of the CARES Act, banks may elect to suspend the requirement for certain loan modifications to be categorized as a TDR. In response to the COVID-19 pandemic, the Company has implemented prudent modifications allowing for primarily short-term payment deferrals or other payment relief to borrowers with pandemic-related economic hardships, where appropriate, that complies with the above guidance. As such, the Company's TDR loans noted above do not include loans that are modifications to borrowers impacted by COVID-19. Deferred payments along with any interest accrued during the deferral period are due and payable on the maturity date. As of December 31, 2020, the Company has 1,298 loans with outstanding deferred accrued interest of \$22,128 on balances of \$1,651,376.

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Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. The following table presents information regarding the aging of past due loans by loan class as of December 31, 2020 and 2019:

	Loans 30-89 Days Past Due	Loans 90 Days or More Past Due	Total Past Due Loans	Current Loans	Total Loans
December 31, 2020					
Commercial	\$ 3,243	\$ 13,227	\$ 16,470	\$ 3,846,810	\$ 3,863,280
Commercial real estate, construction, land and land development	2,453	16,790	19,243	7,152,247	7,171,490
Residential real estate	5,169	1,028	6,197	1,341,587	1,347,784
Single-family interim construction	—	—	—	326,575	326,575
Agricultural	—	1	1	84,896	84,897
Consumer	86	41	127	66,810	66,937
Other	—	—	—	346	346
	<u>10,951</u>	<u>31,087</u>	<u>42,038</u>	<u>12,819,271</u>	<u>12,861,309</u>
Acquired with deteriorated credit quality	624	3,219	3,843	210,943	214,786
	<u>\$ 11,575</u>	<u>\$ 34,306</u>	<u>\$ 45,881</u>	<u>\$ 13,030,214</u>	<u>\$ 13,076,095</u>
December 31, 2019					
Commercial	\$ 4,512	\$ 17,656	\$ 22,168	\$ 2,397,531	\$ 2,419,699
Commercial real estate, construction, land and land development	9,153	2,905	12,058	6,878,394	6,890,452
Residential real estate	3,242	642	3,884	1,504,020	1,507,904
Single-family interim construction	2,836	—	2,836	375,284	378,120
Agricultural	22	114	136	93,815	93,951
Consumer	167	22	189	32,389	32,578
Other	—	—	—	621	621
	<u>19,932</u>	<u>21,339</u>	<u>41,271</u>	<u>11,282,054</u>	<u>11,323,325</u>
Acquired with deteriorated credit quality	2,556	6,766	9,322	283,323	292,645
	<u>\$ 22,488</u>	<u>\$ 28,105</u>	<u>\$ 50,593</u>	<u>\$ 11,565,377</u>	<u>\$ 11,615,970</u>

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

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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 December 31, 2020 and 2019, is as follows:

	Pass	Pass/ Watch	Special Mention	Substandard	Doubtful	Total
December 31, 2020						
Commercial	\$ 3,700,626	\$ 55,960	\$ 38,186	\$ 97,403	\$ 10,091	\$ 3,902,266
Commercial real estate, construction, land and land development	6,504,933	352,910	360,963	123,671	—	7,342,477
Residential real estate	1,332,757	6,296	5,726	7,686	—	1,352,465
Single-family interim construction	323,800	2,775	—	—	—	326,575
Agricultural	76,951	6,194	1,205	664	—	85,014
Consumer	66,854	8	—	90	—	66,952
Other	346	—	—	—	—	346
	<u>\$ 12,006,267</u>	<u>\$ 424,143</u>	<u>\$ 406,080</u>	<u>\$ 229,514</u>	<u>\$ 10,091</u>	<u>\$ 13,076,095</u>
December 31, 2019						
Commercial	\$ 2,332,611	\$ 71,642	\$ 37,739	\$ 40,364	\$ —	\$ 2,482,356
Commercial real estate, construction, land and land development	6,814,780	184,720	46,889	62,887	—	7,109,276
Residential real estate	1,501,019	4,850	994	8,364	—	1,515,227
Single-family interim construction	376,887	1,233	—	—	—	378,120
Agricultural	88,044	5,287	1,864	2,572	—	97,767
Consumer	32,459	33	2	109	—	32,603
Other	621	—	—	—	—	621
	<u>\$ 11,146,421</u>	<u>\$ 267,765</u>	<u>\$ 87,488</u>	<u>\$ 114,296</u>	<u>\$ —</u>	<u>\$ 11,615,970</u>

The Company has acquired certain loans which experienced credit deterioration since origination (purchased credit impaired (PCI) loans).

The Company has included PCI loans in the above grading tables. The following provides additional detail on the grades applied to those loans at December 31, 2020 and 2019:

	Pass	Pass/ Watch	Special Mention	Substandard	Doubtful	Total
December 31, 2020	\$ 117,896	\$ 45,672	\$ 32,557	\$ 18,661	\$ —	\$ 214,786
December 31, 2019	232,095	21,284	4,502	34,764	—	292,645

PCI loans may remain on accrual status to the extent the company can reasonably estimate the amount and timing of expected future cash flows. At December 31, 2020 and 2019, nonaccrual PCI loans were \$6,699 and \$10,850, respectively.

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Accretion on PCI loans is based on estimated future cash flows, regardless of contractual maturity. The following table summarizes the outstanding balance and related carrying amount of PCI loans by acquired bank as of the acquisition date for the acquisition occurring in 2019.

	Acquisition Date January 1, 2019
	<u>Guaranty Bancorp</u>
Outstanding balance	\$ 341,645
Nonaccretable difference	(16,622)
Accretable yield	(13,299)
Carrying amount	<u>\$ 311,724</u>

The carrying amount of all acquired PCI loans included in the consolidated balance sheet and the related outstanding balance at December 31, 2020 and 2019, were as follows:

	December 31,	
	2020	2019
Outstanding balance	\$ 237,786	\$ 326,077
Carrying amount	214,786	292,645

There was an allocation of \$194 and \$849 established in the allowance for loan losses relating to PCI loans at December 31, 2020 and 2019, respectively.

The changes in accretable yield during the years ended December 31, 2020 and 2019 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.

	2020	2019
Balance at January 1	\$ 8,905	\$ 1,436
Additions	—	13,299
Accretion	(3,287)	(5,830)
Transfers from nonaccretable	—	—
Balance at December 31	<u>\$ 5,618</u>	<u>\$ 8,905</u>

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Note 7. Premises and Equipment, Net

Premises and equipment, net at December 31, 2020 and 2019 consisted of the following:

	December 31,	
	2020	2019
Land	\$ 65,103	\$ 58,643
Building	191,940	184,589
Furniture, fixtures and equipment	39,282	39,855
Aircraft	8,947	8,947
Leasehold and tenant improvements	5,798	5,466
Construction in progress	915	834
	<u>311,985</u>	<u>298,334</u>
Less accumulated depreciation	(62,518)	(55,460)
	<u>\$ 249,467</u>	<u>\$ 242,874</u>

Depreciation expense amounted to \$12,728, \$11,783 and \$8,391 for the years ended December 31, 2020, 2019 and 2018, respectively.

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Note 8. Goodwill and Other Intangible Assets, Net

At December 31, 2020 and 2019, goodwill totaled \$994,021. The Company recorded goodwill of \$272,224 relating to the Guaranty Bancorp acquisition in 2019 (see Note 22, Business Combinations).

The following is a summary of other intangible assets activity:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
Core deposit intangible:		
Balance at beginning of the year	\$ 125,884	\$ 63,891
Additions: Guaranty acquisition	—	61,993
Balance at end of the year	<u>125,884</u>	<u>125,884</u>
Less accumulated amortization	<u>(43,235)</u>	<u>(31,057)</u>
Total core deposit intangible, net	<u>\$ 82,649</u>	<u>\$ 94,827</u>
Customer relationship intangible:		
Balance at beginning of the year	\$ 6,407	\$ —
Additions: Guaranty acquisition	—	9,525
Deletions: sale of trust business	—	(3,118)
Balance at end of the year	<u>6,407</u>	<u>6,407</u>
Less accumulated amortization	<u>(986)</u>	<u>(493)</u>
Total customer relationship intangible, net	<u>\$ 5,421</u>	<u>\$ 5,914</u>
Total other intangible assets, net	<u>\$ 88,070</u>	<u>\$ 100,741</u>

Amortization expense related to intangible assets amounted to \$12,671, \$12,880 and \$5,739 for the years ended December 31, 2020, 2019 and 2018, respectively. The remaining weighted average amortization period for intangible assets is 7.4 years as of December 31, 2020.

The future amortization expense related to other intangible assets remaining at December 31, 2020 is as follows:

First year	\$ 12,580
Second year	12,491
Third year	12,439
Fourth year	11,752
Fifth year	11,238
Thereafter	27,570
	<u>\$ 88,070</u>

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Note 9. Deposits

Deposits at December 31, 2020 and 2019 consisted of the following:

	December 31,			
	2020		2019	
	Amount	Percent	Amount	Percent
Noninterest-bearing demand accounts	\$ 4,164,800	28.9 %	\$ 3,240,185	27.1 %
Interest-bearing checking accounts	5,420,548	37.6	4,198,772	35.2
Savings accounts	654,733	4.6	552,585	4.6
Limited access money market accounts	2,743,208	19.1	2,119,878	17.8
Certificates of deposit and individual retirement accounts (IRA), less than \$250,000	675,329	4.7	892,639	7.5
Certificates of deposit and individual retirement accounts (IRA), \$250,000 and greater	740,309	5.1	937,277	7.8
	<u>\$ 14,398,927</u>	<u>100.0 %</u>	<u>\$ 11,941,336</u>	<u>100.0 %</u>

At December 31, 2020, the scheduled maturities of certificates of deposit, including IRAs, were as follows:

First year	\$ 1,263,633
Second year	117,521
Third year	19,362
Fourth year	5,058
Fifth year	10,059
Thereafter	5
	<u>\$ 1,415,638</u>

Brokered deposits at December 31, 2020 and 2019 totaled \$1,521,129 and \$894,131, respectively.

Note 10. Federal Home Loan Bank Advances

At December 31, 2020, the Company has advances from the FHLB of Dallas under note payable arrangements with maturities which range from July 2021 to February 2035. Interest payments on these notes are made monthly. The weighted average interest rate of all notes was 0.57% and 2.17% at December 31, 2020 and 2019, respectively. The balances outstanding on these advances were \$375,000 and \$325,000 at December 31, 2020 and 2019, respectively.

Contractual maturities of FHLB advances at December 31, 2020 were as follows:

First year	\$ 25,000
Second year	—
Third year	200,000
Fourth year	—
Fifth year	—
Thereafter	150,000
	<u>\$ 375,000</u>

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The advances are secured by \$17,156 of FHLB stock owned by the Company and a blanket lien on certain loans along with specific listed loans for an aggregate available carrying value of \$5,708,883 at December 31, 2020. The Company had remaining credit available under the FHLB advance program of \$4,091,643 at December 31, 2020.

At December 31, 2020, the Company had \$1,240,851 in undisbursed advance commitments (letters of credit) with the FHLB. As of December 31, 2020, these commitments mature on various dates from January 2021 through June 2022. The FHLB letters of credit were obtained in lieu of pledging securities to secure public fund deposits that are over the FDIC insurance limit. At December 31, 2020, there were no disbursements against the advance commitments.

Note 11. Other Borrowings

Other borrowings at December 31, 2020 and 2019 consisted of the following:

	December 31,	
	2020	2019
Unsecured fixed rate subordinated debentures in the amount of \$110,000. The balance of borrowings at December 31, 2020 and 2019 is net of discount and origination costs of \$1,271 and \$1,628, respectively. Interest payments of 5.875% are made semiannually on February 1 and August 1. The maturity date is August 1, 2024. The notes may not be redeemed prior to maturity and meet the criteria to be recognized as Tier 2 capital for regulatory purposes. ⁽¹⁾⁽²⁾	\$ 108,729	\$ 108,372
Unsecured fixed-to-floating subordinated debentures in the original amount of \$40,000. Interest payments initially of 5.75% are made semiannually on January 20 and July 20 through July 20, 2021. Thereafter, floating rate payments of 3 month LIBOR plus 4.73% are made quarterly in arrears beginning on October 20, 2021. The maturity date is July 20, 2026 with an optional redemption at July 20, 2021. The notes meet the criteria to be recognized as Tier 2 capital for regulatory purposes. ⁽²⁾⁽³⁾	40,000	40,000
Unsecured fixed-to-floating subordinated debentures in the amount of \$30,000. The balance of borrowings at December 31, 2020 and 2019 is net of origination costs of \$543 and \$621, respectively. Interest payments initially of 5.00% fixed rate are made semiannually on June 30 and December 31 through December 31, 2022. Thereafter, floating rate payments of 3 month LIBOR plus 2.83% are made quarterly in arrears beginning on March 31, 2023. The maturity date is December 31, 2027 with an optional redemption at December 31, 2022. The notes meet the criteria to be recognized as Tier 2 capital for regulatory purposes. ⁽²⁾	29,457	29,379
Unsecured fixed-to-floating subordinated debentures in the amount of \$130,000. The balance of borrowings at December 31, 2020 is net of origination costs of \$2,511. Interest payments initially of 4.00% fixed rate are made semiannually on March 15 and September 15 through September 15, 2025. Thereafter, floating rate payments equal to a benchmark rate (which is expected to be 3 month Secured Overnight Financing Rate (SOFR)) plus 3.885% payable quarterly in arrears beginning on December 15, 2025. The maturity date is September 15, 2030 with an optional redemption at September 15, 2025. The notes meet the criteria to be recognized as Tier 2 capital for regulatory purposes. ⁽²⁾	127,489	—
Unsecured revolving line of credit with an unrelated commercial bank in the amount of \$100,000. The line bears interest at LIBOR plus 1.75% and matures January 17, 2021. The Company is required to meet certain financial covenants on a quarterly basis, which includes certain restrictions on cash at IBG and meeting minimum capital ratios. ⁽⁴⁾	6,500	24,500
	\$ 312,175	\$ 202,251

(1) At December 31, 2020 and 2019, other borrowings included amounts owed to related parties of \$50.

(2) The permissible portion of qualified subordinated notes decreases 20% per year during the final five years of the term of the notes.

(3) Assumed on January 1, 2019 with the Guaranty acquisition (see Note 22, Business Combinations).

(4) Subsequent to December 31, 2020, the Company renewed the line (see Note 24, Subsequent Events).

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The Company has established federal funds lines of credit notes with nine unaffiliated banks totaling \$365,000 of borrowing capacity at December 31, 2020 and ten unaffiliated banks totaling \$375,000 of borrowing capacity at December 31, 2019. At December 31, 2020, two of the lines totaling \$30,000 have stated maturity dates in August and September 2021. The remaining lines have no stated maturity dates and the lenders may terminate the lines at any time without notice. The lines are provided on an unsecured basis and must be repaid the following business day from when the funds are borrowed. There were no borrowings against the lines at December 31, 2020 and 2019.

In addition, the Company maintains a secured line of credit with the Federal Reserve Bank with an availability to borrow approximately \$716,700 and \$895,110 at December 31, 2020 and 2019, respectively. Approximately \$1,034,467 and \$1,196,491 of commercial loans were pledged as collateral at December 31, 2020 and 2019, respectively. There were no borrowings against this line as of December 31, 2020 and 2019.

The Company also participates in an exchange that provides direct overnight borrowings with other financial institutions. The funds are provided on an unsecured basis. Borrowing availability totaled \$694,000 and \$484,000 at December 31, 2020 and 2019, respectively. There were no borrowings as of December 31, 2020 and 2019.

Note 12. Junior Subordinated Debentures

The Company has formed or acquired nine statutory business trusts (the Trusts) for the purpose of issuing trust preferred securities. Each of the Trusts have issued capital and common securities and invested the proceeds thereof in an equivalent amount of junior subordinated debentures (the Debentures) issued by the Company. The interest rate payable on, and the payment terms of the Debentures are the same as the distribution rate and payment terms of the respective issues of capital and common securities issued by the Trusts. The Debentures are subordinated and junior in right of payment to all present and future senior indebtedness. The Company has fully and unconditionally guaranteed the obligations of each of the Trusts with respect to the capital and common securities. Except under certain circumstances, the common securities issued to the Company by the trusts possess sole voting rights with respect to matters involving those entities. Under certain circumstances, the Company may, from time to time, defer the debentures' interest payments, which would result in a deferral of distribution payments on the related trust preferred securities and, with certain exceptions, prevent the Company from declaring or paying cash distributions on the Company's common stock and any other future debt ranking equally with or junior to the debentures. The Company may redeem the debentures, which are intended to qualify as Tier 1 capital, at the Company's option, subject to approval of the Federal Reserve.

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As of December 31, 2020 and 2019, the carrying amount of debentures outstanding totaled \$54,023 and \$53,824, respectively. Information regarding the Debentures as of December 31, 2020 are summarized in the table below:

	Trust Preferred Securities Issued	Debentures Carrying Value	Repricing Frequency	Interest Rate	Interest Rate Index	Maturity Date
IB Trust I	\$ 5,155	\$ 5,155	Quarterly	3.46%	LIBOR + 3.25%	March 2033
Guaranty Trust III ⁽¹⁾	10,310	10,310	Quarterly	3.34	LIBOR + 3.10	July 2033
IB Trust II	3,093	3,093	Quarterly	3.09	LIBOR + 2.85	March 2034
Cenbank Trust III ⁽¹⁾	15,464	15,464	Quarterly	2.89	LIBOR + 2.65	April 2034
IB Trust III	3,712	3,712	Quarterly	2.61	LIBOR +2.40	December 2035
IB Centex Trust I	2,578	2,578	Quarterly	3.46	LIBOR + 3.25	February 2035
Community Group Statutory Trust I	3,609	3,609	Quarterly	1.82	LIBOR + 1.60	June 2037
Northstar Trust II ⁽²⁾	5,155	3,892	Quarterly	1.89	LIBOR + 1.67	June 2037
Northstar Trust III ⁽²⁾	8,248	6,210	Quarterly	1.89	LIBOR + 1.67	September 2037
	<u>\$ 57,324</u>	<u>\$ 54,023</u>				

(1) Assumed on January 1, 2019 with the Guaranty acquisition (see Note 22, Business Combinations).

(2) Assumed in 2017 with a recorded fair value discount of \$3,301 remaining as of December 31, 2020.

Note 13. Leases

The Company's primary leasing activities relate to certain real estate operating leases entered into in support of the Company's branch operations and back office operations. The Company leases 21 of its 93 branches. The Company's branch locations operated under lease agreements have all been designated as operating leases. In addition, the Company leases certain equipment under operating leases. The Company does not have leases designated as finance leases.

As of December 31, 2020 and 2019 the Company's lease ROU assets were \$24,841 and \$38,813, respectively, and related lease liabilities were \$23,413 and \$28,978, respectively. Leases have remaining terms ranging from 1 to 30 years, including extension options that the Company is reasonably certain will be exercised.

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The table below summarizes net lease cost:

	Year Ended December 31,	
	2020	2019
Operating lease cost	\$ 6,937	\$ 7,025
Short term lease cost	124	103
Variable lease cost	1,631	1,829
Sublease income	(221)	(228)
Net lease cost	<u>\$ 8,471</u>	<u>\$ 8,729</u>

Rent expense for the year ended December 31, 2018, prior to the adoption of ASU 2016-2, was \$3,758.

The table below summarizes other information related to operating leases:

	Year Ended December 31,	
	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 6,091	\$ 6,965
Weighted average remaining lease term - operating leases, in years	7.23	7.58
Weighted average discount rate - operating leases	3.47 %	3.35 %

The following table outlines lease payment obligations as outlined in the Company's lease agreements for each of the next five years and thereafter in addition to a reconciliation to the Company's current lease liability as of December 31, 2020.

2021	\$	5,615
2022		4,876
2023		4,054
2024		3,438
2025		2,754
Thereafter		5,700
Total lease payments		<u>26,437</u>
Less imputed interest		<u>(3,024)</u>
	\$	<u>23,413</u>

As of December 31, 2020, the Company had not entered into any material leases that have not yet commenced.

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Note 14. Income Taxes

Income tax expense for the years ended December 31, 2020, 2019 and 2018 was as follows:

	Years Ended December 31,		
	2020	2019	2018
Current income tax expense	\$ 52,806	\$ 39,426	\$ 29,801
Deferred income tax (benefit) expense	(1,633)	14,102	2,000
Deferred income tax benefit related to remeasurement of deferred taxes	—	—	(63)
Income tax expense, as reported	<u>\$ 51,173</u>	<u>\$ 53,528</u>	<u>\$ 31,738</u>

A reconciliation between reported income tax expense and the amounts computed by applying the U.S. federal statutory income tax rate of 21% for the years ended December 31, 2020, 2019 and 2018 to income before income taxes is presented below:

	Years Ended December 31,		
	2020	2019	2018
Income tax expense computed at the statutory rate	\$ 53,000	\$ 51,715	\$ 33,599
Tax-exempt interest income from municipal securities	(1,779)	(1,781)	(962)
Tax-exempt loan income	(1,245)	(1,174)	(490)
Bank owned life insurance income	(1,123)	(1,288)	(666)
Non-deductible acquisition expenses	—	281	142
State taxes, net of federal benefit	2,660	3,455	375
Non-deductible compensation	—	2,017	—
Net tax expense (benefit) from stock based compensation	243	21	(646)
Deferred tax adjustment related to reduction in U.S. Federal statutory income tax rate	—	—	(63)
Other	(583)	282	449
	<u>\$ 51,173</u>	<u>\$ 53,528</u>	<u>\$ 31,738</u>

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Components of deferred tax assets and liabilities are presented in the table below. Deferred taxes as of December 31, 2020 and 2019 are based on the U.S. statutory federal income tax rate of 21%.

	December 31,	
	2020	2019
Deferred tax assets:		
Allowance for loan losses	\$ 19,238	\$ 11,466
Lease liabilities under operating leases	5,129	6,457
NOL and tax credit carryforwards from acquisitions	3,718	4,209
Acquired loan fair market value adjustments	12,986	21,645
Stock-based compensation	1,567	1,218
Reserve for bonuses and other accrued expenses	3,409	2,773
Acquisition costs	—	416
Acquired securities	2,095	2,529
Acquired intangibles	1,369	1,546
Start up costs	171	230
Other real estate owned	—	362
Unearned income	715	774
Deferred compensation	857	1,101
Noncompete agreements	597	663
Nonaccrual loans	550	390
Other	727	785
	<u>53,128</u>	<u>56,564</u>
Deferred tax liabilities:		
Premises and equipment	(12,392)	(13,170)
Right-of-use assets under operating leases	(4,911)	(6,233)
Net unrealized gain on available for sale securities	(9,501)	(5,367)
Intangible assets	(19,293)	(22,447)
Acquired junior subordinated debentures fair value adjustment	(723)	(780)
PPP deferred loan costs	(952)	—
FHLB and other restricted stocks	(308)	(673)
Acquired tax goodwill	(572)	(413)
Other	(543)	(538)
	<u>(49,195)</u>	<u>(49,621)</u>
Net deferred tax asset	<u>\$ 3,933</u>	<u>\$ 6,943</u>

At December 31, 2020, the Company had federal net operating loss carryforwards of approximately \$15,765 which expire in various years from 2023 to 2032 and state net operating loss carryforwards of approximately \$11,150 which expire in various years from 2025 to 2027. Deferred tax assets are recognized for net operating losses because the benefit is more likely than not to be realized. No valuation allowance for deferred tax assets was recorded at December 31, 2020 or 2019 as management believes it is more likely than not that all of the deferred tax assets will be realized.

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The Company does not have any material uncertain tax positions and does not have any interest and penalties recorded in the income statement for the years ended December 31, 2020, 2019 and 2018. The Company files a consolidated income tax return in the US federal tax jurisdiction. The Company is no longer subject to examination by the US federal tax jurisdiction for years prior to 2017.

Note 15. Commitments and Contingencies

Financial Instruments with Off-Balance Sheet Risk

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

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of this instrument. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. At December 31, 2020 and 2019, the approximate amounts of these financial instruments were as follows:

	December 31,	
	2020	2019
Commitments to extend credit	\$ 2,268,216	\$ 2,337,385
Standby letters of credit	25,917	23,406
	<u>\$ 2,294,133</u>	<u>\$ 2,360,791</u>

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

Letters of credit are written conditional commitments used by the Company to guarantee the performance of a customer to a third party. The Company's policies generally require that letter of credit arrangements contain security and debt covenants similar to those contained in loan arrangements. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount shown in the table above. If the commitment is funded, the Company would be entitled to seek recovery from the customer. As of December 31, 2020 and 2019, 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. A legal proceeding that the Company believes could become material is described below.

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Independent Bank is a party to a legal proceeding inherited by Independent Bank in connection with its acquisition of BOH Holdings, Inc. and its subsidiary, Bank of Houston (BOH). The plaintiffs in the case are alleging that Independent Bank aided and abetted or participated in a fraudulent scheme. Independent Bank is pursuing insurance coverage for these claims, including reimbursement for defense costs. The Company believes the claims made in this lawsuit are without merit and is vigorously defending the lawsuit. The Company is unable to predict when the matter will be resolved, the ultimate outcome or potential costs or damages to be incurred.

Note 16. Related Party Transactions

In the ordinary course of business, the Company has and expects to continue to have transactions, including loans to its officers, directors and their affiliates. In the opinion of management, such transactions are on the same terms as those prevailing at the time for comparable transactions with unaffiliated persons. Loan activity for officers, directors and their affiliates for the year ended December 31, 2020 is as follows:

Balance at beginning of year	\$	38,796
New loans		30,912
Repayments		(38,570)
Changes in affiliated persons		1,333
Balance at end of year	<u>\$</u>	<u>32,471</u>

See Note 11, Other Borrowings, for related party borrowings.

Note 17. Employee Benefit Plans

The Company has a 401(k) profit sharing plan (Plan) which covers employees over the age of eighteen who have completed ninety days of credited service, as defined by the Plan. The Plan provides for “before tax” employee contributions through salary reduction contributions under Section 401(k) of the Internal Revenue Code. A participant may choose a salary reduction not to exceed the dollar limit set by law each year (\$19.5 in 2020). Contributions by the Company and by participants are immediately fully vested. In July 2018, the Plan was modified to provide for the Company to make 401(k) matching contributions of 100%, but limited to 6% of the participant's eligible salary. Previously, the Plan provided for the Company to make 401(k) matching contributions ranging from 50% to 100% depending upon the employee's years of service, but limited to 6% of the participant's eligible salary. The Plan also provides for the Company to make additional discretionary contributions to the Plan. The Company made contributions of approximately \$6,534, \$6,343 and \$3,280 for the years ended December 31, 2020, 2019 and 2018, respectively.

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Note 18. Fair Value Measurements

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

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

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

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

The Company elected the fair value option for certain residential mortgage loans held for sale in accordance with ASC 825, *Financial Instruments*. This election allows for a more effective offset of the changes in fair values of the loans and the derivative instruments used to economically hedge them without the burden of complying with the requirements for hedge accounting under ASC 815, *Derivatives and Hedging*. The Company has not elected the fair value option for other residential mortgage loans held for sale primarily because they are not economically hedged using derivative instruments. See below and Note 19, *Derivative Financial Instruments*, for additional information.

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Assets and Liabilities Measured on a Recurring Basis

The following table represents assets and liabilities reported on the consolidated balance sheets at their fair value on a recurring basis as of December 31, 2020 and 2019 by level within the ASC Topic 820 fair value measurement hierarchy:

	Assets/ Liabilities Measured at Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2020				
Assets:				
Investment securities available for sale:				
U.S. treasuries	\$ 44,708	\$ —	\$ 44,708	\$ —
Government agency securities	249,017	—	249,017	—
Obligations of state and municipal subdivisions	393,165	—	393,165	—
Corporate bonds	22,102	—	22,102	—
Mortgage-backed securities guaranteed by FHLMC, FNMA and GNMA	443,501	—	443,501	—
Other securities	1,200	—	1,200	—
Loans held for sale, fair value option elected ⁽¹⁾	71,769	—	71,769	—
Derivative financial instruments:				
Interest rate lock commitments	3,515	—	3,515	—
Loan customer counterparty	20,159	—	20,159	—
Liabilities:				
Derivative financial instruments:				
Forward mortgage-backed securities trades	568	—	568	—
Financial institution counterparty	21,306	—	21,306	—
December 31, 2019				
Assets:				
Investment securities available for sale:				
U.S. treasuries	\$ 48,796	\$ —	\$ 48,796	\$ —
Government agency securities	179,296	—	179,296	—
Obligations of state and municipal subdivisions	343,859	—	343,859	—
Corporate bonds	7,218	—	7,218	—
Mortgage-backed securities guaranteed by FHLMC, FNMA and GNMA	505,567	—	505,567	—
Other securities	1,200	—	1,200	—
Loans held for sale, fair value option elected ⁽¹⁾	29,204	—	29,204	—
Derivative financial instruments:				
Interest rate lock commitments	847	—	847	—
Forward mortgage-backed securities trades	6	—	6	—
Loan customer counterparty	6,104	—	6,104	—
Liabilities:				
Derivative financial instruments:				
Forward mortgage-backed securities trades	69	—	69	—
Financial institution counterparty	6,566	—	6,566	—

(1) At December 31, 2020 and 2019, loans held for sale for which the fair value option was elected had an aggregate outstanding principal balance of \$68,670 and \$28,166, respectively. There were no mortgage loans held for sale under the fair value option that were 90 days or greater past due or on nonaccrual at December 31, 2020.

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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.

Investment securities

Securities classified as available for sale are reported at fair value utilizing Level 1 and Level 2 inputs. Securities are classified within Level 1 when quoted market prices are available in an active market. Inputs include securities that have quoted prices in active markets for identical assets. For securities utilizing Level 2 inputs, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury and other yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security's terms and conditions, among other things.

Loans held for sale

Certain mortgage loans held for sale are measured at fair value on a recurring basis due to the Company's election to adopt fair value accounting treatment for those loans originated for which the Company has entered into certain derivative financial instruments as part of its mortgage banking and related risk management activities. These instruments include interest rate lock commitments and mandatory forward commitments to sell these loans to investors known as forward mortgage-backed securities trades. This election allows for a more effective offset of the changes in fair values of the assets and the mortgage related derivative instruments used to economically hedge them without the burden of complying with the requirements for hedge accounting under ASC 815, Derivatives and Hedging. Mortgage loans held for sale, for which the fair value option was elected, which are sold on a servicing released basis, are valued using a market approach by utilizing either: (i) the fair value of securities backed by similar mortgage loans, adjusted for certain factors to approximate the fair value of a whole mortgage loan, including the value attributable to mortgage servicing and credit risk, (ii) current commitments to purchase loans or (iii) recent observable market trades for similar loans, adjusted to credit risk and other individual loan characteristics. As these prices are derived from market observable inputs, the Company classifies these valuations as Level 2 in the fair value disclosures. For mortgage loans held for sale for which the fair value option was elected, the earned current contractual interest payment is recognized in interest income, loan origination costs and fees on fair value option loans are recognized in earnings as incurred and not deferred. The Company has no continuing involvement in any residential mortgage loans sold.

Derivatives

The estimated fair values of interest rate lock commitments utilize current secondary market prices for underlying loans and estimated servicing value with similar coupons, maturity and credit quality, subject to the anticipated loan funding probability (pull-through rate). The fair value of interest rate lock commitments is subject to change primarily due to changes in interest rates and the estimated pull-through rate. These commitments are classified as Level 2 in the fair value disclosures, as the valuations are based on observable market inputs.

Forward mortgage-backed securities trades are exchange-traded or traded within highly active dealer markets. In order to determine the fair value of these instruments, the Company utilized the exchange price or dealer market price for the particular derivative contract; therefore these contracts are classified as Level 2. The estimated fair values are subject to change primarily due to changes in interest rates.

The Company also enters into certain interest rate derivative positions that are not designated as hedging instruments. The estimated fair value of these commercial loan interest rate swaps are obtained from a pricing service that provides the swaps' unwind value (Level 2 inputs). See Note 19, Derivative Financial Instruments, for more information.

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Assets and Liabilities Measured on a Nonrecurring Basis

In accordance with ASC Topic 820, certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets carried on the consolidated balance sheet by caption and by level in the fair value hierarchy at December 31, 2020 and 2019, for which a nonrecurring change in fair value has been recorded:

	Fair Value Measurements at Reporting Date Using				Period Ended Total Losses
	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)	
December 31, 2020					
Assets:					
Impaired loans	\$ 16,903	\$ —	\$ —	\$ 16,903	\$ 13,041
December 31, 2019					
Assets:					
Impaired loans	\$ 2,276	\$ —	\$ —	\$ 2,276	\$ 1,806
Other real estate owned	4,618	—	—	4,618	749

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

Other real estate is measured at fair value on a nonrecurring basis (upon initial recognition or subsequent impairment). Other real estate is classified within Level 3 of the valuation hierarchy. When transferred from the loan portfolio, other real estate is adjusted to fair value less estimated selling costs and is subsequently carried at the lower of carrying value or fair value less estimated selling costs. The fair value is determined using an external appraisal process, discounted based on internal criteria. Therefore, the Company has categorized its other real estate as Level 3.

In addition, mortgage loans held for sale not recorded under the fair value option are required to be measured at the lower of cost or fair value. The fair value of these loans is based upon binding quotes or bids from third party investors. As of December 31, 2020 and 2019, all mortgage loans held for sale not recorded under the fair value option were recorded at cost.

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Fair Value of Financial Instruments not Recorded at Fair Value

The carrying amount, estimated fair value and the level of the fair value hierarchy of the Company's financial instruments that are reported at amortized cost on the Company's consolidated balance sheets were as follows at December 31, 2020 and 2019:

	Carrying Amount	Estimated Fair Value	Fair Value Measurements at Reporting Date Using		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2020					
Financial assets:					
Cash and cash equivalents	\$ 1,813,987	\$ 1,813,987	\$ 1,813,987	\$ —	\$ —
Certificates of deposit held in other banks	4,482	4,595	—	4,595	—
Loans held for sale, at cost	10,878	11,138	—	11,138	—
Loans, net	12,978,238	13,093,698	—	—	13,093,698
FHLB of Dallas stock and other restricted stock	20,305	20,305	—	20,305	—
Accrued interest receivable	60,581	60,581	—	60,581	—
Financial liabilities:					
Deposits	14,398,927	14,407,596	—	14,407,596	—
Accrued interest payable	7,397	7,397	—	7,397	—
FHLB advances	375,000	371,175	—	371,175	—
Other borrowings	312,175	327,150	—	327,150	—
Junior subordinated debentures	54,023	42,624	—	42,624	—
Off-balance sheet assets (liabilities):					
Commitments to extend credit	—	—	—	—	—
Standby letters of credit	—	—	—	—	—
December 31, 2019					
Financial assets:					
Cash and cash equivalents	\$ 565,170	\$ 565,170	\$ 565,170	\$ —	\$ —
Certificates of deposit held in other banks	5,719	5,951	—	5,951	—
Loans held for sale, at cost	6,441	6,554	—	6,554	—
Loans, net	11,562,814	11,689,672	—	—	11,689,672
FHLB of Dallas stock and other restricted stock	30,052	30,052	—	30,052	—
Accrued interest receivable	35,860	35,860	—	35,860	—
Financial liabilities:					
Deposits	11,941,336	11,958,939	—	11,958,939	—
Accrued interest payable	9,583	9,583	—	9,583	—
FHLB advances	325,000	325,210	—	325,210	—
Other borrowings	202,251	209,050	—	209,050	—
Junior subordinated debentures	53,824	48,879	—	48,879	—
Off-balance sheet assets (liabilities):					
Commitments to extend credit	—	—	—	—	—
Standby letters of credit	—	—	—	—	—

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

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

Certificates of deposit held in other banks: The fair value of certificates of deposit held in other banks is based upon current market rates.

Loans held for sale, at cost: The fair value of loans held for sale is determined based upon commitments on hand from investors.

Loans: A discounted cash flow model is used to estimate the fair value of the loans. The discounted cash flow approach models the credit losses directly in the projected cash flows, applying various assumptions regarding credit, interest and prepayment risks for the loans based on loan types, payment types and fixed or variable classifications.

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

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

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

Other borrowings: The estimated fair value approximates carrying value for short-term borrowings. The fair value of private subordinated debentures are based upon prevailing rates on similar debt in the market place. The subordinated debentures that are publicly traded are valued based on indicative bid prices based upon market pricing observations in the current market.

Junior subordinated debentures: The fair value of junior subordinated debentures is estimated using discounted cash flow analyses based on the published Bloomberg US Financials BB rated corporate bond index yield.

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

Off-balance sheet instruments: Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not material.

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Note 19. Derivative Financial Instruments

The Company enters into certain derivative financial instruments as part of its hedging strategy. These financial instruments are not designated as hedging instruments and are used for asset and liability management related to the Company's mortgage banking activities and commercial customers' financing needs. All derivatives are carried at fair value in either other assets or other liabilities.

Through the normal course of business, the Company enters into interest rate lock commitments with consumers to originate mortgage loans at a specified interest rate. These commitments, which contain fixed expiration dates, offer the borrower an interest rate guarantee provided the loan meets underwriting guidelines and closes within the timeframe established by the Company.

The Company manages the changes in fair value associated with changes in interest rates related to interest rate lock commitments by using forward sold commitments known as forward mortgage-backed securities trades. These instruments are typically entered into at the time the interest rate lock commitment is made.

The Company also offers certain derivatives products, primarily interest rate swaps, directly to qualified commercial banking customers to facilitate their risk management strategies. The interest rate swap derivative positions relate to transactions in which the Company enters into an interest rate swap with a customer, while at the same time entering into an offsetting interest rate swap with another financial institution. An interest rate swap transaction allows customers to effectively convert a variable rate loan to a fixed rate. In connection with each swap, the Company agrees to pay interest to the customer on a notional amount at a variable interest rate and receive interest from the customer on a similar notional amount at a fixed interest rate. At the same time, the Company agrees to pay another financial institution the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount.

The following table provides the outstanding notional balances and fair values of outstanding derivative positions at December 31, 2020 and 2019:

	Outstanding Notional Balance	Asset Derivative Fair Value	Liability Derivative Fair Value
<u>December 31, 2020</u>			
Interest rate lock commitments	\$ 116,795	\$ 3,515	\$ —
Forward mortgage-backed securities trades	104,000	—	568
Commercial loan interest rate swaps:			
Loan customer counterparty	335,370	20,159	—
Financial institution counterparty	335,370	—	21,306
<u>December 31, 2019</u>			
Interest rate lock commitments	\$ 28,434	\$ 847	\$ —
Forward mortgage-backed securities trades	42,500	6	69
Commercial loan interest rate swaps:			
Loan customer counterparty	280,751	6,104	—
Financial institution counterparty	280,751	—	6,566

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The commercial loan customer counterparty weighted average received and paid interest rates for interest rate swaps outstanding were as follows:

	Weighted Average Interest Rate			
	December 31, 2020		December 31, 2019	
	Received	Paid	Received	Paid
Loan customer counterparty	4.08 %	2.32 %	4.23 %	3.77 %

The credit exposure related to interest rate swaps is limited to the net favorable value of all swaps by each counterparty, which was approximately \$20,159 at December 31, 2020. In some cases collateral may be required from the counterparties involved if the net value of the derivative instruments exceeds a nominal amount. Collateral levels are monitored and adjusted on a regular basis for changes in interest rate swap values. At December 31, 2020, cash of \$23,829 and securities of \$6,494 were pledged as collateral for these derivatives.

The Company has entered into credit risk participation agreements with financial institution counterparties for interest rate swaps related to loans in which the Company is either a participant or a lead bank. Risk participation agreements entered into as a participant bank provide credit protection to the financial institution counterparty should the borrower fail to perform on its interest rate derivative contract with that financial institution. The Company is party to one risk participation agreement as a participant bank having a notional amount of \$5,597 at December 31, 2020. Risk participation agreements entered into as the lead bank provide credit protection to the Company should the borrower fail to perform on its interest rate derivative contract. The Company is party to one risk participation agreement as the lead bank having a notional amount of \$9,604 at December 31, 2020.

The changes in the fair value of interest rate lock commitments and the forward sales of mortgage-back securities are recorded in mortgage banking revenue. These gains and losses were not attributable to instrument-specific credit risk. For interest rate swaps, because the Company acts as an intermediary for our customer, changes in the fair value of the underlying derivative contracts substantially offset each other and do not have a material impact on the results of operations.

Income (loss) for the years ended December 31, 2020 and 2019 was as follows:

	Years Ended December 31,	
	2020	2019
Derivatives not designated as hedging instruments		
Interest rate lock commitments	\$ 2,668	\$ 25
Forward mortgage-backed securities trades	(505)	163

Note 20. Stock Awards

The Company grants common stock awards to certain employees of the Company. In connection with the Company's initial public offering in April 2013, the Board of Directors adopted the 2013 Equity Incentive Plan (2013 Plan). All stock awards issued under expired plans prior to 2013 are fully vested. Under the 2013 Plan, the Compensation Committee may grant awards to certain employees of the Company in the form of restricted stock, restricted stock rights, restricted stock units, qualified and nonqualified stock options, performance share awards and other equity-based awards. The 2013 Plan, as amended, has 2,300,000 reserved shares of common stock to be awarded by the Company's compensation committee. As of December 31, 2020, there were 1,150,617 shares remaining available for grant for future awards.

Independent Bank Group, Inc. and Subsidiaries
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The shares currently issued under the 2013 Plan are restricted stock awards and performance stock units. Restricted stock awarded to employees vest evenly over the required employment period, generally ranging from one to five years. Performance stock units awarded generally have a three to four years cliff vesting period. As defined in the plan, outstanding awards may immediately vest upon a change-in-control in the Company. Restricted stock granted under the 2013 Plan are issued at the date of grant and receive dividends. Performance stock units are eligible to receive dividend equivalents as such dividends are declared on the Company's common stock during the performance period. Equivalent dividend payments are based upon the number of shares issued under each performance award and are deferred until such time that the units vest and the shares are issued.

In connection with the acquisition of Guaranty, as further described in Note 22, Business Combinations, unvested awards of restricted Guaranty common stock granted under Guaranty's 2015 Long-Term Incentive Plan (Guaranty 2015 RSA), as amended, that were outstanding as of January 1, 2019, the acquisition date, were converted into awards of restricted shares of IBG common stock (Replacement RSA) with the same terms and conditions as were applicable under such Guaranty 2015 RSA, except with respect to any performance-vesting Guaranty 2015 RSA, which became a service-vesting RSA only. The Replacement RSA will vest over the remaining service period, through May 2021, and do not receive dividends.

Restricted Stock Awards

The following table summarizes the activity in nonvested restricted stock awards for the years ended December 31, 2020 and 2019:

Restricted Stock Awards	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested shares, December 31, 2019	284,861	\$ 58.63
Granted during the period	310,290	43.54
Vested during the period	(115,436)	58.08
Forfeited during the period	(10,915)	48.37
Nonvested shares, December 31, 2020	468,800	\$ 49.01
Nonvested shares, December 31, 2018	252,903	\$ 62.81
Acquired awards replaced during the period	70,248	45.77
Granted during the period	138,608	51.14
Vested during the period	(161,032)	54.76
Forfeited during the period	(15,866)	46.95
Nonvested shares, December 31, 2019	284,861	\$ 58.63

Compensation expense related to these awards is recorded based on the fair value of the award at the date of grant and totaled \$8,450, \$7,808 and \$6,062 for the years ended December 31, 2020, 2019 and 2018, respectively. Compensation expense is recorded in salaries and employee benefits in the accompanying consolidated statements of income. At December 31, 2020, future compensation expense is estimated to be \$15,823 and will be recognized over a remaining weighted average period of 2.57 years.

The fair value of common stock awards that vested during the years ended December 31, 2020, 2019 and 2018 was \$5,602, \$8,725 and \$8,206, respectively. The Company has recorded \$243, \$21 and \$(646) in excess tax expense (benefit) on vested restricted stock to income tax expense for the years ended December 31, 2020, 2019 and 2018, respectively.

There were no modifications of stock agreements during 2020, 2019 and 2018 that resulted in significant additional incremental compensation costs.

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At December 31, 2020, the future vesting schedule of the nonvested restricted stock awards is as follows:

First year	177,431
Second year	139,009
Third year	99,604
Fourth year	52,356
Fifth year	400
Total nonvested shares	<u>468,800</u>

Performance Stock Units

Performance stock units represent shares potentially issuable in the future. The number of shares issued is based upon the measure of the Company's achievement of its relative adjusted return on average tangible common equity, as defined by the Company, over the award's performance period as compared to an identified peer group's achievement over the same performance period. The number of shares issuable under each performance award is the product of the award target and the award payout percentage for the given level of achievement which ranges from 0% to 150% of the target.

The following table summarizes the activity in nonvested performance stock units at target award level for the year ended December 31, 2020:

Performance-based Restricted Stock Units	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested shares, December 31, 2019	—	\$ —
Granted during the period	89,300	38.29
Vested during the period	—	—
Forfeited during the period	—	—
Nonvested shares, December 31, 2020	<u>89,300</u>	\$ 38.29

Compensation expense related to performance stock units is estimated each period based on the fair value of the target stock unit at the grant date and the most probable level of achievement of the performance condition, adjusted for the passage of time within the vesting periods of the awards. As of December 31, 2020, the unrecognized compensation expense assuming the attainment of the maximum payout rate was \$5,129 and the remaining performance period over which the expense could be recognized was 3.5 years. No compensation expense was recorded during the year ended December 31, 2020.

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Note 21. Regulatory Matters

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

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Tier 2 capital for the Company includes permissible portions of the Company's subordinated notes. The permissible portion of qualified subordinated notes decreases 20% per year during the final five years of the term of the notes.

The Company is subject to the Basel III regulatory capital framework (the Basel III Capital Rules). The Basel III Capital Rules require that the Company maintain a 2.5% capital conservation buffer above the minimum risk-based capital adequacy requirements. The capital conservation buffer is designed to absorb losses during periods of economic stress and requires increased capital levels for the purpose of capital distributions and other payments. Failure to meet the full amount of the buffer will result in restrictions on the Company's ability to make capital distributions, including dividend payments and stock repurchases and to pay discretionary bonuses to executive officers.

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, Common Equity Tier 1 (CET1) and Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2020 and 2019, the Company and the Bank meet all capital adequacy requirements to which they are subject, including the capital buffer requirement.

As of December 31, 2020 and 2019, the Bank's capital ratios exceeded those levels necessary to be categorized as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Bank must maintain minimum total risk based, CET1, Tier 1 risk based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events that management believes have changed the Bank's category.

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The following table presents actual capital amounts and required ratios under Basel III Capital Rules for the Company and Bank as of December 31, 2020 and December 31, 2019.

	Actual		Minimum Capital Required - Basel III		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<u>December 31, 2020</u>						
Total capital to risk weighted assets:						
Consolidated	\$1,825,661	13.32 %	\$1,438,939	10.50 %	N/A	N/A
Bank	1,864,240	13.61	1,438,385	10.50	\$1,369,891	10.00 %
Tier 1 capital to risk weighted assets:						
Consolidated	1,471,841	10.74	1,164,855	8.50	N/A	N/A
Bank	1,776,420	12.97	1,164,407	8.50	1,095,913	8.00
Common equity tier 1 to risk weighted assets:						
Consolidated	1,416,241	10.33	959,293	7.00	N/A	N/A
Bank	1,776,420	12.97	958,924	7.00	890,429	6.50
Tier 1 capital to average assets:						
Consolidated	1,471,841	9.12	645,730	4.00	N/A	N/A
Bank	1,776,420	11.01	645,539	4.00	806,924	5.00
<u>December 31, 2019</u>						
Total capital to risk weighted assets:						
Consolidated	\$1,513,209	11.83 %	\$1,343,114	10.50 %	N/A	N/A
Bank	1,548,103	12.11	1,342,595	10.50	\$1,278,662	10.00 %
Tier 1 capital to risk weighted assets:						
Consolidated	1,303,748	10.19	1,087,282	8.50	N/A	N/A
Bank	1,496,642	11.70	1,086,863	8.50	1,022,930	8.00
Common equity tier 1 to risk weighted assets:						
Consolidated	1,248,148	9.76	895,409	7.00	N/A	N/A
Bank	1,496,642	11.70	895,064	7.00	831,130	6.50
Tier 1 capital to average assets:						
Consolidated	1,303,748	9.32	559,758	4.00	N/A	N/A
Bank	1,496,642	10.70	559,584	4.00	699,480	5.00

Stock repurchase program: From time to time, the Company's board of directors has authorized stock repurchase programs which allow the Company to purchase its common stock generally over a one-year period at various prices in the open market or in privately negotiated transactions. On October 22, 2020, the Company's board of directors authorized a \$150,000 stock repurchase program allowing the Company to purchase shares of its common stock through October 31, 2021. Under this program, the Company repurchased 109,548 shares at a total cost of \$5,660 as of December 31, 2020. Under prior stock repurchase programs, the Company repurchased 897,738 at a total cost of \$49,048 during 2019 and none during 2018. In July 2019, the federal bank regulators adopted final rules that, among other things, eliminated the standalone prior approval requirement for any repurchase of common stock. However, the Company remains subject to a Federal Reserve Board guideline that requires consultation with the Federal Reserve regarding plans for share repurchases on a quarterly basis. The Company's repurchases of its common stock may be subject to a prior approval or notice requirement under other regulations, policies or supervisory expectations of the Federal Reserve Board. Any redemption or repurchase of preferred stock or subordinated debt remains subject to the prior approval of the Federal Reserve Board.

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Company stock repurchased to settle employee tax withholding related to vesting of stock awards totaled 2,951 shares at a total cost of \$159, and 55,106 shares at a total cost of \$2,611 for the periods ended December 31, 2020 and 2019, respectively, and were not included under the repurchase program.

Note 22. Business Combinations

Termination of proposed merger with Texas Capital Bancshares, Inc.: The Company and Texas Capital Bancshares, Inc. (TCBI) and its subsidiary, Texas Capital Bank, entered into an Agreement and Plan of Merger (Merger Agreement), as of December 9, 2019, providing for the merger of TCBI with and into the Company (the Merger), with the Company as the surviving entity in the Merger. On May 22, 2020, the Company and TCBI entered into a mutual agreement (Agreement) to terminate the Merger Agreement. All costs and expenses incurred in connection with the Agreement were paid by the party incurring such expense. The Agreement provided that the Company make a payment to TCBI, in an amount agreed between the parties, such that the costs and expenses incurred by the parties related to integration planning, including consulting fees and related expenses, would be borne equally by the parties. Neither party paid a termination fee in connection with the termination of the merger agreement. The Company incurred TCBI costs of approximately \$15,605 and \$5,022 for the years ended December 31, 2020 and 2019, respectively, which is included in acquisition expense in the consolidated statements of income.

Guaranty Bancorp

On January 1, 2019, the Company acquired 100% of the outstanding stock of Guaranty Bancorp (Guaranty) and its subsidiary, Guaranty Bank and Trust Company (Guaranty Bank), Denver, Colorado. As a result of the acquisition, the Company added 32 full service branch locations along the Colorado Front Range, including locations throughout the Denver metropolitan area and along I-25 to Fort Collins expanding the Company's footprint in Colorado. The Company issued 13,179,748 shares of Company stock for the outstanding shares of Guaranty common stock, including restricted stock replacement awards.

The Company has recognized total goodwill of \$272,224 which is calculated as the excess of both the consideration exchanged and liabilities assumed compared to the estimated fair market value of identifiable assets acquired. The goodwill in this acquisition resulted from a combination of expected synergies and expansion into desirable Colorado markets. None of the goodwill recognized is expected to be deductible for income tax purposes.

The Company has incurred expenses related to the acquisition of approximately \$33,622 for the year ended December 31, 2019, of which \$5,328 is included in salaries and benefits and \$28,294 is included in acquisition expense in the consolidated statements of income. The Company incurred expense of \$1,560 during the year ended December 31, 2018. In addition, for the year ended December 31, 2019, the Company paid offering costs totaling \$804 which were recorded as a reduction to stock issuance proceeds through additional paid in capital.

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The following table summarizes the final fair values of the assets acquired and liabilities assumed in this transaction:

	<u>Final Value as Reported at December 31, 2019</u>
Assets of acquired bank:	
Cash and cash equivalents	\$ 39,913
Certificates of deposit held in other banks	262
Securities available for sale	561,052
Restricted stock	27,794
Loans	2,789,868
Premises and equipment	65,786
Other real estate owned	1,829
Goodwill	272,224
Other intangible assets	71,518
Bank owned life insurance	80,837
Other assets	31,987
Total assets acquired	<u>\$ 3,943,070</u>
Liabilities of acquired bank:	
Deposits	\$ 3,108,810
Repurchase agreements	8,475
FHLB advances	142,653
Other borrowings	40,000
Junior subordinated debentures	25,774
Other liabilities	15,477
Total liabilities assumed	<u>\$ 3,341,189</u>
Common stock of 13,109,500 issued at \$45.77 per share	<u>\$ 600,022</u>
Consideration attributable to 70,248 shares of restricted stock replacement awards	<u>\$ 1,850</u>
Cash paid	<u>\$ 9</u>

Non-credit impaired loans had a fair value of \$2,478,144 at acquisition date and contractual balance of \$2,573,355. As of acquisition date, the Company expects that an insignificant amount of the contractual balance of these loans will be uncollectible. The difference of \$95,211 is recognized into interest income as an adjustment to yield over the life of the loans.

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Note 23. Parent Company Only Financial Statements

The following balance sheets, statements of income and statements of cash flows for Independent Bank Group, Inc. should be read in conjunction with the consolidated financial statements and the notes thereto.

Balance Sheets

Assets	December 31,	
	2020	2019
Cash and cash equivalents	\$ 5,482	\$ 8,277
Investment in subsidiaries	2,876,171	2,588,857
Investment in trusts	1,724	1,724
Other assets	3,849	3,355
Total assets	\$ 2,887,226	\$ 2,602,213
Liabilities and Stockholders' Equity		
Other borrowings	\$ 312,175	\$ 202,251
Junior subordinated debentures	54,023	53,824
Other liabilities	5,657	6,365
Total liabilities	371,855	262,440
Stockholders' equity:		
Preferred stock	—	—
Common stock	431	430
Additional paid-in capital	1,934,807	1,926,359
Retained earnings	543,800	393,674
Accumulated other comprehensive income	36,333	19,310
Total stockholders' equity	2,515,371	2,339,773
Total liabilities and stockholders' equity	\$ 2,887,226	\$ 2,602,213

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Statements of Income

	Years Ended December 31,		
	2020	2019	2018
Interest expense:			
Interest on other borrowings	\$ 12,446	\$ 11,561	\$ 8,390
Interest on junior subordinated debentures	2,162	3,028	1,609
Total interest expense	14,608	14,589	9,999
Noninterest income:			
Dividends from subsidiaries	83,314	105,877	39,841
Other	—	1	14
Total noninterest income	83,314	105,878	39,855
Noninterest expense:			
Salaries and employee benefits	8,346	7,653	6,318
Professional fees	202	264	332
Acquisition expense, including legal	16,225	33,445	6,157
Other	2,424	2,562	1,611
Total noninterest expense	27,197	43,924	14,418
Income before income tax benefit and equity in undistributed income of subsidiaries	41,509	47,365	15,438
Income tax benefit	9,410	11,066	5,541
Income before equity in undistributed income of subsidiaries	50,919	58,431	20,979
Equity in undistributed income of subsidiaries	150,290	134,305	107,280
Net income	\$ 201,209	\$ 192,736	\$ 128,259

Independent Bank Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
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Statements of Cash Flows

Years Ended December 31,

	2020	2019	2018
Cash flows from operating activities:			
Net income	\$ 201,209	\$ 192,736	\$ 128,259
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of subsidiaries	(150,290)	(134,305)	(107,280)
Amortization of discount and origination costs on borrowings	720	633	633
Stock based compensation expense	8,450	7,808	6,062
Excess tax expense on restricted stock vested	243	21	(646)
Deferred tax expense	96	2,165	1,054
Net change in other assets	(590)	1,863	6,918
Net change in other liabilities	(952)	(64)	1,130
Net cash provided by operating activities	58,886	70,857	36,130
Cash flows from investing activities:			
Capital investment in subsidiaries	(120,000)	—	—
Cash acquired in connection with acquisition	—	339	7,425
Cash paid in connection with acquisition	—	(9)	(31,016)
Net cash provided by (used in) financing activities	(120,000)	330	(23,591)
Cash flows from financing activities:			
Proceeds from other borrowings	148,653	65,000	—
Repayments of other borrowings	(39,250)	(40,500)	—
Proceeds from exercise of common stock warrants	—	—	2,533
Offering costs paid in connection with acquired bank	—	(804)	(209)
Repurchase of common stock	(5,819)	(51,659)	—
Dividends paid	(45,265)	(43,302)	(15,908)
Net cash provided by (used in) financing activities	58,319	(71,265)	(13,584)
Net change in cash and cash equivalents	(2,795)	(78)	(1,045)
Cash and cash equivalents at beginning of year	8,277	8,355	9,400
Cash and cash equivalents at end of year	\$ 5,482	\$ 8,277	\$ 8,355

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Note 24. Subsequent Events

Line of credit agreement

On January 17, 2021, the Company's \$100,000 unsecured revolving line of credit was renewed and matures on January 17, 2022. As of March 1, 2021, the Company has no borrowings against its revolving line of credit.

Declaration of dividends

On January 28, 2021, the Company declared a quarterly cash dividend in the amount of \$0.30 per share of common stock to the stockholders of record on February 11, 2021. The dividend totaling \$12,954 was paid on February 25, 2021.

ITEM 16. FORM 10-K SUMMARY

The Company has not elected to include a summary of the information required in this Annual Report on Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of McKinney, Texas, on March 1, 2021.

Independent Bank Group, Inc. (Registrant)

Date: March 1, 2021

By: /s/ David R. Brooks

David R. Brooks

Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ David R. Brooks</u> David R. Brooks	Chairman, Chief Executive Officer, President, and Director (Principal Executive Officer)	March 1, 2021
<u>/s/ Michelle S. Hickox</u> Michelle S. Hickox	Executive Vice President and Chief Financial Officer (Principal Financial and Principal Accounting Officer)	March 1, 2021
<u>/s/ Daniel W. Brooks</u> Daniel W. Brooks	Vice Chairman, Chief Risk Officer and Director	March 1, 2021
<u>/s/ William E. Fair</u> William E. Fair	Director	March 1, 2021
<u>/s/ Alicia K. Harrison</u> Alicia K. Harrison	Director	March 1, 2021
<u>/s/ Craig E. Holmes</u> Craig E. Holmes	Director	March 1, 2021
<u>/s/ J. Webb Jennings III</u> J. Webb Jennings III	Director	March 1, 2021
<u>/s/ Donald L. Poarch</u> Donald L. Poarch	Director	March 1, 2021
<u>/s/ G. Stacy Smith</u> G. Stacy Smith	Director	March 1, 2021
<u>/s/ Michael T. Viola</u> Michael T. Viola	Director	March 1, 2021

PURPOSE

Build strong healthy communities - one person, one family, one organization at a time.

VISION

Be the premier regional community bank of choice for individuals and businesses so that we can invest even more back into the communities we serve.

MISSION

Delight our customers with personalized financial solutions, uplift our communities with financial and leadership support, and empower employees with positive professional growth opportunities.