

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **June 30, 2017**
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____.
Commission File Number: **001-36682**

VERITEX HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Texas
(State or other jurisdiction of
incorporation or organization)

27-0973566
(I.R.S. employer
identification no.)

8214 Westchester Drive, Suite 400
Dallas, Texas
(Address of principal executive offices)

75225
(Zip code)

(972) 349-6200

(Registrant's telephone number, including area code)

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 24, 2017, there were 15,233,709 outstanding shares of the registrant's common stock, par value \$0.01 per share.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

VERITEX HOLDINGS, INC. AND SUBSIDIARY
Condensed Consolidated Balance Sheets (Unaudited)
June 30, 2017 and December 31, 2016
(Dollars in thousands, except par value information)

	June 30, 2017	December 31, 2016
ASSETS		
Cash and due from banks	\$ 28,687	\$ 15,631
Interest bearing deposits in other banks	144,459	219,160
Total cash and cash equivalents	173,146	234,791
Investment securities	134,708	102,559
Loans held for sale	4,118	5,208
Loans, net of allowance for loan losses of \$9,740 and \$8,524, respectively	1,112,688	983,318
Accrued interest receivable	3,333	2,907
Bank-owned life insurance	20,369	20,077
Bank premises, furniture and equipment, net	17,978	17,413
Non-marketable equity securities	7,407	7,366
Investment in unconsolidated subsidiary	93	93
Other real estate owned	493	662
Intangible assets, net of accumulated amortization of \$2,544 and \$2,198, respectively	2,171	2,181
Goodwill	26,865	26,865
Other assets	5,220	5,067
Total assets	\$ 1,508,589	\$ 1,408,507
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	\$ 337,057	\$ 327,614
Interest-bearing	874,050	792,016
Total deposits	1,211,107	1,119,630
Accounts payable and accrued expenses	2,574	2,914
Accrued interest payable and other liabilities	1,032	534
Advances from Federal Home Loan Bank	38,235	38,306
Junior subordinated debentures	3,093	3,093
Subordinated notes	4,946	4,942
Total liabilities	1,260,987	1,169,419
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Common stock, \$0.01 par value; 75,000,000 shares authorized at June 30, 2017 and December 31, 2016; 15,233,010 and 15,195,328 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively (excluding 10,000 shares held in treasury)	152	152
Additional paid-in capital	211,901	211,173
Retained earnings	36,003	29,290
Unallocated Employee Stock Ownership Plan shares; 18,783 and 18,783 shares at June 30, 2017 and December 31, 2016, respectively	(209)	(209)
Accumulated other comprehensive loss	(175)	(1,248)
Treasury stock, 10,000 shares at cost	(70)	(70)
Total stockholders' equity	247,602	239,088
Total liabilities and stockholders' equity	\$ 1,508,589	\$ 1,408,507

See accompanying notes to condensed consolidated financial statements.

VERITEX HOLDINGS, INC. AND SUBSIDIARY
Condensed Consolidated Statements of Income (Unaudited)
For the Six Months Ended June 30, 2017 and 2016
(Dollars in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Interest income:				
Interest and fees on loans	\$ 13,024	\$ 11,052	\$ 24,907	\$ 21,407
Interest on investment securities	735	344	1,310	679
Interest on deposits in other banks	548	80	1,158	173
Interest on other	—	1	1	2
Total interest income	14,307	11,477	27,376	22,261
Interest expense:				
Interest on deposit accounts	1,742	1,072	3,389	2,007
Interest on borrowings	189	177	358	335
Total interest expense	1,931	1,249	3,747	2,342
Net interest income	12,376	10,228	23,629	19,919
Provision for loan losses	943	527	1,833	1,372
Net interest income after provision for loan losses	11,433	9,701	21,796	18,547
Noninterest income:				
Service charges and fees on deposit accounts	555	443	1,064	877
Gain on sales of investment securities	—	—	—	15
Gain on sales of loans	815	620	1,562	1,282
Loss on sale of other assets owned	(8)	—	(8)	—
Bank-owned life insurance	186	191	373	384
Other	218	158	310	227
Total noninterest income	1,766	1,412	3,301	2,785
Noninterest expense:				
Salaries and employee benefits	3,642	3,589	7,550	6,763
Occupancy and equipment	1,015	894	2,026	1,795
Professional fees	1,188	503	1,986	1,076
Data processing and software expense	372	270	732	554
FDIC assessment fees	393	132	651	269
Marketing	225	211	469	411
Other assets owned expenses and write-downs	13	55	38	130
Amortization of intangibles	95	95	190	190
Telephone and communications	106	100	208	197
Other	733	452	1,382	892
Total noninterest expense	7,782	6,301	15,232	12,277
Net income from operations	5,417	4,812	9,865	9,055
Income tax expense	1,802	1,639	3,152	3,069
Net income	\$ 3,615	\$ 3,173	\$ 6,713	\$ 5,986
Basic earnings per share	\$ 0.24	\$ 0.30	\$ 0.44	\$ 0.56
Diluted earnings per share	\$ 0.23	\$ 0.29	\$ 0.43	\$ 0.55

See accompanying notes to condensed consolidated financial statements.

VERITEX HOLDINGS, INC. AND SUBSIDIARY
Condensed Consolidated Statements of Comprehensive Income (Unaudited)
For the Six Months Ended June 30, 2017 and 2016
(Dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	\$ 3,615	\$ 3,173	\$ 6,713	\$ 5,986
Other comprehensive income:				
Unrealized gains on securities available for sale arising during the period, net	1,318	305	1,622	663
Reclassification adjustment for net gains included in net income	—	—	—	15
Other comprehensive income before tax	1,318	305	1,622	648
Income tax expense	445	104	549	220
Other comprehensive income, net of tax	873	201	1,073	428
Comprehensive income	<u>\$ 4,488</u>	<u>\$ 3,374</u>	<u>\$ 7,786</u>	<u>\$ 6,414</u>

See accompanying notes to condensed consolidated financial statements.

VERITEX HOLDINGS, INC. AND SUBSIDIARY
Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)
For the Six Months Ended June 30, 2017 and 2016
(Dollars in thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Unallocated Employee Stock Ownership Plan Shares	Treasury Stock	Total
	Shares	Amount						
Balance at December 31, 2016	15,195,328	\$ 152	\$ 211,173	\$ 29,290	\$ (1,248)	\$ (209)	\$ (70)	\$239,088
Restricted stock units vested, net 7,103 shares withheld to cover tax withholdings	22,233	—	(191)	—	—	—	—	(191)
Exercise of employee stock options, net 1,095 shares withheld to cover tax withholdings	15,449	—	144	—	—	—	—	144
Offering costs from sale of common stock	—	—	(16)	—	—	—	—	(16)
Stock based compensation	—	—	791	—	—	—	—	791
Net income	—	—	—	6,713	—	—	—	6,713
Other comprehensive income	—	—	—	—	1,073	—	—	1,073
Balance at June 30, 2017	<u>15,233,010</u>	<u>\$ 152</u>	<u>\$ 211,901</u>	<u>\$ 36,003</u>	<u>\$ (175)</u>	<u>\$ (209)</u>	<u>\$ (70)</u>	<u>\$247,602</u>

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Unallocated Employee Stock Ownership Plan Shares	Treasury Stock	Total
	Shares	Amount						
Balance at December 31, 2015	10,712,472	\$ 107	\$ 115,721	\$ 16,739	\$ (142)	\$ (309)	\$ (70)	\$132,046
Restricted stock units vested, net 4,171 shares withheld to cover tax withholdings	15,391	—	(73)	—	—	—	—	(73)
Stock based compensation	—	—	463	—	—	—	—	463
Net income	—	—	—	5,986	—	—	—	5,986
Other comprehensive income	—	—	—	—	428	—	—	428
Balance at June 30, 2016	<u>10,727,863</u>	<u>\$ 107</u>	<u>\$ 116,111</u>	<u>\$ 22,725</u>	<u>\$ 286</u>	<u>\$ (309)</u>	<u>\$ (70)</u>	<u>\$138,850</u>

See accompanying notes to condensed consolidated financial statements.

VERITEX HOLDINGS, INC. AND SUBSIDIARY
Condensed Consolidated Statements of Cash Flows (Unaudited)
For the Six Months Ended June 30, 2017 and 2016
(Dollars in thousands)

	For the Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net income	\$ 6,713	\$ 5,986
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	877	808
Provision for loan losses	1,833	1,372
Accretion of loan purchase discount	(190)	(243)
Stock-based compensation expense	791	463
Excess tax benefit from stock compensation	(214)	—
Net amortization of premiums on investment securities	634	431
Change in cash surrender value of bank-owned life insurance	(292)	(308)
Net gain on sales of investment securities	—	(15)
Gain on sales of loans held for sale	(515)	(775)
Gain on sales of SBA loans	(1,047)	(507)
Net loss on sales of other real estate owned	8	—
Amortization of subordinated note discount	4	1
Net originations of loans held for sale	(20,336)	(30,203)
Write down on foreclosed assets	—	114
Proceeds from sales of loans held for sale	21,941	28,823
Deferred tax benefit	(320)	—
Increase in accrued interest receivable and other assets	(876)	(1,360)
Increase (decrease) in accounts payable, accrued expenses, accrued interest payable and other liabilities	158	(378)
Net cash provided by operating activities	9,169	4,209
Cash flows from investing activities:		
Purchases of securities available for sale	(40,354)	(26,706)
Sales of securities available for sale	—	8,378
Proceeds from maturities, calls and pay downs of investment securities	9,194	10,696
Purchases of non-marketable equity securities, net	(41)	(2,868)
Net loans originated	(145,758)	(109,246)
Proceeds from sale of SBA loans	15,792	2,397
Net additions to bank premises and equipment	(1,151)	(344)
Purchase of other real estate owned	(336)	—
Proceeds from sales of other real estate owned	497	—
Net cash used in investing activities	(162,157)	(117,693)
Cash flows from financing activities:		
Net change in deposits	91,477	159,319
Net (decrease) increase in advances from Federal Home Loan Bank	(71)	9,931
Proceeds from exercise of employee stock options	150	—
Costs from issuance of stock related to stock-based awards	(197)	(73)
Offering costs paid in connection with issuance of common stock	(16)	—
Net cash provided by financing activities	91,343	169,177
Net (decrease) increase in cash and cash equivalents	(61,645)	55,693
Cash and cash equivalents at beginning of period	234,791	71,551
Cash and cash equivalents at end of period	\$ 173,146	\$ 127,244

See accompanying notes to condensed consolidated financial statements.

VERITEX HOLDINGS, INC. AND SUBSIDIARY
Notes to Condensed Consolidated Financial Statements
(Dollars in thousands, except for per share amounts)

1. Summary of Significant Accounting Policies

Nature of Organization

Veritex Holdings, Inc. (“Veritex” or the “Company”), a Texas corporation and bank holding company, was incorporated in July 2009 and was formed for the purpose of acquiring one or more financial institutions located in Dallas, Texas and surrounding areas.

Veritex through its wholly-owned subsidiary, Veritex Community Bank, formerly known as Veritex Community Bank, National Association (the “Bank”), is a Texas state banking organization, with corporate offices in Dallas, Texas, and currently operates eleven branches and one mortgage office located throughout the greater Dallas, Texas metropolitan area. The Bank provides a full range of banking services to individual and corporate customers, which include commercial and retail lending, and the acceptance of checking and savings deposits. The Texas Department of Banking and the Board of Governors of the Federal Reserve System are the primary regulators of the Company and the Bank, which perform periodic examinations to ensure regulatory compliance.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Veritex and the Bank as its wholly-owned subsidiary.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”), but do not include all of the information and footnotes required for complete financial statements. In management’s opinion, these interim unaudited condensed consolidated financial statements include all adjustments of a normal recurring nature necessary for a fair statement of the Company’s condensed consolidated financial position at June 30, 2017 and December 31, 2016, condensed consolidated results of operations for the three and six months ended June 30, 2017 and 2016, condensed consolidated stockholders’ equity for the six months ended June 30, 2017 and 2016 and condensed consolidated cash flows for the six months ended June 30, 2017 and 2016.

Accounting measurements at interim dates inherently involve greater reliance on estimates than at year end and the results for the interim periods shown in this report are not necessarily indicative of results to be expected for the full year due in part to global economic and financial market conditions, interest rates, access to sources of liquidity, market competition and interruptions of business processes. These interim unaudited condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto for the year ended December 31, 2016 included within the Company’s Form 10-K as filed with the Securities and Exchange Commission on March 10, 2017.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. These estimates and assumptions may also affect disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Segment Reporting

The Company has one reportable segment. All of the Company’s activities are interrelated, and each activity is dependent on the other and assessed based on how each of the activities of the Company supports the others. For example, lending is dependent upon the ability of the Company to fund itself with deposits and borrowings while managing interest rate and credit risk. Accordingly, all significant operating decisions are based upon analysis of the Company as one segment or unit. The Company’s chief operating decision-maker, the CEO, uses the consolidated results to make operating and strategic decisions.

Reclassifications

Effective January 1, 2017, the Company adopted ASU 2016-09. Per ASU 2016-09 cash paid by an employer when directly withholding shares for tax-withholding purposes should be classified as a financing activity and for presentation purposes be applied retrospectively. For the six months ended June 30, 2016, the Company moved these costs from the accrued interest receivable

and other assets line item in the cash flows from operating activities to the costs from issuance of stock related to stock-based awards line item on the cash flows from financing activities section on the cash flow statement.

Earnings Per Share

Earnings per share (“EPS”) are based upon the weighted-average shares outstanding. The table below sets forth the reconciliation between weighted average shares used for calculating basic and diluted EPS for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Earnings (numerator)				
Net income	\$ 3,615	\$ 3,173	\$ 6,713	\$ 5,986
Shares (denominator)				
Weighted average shares outstanding for basic EPS (thousands)	15,211	10,696	15,205	10,695
Dilutive effect of employee stock-based awards	426	298	428	283
Adjusted weighted average shares outstanding	15,637	10,994	15,633	10,978
Earnings per share:				
Basic	\$ 0.24	\$ 0.30	\$ 0.44	\$ 0.56
Diluted	\$ 0.23	\$ 0.29	\$ 0.43	\$ 0.55

For the six months ended June 30, 2017 there were no exclusions from the diluted EPS weighted average shares and for the six months ended June 30, 2016 there were 117,624 shares excluded from the diluted EPS, as the inclusion of those shares would have been anti-dilutive.

Recent Accounting Pronouncements

ASU 2017-04 “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment” (“ASU 2017-04”) eliminates Step 2 from the goodwill impairment test. In addition, the amendment eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. For public companies, ASU 2017-04 is effective for fiscal years beginning after December 15, 2019 with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is in process of evaluating the impact of this pronouncement, which is not expected to have a significant impact on the consolidated financial statements.

ASU 2016-18 “Statement of Cash Flows (Topic 230): Restricted Cash” (“ASU 2016-18”) requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. For public companies, ASU 2016-18 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Company is in process of evaluating the impact of this pronouncement, which is not expected to have a significant impact on the consolidated financial statements.

ASU 2016-13 “Financial Instruments —Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASU 2016-13”) amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. For assets held at amortized cost basis, Topic 326 eliminates the probable initial recognition threshold in current GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected. For available for sale debt securities, credit losses should be measured in a manner similar to current GAAP, however Topic 326 will require that credit losses be presented as an allowance rather than as a write-down. This Accounting Standards Update affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. For public business entities, this ASU is effective for financial statements issued for fiscal years beginning after December 15, 2019, and interim periods therein. The Company is continuing to evaluate the impact of the adoption of ASU 2016-03 and is uncertain of the impact on the consolidated financial statements at this point in time.

ASU 2016-09 “Compensation —Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”) simplifies several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Per ASU 2016-09: (1) all excess tax benefits and tax deficiencies should be recognized as income tax expense or benefit in the income statement, rather than in additional paid-in capital under current guidance; (2) excess tax benefits should be classified along with other income tax cash flows as an operating activity on the statement of cash flows, rather than as a separate cash inflow from financing activities and cash outflow from operating activities under current guidance; (3) cash paid by an employer when directly withholding shares for tax-withholding purposes should be classified as a financing activity; and (4) an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest, as under current guidance, or account for forfeitures when they occur. For public business entities, this ASU is effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods therein.

Effective January 1, 2017, the Company adopted ASU 2016-09. For the three and six months ended June 30, 2017, the Company recognized an excess income tax benefit of \$42 and \$214 that reduced the income tax provision and increased net income on the condensed consolidated statements of income. The Company prospectively applied the guidance for the presentation of excess tax benefits as an operating cash flow and included the \$214 excess income tax benefit as an operating activity on the condensed consolidated statement of cash flows for the six months ended June 30, 2017. In addition, the Company retrospectively applied the guidance for the presentation of the cash paid by an employer when directly withholding shares for tax-withholding purposes be classified as a financing activity on the condensed consolidated statement of cash flows for the six months ended June 30, 2017 and 2016. Finally, the Company elected to account for forfeitures as they occur.

ASU 2016-02 “Leases (Topic 842)” (“ASU 2016-02”) is intended to improve the reporting of leasing transactions to provide users of financial statements with more decision-useful information. ASU 2016-02 will require organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is in process of evaluating the impact of this pronouncement, which is not expected to have a significant impact on the consolidated financial statements.

ASU 2016-01 “Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”) amends certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (vii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. This update will be effective for the Company on January 1, 2018. The Company is in process of evaluating the impact of this pronouncement, which is not expected to have a significant impact on the consolidated financial statements.

ASU 2014-09 “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”) implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 establishes a five-step model which entities must follow to recognize revenue and removes inconsistencies and weaknesses in existing guidance. The original effective date for ASU 2014-09 was for annual and interim periods beginning after December 15, 2016. However, in August 2015, the FASB issued ASU 2015-14, which deferred the effective date by one year, therefore it is now effective for interim and annual reporting periods beginning after December 15, 2017. The Company will adopt the guidance in the first quarter of 2018 using the modified retrospective application with a cumulative-effect adjustment, if such adjustment is significant. While the guidance will replace most existing revenue recognition guidance in GAAP, the ASU is not applicable to financial instruments and, therefore, will not impact a majority of the Company’s revenue, including net interest income. Our implementation efforts to date include identification of revenue streams within the scope of the guidance, and we have begun evaluation of revenue contracts and related accounting policies.

2. Statement of Cash Flows

Other supplemental cash flow information is presented below:

	Six Months Ended June 30,	
	2017	2016
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	\$ 3,745	\$ 2,329
Cash paid for income taxes	3,500	4,650
Supplemental Disclosures of Non-Cash Flow Information:		
Net foreclosure of other real estate owned and repossessed assets	\$ —	\$ 114

3. Investment Securities

Debt and equity securities have been classified in the condensed consolidated balance sheets according to management's intent. The carrying amount of securities and their approximate fair values are as follows:

	June 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
U.S. government agencies	\$ 691	\$ —	\$ 10	\$ 681
Corporate securities	7,500	197	—	\$ 7,697
Municipal securities	14,914	42	126	14,830
Mortgage-backed securities	65,814	115	340	65,589
Collateralized mortgage obligations	45,370	158	316	45,212
Asset-backed securities	688	11	—	699
	<u>\$ 134,977</u>	<u>\$ 523</u>	<u>\$ 792</u>	<u>\$ 134,708</u>

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
U.S. government agencies	\$ 732	\$ —	\$ 36	\$ 696
Municipal securities	14,540	2	500	14,042
Mortgage-backed securities	49,907	83	871	49,119
Collateralized mortgage obligations	38,507	32	612	37,927
Asset-backed securities	764	11	—	775
	<u>\$ 104,450</u>	<u>\$ 128</u>	<u>\$ 2,019</u>	<u>\$ 102,559</u>

The following tables disclose the Company's investment securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 or more months:

	June 30, 2017					
	Less Than 12 Months		12 Months or More		Totals	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available for Sale						
U.S. government agencies	\$ —	\$ —	\$ 681	\$ 10	\$ 681	\$ 10
Municipal securities	7,052	107	1,346	19	8,398	126
Mortgage-backed securities	42,127	289	3,937	51	46,064	340
Collateralized mortgage obligations	28,283	293	1,473	23	29,756	316
	<u>\$ 77,462</u>	<u>\$ 689</u>	<u>\$ 7,437</u>	<u>\$ 103</u>	<u>\$ 84,899</u>	<u>\$ 792</u>

	December 31, 2016					
	Less Than 12 Months		12 Months or More		Totals	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available for Sale						
U.S. government agencies	\$ —	\$ —	\$ 696	\$ 36	\$ 696	\$ 36
Municipal securities	12,060	478	518	22	12,578	500
Mortgage-backed securities	37,274	802	6,848	69	44,122	871
Collateralized mortgage obligations	29,618	584	1,618	28	31,236	612
	<u>\$ 78,952</u>	<u>\$ 1,864</u>	<u>\$ 9,680</u>	<u>\$ 155</u>	<u>\$ 88,632</u>	<u>\$ 2,019</u>

The number of investment positions in an unrealized loss position totaled 64 and 72 at June 30, 2017 and December 31, 2016, respectively. The Company does not believe these unrealized losses are "other than temporary" as (i) the Company does not have the intent to sell investment securities prior to recovery and (ii) it is more likely than not that the Company will not have to sell these securities prior to recovery. The unrealized losses noted are interest rate related due to the level of interest rates at June 30, 2017. The Company has reviewed the ratings of the issuers and has not identified any issues related to the ultimate repayment of principal as a result of credit concerns on these securities.

The amortized costs and estimated fair values of securities available for sale, by contractual maturity, as of the dates indicated, are shown in the table below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayments penalties. Mortgage-backed securities, collateralized mortgage obligations, and asset-backed securities typically are issued with stated principal amounts, and the securities are backed by pools of mortgage loans and other loans that have varying maturities. The term of mortgage-backed, collateralized mortgage obligations and asset-backed securities thus approximates the term of the underlying mortgages and loans and can vary significantly due to prepayments. Therefore, these securities are not included in the maturity categories below.

	June 30, 2017	
	Available For Sale	
	Amortized Cost	Fair Value
Due in one year or less	\$ —	\$ —
Due from one year to five years	3,928	3,952
Due from five years to ten years	4,504	4,435
Due after ten years	7,173	7,124
	<u>15,605</u>	<u>15,511</u>
Corporate securities	7,500	7,697
Mortgage-backed securities	65,814	65,589
Collateralized mortgage obligations	45,370	45,212
Asset-backed securities	688	699
	<u>\$ 134,977</u>	<u>\$ 134,708</u>

	December 31, 2016	
	Available For Sale	
	Amortized Cost	Fair Value
Due in one year or less	\$ —	\$ —
Due from one year to five years	4,009	3,974
Due from five years to ten years	3,522	3,346
Due after ten years	7,741	7,418
	<u>15,272</u>	<u>14,738</u>
Mortgage-backed securities	49,907	49,119
Collateralized mortgage obligations	38,507	37,927
Asset-backed securities	764	775
	<u>\$ 104,450</u>	<u>\$ 102,559</u>

Proceeds from sales of investment securities available for sale and gross gains and losses for the six months ended June 30, 2017 and 2016 were as follows:

	Six Months Ended June 30,	
	2017	2016
Proceeds from sales	\$ —	\$ 8,378
Gross realized gains	—	43
Gross realized losses	—	40

There were no gross gains from calls of investment securities included in gain on sale of investment securities in the accompanying condensed consolidated statements for the six months ended June 30, 2017 and \$12 gross gains from calls of investment securities included in the condensed consolidated statements for the six months ended June 30, 2016.

There was a blanket floating lien on all securities held by the Company to secure Federal Home Loan Bank advances as of June 30, 2017 and December 31, 2016.

4. Loans and Allowance for Loan Losses

Loans in the accompanying condensed consolidated balance sheets are summarized as follows:

	June 30, 2017	December 31, 2016
Real estate:		
Construction and land	\$ 136,332	\$ 162,614
Farmland	8,448	8,262
1 - 4 family residential	157,823	140,137
Multi-family residential	38,265	14,683
Commercial Real Estate	430,895	370,696
Commercial	347,017	291,416
Consumer	3,688	4,089
	<u>1,122,468</u>	<u>991,897</u>
Deferred loan fees	(40)	(55)
Allowance for loan losses	(9,740)	(8,524)
	<u>\$ 1,112,688</u>	<u>\$ 983,318</u>

Included in the net loan portfolio as of June 30, 2017 and December 31, 2016 is an accretable discount related to loans acquired within a business combination in the approximate amounts of \$376 and \$566, respectively. The discount is being accreted into income using the interest method over the life of the loans.

The majority of the loan portfolio is comprised of loans to businesses and individuals in the Dallas metropolitan area. This geographic concentration subjects the loan portfolio to the general economic conditions within this area. The risks created by this concentration have been considered by management in the determination of the adequacy of the allowance for loan losses. Management believes the allowance for loan losses was adequate to cover estimated losses on loans as of June 30, 2017 and December 31, 2016.

Non-Accrual and Past Due Loans

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on non-accrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on non-accrual status regardless of whether or not such loans are considered past due. When the accrual of interest is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Non-accrual loans aggregated by class of loans, as of June 30, 2017 and December 31, 2016, are as follows:

	June 30, 2017	December 31, 2016
Real estate:		
Construction and land	\$ —	\$ —
Farmland	—	—
1 - 4 family residential	—	—
Multi-family residential	—	—
Commercial Real Estate	727	—
Commercial	778	930
Consumer	9	11
	<u>\$ 1,514</u>	<u>\$ 941</u>

During the six months ended June 30, 2017 and 2016, interest income not recognized on non-accrual loans was minimal.

An aging analysis of past due loans, aggregated by class of loans, as of June 30, 2017 and December 31, 2016 is as follows:

	June 30, 2017						
	30 to 59 Days	60 to 89 Days	90 Days or Greater	Total Past Due	Total Current	Total Loans	Total 90 Days Past Due and Still Accruing
Real estate:							
Construction and land	\$ 492	\$ —	\$ —	\$ 492	\$ 135,840	\$ 136,332	\$ —
Farmland	—	—	—	—	8,448	8,448	—
1 - 4 family residential	815	—	—	815	157,008	157,823	—
Multi-family residential	—	—	—	—	38,265	38,265	—
Commercial Real Estate	—	—	727	727	430,168	430,895	—
Commercial	137	392	781	1,310	345,707	347,017	15
Consumer	9	—	—	9	3,679	3,688	—
	<u>\$ 1,453</u>	<u>\$ 392</u>	<u>\$ 1,508</u>	<u>\$ 3,353</u>	<u>\$ 1,119,115</u>	<u>\$ 1,122,468</u>	<u>\$ 15</u>

	December 31, 2016						
	30 to 59 Days	60 to 89 Days	90 Days or Greater	Total Past Due	Total Current	Total Loans	Total 90 Days Past Due and Still Accruing
Real estate:							
Construction and land	\$ 1,047	\$ —	\$ —	\$ 1,047	\$ 161,567	\$ 162,614	\$ —
Farmland	—	—	—	—	8,262	8,262	—
1 - 4 family residential	510	214	—	724	139,413	140,137	—
Multi-family residential	—	—	—	—	14,683	14,683	—
Commercial Real Estate	—	—	754	754	369,942	370,696	754
Commercial	1,344	438	532	2,314	289,102	291,416	81
Consumer	41	—	—	41	4,048	4,089	—
	<u>\$ 2,942</u>	<u>\$ 652</u>	<u>\$ 1,286</u>	<u>\$ 4,880</u>	<u>\$ 987,017</u>	<u>\$ 991,897</u>	<u>\$ 835</u>

Loans past due 90 days and still accruing, decreased from \$835 as of December 31, 2016 to \$15 as of June 30, 2017. These loans are also considered well-secured and in the process of collection with plans in place for the borrowers to bring the notes fully current. The Company believes that it will collect all principal and interest due on each of the loans past due 90 days and still accruing.

Impaired Loans

Impaired loans are those loans where it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. All troubled debt restructurings (“TDRs”) are considered impaired loans. Impaired loans are measured based on 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 the collateral if the loan is collateral dependent. Substantially all of the Company’s impaired loans are measured at the fair value of the collateral. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

Impaired loans, including purchased credit impaired (“PCI”) loans and TDRs, at June 30, 2017 and December 31, 2016 are summarized in the following tables.

	June 30, 2017					
	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment YTD
Real estate:						
Construction and land	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Farmland	—	—	—	—	—	—
1 - 4 family residential	163	163	—	163	—	212
Multi-family residential	—	—	—	—	—	—
Commercial Real Estate	1,104	1,104	—	1,104	—	1,140
Commercial	793	540	253	793	137	886
Consumer	86	77	9	86	1	89
Total	\$ 2,146	\$ 1,884	\$ 262	\$ 2,146	\$ 138	\$ 2,327

	December 31, 2016					
	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment YTD
Real estate:						
Construction and land	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Farmland	—	—	—	—	—	—
1 - 4 family residential	164	164	—	164	—	265
Multi-family residential	—	—	—	—	—	—
Commercial Real Estate	382	382	—	382	—	440
Commercial	955	381	574	955	246	463
Consumer	92	81	11	92	4	12
Total	\$ 1,593	\$ 1,008	\$ 585	\$ 1,593	\$ 250	\$ 1,180

Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis.

During the six months ended June 30, 2017 and 2016, total interest income and cash-based interest income recognized on impaired loans was minimal.

Troubled Debt Restructuring

Modifications of terms for the Company’s loans and their inclusion as TDRs are based on individual facts and circumstances. Loan modifications that are included as TDRs may involve a reduction of the stated interest rate of the loan, an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk, or deferral of principal payments, regardless of the period of the modification. The recorded investment in TDRs was \$653 and \$822 as of June 30, 2017 and December 31, 2016, respectively.

During the six months ended June 30, 2017 and 2016 no loans were modified as TDRs.

There was one loan modified as a troubled debt restructured loan within the previous 12 months and for which there was a payment default during the six months ended June 30, 2017 and none for the six months ended June 30, 2016. A default for purposes of this disclosure is a TDR loan in which the borrower is 90 days past due or results in the foreclosure and repossession of the applicable collateral.

Interest income recorded during the six months ended June 30, 2017 and 2016 on the restructured loans and interest income that would have been recorded had the terms of the loan not been modified was minimal.

The Company has not committed to lend additional amounts to customers with outstanding loans classified as TDRs as of June 30, 2017 or December 31, 2016.

Credit Quality Indicators

From a credit risk standpoint, the Company classifies its loans in the following categories: (i) pass, (ii) special mention, (iii) substandard or (iv) doubtful. Loans classified as loss are charged-off.

The classifications of loans reflect a judgment by management about the risks of default and loss associated with the loan. The Company reviews the ratings on criticized credits monthly. Ratings are adjusted to reflect the degree of risk and loss that is believed to be inherent in each credit as of each monthly reporting period. All classified credits are evaluated for impairments. If impairment is determined to exist, a specific reserve is established. The Company's methodology is structured so that specific reserves are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss).

Credits rated "special mention" show clear signs of financial weaknesses or deterioration in credit worthiness; however, such concerns are not so pronounced that the Company generally expects to experience significant loss within the short-term. Such credits typically maintain the ability to perform within standard credit terms, and credit exposure is not as prominent as credits rated more harshly.

Credits rated substandard are those in which the normal repayment of principal and interest may be, or has been, jeopardized by reason of adverse trends or developments of a financial, managerial, economic or political nature, or important weaknesses which exist in the collateral. A protracted workout on these credits is a distinct possibility. Prompt corrective action is therefore required to strengthen the Company's position, and/or to reduce exposure and to assure that adequate remedial measures are taken by the borrower. Credit exposure becomes more likely in such credits and a serious evaluation of the secondary support to the credit is performed.

Credits rated doubtful are those in which full collection of principal appears highly questionable, and in which some degree of loss is anticipated, even though the ultimate amount of loss may not yet be certain and/or other factors exist which could affect collection of debt. Based upon available information, positive action by the Company is required to avert or minimize loss. Credits rated doubtful are generally also placed on non-accrual.

The following tables summarize the Company's internal ratings of its loans, including purchased credit impaired loans, as of June 30, 2017 and December 31, 2016:

	June 30, 2017				
	Pass	Special Mention	Substandard	Doubtful	Total
Real estate:					
Construction and land	\$ 136,332	\$ —	\$ —	\$ —	\$ 136,332
Farmland	8,448	—	—	—	8,448
1 - 4 family residential	157,564	—	259	—	157,823
Multi-family residential	38,265	—	—	—	38,265
Commercial Real Estate	424,247	5,358	1,290	—	430,895
Commercial	338,701	6,990	1,210	116	347,017
Consumer	3,672	—	16	—	3,688
Total	\$ 1,107,229	\$ 12,348	\$ 2,775	\$ 116	\$ 1,122,468

	December 31, 2016				
	Pass	Special Mention	Substandard	Doubtful	Total
Real estate:					
Construction and land	\$ 162,614	\$ —	\$ —	\$ —	\$ 162,614
Farmland	8,262	—	—	—	8,262
1 - 4 family residential	139,212	710	215	—	140,137
Multi-family residential	14,683	—	—	—	14,683
Commercial Real Estate	368,370	2,326	—	—	370,696
Commercial	289,589	686	1,034	107	291,416
Consumer	4,078	—	11	—	4,089
Total	\$ 986,808	\$ 3,722	\$ 1,260	\$ 107	\$ 991,897

An analysis of the allowance for loan losses for the six months ended June 30, 2017 and 2016 and year ended December 31, 2016 is as follows:

	Six Months Ended June 30, 2017	Year Ended December 31, 2016	Six Months Ended June 30, 2016
Balance at beginning of year	\$ 8,524	\$ 6,772	\$ 6,772
Provision charged to earnings	1,833	2,050	1,372
Charge-offs	(622)	(333)	(249)
Recoveries	5	35	15
Net charge-offs	(617)	(298)	(234)
Balance at end of year	\$ 9,740	\$ 8,524	\$ 7,910

The allowance for loan losses as a percentage of total loans was 0.87%, 0.86% and 0.85% as of June 30, 2017, December 31, 2016, and June 30, 2016, respectively.

The following tables summarize the activity in the allowance for loan losses by portfolio segment for the periods indicated:

	For the Six Months Ended June 30, 2017					
	Real Estate					
	Construction, Land and Farmland	Residential	Commercial Real Estate	Commercial	Consumer	Total
Balance at beginning of period	\$ 1,415	\$ 1,116	\$ 3,003	\$ 2,955	\$ 35	\$ 8,524
Provision (recapture) charged to earnings	(291)	370	554	1,205	(5)	1,833
Charge-offs	—	(11)	—	(611)	—	(622)
Recoveries	—	—	—	5	—	5
Net charge-offs (recoveries)	—	(11)	—	(606)	—	(617)
Balance at end of period	\$ 1,124	\$ 1,475	\$ 3,557	\$ 3,554	\$ 30	\$ 9,740
Period-end amount allocated to:						
Specific reserves:						
Impaired loans	\$ —	\$ —	\$ —	\$ 137	\$ 1	\$ 138
Total specific reserves	—	—	—	137	1	138
General reserves	1,124	1,475	3,557	3,417	29	9,602
Total	\$ 1,124	\$ 1,475	\$ 3,557	\$ 3,554	\$ 30	\$ 9,740

For the Year Ended December 31, 2016

	Real Estate					
	Construction, Land and Farmland	Residential	Commercial Real Estate	Commercial	Consumer	Total
Balance at beginning of period	\$ 1,104	\$ 1,124	\$ 2,189	\$ 2,324	\$ 31	\$ 6,772
Provision (recapture) charged to earnings	311	(8)	814	913	20	2,050
Charge-offs	—	—	—	(314)	(19)	(333)
Recoveries	—	—	—	32	3	35
Net charge-offs (recoveries)	—	—	—	(282)	(16)	(298)
Balance at end of period	<u>\$ 1,415</u>	<u>\$ 1,116</u>	<u>\$ 3,003</u>	<u>\$ 2,955</u>	<u>\$ 35</u>	<u>\$ 8,524</u>
Period-end amount allocated to:						
Specific reserves:						
Impaired loans	\$ —	\$ —	\$ —	\$ 246	\$ 4	\$ 250
Total specific reserves	—	—	—	246	4	250
General reserves	1,415	1,116	3,003	2,709	31	8,274
Total	<u>\$ 1,415</u>	<u>\$ 1,116</u>	<u>\$ 3,003</u>	<u>\$ 2,955</u>	<u>\$ 35</u>	<u>\$ 8,524</u>

For the Six Months Ended June 30, 2016

	Real Estate					
	Construction, Land and Farmland	Residential	Commercial Real Estate	Commercial	Consumer	Total
Balance at beginning of year	\$ 1,104	\$ 1,124	\$ 2,189	\$ 2,324	\$ 31	\$ 6,772
Provision (recapture) charged to earnings	286	67	397	618	4	1,372
Charge-offs	—	—	—	(240)	(9)	(249)
Recoveries	—	—	—	14	1	15
Net charge-offs (recoveries)	—	—	—	(226)	(8)	(234)
Balance at end of year	<u>\$ 1,390</u>	<u>\$ 1,191</u>	<u>\$ 2,586</u>	<u>\$ 2,716</u>	<u>\$ 27</u>	<u>\$ 7,910</u>
Period-end amount allocated to:						
Specific reserves:						
Impaired loans	\$ —	\$ —	\$ —	\$ 80	\$ 4	\$ 84
Total specific reserves	—	—	—	80	4	84
General reserves	1,390	1,191	2,586	2,636	23	7,826
Total	<u>\$ 1,390</u>	<u>\$ 1,191</u>	<u>\$ 2,586</u>	<u>\$ 2,716</u>	<u>\$ 27</u>	<u>\$ 7,910</u>

The Company's recorded investment in loans as of June 30, 2017 and December 31, 2016 related to the balance in the allowance for loan losses on the basis of the Company's impairment methodology is as follows:

June 30, 2017

	Real Estate					
	Construction, Land and Farmland	Residential	Commercial Real Estate	Commercial	Consumer	Total
Loans individually evaluated for impairment	\$ —	\$ 163	\$ 1,104	\$ 793	\$ 86	\$ 2,146
Loans collectively evaluated for impairment	144,780	195,925	429,791	346,224	3,602	1,120,322
Total	<u>\$ 144,780</u>	<u>\$ 196,088</u>	<u>\$ 430,895</u>	<u>\$ 347,017</u>	<u>\$ 3,688</u>	<u>\$ 1,122,468</u>

December 31, 2016

	Real Estate					Total
	Construction, Land and Farmland	Residential	Commercial Real Estate	Commercial	Consumer	
	Loans individually evaluated for impairment	\$ —	\$ 164	\$ 382	\$ 955	
Loans collectively evaluated for impairment	170,876	154,656	370,314	290,461	3,997	990,304
Total	\$ 170,876	\$ 154,820	\$ 370,696	\$ 291,416	\$ 4,089	\$ 991,897

The Company has acquired certain loans which experienced credit deterioration since origination which are PCI loans. Accretion on PCI loans is based on estimated future cash flows, regardless of contractual maturity.

Servicing Assets

At June 30, 2017, the Company was servicing loans of approximately \$44,720. A summary of the changes in the related servicing assets are as follows:

	Six Months Ended June 30,	
	2017	2016
Balance at beginning of year	\$ 601	\$ 426
Increase from loan sales	281	111
Amortization charged to income	(88)	(55)
Balance at end of period	\$ 794	\$ 482

The estimated fair value of the servicing assets approximated the carrying amount at June 30, 2017, December 31, 2016, and June 30, 2016. Fair value is estimated by discounting estimated future cash flows from the servicing assets using discount rates that approximate current market rates over the expected lives of the loans being serviced. A valuation allowance is recorded when the fair value is below the carrying amount of the asset. At June 30, 2017, there was no valuation allowance recorded.

The Company may also receive a portion of subsequent interest collections on loans sold that exceed the contractual servicing fee. In that case, the Company records an interest-only strip based on its relative fair market value and the other components of the loans. There was no interest-only strip receivable recorded at June 30, 2017 and December 31, 2016.

5. Income Taxes

The Company's estimated annual effective tax rate, before the net impact of discrete items, was approximately 34.5% and 34.1% for the six months ended June 30, 2017 and 2016, respectively. The Company's effective tax rate, after including the net impact of discrete tax items, was approximately 32.0% and 33.9%, respectively, for the six months ended June 30, 2017 and 2016. The Company's provision was impacted by a net discrete tax benefit of \$255 primarily associated with the recognition of excess tax benefit on share-based payment awards for the six months ended June 30, 2017.

The Company's estimated annual effective tax rate, before the net impact of discrete items, was approximately 34.8% and 34.1% for the three months ended June 30, 2017 and 2016, respectively. The Company's effective tax rate, after including the net impact of discrete tax items, was approximately 33.3% and 34.1%, respectively, for the three months ended June 30, 2017 and 2016. The Company's provision was impacted by a net discrete tax benefit of \$83 primarily associated with the recognition of excess tax benefit on share-based payment awards for the three months ended June 30, 2017.

Deferred income taxes reflect the net tax effects of temporary differences between the recorded amounts of assets and liabilities for financial reporting purposes, and the amounts used for income tax purposes. Included in the accompanying condensed consolidated balance sheet as of June 30, 2017 is a current tax liability of approximately \$94 in accrued interest payable and other liabilities and a net deferred tax asset of approximately \$3,452 in other assets. Included in the accompanying condensed consolidated balance sheets as of December 31, 2016 is a current tax receivable of \$91 and a net deferred tax asset of \$3,467 in other assets.

6. Commitments and Contingencies

Litigation

The Company may from time to time be involved in legal actions arising from normal business activities. Management believes that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the financial position or results of operations of the Company.

Operating Leases

The Company leases several of its banking facilities under operating leases. Rental expense related to these leases was approximately \$881 and \$684 for the six months ended June 30, 2017 and 2016, respectively.

7. Fair Value Disclosures

The authoritative guidance for fair value measurements defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

The authoritative guidance requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement costs). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the authoritative guidance 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 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 (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 2 investments consist primarily of obligations of U.S. government sponsored enterprises and agencies, obligations of state and municipal subdivisions, corporate bonds, mortgage-backed securities, collateralized mortgage obligations, and asset-backed securities.

Level 3 Inputs. Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed 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. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

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.

Assets and liabilities measured at fair value on a recurring basis include the following:

Investment Securities Available For Sale: Securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For those securities classified as Level 2, 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 yield curve, live trading levels or trade execution data for similar securities, market consensus prepayments speeds, credit information and the bond's terms and conditions, among other things.

The following table summarizes assets measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Fair Value Measurements Using			Total Fair Value
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
As of June 30, 2017				
Investment securities available for sale	\$ —	\$ 134,708	\$ —	\$ 134,708
As of December 31, 2016				
Investment securities available for sale	\$ —	\$ 102,559	\$ —	\$ 102,559

There were no liabilities measured at fair value on a recurring basis as of June 30, 2017 or December 31, 2016.

There were no transfers between Level 2 and Level 3 during the six months ended June 30, 2017 and 2016.

Certain assets and liabilities are measured at fair value on a non-recurring basis; that is, the instruments 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).

Assets measured at fair value on a non-recurring basis include impaired loans and other real estate owned. The fair value of impaired loans with specific allocations of the allowance for loan losses and other real estate owned is based upon recent real estate appraisals less estimated costs of sale. For residential real estate impaired loans and other real estate owned, appraised values are based on the comparative sales approach. For commercial and commercial real estate impaired loans and other real estate owned, appraisers may use either a single valuation approach or a combination of approaches such as comparative sales, cost or the income approach. A significant unobservable input in the income approach is the estimated income capitalization rate for a given piece of collateral. Adjustments to appraisals may be made to reflect local market conditions or other economic factors and may result in changes in the fair value of a given asset over time. As such, the fair value of impaired loans and other real estate owned are considered a Level 3 in the fair value hierarchy.

The Company recovers the carrying value of other real estate owned through the sale of the property. The ability to affect future sales prices is subject to market conditions and factors beyond the Company's control and may impact the estimated fair value of a property.

Appraisals for impaired loans and other real estate owned are performed by certified general appraisers whose qualifications and licenses have been reviewed and verified by the Company. Once reviewed, a member of the credit department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparisons to independent data sources such as recent market data or industry wide-statistics. On a periodic basis, the Company compares the actual selling price of collateral that has been sold to the most recent appraised value to determine what additional adjustments, if any, should be made to the appraisal value to arrive at fair value.

The following table summarizes assets measured at fair value on a non-recurring basis as of June 30, 2017 and December 31, 2016, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Fair Value Measurements Using			Total Fair Value
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
As of June 30, 2017				
Assets:				
Impaired loans	\$ —	\$ —	\$ 2,008	\$ 2,008
As of December 31, 2016				
Assets:				
Impaired loans	\$ —	\$ —	\$ 1,343	\$ 1,343

At June 30, 2017, impaired loans had a carrying value of \$2,146, with \$138 specific allowance for loan loss allocated.

At December 31, 2016, impaired loans had a carrying value of \$1,593, with \$250 specific allowance for loan loss allocated.

There were no liabilities measured at fair value on a non-recurring basis as of June 30, 2017 or December 31, 2016.

For Level 3 financial assets measured at fair value as of June 30, 2017 and December 31, 2016, the significant unobservable inputs used in the fair value measurements were as follows:

June 30, 2017				
Assets/Liabilities	Fair Value	Valuation Technique	Unobservable Input(s)	Weighted Average
Impaired loans	\$ 2,008	Collateral Method	Adjustments for selling costs	8%

December 31, 2016				
Assets/Liabilities	Fair Value	Valuation Technique	Unobservable Input(s)	Weighted Average
Impaired loans	\$ 1,343	Collateral Method	Adjustments for selling costs	8%

Fair Value of Financial Instruments

The Company is required under current authoritative guidance to disclose the estimated fair value of its financial instrument assets and liabilities including those subject to the requirements discussed above. For the Company, as for most financial institutions, substantially all of its assets and liabilities are considered financial instruments, as defined. Many of the Company's financial instruments, however, lack an available trading market as characterized by a willing buyer and willing seller engaging in an exchange transaction.

The estimated fair value amounts of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop an estimate of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or valuation methodologies may have a material effect on the estimated fair value amounts. In addition, reasonable comparability between financial institutions may not be likely due to the wide range of permitted valuation techniques and numerous estimates that must be made given the absence of active secondary markets for many of the financial instruments. This lack of uniform valuation methodologies also introduces a greater degree of subjectivity to these estimated fair values.

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 amount of cash and cash equivalents approximates their fair value.

Loans and loans held for sale: For variable-rate loans that reprice frequently and have no significant changes in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (for example, 1-4 family residential), commercial real estate and commercial loans are estimated using discounted cash flow analysis, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Servicing assets: The estimated fair value of the servicing assets approximated the carrying amount at June 30, 2017 and December 31, 2016. Fair value is estimated by discounting estimated future cash flows from the servicing assets using discount rates that approximate current market rates over the expected lives of the loans being serviced. A valuation allowance is recorded when the fair value is below the carrying amount of the asset. At June 30, 2017 and December 31, 2016 no valuation allowance was recorded.

Bank-owned life insurance: The carrying amounts of bank-owned life insurance approximate their fair value.

Non-marketable equity securities: 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.

Advances from Federal Home Loan Bank: 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.

Junior subordinated debentures and subordinated notes: The fair values are based upon prevailing rates on similar debt in the market place.

Accrued interest: The carrying amounts of accrued interest approximate their fair values due to short-term maturity.

Off-balance sheet instruments: Commitments to extend credit and standby letters of credit are generally priced at market at the time of funding and were not material to the Company’s condensed consolidated financial statements.

The estimated fair values and carrying values of all financial instruments under current authoritative guidance as of June 30, 2017 and December 31, 2016 were as follows:

	June 30,		December 31,	
	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Level 1 inputs:				
Cash and cash equivalents	\$ 173,146	\$ 173,146	\$ 234,791	\$ 234,791
Level 2 inputs:				
Investment securities	134,708	134,708	102,559	102,559
Loans held for sale	4,118	4,118	5,208	5,208
Accrued interest receivable	3,333	3,333	2,907	2,907
Bank-owned life insurance	20,369	20,369	20,077	20,077
Servicing asset	794	794	601	601
Non-marketable equity securities	7,407	7,407	7,366	7,366
Level 3 inputs:				
Loans, net	1,112,688	1,120,692	983,318	987,021
Financial liabilities:				
Level 2 inputs:				
Deposits	\$ 1,211,107	\$ 1,158,631	\$ 1,119,630	\$ 1,085,888
Advances from FHLB	38,235	38,280	38,306	38,570
Accrued interest payable	125	125	141	141
Junior subordinated debentures	3,093	3,093	3,093	3,093
Subordinated notes	4,946	4,946	4,942	4,942

8. 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. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the condensed consolidated balance sheets.

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 and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on balance sheet instruments.

The following table sets forth the approximate amounts of these financial instruments as of June 30, 2017 and December 31, 2016:

	June 30,	December 31,
	2017	2016
Commitments to extend credit	\$ 269,863	\$ 236,919
Standby and commercial letters of credit	5,936	6,933
	<u>\$ 275,799</u>	<u>\$ 243,852</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 may expire without being drawn upon, the total commitment amounts do not

necessarily represent future cash requirements. Management evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company's policy for obtaining collateral and the nature of such collateral is essentially the same as that involved in making commitments to extend credit.

Although the maximum exposure to loss is the amount of such commitments, management currently anticipates no material losses from such activities.

9. Employee Benefits

Defined Contribution Plan

The Company maintains a retirement savings 401(k) profit sharing plan ("Plan") in which substantially all employees may participate. The Plan provides for "before tax" employee contributions through salary reductions under section 401(k) of the Internal Revenue Code. The Company may make a discretionary match of employees' contributions based on a percentage of salary deferrals and certain discretionary profit sharing contributions. No matching contributions to the Plan were made for the six months ended June 30, 2017 and 2016.

ESOP

Effective January 1, 2012, the Company adopted the Veritex Community Bank Employee Stock Ownership Plan ("ESOP") covering all employees that meet certain age and service requirements. Plan assets are held and managed by the Company. Shares of the Company's common stock purchased by the ESOP are held in a suspense account until released for allocation to participants. Shares released are allocated to each eligible participant based on the participant's 401(k) contribution made during that year. Compensation expense is measured based upon the expected amount of the Company's discretionary contribution that is determined on an annual basis and is accrued ratably over the year. Shares are committed to be released to settle the liability upon formal declaration of the contribution at the end of the year. The number of shares released to settle the liability is based upon fair value of the shares and become outstanding shares for earnings per share computations. The cost of shares issued to the ESOP, but not yet committed to be released, is shown as a reduction of stockholders' equity. To the extent that the fair value of the ESOP shares differs from the cost of such shares, the difference is charged or credited to stockholders' equity as additional paid in capital.

In January 2014, the ESOP borrowed \$500 from the Company and purchased 46,082 shares of the Company's common stock. The ESOP debt is secured by shares of the Company. The loan will be repaid from contributions to the ESOP from the Company. As the debt is repaid, shares are released from collateral and allocated to employees' accounts. The shares pledged as collateral are reported as unearned ESOP shares in the condensed consolidated balance sheets.

Compensation expense attributed to the ESOP contributions recorded in the accompanying condensed consolidated statements of income for the six months ended June 30, 2017 and 2016 was approximately \$57 and \$92, respectively.

The following is a summary of ESOP shares as of June 30, 2017 and December 31, 2016:

	<u>June 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Allocated shares	44,257	44,257
Unearned shares	18,783	18,783
Total ESOP shares	63,040	63,040
Fair value of unearned shares	\$ 495	\$ 502

10. Stock and Incentive Plan

2010 Stock Option and Equity Incentive Plan

In 2010, the Company adopted the 2010 Stock Option and Equity Incentive Plan (the “2010 Incentive Plan”), which the Company’s shareholders approved in 2011. The maximum number of shares of common stock that may be issued pursuant to grants or options under the 2010 Incentive Plan is 1,000,000. The 2010 Incentive Plan is administered by the Board of Directors and provides for both the direct award of stock and the grant of stock options to eligible directors, officers, employees and outside consultants of the Company or its affiliates as defined in the 2010 Incentive Plan. The Company may grant either incentive stock options or nonqualified stock options as directed in the 2010 Incentive Plan.

The Board of Directors authorized the 2010 Incentive Plan to provide for the award of 100,000 shares of direct stock awards (restricted shares) and 900,000 shares of stock options, of which 500,000 shares are performance-based stock options. Options are generally granted with an exercise price equal to the market price of the Company’s stock at the date of the grant; those option awards generally vest based on 5 years of continuous service and have 10-year contractual terms for non-controlling participants as defined by the 2010 Incentive Plan, and forfeiture of unexercised options upon termination of employment with the Company. Other grant terms can vary for controlling participants as defined by the 2010 Incentive Plan. Restricted share awards generally vest after 4 years of continuous service. The terms of the Incentive Plan include a provision whereby all unearned non-performance options and restricted shares become immediately exercisable and fully vested upon a change in control.

With the adoption of the 2014 Omnibus Plan, which is discussed below, the Company does not plan to award any additional grants or options under the 2010 Incentive Plan.

During the six months ended June 30, 2017 and 2016, the Company did not award any restricted stock units, non-performance-based stock options or performance-based stock options under the 2010 Incentive Plan.

Stock based compensation expense is measured based upon the fair market value of the award at the grant date and is recognized ratably over the period during which the shares are earned (the requisite service period). Stock compensation expense related to the 2010 Incentive Plan recognized in the accompanying condensed consolidated statements of income totaled \$20 and \$42 for the three and six months ended June 30, 2017 and \$29 and \$57 for the three and six months ended June 30, 2016, respectively.

A summary of option activity under the 2010 Incentive Plan for the six months ended June 30, 2017 and 2016, and changes during the period then ended is presented below:

	For the Six Months Ended June 30, 2017		
	Non-performance-based Stock Options		
	Shares Underlying Options	Weighted Exercise Price	Weighted Average Contractual Term
Outstanding at beginning of year	325,500	\$ 10.15	4.56 years
Granted during the period	—	—	—
Forfeited during the period	—	—	—
Canceled during the period	—	—	—
Exercised during the period	(15,000)	10.00	—
Outstanding at the end of period	310,500	\$ 10.16	4.09 years
Options exercisable at end of period	297,000	\$ 10.12	4.00 years
Weighted average fair value of options granted during the period		\$ —	

For the Six Months Ended June 30, 2016

	Non-performance-based Stock Options		
	Shares Underlying Options	Weighted Exercise Price	Weighted Average Contractual Term
Outstanding at beginning of year	325,500	\$ 10.15	5.56 years
Granted during the period	—	—	
Forfeited during the period	—	—	
Exercised during the period	—	—	
Outstanding at the end of period	325,500	\$ 10.15	5.06 years
Options exercisable at end of period	298,200	\$ 10.09	4.91 years
Weighted average fair value of options granted during the period		\$ —	

As of June 30, 2017, December 31, 2016 and June 30, 2016, the aggregate intrinsic value was \$5,022, \$5,390 and \$1,911, respectively, for outstanding non-performance-based stock options, \$4,814, \$5,086 and \$1,768, respectively, for exercisable non-performance-based stock options.

As of June 30, 2017, December 31, 2016 and June 30, 2016, there was approximately \$15, \$21 and \$36, respectively, of unrecognized compensation expense related to non-performance-based stock options. The unrecognized compensation expense at June 30, 2017 is expected to be recognized over the remaining weighted average requisite service period of 1.00 year.

A summary of the status of the Company's restricted stock units under the 2010 Incentive Plan as of June 30, 2017 and 2016, and changes during the six months then ended is as follows:

	2017		2016	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1,	27,750	\$ 11.92	39,750	\$ 11.34
Granted during the period	—	—	—	—
Vested during the period	(1,000)	10.85	(6,000)	10.00
Forfeited during the period	(500)	10.85	—	—
Nonvested at June 30,	26,250	\$ 11.98	33,750	\$ 11.58

As of June 30, 2017, December 31, 2016 and June 30, 2016, there was \$54, \$90, and \$132, respectively, of total unrecognized compensation expense related to nonvested restricted stock units. The unamortized compensation expense as of June 30, 2017 is expected to be recognized over the remaining weighted average requisite service period of 0.74 years.

The fair value of non-performance-based stock options that were exercised during the six months ended June 30, 2017 and 2016 was \$422 and \$0, respectively. The fair value of restricted stock units that vested during the six months ended June 30, 2017 and 2016 was \$26 and \$97, respectively.

2014 Omnibus Plan

In September of 2014, the Company adopted an omnibus incentive plan or the 2014 Omnibus Plan (the "2014 Omnibus Plan"). The purpose of the 2014 Omnibus Plan is to align the long-term financial interests of the employees, directors, consultants and other service providers with those of the shareholders, to attract and retain those employees, directors, consultants and other service providers by providing compensation opportunities that are competitive with other companies and to provide incentives to those individuals who contribute significantly to the Company's long-term performance and growth. To accomplish these goals, the 2014 Omnibus Plan permits the issuance of stock options, share appreciation rights, restricted shares, restricted share units, deferred shares, unrestricted shares and cash-based awards. The maximum number of shares of the Company's common stock that may be issued pursuant to grants or options under the 2014 Omnibus Plan is 1,000,000.

During the six months ended June 30, 2017, the Company awarded 31,375 non-performance restricted stock units, 25,522 performance based restricted, and 65,440 non-performance-based stock options under the 2014 Omnibus Plan. During the six months ended June 30, 2016, the Company awarded 22,060 non-performance based restricted stock units, and 34,190 market condition restricted stock units, and 71,286 non-performance-based stock options under the 2014 Omnibus Plan.

The non-performance options generally vest equally over three years from the grant date. The performance-based restricted stock units include a market condition based on the Company's total shareholder return relative to a market index that determines the number of restricted stock units that may vest equally over a three-year period from the date of grant. The non-performance restricted stock units fully vest over the requisite service period generally ranging from one to five years.

Stock based compensation expense is measured based upon the fair market value of the award at the grant date and is recognized ratably over the period during which the shares are earned (the requisite service period). For the three and six months ended June 30, 2017, compensation expense for option awards granted under the 2014 Omnibus Plan was approximately \$97 and \$194, respectively. For the three and six months ended June 30, 2017, compensation expense for restricted stock unit awards granted under the 2014 Omnibus Plan was approximately \$277 and \$555 respectively.

For the three and six months ended June 30, 2016, compensation expense for option awards granted under the 2014 Omnibus Plan was approximately \$53 and \$104, respectively. For the three and six months ended June 30, 2016, compensation expense for restricted stock unit awards granted under the 2014 Omnibus Plan was approximately \$159 and \$302, respectively.

The fair value of each option award is estimated on the grant date using the Black-Scholes option-pricing model with the following assumptions used for the grants:

	For the Six Months Ended June 30,	
	2017	2016
Dividend yield	0.00%	0.00%
Expected life	5.0 to 7.5 years	5.0 to 6.5 years
Expected volatility	32.10% to 37.55%	35.23% to 37.55%
Risk-free interest rate	1.06% to 2.32%	1.26% to 2.01%

The expected life is based on the amount of time that options granted are expected to be outstanding. The dividend yield assumption is based on the Company's history. The expected volatility is based on historical volatility of the Company as well as the volatility of certain comparable public company peers. The risk-free interest rates are based upon yields of U.S. Treasury issues with a term equal to the expected life of the option being valued.

A summary of the status of the Company's stock options under the 2014 Omnibus Plan as of June 30, 2017 and 2016, and changes during the six months ended is as follows:

	2017			2016		
	Non-performance-based Stock Options			Non-performance-based Stock Options		
	Shares Underlying Options	Weighted Exercise Price	Weighted Average Contractual Term	Shares Underlying Options	Weighted Average Exercise Price	Weighted Average Contractual Term
Outstanding at beginning of year	128,366	\$ 15.32	8.69 years	52,080	\$ 14.35	9.12 years
Granted during the period	65,440	26.89		71,286	15.88	
Forfeited during the period	(3,465)	21.24		—	—	
Canceled during the period	—	—		—	—	
Exercised during the period	(1,544)	15.00		—	—	
Outstanding at the end of period	188,797	\$ 19.22	8.63 years	123,366	\$ 15.23	9.16 years
Options exercisable at end of period	51,204	\$ 14.96	7.93 years	14,693	\$ 14.17	8.51 years
Weighted average fair value of options granted during the period		\$ 10.22			\$ 6.09	

As of June 30, 2017, December 31, 2016 and June 30, 2016 the aggregate intrinsic value was \$1,342, \$1,462 and \$97, respectively, for outstanding stock options under the 2014 Omnibus Plan. As of June 30, 2017, December 31, 2016 and June 30, 2016 the aggregate intrinsic value was \$582, \$203, and \$27, respectively, for exercisable stock options outstanding under the 2014 Omnibus Plan.

A summary of the status of the Company's non-performance based restricted stock units under the 2014 Omnibus Plan as of June 30, 2017 and 2016, and changes during the six months ended is as follows:

	2017		2016	
	Non-performance Based Restricted Stock Units		Non-performance Based Restricted Stock Units	
	Units	Weighted Average Grant Date Fair Value	Units	Weighted Average Grant Date Fair Value
Nonvested at January 1,	67,956	\$ 13.79	70,919	\$ 13.29
Granted during the period	31,375	27.49	22,060	15.63
Vested during the period	(8,475)	25.42	(5,476)	16.07
Forfeited during the period	(2,250)	27.93	—	—
Nonvested at June 30,	88,606	\$ 17.17	87,503	\$ 13.70

A summary of the status of the Company's performance based restricted stock units under the 2014 Omnibus Plan as of June 30, 2017 and 2016, and changes during the six months ended is as follows:

	2017		2016	
	Performance Based Restricted Stock Units		Performance Based Restricted Stock Units	
	Units	Weighted Average Grant Date Fair Value	Units	Weighted Average Grant Date Fair Value
Nonvested at January 1,	51,197	\$ 8.72	25,474	\$ 9.45
Granted during the period	25,522	24.34	34,190	9.52
Vested during the period	(19,861)	15.34	(8,467)	14.17
Forfeited during the period	(2,014)	15.68	—	—
Nonvested at June 30,	54,844	\$ 13.33	51,197	\$ 8.72

As of June 30, 2017, December 31, 2016 and June 30, 2016 there was \$881, \$425 and \$507 of total unrecognized compensation expense related to options awarded under the 2014 Omnibus Plan, respectively. As of June 30, 2017, December 31, 2016 and June 30, 2016 there was \$1,923, \$1,089 and \$1,348 of total unrecognized compensation related to restricted stock units awarded under the 2014 Omnibus Plan, respectively.

The fair value of the exercised non-performance-based stock options, vested non-performance restricted stock units, and vested performance based restricted stock units during the six months ended June 30, 2017 was \$41, \$233, and \$530, respectively. For the same period in 2016 the fair value of exercised non-performance-based stock options, vested non-performance restricted stock units, and vested performance based restricted stock units was \$0, \$87, and \$137, respectively.

The compensation expense related to these options and restricted stock units is expected to be recognized over the remaining weighted average requisite service periods of 2.45 and 2.44 years, respectively.

11. Significant Concentrations of Credit Risk

Most of the Company's business activity is with customers located within the Dallas metropolitan area. Such customers are normally also depositors of the Company.

The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial and standby letters of credit were granted primarily to commercial borrowers.

The contractual amounts of credit related financial instruments such as commitments to extend credit, credit card arrangements, and letters of credit represent the amounts of potential accounting loss should the contract be fully drawn upon, the customer default, and the value of any existing collateral become worthless.

12. Capital Requirements and Restrictions on Retained Earnings

Under U.S. banking law, there are legal restrictions limiting the amount of dividends the Company can declare. Approval of the regulatory authorities is required if the effect of the dividends declared would cause regulatory capital of the Company to fall below specified minimum levels.

The Company on a consolidated basis and the Bank are subject to various regulatory capital requirements administered by federal 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 financial statements. 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.

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

Starting in January 2016, the implementation of the capital conservation buffer became effective for the Company starting at the 0.625% level and increasing 0.625% each year thereafter, until it reaches 2.5% on January 1, 2019. The capital conservation buffer is designed to absorb losses during periods of economic stress and effectively increases the minimum required risk-weighted capital ratios. 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, 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 June 30, 2017 and December 31, 2016 that the Company and the Bank met all capital adequacy requirements to which they were subject.

As of June 30, 2017 and December 31, 2016, the Company's and 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 Company and the Bank must maintain minimum total risk-based, CET1, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since June 30, 2017 that management believes have changed the Company's categorization as "well capitalized."

A comparison of the Company's and Bank's actual capital amounts and ratios to required capital amounts and ratios is presented in the following table:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2017						
Total capital (to risk-weighted assets)						
Company	\$ 236,955	18.92%	\$ 100,192	8.0%	n/a	n/a
Bank	139,381	11.14%	100,094	8.0%	\$ 125,118	10.0%
Tier 1 capital (to risk-weighted assets)						
Company	222,269	17.75%	75,133	6.0%	n/a	n/a
Bank	129,642	10.36%	75,082	6.0%	100,110	8.0
Common equity tier 1 to risk-weighted assets						
Company	219,176	17.50%	56,360	4.5%	n/a	n/a
Bank	129,642	10.36%	56,312	4.5%	81,339	6.5
Tier 1 capital (to average assets)						
Company	222,269	15.09%	58,918	4.0%	n/a	n/a
Bank	129,642	8.81%	58,861	4.0%	73,577	5.0
As of December 31, 2016						
Total capital (to risk-weighted assets)						
Company	\$ 228,566	22.02%	\$ 83,039	8.0%	n/a	n/a
Bank	130,237	12.55%	83,020	8.0%	\$ 103,775	10.0%
Tier 1 capital (to risk-weighted assets)						
Company	215,057	20.72%	62,275	6.0%	n/a	n/a
Bank	121,713	11.73%	62,257	6.0%	83,010	8.0
Common equity tier 1 to risk-weighted assets						
Company	211,964	20.42%	46,711	4.5%	n/a	n/a
Bank	121,713	11.73%	46,693	4.5%	67,445	6.5
Tier 1 capital (to average assets)						
Company	\$ 215,057	16.82%	51,143	4.0%	n/a	n/a
Bank	121,713	9.52%	51,140	4.0%	63,925	5.0

13. Business Combinations

Pending Merger with Sovereign Bancshares, Inc.

On December 14, 2016, the Company entered into a definitive agreement ("the merger agreement") with Dallas-based Sovereign Bancshares, Inc. ("Sovereign") and its wholly-owned subsidiary Sovereign Bank. The merger agreement provides for the merger of Spartan Merger Sub, Inc., a wholly owned subsidiary of the Company, with and into Sovereign. Following the merger, Sovereign will merge with and into the Company with the Company surviving and Sovereign Bank will merge with and into Veritex Community Bank with Veritex Community Bank surviving. As of June 30, 2017, Sovereign reported, on a consolidated basis, total assets of \$1.0 billion and total deposits of \$813.0 million. Upon the completion of the proposed merger with Sovereign, the Company expects to acquire Sovereign's seven additional branches in the Dallas-Forth Worth metroplex, two branches in the Austin, Texas metropolitan area and one branch in the Houston, Texas metropolitan area. Under the terms of the merger agreement, the Company will issue 5,117,647 shares of its common stock and will pay approximately \$58.0 million in cash for all of the shares of Sovereign's common stock, subject to certain conditions and potential adjustments as described in the merger agreement.

Additionally, under the terms of the merger agreement, each of Sovereign's 24,500 shares of senior Non-Cumulative Perpetual Preferred Stock, Series C, no par value ("Sovereign SBLF Preferred Stock") issued and outstanding immediately prior to the effective time shall be converted into one share of Senior Non-Cumulative Perpetual, Series D preferred stock of the Company ("Veritex Series D Preferred Stock"). Each share of the Veritex Series D Preferred Stock would provide the same rights, preferences, privileges and voting powers, and be subject to the same limitations and restrictions, as Sovereign SBLF Preferred Stock, taken as a whole, existing immediately prior to the consummation of the merger. In connection with consummation of the transaction, the merger agreement provides that two representatives of Sovereign's board of directors will join the Company's board of directors. The merger agreement contains customary representations, warranties and covenants by the Company and Sovereign. On April 6, 2017, the Company and Sovereign each held a special meeting of its shareholders where the Company's shareholders approved the issuance of the shares of common stock and Sovereign's shareholders approved the merger agreement. On July 7, 2017, the Company received the regulatory approval from the Board of Governors of the Federal Reserve System and the merger is expected to close on or about August 1, 2017, subject to the satisfaction or waiver of the customary closing conditions outlined in the merger agreement.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and notes thereto appearing in Item 1 of Part I of this Quarterly Report on Form 10-Q (this “Report”) as well as with our condensed financial statements and notes thereto appearing in our Annual Report on Form 10-K for the year ended December 31, 2016. Except where the content otherwise requires or when otherwise indicated, the terms “Company,” “we,” “us,” “our,” and “our business” refer to Veritex Holdings, Inc. and our banking subsidiary, Veritex Community Bank.

This discussion and analysis contains forward-looking statements that are subject to certain risks and uncertainties and are based on certain assumptions that we believe are reasonable but may prove to be inaccurate. Certain risks, uncertainties and other factors, including those set forth under “Special Cautionary Notice Regarding Forward-Looking Statements”, may cause actual results to differ materially from those projected results discussed in the forward-looking statements appearing in this discussion and analysis. We assume no obligation to update any of these forward-looking statements. For additional information concerning forward-looking statements, please read “—Special Cautionary Notice Regarding Forward-Looking Statements” below.

Overview

We are a bank holding company headquartered in Dallas, Texas. Through our wholly-owned subsidiary, Veritex Community Bank, a Texas state chartered bank, we provide relationship-driven commercial banking products and services tailored to meet the needs of small to medium-sized businesses and professionals. Since our inception, we have targeted customers and focused our acquisitions primarily in the Dallas metropolitan area, which we consider to be Dallas and the adjacent communities in North Dallas. As a result of our pending acquisition of Sovereign, we expect our primary market to include the broader Dallas-Fort Worth metropolitan area, which also encompasses Fort Worth and Arlington, as well as the Houston and Austin metropolitan areas. We currently operate eleven branches and one mortgage office, all of which are located in the Dallas metropolitan area. As we continue to grow, we may expand to other metropolitan markets within the State of Texas. We have experienced significant organic growth since commencing banking operations in 2010 and have successfully acquired and integrated four banks. As of June 30, 2017, we had total assets of \$1.5 billion, total loans of \$1.1 billion, total deposits of \$1.2 billion and total stockholders’ equity of \$247.6 million.

As a bank holding company operating through one segment, community banking, we generate most of our revenues from interest income on loans, customer service and loan fees, gains on sale of Small Business Administration (“SBA”) guaranteed loans and mortgage loans, and interest income from securities. We incur interest expense on deposits and other borrowed funds and noninterest expense, such as salaries and employee benefits and occupancy expenses. We analyze our ability to maximize income generated from interest earning assets and expense of our liabilities through our net interest margin. Net interest margin is a ratio calculated as net interest income divided by average interest-earning assets. Net interest income is the difference between interest income on interest-earning assets, such as loans and securities, and interest expense on interest-bearing liabilities, such as deposits and borrowings, which are used to fund those assets.

Changes in the market interest rates and interest rates we earn on interest-earning assets or pay on interest-bearing liabilities, as well as the volume and types of interest-earning assets, interest-bearing and noninterest-bearing liabilities and stockholders’ equity, are usually the largest drivers of periodic changes in net interest spread, net interest margin and net interest income. Fluctuations in market interest rates are driven by many factors, including governmental monetary policies, inflation, deflation, macroeconomic developments, changes in unemployment, the money supply, political and international conditions and conditions in domestic and foreign financial markets. Periodic changes in the volume and types of loans in our loan portfolio are affected by, among other factors, economic and competitive conditions in Texas and specifically in the Dallas metropolitan area, as well as developments affecting the real estate, technology, financial services, insurance, transportation, manufacturing and energy sectors within our target market and throughout the State of Texas.

Results of Operations for the Six Months Ended June 30, 2017 and June 30, 2016

Net Interest Income

Our operating results depend primarily on our net interest income, calculated as the difference between interest income on interest-earning assets, such as loans and securities, and interest expense on interest-bearing liabilities, such as deposits and borrowings. Fluctuations in market interest rates impact the yield and rates paid on interest sensitive assets and liabilities. Changes in the amount and type of interest-earning assets and interest-bearing liabilities also impact net interest income. The variance driven by the changes in the amount and mix of interest-earning assets and interest-bearing liabilities is referred to as a “volume change.” Changes in yields earned on interest-earning assets and rates paid on interest-bearing deposits and other borrowed funds are referred to as a “rate change.”

To evaluate net interest income, we measure and monitor (1) yields on our loans and other interest-earning assets, (2) the costs of our deposits and other funding sources, (3) our net interest spread and (4) our net interest margin. Net interest spread is the difference between rates earned on interest-earning assets and rates paid on interest-bearing liabilities. Net interest margin is a ratio calculated as net interest income divided by average interest-earning assets. Because noninterest-bearing sources of funds, such as noninterest-bearing deposits and stockholders’ equity also fund interest-earning assets, net interest margin includes the benefit of these noninterest-bearing sources.

For the six months ended June 30, 2017, net interest income totaled \$23.6 million and net interest margin and net interest spread were 3.37% and 3.07%, respectively. For the six months ended June 30, 2016, net interest income totaled \$19.9 million and net interest margin and net interest spread were 3.89% and 3.66%, respectively. The increase in net interest income of \$3.7 million was due to \$3.5 million in increased interest income on loans resulting from organic growth as average loan balances increased \$153.7 million compared to the six months ended June 30, 2016. The decline in net interest margin and net interest spread was primarily attributable to a 45 basis point decrease in the average yield on interest-earning assets. This decrease was due a change in the mix of interest-earning assets as average interest-earning deposits in other banks as a percentage of total average interest-earning assets increased from 6.3% for the six months ended June 30, 2016 to 17.5% for the six months ended June 30, 2017. Interest-earning deposits in other banks traditionally provide lower average yields than other interest earning assets such as loans and investment securities.

For the six months ended June 30, 2017, interest expense totaled \$3.7 million and the average rate paid on interest-bearing liabilities was 0.83%. For the six months ended June 30, 2016, interest expense totaled \$2.3 million and the average rate paid on interest-bearing liabilities was 0.69%. The increase in interest expense of \$1.4 million was primarily due to a \$1.4 million increase in deposit-related interest expense resulting from average interest-bearing deposit increases of \$243.2 million to \$864.5 million for the six months ended June 30, 2017 from \$621.4 million for the six months ended June 30, 2016. The increase in interest expense was primarily the result of increases in money market accounts as balances increased \$152.7 million and interest expense paid on these balances increased \$1.2 million. The increase in the average rate paid on interest-bearing liabilities of 14 basis points was primarily due to a 14 basis point increase in the average cost of interest-bearing deposits to 0.79% for the six months ended June 30, 2017 from 0.65% for the six months ended June 30, 2016. This increase was the result of a 23 basis point increase in the average interest rate paid on money market accounts from 0.68% for the six months ended June 30, 2016 to 0.91% for the six months ended June 30, 2017.

The following table presents, for the periods indicated, an analysis of net interest income by each major category of interest-earning assets and interest-bearing liabilities, the average amounts outstanding and the interest earned or paid on such amounts. The table also sets forth the average rate earned on interest-earning assets, the average rate paid on interest-bearing liabilities, and the net interest margin on average total interest-earning assets for the same periods. Interest earned on loans that are classified as non-accrual is not recognized in income, however the balances are reflected in average outstanding balances for the period. For the six months ended June 30, 2017 and 2016, interest income not recognized on non-accrual loans was minimal. Any non-accrual loans have been included in the table as loans carrying a zero yield.

	For the Six Months Ended June 30,					
	2017			2016		
	Average Outstanding Balance	Interest Earned/ Interest Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Interest Paid	Average Yield/ Rate
(Dollars in thousands)						
Assets						
Interest-earning assets:						
Total loans(1)	\$ 1,039,202	\$ 24,907	4.83%	\$ 885,491	\$ 21,407	4.86%
Securities available for sale	127,557	1,310	2.07	79,032	679	1.73
Investment in subsidiary	93	1	2.17	93	2	4.32
Interest-earning deposits in other banks	247,077	1,158	0.95	64,804	173	0.54
Total interest-earning assets	1,413,929	27,376	3.90	1,029,420	22,261	4.35
Allowance for loan losses	(8,839)			(7,248)		
Noninterest-earning assets	104,258			91,227		
Total assets	\$ 1,509,348			\$ 1,113,399		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities:						
Interest-bearing deposits	\$ 864,515	\$ 3,389	0.79%	\$ 621,352	\$ 2,007	0.65%
Advances from FHLB	38,275	159	0.84	49,011	143	0.59
Other borrowings	8,065	199	4.98	8,076	192	4.78
Total interest-bearing liabilities	910,855	3,747	0.83	678,439	2,342	0.69
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	351,373			296,162		
Other liabilities	3,189			2,655		
Total noninterest-bearing liabilities	354,562			298,817		
Stockholders' equity	243,931			136,143		
Total liabilities and stockholders' equity	\$ 1,509,348			\$ 1,113,399		
Net interest rate spread(2)			3.07%			3.66%
Net interest income		\$ 23,629			\$ 19,919	
Net interest margin(3)			3.37%			3.89%

(1) Includes average outstanding balances of loans held for sale of \$2,634 and \$4,367 and deferred loan fees of \$46 and \$60 for the six months ended June 30, 2017 and 2016, respectively.

(2) Net interest spread is the average yield on interest-earning assets minus the average rate on interest-bearing liabilities.

(3) Net interest margin is equal to net interest income divided by average interest-earning assets.

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

	For the Six Months Ended		
	June 30, 2017 vs. 2016		
	Increase (Decrease)		
	Due to Change in		
	Volume	Rate	Total
(Dollars in thousands)			
Interest-earning assets:			
Total loans	\$ 3,706	\$ (206)	\$ 3,500
Securities available for sale	416	215	631
Investment in subsidiary	—	(1)	(1)
Interest-earning deposits in other banks	488	497	985
Total increase in interest income	<u>4,610</u>	<u>505</u>	<u>5,115</u>
Interest-bearing liabilities:			
Interest-bearing deposits	783	599	1,382
Advances from FHLB	(31)	47	16
Other borrowings	—	7	7
Total increase in interest expense	<u>752</u>	<u>653</u>	<u>1,405</u>
Increase (decrease) in net interest income	<u>\$ 3,858</u>	<u>\$ (148)</u>	<u>\$ 3,710</u>

Provision for Loan Losses

Our provision for loan losses is a charge to income in order to bring our allowance for loan losses to a level deemed appropriate by management. For a description of the factors taken into account by management in determining the allowance for loan losses see “—Financial Condition—Allowance for Loan Losses.” The provision for loan losses was \$1.8 million for the six months ended June 30, 2017, compared to \$1.4 million for the same period in 2016, an increase of \$461 thousand, or 33.6%. The increase in provision expense was due mainly to loan growth as well as an increase in general reserves due to changes in qualitative factors around the nature, volume and mix of the loan portfolio for the six months ended June 30, 2017 as compared to the same period in 2016. In addition, net charge-offs increased \$383 thousand for the six months ended June 30, 2017 compared to the same period in 2016.

Noninterest Income

Our primary sources of recurring noninterest income are service charges and fees on deposit accounts, gains on the sale of loans, gains on the sale of other assets owned, gains on the sale of investment securities, and income from bank-owned life insurance. Noninterest income does not include loan origination fees to the extent they exceed direct loan origination costs, which we generally recognize over the life of the related loan as an adjustment to yield using the interest method.

The following table presents, for the periods indicated, the major categories of noninterest income:

	For the Six Months Ended June 30,		
	2017	2016	Increase (Decrease)
(Dollars in thousands)			
Noninterest income:			
Service charges and fees on deposit accounts	\$ 1,064	\$ 877	\$ 187
Gain on sales of investment securities	—	15	(15)
Gain on sales of loans	1,562	1,282	280
Loss on sales of other assets owned	(8)	—	(8)
Bank-owned life insurance	373	384	(11)
Other	310	227	83
Total noninterest income	<u>\$ 3,301</u>	<u>\$ 2,785</u>	<u>\$ 516</u>

Noninterest income for the six months ended June 30, 2017 increased \$516 thousand, or 18.5%, to \$3.3 million compared to noninterest income of \$2.8 million for the same period in 2016. The primary components of the increase were as follows:

Service charges and fees on deposit accounts. We earn service charges and fees from our customers for deposit-related activities. The income from these deposit activities constitute a significant and predictable component of our noninterest income. Service charges and fees from deposit account activities were \$1.1 million for the six months ended June 30, 2017, an increase of \$187 thousand over the same period in 2016. The increase was primarily attributable to growth in the number of deposit accounts and an increase in transaction fees and service charges from new and existing customers.

Gain on sales of loans. We originate SBA guaranteed loans and long-term fixed-rate mortgage loans for resale into the secondary market. Income from the sales of loans was \$1.6 million for the six months ended June 30, 2017 compared to \$1.3 million for the same period of 2016. This increase of \$280 thousand was primarily due to increased sales of SBA-guaranteed loans resulting in incremental gains of \$540 thousand, offset by a decrease in gain on sale of mortgage loans by \$67 thousand and the absence of a one-time \$193 thousand gain on sale of loans acquired with the IBT loan portfolio which was recorded in March 31, 2016.

Noninterest Expense

Noninterest expense is composed of all employee expenses and costs associated with operating our facilities, acquiring and retaining customer relationships and providing bank services. The major components of noninterest expense are salaries and employee benefits. Noninterest expense also includes operational expenses, such as occupancy expenses, depreciation and amortization of office equipment, professional and regulatory fees, including Federal Deposit Insurance Corporation ("FDIC") assessments, data processing expenses, and advertising and promotion expenses.

The following table presents, for the periods indicated, the major categories of noninterest expense:

	For the Six Months Ended		Increase
	June 30,		(Decrease)
	2017	2016	2017 vs. 2016
	(Dollars in thousands)		
Salaries and employee benefits	\$ 7,550	\$ 6,763	\$ 787
Non-staff expenses:			
Occupancy and equipment	2,026	1,795	231
Professional fees	1,986	1,076	910
Data processing and software expense	732	554	178
FDIC assessment fees	651	269	382
Marketing	469	411	58
Other assets owned expenses and write-downs	38	130	(92)
Amortization of intangibles	190	190	—
Telephone and communications	208	197	11
Other	1,382	892	490
Total noninterest expense	<u>\$ 15,232</u>	<u>\$ 12,277</u>	<u>\$ 2,955</u>

Noninterest expense for the six months ended June 30, 2017 increased \$3.0 million or 24.1% to \$15.2 million compared to noninterest expense of \$12.3 million for the six months ended June 30, 2016. The most significant components of the increase were as follows:

Salaries and employee benefits. Salaries and employee benefits include payroll expense, the cost of incentive compensation, benefit plans, health insurance and payroll taxes. The level of employee expense is impacted by the amount of direct loan origination costs which are required to be deferred in accordance with ASC 310-20 (formerly FAS91). Salaries and employee benefits were \$7.6 million for the six months ended June 30, 2017, an increase of \$787 thousand, or 11.6%, compared to the same period in 2016. The increase was primarily attributable to increased employee compensation of \$953 thousand resulting from higher headcount and annual merit increases given to employees during the six months ended June 30, 2017. Incentive costs also increased \$462 thousand which included lender incentive increases of \$360 thousand and employee stock compensation increases of \$208 thousand. Employee benefits and payroll taxes also increased \$165 thousand and \$113 thousand, respectively, compared to the same period in 2016. These increases in salaries and employee benefits were partially offset by the deferral of direct origination costs which increased \$907 thousand as a result of the growth in loans during the six months ended June 30, 2017 compared to the same period in 2016.

Occupancy and equipment. Occupancy and equipment expense includes lease expense, building depreciation and related facilities costs as well as furniture, fixture and equipment depreciation, small equipment purchases and maintenance expense. Our expense associated with occupancy and equipment was \$2.0 million for the six months ended June 30, 2017 compared to \$1.8 million for the same period in 2016. The increase of \$231 thousand was primarily due to the leasing of additional office space beginning June 1, 2016 at the corporate headquarters location and additional lease expense associated with the opening of the Turtle Creek branch beginning January 2017.

Professional fees. This category includes legal, investment bank, director, stock transfer agent fees and other public company services, information technology support, audit services and regulatory assessment expense. Professional services expenses were \$2.0 million for the six months ended June 30, 2017 compared to \$1.1 million for the same period in 2016, an increase of \$910 thousand or 84.6%. The increase was primarily due to the increase of \$786 thousand in legal and professional fees. Legal fees increased \$138 thousand compared to the same period in 2016 primarily from developing a corporate strategic plan in 2017. Professional services increased \$458 thousand during the six months ended June 30, 2017 primarily for conversion planning in preparation of the acquisition of Sovereign.

FDIC assessment fees. FDIC assessment fees were \$651 thousand for the six months ended June 30, 2017 and \$269 thousand for the same period in 2016. The increase in FDIC assessment fees is primarily a result of a catch-up in prior period assessments.

Other: This category includes operating and administrative expenses including loan operations and collections, supplies and printing, online and card interchange expense, ATM/debit card processing, postage and delivery, BOLI mortality expense, insurance and security expenses. Other noninterest expense increased \$490 thousand, or 54.9%, to \$1.4 million for the six months ended June 30, 2017, compared to \$892 thousand for the same period in 2016 primarily related to increases in dues and memberships of \$132 thousand, ATM and interchange expense of \$115 thousand and corporate insurance of \$86 thousand.

Income Tax Expense

The amount of income tax expense is a function of our pre-tax income, tax-exempt income and other nondeductible expenses. Deferred tax assets and liabilities reflect current statutory income tax rates in effect for the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or statutory tax rates are enacted, deferred tax assets and liabilities are adjusted through the provision of income taxes. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. As of June 30, 2017, the Company did not believe a valuation allowance was necessary.

For the six months ended June 30, 2017, income tax expense totaled \$3.2 million, an increase of \$83 thousand, or 2.7%, compared to \$3.1 million for the same period in 2016. The increase was primarily attributable to the \$810 thousand increase in net income from operations compared to the six months ended June 30, 2016.

The Company's estimated annual effective tax rate, before reporting the net impact of discrete items, was approximately 34.5% and 34.1% for the six months ended June 30, 2017 and 2016, respectively. Inclusive of the net impact of discrete items, the Company's estimated effective tax rates for the six months ended June 30, 2017 and 2016 of 32.0% and 33.9%, respectively. The Company's provision for income taxes for the six months ended June 30, 2017 was impacted by a net discrete tax benefit of \$255 thousand primarily associated with the recognition of excess tax benefit realized on share-based payment awards.

Results of Operations for the Three Months Ended June 30, 2017 and June 30, 2016

Net Interest Income

Our operating results depend primarily on our net interest income, calculated as the difference between interest income on interest-earning assets, such as loans and securities, and interest expense on interest-bearing liabilities, such as deposits and borrowings. Fluctuations in market interest rates impact the yield and rates paid on interest sensitive assets and liabilities. Changes in the amount and type of interest-earning assets and interest-bearing liabilities also impact net interest income. The variance driven by the changes in the amount and mix of interest-earning assets and interest-bearing liabilities is referred to as a "volume change." Changes in yields earned on interest-earning assets and rates paid on interest-bearing deposits and other borrowed funds are referred to as a "rate change."

To evaluate net interest income, we measure and monitor (1) yields on our loans and other interest-earning assets, (2) the costs of our deposits and other funding sources, (3) our net interest spread and (4) our net interest margin. Net interest spread is the difference between rates earned on interest-earning assets and rates paid on interest-bearing liabilities. Net interest margin is a ratio calculated as net interest income divided by average interest-earning assets. Because noninterest-bearing sources of funds, such as noninterest-bearing deposits and stockholders' equity also fund interest-earning assets, net interest margin includes the benefit of these noninterest-bearing sources.

Compared to the three months ended June 30, 2016, net interest income before provision for loan losses increased by \$2.1 million from \$10.2 million to \$12.4 million for the three months ended June 30, 2017. The increase in net interest income before provision for loan losses was primarily due to a \$2.0 million increase in interest income on loans resulting from average loan balance increases of \$156.3 million compared to June 30, 2016. The net interest margin declined to 3.53% for the three months ended June 30, 2017 from 3.90% for the same three-month period in 2016. The 37 basis point decrease in net interest margin was partially due to a change in mix of interest-earning assets as average interest-earning deposits in other banks as a percentage of total average interest earning assets represented 14.2% for the three months ended June 30, 2017 compared to 5.6% for the three months ended June 30, 2016. Interest-earning deposits in other banks traditionally provide lower average yields than other interest earning assets such as loans and investment securities. In addition, the net interest margin decline was impacted by the increasing rate paid on interest-bearing liabilities. The rate paid on interest-bearing liabilities increased from 0.68% for the three months ended June 30, 2016 to 0.80% for the same period in 2017. The 12 basis point increase was related to a 12 basis point increase in interest-bearing deposits, primarily as a result of increases in financial institution money market account rates.

For the three months ended June 30, 2017, interest expense totaled \$1.9 million and the average rate paid on interest-bearing liabilities was 0.84%. For the three months ended June 30, 2016, interest expense totaled \$1.2 million and the average rate

paid on interest-bearing liabilities was 0.72%. The increase in interest expense of \$682 thousand was primarily due to a \$670 thousand increase in deposit-related interest expense resulting from average interest-bearing deposit increases of \$233.7 million to \$870.5 million for the three months ended June 30, 2017 from \$636.9 million for the three months ended June 30, 2016. The increase in interest expense was primarily the result of increases in money market accounts as interest expense paid on these balances increased \$575 thousand. The increase in the average rate paid on interest-bearing liabilities of 12 basis points was primarily due to a 12 basis point increase in the average cost of interest-bearing deposits to 0.80% for the three months ended June 30, 2017 from 0.68% for the three months ended June 30, 2016. This increase was the result of a 27 basis point increase in the average interest rate paid on money market accounts from 0.71% for the three months ended June 30, 2016 to 0.98% for the three months ended June 30, 2017.

The following table presents, for the periods indicated, an analysis of net interest income by each major category of interest-earning assets and interest-bearing liabilities, the average amounts outstanding and the interest earned or paid on such amounts. The table also sets forth the average rate earned on interest-earning assets, the average rate paid on interest-bearing liabilities and the net interest margin on average total interest-earning assets for the same periods. Interest earned on loans that are classified as non-accrual is not recognized in income; however, the balances are reflected in average outstanding balances for the period. For the three months ended June 30, 2017 and 2016, interest income not recognized on non-accrual loans was minimal. Any non-accrual loans have been included in the table as loans carrying a zero yield.

	For the Three Months Ended June 30,					
	2017			2016		
	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate
(Dollars in thousands)						
Assets						
Interest-earning assets:						
Total loans(1)	\$ 1,070,436	\$ 13,024	4.88%	\$ 914,121	\$ 11,052	4.86%
Securities available for sale	135,795	735	2.17	80,498	344	1.72
Investment in subsidiary	93	—	—	93	1	4.32
Interest-bearing deposits in other banks	199,050	548	1.10	59,506	80	0.54
Total interest-earning assets	1,405,374	14,307	4.08	1,054,218	11,477	4.38
Allowance for loan losses	(9,117)			(7,604)		
Noninterest-earning assets	104,819			92,179		
Total assets	\$ 1,501,076			\$ 1,138,793		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities:						
Interest-bearing deposits	\$ 870,542	\$ 1,742	0.80%	\$ 636,875	\$ 1,072	0.68%
Advances from FHLB	38,258	89	0.93	54,425	80	0.59
Other borrowings	8,067	100	4.97	8,077	97	4.83
Total interest-bearing liabilities	916,867	1,931	0.84	699,377	1,249	0.72
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	334,813			298,887		
Other liabilities	3,156			2,687		
Total noninterest-bearing liabilities	337,969			301,574		
Stockholders' equity	246,240			137,842		
Total liabilities and stockholders' equity	\$ 1,501,076			\$ 1,138,793		
Net interest rate spread(2)			3.24%			3.66%
Net interest income		\$ 12,376			\$ 10,228	
Net interest margin(3)			3.53%			3.90%

(1) Includes average outstanding balances of loans held for sale of \$3,169 and \$5,192 and deferred loan fees of \$42 and \$60 for the three months ended June 30, 2017 and 2016, respectively.

(2) Net interest spread is the average yield on interest-earning assets minus the average rate on interest-bearing liabilities.

(3) Net interest margin is equal to net interest income divided by average interest-earning assets.

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

	For the Three Months Ended		
	June 30, 2017 vs. 2016		
	Increase (Decrease)		
	Due to Change in		
	Volume	Rate	Total
(Dollars in thousands)			
Interest-earning assets:			
Total loans	\$ 1,895	\$ 77	\$ 1,972
Securities available for sale	237	154	391
Investment in subsidiary	—	(1)	(1)
Interest-bearing deposits in other banks	188	280	468
Total increase in interest income	<u>2,320</u>	<u>510</u>	<u>2,830</u>
Interest-bearing liabilities:			
Interest-bearing deposits	394	276	670
Advances from FHLB	(24)	33	9
Other borrowings	—	3	3
Total increase in interest expense	<u>370</u>	<u>312</u>	<u>682</u>
Increase (decrease) in net interest income	<u>\$ 1,950</u>	<u>\$ 198</u>	<u>\$ 2,148</u>

Provision for Loan Losses

Our provision for loan losses is a charge to income in order to bring our allowance for loan losses to a level deemed appropriate by management. For a description of the factors taken into account by management in determining the allowance for loan losses see “—Financial Condition—Allowance for Loan Losses.” The provision for loan losses was \$943 thousand for the three months ended June 30, 2017 and \$527 thousand for the same period in 2016, an increase of \$416 thousand. The increase in provision expense was due primarily to loan growth as well as an increase in general reserves due to changes in qualitative factors around the nature, volume, and mix of the loan portfolio.

Noninterest Income

Our primary sources of recurring noninterest income are service charges and fees on deposit accounts, gains on the sale of loans, gains on the sale of other assets owned, gain on the sale of investment securities, and income from bank-owned life insurance. Noninterest income does not include loan origination fees to the extent they exceed direct loan origination costs, which we generally recognize over the life of the related loan as an adjustment to yield using the interest method.

The following table presents, for the periods indicated, the major categories of noninterest income:

	For the Three Months Ended		
	June 30,		
	2017	2016	2017 vs. 2016
(Dollars in thousands)			
Service charges and fees on deposit accounts	\$ 555	\$ 443	\$ 112
Gain on sales of loans	815	620	195
Loss on sales of other assets owned	(8)	—	(8)
Bank-owned life insurance	186	191	(5)
Other	218	158	60
Total noninterest income	\$ 1,766	\$ 1,412	\$ 354

Noninterest income for the three months ended June 30, 2017 increased \$354 thousand, or 25.1%, to \$1.8 million compared to noninterest income of \$1.4 million for the same period in 2016. The primary components of the increase were as follows:

Service charges and fees on deposit accounts. We earn fees from our customers for deposit-related services, and these fees constitute a significant and predictable component of our noninterest income. Service charges on deposit accounts were \$555 thousand and \$443 thousand for the three months ended June 30, 2017 and 2016, respectively. The increase of \$112 thousand was attributable to growth in the number of deposit accounts and an increase transaction fees and service charges from new and existing customers.

Gain on sales of loans. We originate SBA guaranteed loans and long-term fixed-rate mortgage loans for resale into the secondary market. Income from the sales of loans was \$815 thousand for the three months ended June 30, 2017 compared to \$620 thousand for the same period of 2016. The increase of \$195 thousand was primarily due to increased sales of SBA-guaranteed loans resulting in incremental gains of \$285 thousand, offset by a decrease in the gain on sale of mortgage loans by \$90 thousand.

Noninterest Expense

Noninterest expense is composed of all employee expenses and costs associated with operating our facilities, acquiring and retaining customer relationships and providing bank services. The major component of noninterest expense is salaries and employee benefits. Noninterest expense also includes operational expenses, such as occupancy expenses, depreciation and amortization of office equipment, professional and regulatory fees, including Federal Deposit Insurance Corporation (“FDIC”) assessments, data processing expenses, and advertising and promotion expenses.

The following table presents, for the periods indicated, the major categories of noninterest expense:

	For the Three Months Ended		Increase
	June 30,		(Decrease)
	2017	2016	2017 vs. 2016
(Dollars in thousands)			
Salaries and employee benefits	\$ 3,642	\$ 3,589	\$ 53
Non-staff expenses:			
Occupancy and equipment	1,015	894	121
Professional fees	1,188	503	685
Data processing and software expense	372	270	102
FDIC assessment fees	393	132	261
Marketing	225	211	14
Other assets owned expenses and write-downs	13	55	(42)
Amortization of intangibles	95	95	—
Telephone and communications	106	100	6
Other	733	452	281
Total noninterest expense	\$ 7,782	\$ 6,301	\$ 1,481

Noninterest expense for the three months ended June 30, 2017 increased \$1.5 million, or 23.5%, to \$7.8 million compared to noninterest expense of \$6.3 million for the same period in 2016. The most significant components of the increase were as follows:

Professional fees. This category includes legal, investment bank, director, stock transfer agent fees and other public company services, information technology support, audit services and regulatory assessment expense. Professional services expenses were \$1.2 million for the three months ended June 30, 2017 compared to \$503 thousand for the same period in 2016, an increase of \$685 thousand or 136.2%. This increase was the result of an increase in legal services of \$152 thousand primarily in connection with developing a corporate strategic plan in the second quarter of 2017 and from an increase in professional services of \$336 thousand primarily for conversion planning in preparation of the acquisition of Sovereign.

FDIC assessment fees. FDIC assessment fees were \$393 thousand for the three months ended June 30, 2017 and \$132 thousand for the same period in 2016. The increase in FDIC assessment fees was primarily a result of a catch-up in prior period assessments.

Other. This category includes operating and administrative expenses including loan operations and collections, supplies and printing, online and card interchange expense, ATM/debit card processing, postage and delivery, BOLI mortality expense, insurance and security expenses. Other noninterest expense increased \$281 thousand, or 62.2%, to \$733 thousand for the three months ended June 30, 2017, compared to \$452 thousand for the same period in 2016 primarily related to increased dues and memberships of \$122 thousand and increased ATM and interchange expense of \$67 thousand.

Income Tax Expense

The amount of income tax expense is influenced by the amounts of our pre-tax income, tax-exempt income and other nondeductible expenses. Deferred tax assets and liabilities are reflected at currently enacted income tax rates in effect for the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Income tax expense for the three months ended June 30, 2017 totaled \$1.8 million, an increase of \$163 thousand, or 9.9%, compared to \$1.6 million for the same period in 2016. The change in income tax expense from the three months ended June 30, 2016 was primarily due to the \$605 thousand increase in net income from operations offset by the impact of the net discrete tax benefit of \$83 thousand primarily associated with the recognition of excess tax benefit on share-based payment awards during the three months ended June 30, 2017 compared to no net discrete tax benefit during the three months ended June 30, 2016.

The Company's effective tax rate, before the net impact of discrete items, was approximately 34.8% for the three months ended June 30, 2017 compared to 34.1% for the three months ended June 30, 2016. The Company's effective tax rate, after the net impact of discrete items, was approximately 33.3% and 34.1% for the three months ended June 30, 2017 and 2016.

Financial Condition

Our total assets increased \$100.1 million, or 7.1%, from \$1.4 billion as of December 31, 2016 to \$1.5 billion as of June 30, 2017. Our asset growth was due to the successful execution of our strategy to establish deep relationships in the Dallas metropolitan area. We believe these relationships will bring in new customer accounts and grow balances from existing loan and deposit customers.

Loan Portfolio

Our primary source of income is interest on loans to individuals, professionals, small to medium-sized businesses and commercial companies located in the Dallas metropolitan area. Our loan portfolio consists primarily of commercial loans and real estate loans secured by commercial real estate properties located in our primary market area. Our loan portfolio represents the highest yielding component of our earning asset base.

As of June 30, 2017, total loans were \$1.1 billion, an increase of \$130.6 million, or 13.2%, compared to \$991.9 million as of December 31, 2016. These increases were primarily due to our continued penetration in our primary market area. In addition to these amounts, \$4.1 million and \$5.2 million in loans were classified as held for sale as of June 30, 2017 and December 31, 2016, respectively.

Total loans as a percentage of deposits were 92.7% and 88.6% as of June 30, 2017 and December 31, 2016, respectively. Total loans as a percentage of assets were 74.4% and 70.4% as of June 30, 2017 and December 31, 2016, respectively.

The following table summarizes our loan portfolio by type of loan as of the dates indicated:

	As of June 30,		As of December 31,	
	2017		2016	
	Amount	Percent	Amount	Percent
(Dollars in thousands)				
Commercial	\$ 347,017	30.9%	\$ 291,416	29.4%
Real estate:				
Construction and land	136,332	12.1%	162,614	16.4%
Farmland	8,448	0.8%	8,262	0.8%
1 - 4 family residential	157,823	14.1%	140,137	14.1%
Multi-family residential	38,265	3.4%	14,683	1.5%
Commercial Real Estate	430,895	38.4%	370,696	37.4%
Consumer	3,688	0.3%	4,089	0.4%
Total loans held for investment	<u>\$ 1,122,468</u>	<u>100.0%</u>	<u>\$ 991,897</u>	<u>100%</u>
Total loans held for sale	<u>\$ 4,118</u>		<u>\$ 5,208</u>	

Nonperforming Assets

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on non-accrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on non-accrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

We have several procedures in place to assist us in maintaining the overall quality of our loan portfolio. We have established underwriting guidelines to be followed by our bankers, and we also monitor our delinquency levels for any negative or adverse

trends. Nevertheless, our loan portfolio could become subject to increasing pressures from deteriorating borrower credit due to general economic conditions.

We believe our conservative lending approach and focused management of nonperforming assets has resulted in sound asset quality and timely resolution of problem assets.

The following table presents information regarding non-performing assets at the dates indicated:

	As of June 30, 2017	As of December 31, 2016
(Dollars in thousands)		
Non-accrual loans	\$ 1,514	\$ 941
Accruing loans 90 or more days past due	15	835
Total nonperforming loans	1,529	1,776
Other real estate owned:		
Commercial real estate, construction, land and land development	493	493
Residential real estate	—	169
Total other real estate owned	493	662
Total nonperforming assets	\$ 2,022	\$ 2,438
Restructured loans—non-accrual	21	170
Restructured loans—accruing	632	652
Ratio of nonperforming loans to total loans	0.14%	0.18%
Ratio of nonperforming assets to total assets	0.13%	0.17%

We had \$2.0 million and \$2.4 million in nonperforming assets as of June 30, 2017 and December 31, 2016, respectively. We had \$1.5 million in nonperforming loans as of June 30, 2017 compared to \$1.8 million as of December 31, 2016.

The following table presents information regarding non-accrual loans by category as of the dates indicated:

	As of June 30, 2017	As of December 31, 2016
(Dollars in thousands)		
Real estate:		
Construction and land	\$ —	\$ —
Farmland	—	—
1 - 4 family residential	—	—
Multi-family residential	—	—
Commercial Real Estate	727	—
Commercial	778	930
Consumer	9	11
Total	\$ 1,514	\$ 941

Potential Problem Loans

From a credit risk standpoint, we classify loans in one of four categories: pass, special mention, substandard or doubtful. Loans classified as loss are charged-off. Loans not rated special mention, substandard, doubtful or loss are classified as pass loans. The classifications of loans reflect a judgment about the risks of default and loss associated with the loan. We review the ratings on credits monthly. Ratings are adjusted to reflect the degree of risk and loss that is felt to be inherent in each credit as of each monthly reporting period. Our methodology is structured so that specific allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss).

Credits rated special mention show clear signs of financial weaknesses or deterioration in credit worthiness, however, such concerns are not so pronounced that we expect to experience significant loss within the short-term. Such credits typically maintain the ability to perform within standard credit terms and credit exposure is not as prominent as credits with a lower rating.

Credits rated substandard are those in which the normal repayment of principal and interest may be, or has been, jeopardized by reason of adverse trends or developments of a financial, managerial, economic or political nature, or important weaknesses which exist in collateral. A protracted workout on these credits is a distinct possibility. Prompt corrective action is therefore required to strengthen our position, and/or to reduce exposure and to assure that adequate remedial measures are taken by the borrower. Credit exposure becomes more likely in such credits and a serious evaluation of the secondary support to the credit is performed.

Credits rated doubtful are those in which full collection of principal appears highly questionable, and which some degree of loss is anticipated, even though the ultimate amount of loss may not yet be certain and/or other factors exist which could affect collection of debt. Based upon available information, positive action by the Company is required to avert or minimize loss. Credits rated doubtful are generally also placed on non-accrual.

The following tables summarize our internal ratings of our loans, including PCI loans, as of the dates indicated.

As of June 30, 2017					
	Pass	Special Mention	Substandard	Doubtful	Total
(Dollars in thousands)					
Real estate:					
Construction and land	\$ 136,332	\$ —	\$ —	\$ —	\$ 136,332
Farmland	8,448	—	—	—	8,448
1 - 4 family residential	157,564	—	259	—	157,823
Multi-family residential	38,265	—	—	—	38,265
Commercial Real Estate	424,247	5,358	1,290	—	430,895
Commercial	338,701	6,990	1,210	116	347,017
Consumer	3,672	—	16	—	3,688
Total	\$ 1,107,229	\$ 12,348	\$ 2,775	\$ 116	\$ 1,122,468

As of December 31, 2016					
	Pass	Special Mention	Substandard	Doubtful	Total
(Dollars in thousands)					
Real estate:					
Construction and land	\$ 162,614	\$ —	\$ —	\$ —	\$ 162,614
Farmland	8,262	—	—	—	8,262
1 - 4 family residential	139,212	710	215	—	140,137
Multi-family residential	14,683	—	—	—	14,683
Commercial Real Estate	368,370	2,326	—	—	370,696
Commercial	289,589	686	1,034	107	291,416
Consumer	4,078	—	11	—	4,089
Total	\$ 986,808	\$ 3,722	\$ 1,260	\$ 107	\$ 991,897

Allowance for loan losses

We maintain an allowance for loan losses that represents management's best estimate of the loan losses and risks inherent in the loan portfolio. In determining the allowance for loan losses, we estimate losses on specific loans, or groups of loans, where the probable loss can be identified and reasonably determined. The balance of the allowance for loan losses is based on internally assigned risk classifications of loans, historical loan loss rates, changes in the nature of the loan portfolio, overall portfolio quality, industry concentrations, delinquency trends, current economic factors and the estimated impact of current economic conditions on certain historical loan loss rates. For additional discussion of our methodology, please refer to "—Critical Accounting Policies — Loans and Allowance for Loan Losses."

In connection with our review of the loan portfolio, we consider risk elements attributable to particular loan types or categories in assessing the quality of individual loans. Some of the risk elements we consider include:

- for commercial and industrial loans, the operating results of the commercial, industrial or professional enterprise, the borrower's business, professional and financial ability and expertise, the specific risks and volatility of income and operating results typical for businesses in that category and the value, nature and marketability of collateral;
- for commercial mortgage loans and multifamily residential loans, the debt service coverage ratio (income from the property in excess of operating expenses compared to loan payment requirements), operating results of the owner in the case of owner occupied properties, the loan to value ratio, the age and condition of the collateral and the volatility of income, property value and future operating results typical of properties of that type;
- for 1-4 family residential mortgage loans, the borrower's ability to repay the loan, including a consideration of the debt to income ratio and employment and income stability, the loan to value ratio, and the age, condition and marketability of the collateral; and
- for construction, land development and other land loans, the perceived feasibility of the project including the ability to sell developed lots or improvements constructed for resale or the ability to lease property constructed for lease, the quality and nature of contracts for presale or prelease, if any, experience and ability of the developer and loan to value ratio.

As of June 30, 2017, the allowance for loan losses totaled \$9.7 million, or 0.87%, of total loans. As of December 31, 2016, the allowance for loan losses totaled \$8.5 million, or 0.86%, of total loans. The increase in the allowance compared to December 31, 2016 was primarily due to loan growth and an increase in the general reserves from changes in qualitative factors around the nature, volume and mix of the loan portfolio. Ending balances for the purchase discount related to non-impaired acquired loans were \$376 thousand and \$566 thousand, as of June 30, 2017 and December 31, 2016, respectively. Purchased credit impaired loans are not considered nonperforming loans. Purchased credit impaired loans were insignificant as of June 30, 2017 and December 31, 2016.

The following table presents, as of and for the periods indicated, an analysis of the allowance for loan losses and other related data:

	<u>For the Six Months Ended</u> <u>June 30, 2017</u>	<u>For the Six Months Ended</u> <u>June 30, 2016</u>	<u>For the Year Ended</u> <u>December 31, 2016</u>
	(Dollars in thousands)		
Average loans outstanding(1)	\$ 1,036,614	\$ 881,185	\$ 919,441
Gross loans outstanding at end of period(1)	\$ 1,122,468	\$ 928,000	\$ 991,897
Allowance for loan losses at beginning of period	\$ 8,524	\$ 6,772	\$ 6,772
Provision for loan losses	1,833	1,372	2,050
Charge-offs:			
Real estate:			
Construction, land and farmland	—	—	—
Residential	(11)	—	—
Commercial Real Estate	—	—	—
Commercial	(611)	(240)	(314)
Consumer	—	(9)	(19)
Total charge-offs	(622)	(249)	(333)
Recoveries:			
Real estate:			
Construction, land and farmland	—	—	—
Residential	—	—	—
Commercial Real Estate	—	—	—
Commercial	5	14	32
Consumer	—	1	3
Total recoveries	5	15	35
Net charge-offs	(617)	(234)	(298)
Allowance for loan losses at end of period	\$ 9,740	\$ 7,910	\$ 8,524
Ratio of allowance to end of period loans	0.87%	0.85%	0.86%
Ratio of net charge-offs to average loans	0.06%	0.03%	0.03%

(1) Excluding loans held for sale and deferred loan fees.

We believe the successful execution of our growth strategy through key acquisitions and organic growth is demonstrated by the upward trend in loan balances from December 31, 2016 to June 30, 2017. Loan balances increased from \$991.9 million as of December 31, 2016 to \$1.1 billion as of June 30, 2017. Our allowance as a percentage of our total loan portfolio has increased as of June 30, 2017 from June 30, 2016 primarily due to loan growth and an increase in the general reserves from changes in qualitative factors around the nature, volume and mix of the loan portfolio.

Although we believe that we have established our allowance for loan losses in accordance with accounting principles generally accepted in the United States (“GAAP”) and that the allowance for loan losses was adequate to provide for known and inherent losses in the portfolio at all times shown above, future provisions will be subject to ongoing evaluations of the risks in our loan portfolio. If we experience economic declines or if asset quality deteriorates, material additional provisions could be required.

The following table shows the allowance for loan losses by loan category and certain other information as of the dates indicated. The allocation of the allowance for loan losses as shown in the table should neither be interpreted as an indication of future charge-offs, nor as an indication that charge-offs in future periods will necessarily occur in these amounts or in the indicated proportions. The total allowance is available to absorb losses from any loan category.

	As of June 30, 2017		As of December 31, 2016	
	Amount	Percent of Total	Amount	Percent of Total
(Dollars in thousands)				
Real estate:				
Construction and land	\$ 1,056	10.8%	\$ 1,346	15.8%
Farmland	68	0.7	69	0.8
1 - 4 family residential	1,150	11.8	999	11.7
Multi-family residential	325	3.3	117	1.4
Commercial Real Estate	3,557	36.5	3,003	35.2
Total real estate	\$ 6,156	63.1%	\$ 5,534	64.9%
Commercial	3,554	36.6	2,955	34.7
Consumer	30	0.3	35	0.4
Total allowance for loan losses	\$ 9,740	100.0%	\$ 8,524	100.0%

Securities

We use our securities portfolio to provide a source of liquidity, provide an appropriate return on funds invested, manage interest rate risk, meet collateral requirements and meet regulatory capital requirements. As of June 30, 2017, the carrying amount of investment securities totaled \$134.7 million, an increase of \$32.1 million or 31.3% compared to \$102.6 million as of December 31, 2016. Securities represented 8.9% and 7.3% of total assets as of June 30, 2017 and December 31, 2016, respectively.

Our investment portfolio consists entirely of securities classified as available for sale. As a result, the carrying values of our investment securities are adjusted for unrealized gain or loss, and any gain or loss is reported on an after-tax basis as a component of accumulated other comprehensive income in stockholders' equity. The following table summarizes the amortized cost and estimated fair value of our investment securities as of the dates shown:

	As of June 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(Dollars in thousands)				
U.S. government agencies	\$ 691	\$ —	\$ 10	\$ 681
Corporate securities	7,500	197	—	7,697
Municipal securities	14,914	42	126	14,830
Mortgage-backed securities	65,814	115	340	65,589
Collateralized mortgage obligations	45,370	158	316	45,212
Asset-backed securities	688	11	—	699
Total	\$ 134,977	\$ 523	\$ 792	\$ 134,708

	As of December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(Dollars in thousands)				
U.S. government agencies	\$ 732	\$ —	\$ 36	\$ 696
Municipal securities	14,540	2	500	14,042
Mortgage-backed securities	49,907	83	871	49,119
Collateralized mortgage obligations	38,507	32	612	37,927
Asset-backed securities	764	11	—	775
Total	\$ 104,450	\$ 128	\$ 2,019	\$ 102,559

All of our mortgage-backed securities and collateralized mortgage obligations are agency securities. We do not hold any Fannie Mae or Freddie Mac preferred stock, collateralized debt obligations, collateralized loan obligations, structured investment vehicles, private label collateralized mortgage obligations, subprime, Alt- A, or second lien elements in our investment portfolio. As of June 30, 2017, our investment portfolio did not contain any securities that are directly backed by subprime or Alt-A mortgages.

Management evaluates securities for other-than-temporary impairment, at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation.

The following table sets forth the fair value, maturities and approximated weighted average yield based on estimated annual income divided by the average amortized cost of our securities portfolio as of the dates indicated. The contractual maturity of a mortgage-backed security is the date at which the last underlying mortgage matures.

	As of June 30, 2017									
	Within		After One Year		After Five Years		After Ten Years		Total	
	One Year		but Within		but Within					
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total	Yield
	(Dollars in thousands)									
U.S. government agencies	\$ —	—%	\$ 338	1.83%	\$ 343	2.05%	\$ —	—%	\$ 681	1.94%
Corporate securities	—	—	7,697	5.28	—	—	—	5.24	7,697	5.28
Municipal securities	—	—	3,614	2.11	4,092	2.00	7,124	2.55	14,830	2.29
Mortgage-backed securities	—	—	49,888	1.98	15,621	2.42	80	2.71	65,589	2.09
Collateralized mortgage obligations	170	2.84	35,126	1.97	9,916	2.26	—	—	45,212	2.04
Asset-backed securities	—	—	—	—	699	1.85	—	—	699	1.85
Total	\$ 170	2.84%	\$ 96,663	1.82%	\$ 30,671	2.30%	\$ 7,204	2.55%	\$ 134,708	1.97%

	As of December 31, 2016									
	Within		After One Year		After Five Years		After Ten Years		Total	
	One Year		but Within		but Within					
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total	Yield
	(Dollars in thousands)									
U.S. government agencies	\$ —	—%	\$ 345	1.62%	\$ 351	2.02%	\$ —	—%	\$ 696	1.82%
Municipal securities	—	—	3,630	2.13	2,995	1.96	7,417	2.51	14,042	2.29
Mortgage-backed securities	—	—	37,307	1.63	11,731	2.22	81	2.10	49,119	1.77
Collateralized mortgage obligations	262	2.98	36,850	1.73	815	2.42	—	—	37,927	1.75
Asset-backed securities	—	—	775	1.40	—	—	—	—	775	1.40
Total	\$ 262	2.98%	\$ 78,907	1.70%	\$ 15,892	2.18%	\$ 7,498	2.51%	\$ 102,559	1.83%

The contractual maturity of mortgage-backed securities, collateralized mortgage obligations and asset backed securities is not a reliable indicator of their expected life because borrowers have the right to prepay their obligations at any time. Mortgage-backed securities, collateralized mortgage obligations and asset-backed securities are typically issued with stated principal amounts and are backed by pools of mortgage loans and other loans with varying maturities. The term of the underlying mortgages and loans may vary significantly due to the ability of a borrower to pre-pay. Monthly pay downs on mortgage-backed securities tend to cause the average life of the securities to be much different than the stated contractual maturity. During a period of increasing interest rates, fixed rate mortgage-backed securities do not tend to experience heavy prepayments of principal and consequently, the average life of this security will be lengthened. If interest rates begin to fall, prepayments may increase, thereby shortening the estimated life of this security. The weighted average life of our investment portfolio was 4.18 years and 4.39 years with an estimated effective duration of 3.01 years and 3.30 years as of June 30, 2017 and December 31, 2016, respectively.

As of June 30, 2017 and December 31, 2016, we did not own securities of any one issuer for which aggregate adjusted cost exceeded 10.0% of the condensed consolidated stockholders' equity as of such respective dates.

Deposits

We offer a variety of deposit accounts having a wide range of interest rates and terms including demand, savings, money market and time accounts. We rely primarily on competitive pricing policies, convenient locations and personalized service to attract and retain these deposits.

Total deposits as of June 30, 2017 were \$1.2 billion, an increase of \$91.5 million, or 8.2%, compared to \$1.1 billion as of December 31, 2016. The increase from December 31, 2016 was primarily due to an increase of \$101.3 million in savings accounts, \$9.4 million in non-interest bearing deposits, and \$6.4 million in business checking. The increase was partially offset by a decrease of \$18.2 million in time deposits as well as a decrease of \$9.0 million in wholesale deposits. The increase in deposits was primarily due to a single customer deposit of \$101.9 million.

Borrowings

We utilize short-term and long-term borrowings to supplement deposits to fund our lending and investment activities, each of which is discussed below.

Federal Home Loan Bank (FHLB) advances. The FHLB allows us to borrow on a blanket floating lien status collateralized by certain securities and loans. As of June 30, 2017 and December 31, 2016, total borrowing capacity of \$412.9 million and \$369.4 million, respectively, was available under this arrangement and \$38.2 million and \$38.3 million, respectively, was outstanding with a weighted average interest rate of 0.93% for the three months ended June 30, 2017 and 0.60% for the year ended December 31, 2016. Our current FHLB advances mature within six years. We utilize these borrowings to meet liquidity needs and to fund certain fixed rate loans in our portfolio.

The following table presents our FHLB borrowings at the dates indicated. Other than FHLB borrowings, we had no other short-term borrowings at the dates indicated.

	FHLB Advances	
	(Dollars in thousands)	
June 30, 2017		
Amount outstanding at period-end	\$	38,235
Weighted average interest rate at period-end		1.26%
Maximum month-end balance during the period		38,294
Average balance outstanding during the period		38,275
Weighted average interest rate during the period		0.84%
December 31, 2016		
Amount outstanding at period-end	\$	38,306
Weighted average interest rate at period-end		0.77%
Maximum month-end balance during the period		88,398
Average balance outstanding during the period		43,649
Weighted average interest rate during the period		0.60%

Federal Reserve Bank of Dallas. The Federal Reserve Bank of Dallas has an available borrower in custody arrangement, which allows us to borrow on a collateralized basis. Certain commercial and consumer loans are pledged under this arrangement. We maintain this borrowing arrangement to meet liquidity needs pursuant to our contingency funding plan. As of June 30, 2017 and December 31, 2016, \$170.1 million and \$197.3 million, respectively, were available under this arrangement. As of June 30, 2017, approximately \$228.2 million in commercial loans were pledged as collateral. As of June 30, 2017 and December 31, 2016, no borrowings were outstanding under this arrangement.

Junior subordinated debentures. In connection with the acquisition of Fidelity Resource Company during 2011, we assumed \$3.1 million in fixed/floating rate junior subordinated debentures underlying common securities and preferred capital securities, or the Trust Securities, issued by Parkway National Capital Trust I, a statutory business trust and acquired wholly-owned subsidiary. We assumed the guarantor position and as such, unconditionally guarantee payment of accrued and unpaid distributions

required to be paid on the Trust Securities subject to certain exceptions, the redemption price when a capital security is called for redemption and amounts due if a trust is liquidated or terminated.

We own all of the outstanding common securities of the trust. The trust used the proceeds from the issuance of its Trust Securities to buy the debentures originally issued by Fidelity Resource Company. These debentures are the trust's only assets and the interest payments from the debentures finance the distributions paid on the Trust Securities.

The Trust Securities pay cumulative cash distributions quarterly at a rate per annum equal to the three-month LIBOR plus 1.85% percent. The effective rate as of June 30, 2017 and December 31, 2016 was 3.10% and 2.70%, respectively. The Trust Securities are subject to mandatory redemption in whole or in part, upon repayment of the debentures at the stated maturity in the year 2036 or their earlier redemption, in each case at a redemption price equal to the aggregate liquidation preference of the Trust Securities plus any accumulated and unpaid distributions thereon to the date of redemption. Prior redemption is permitted under certain circumstances.

The Trust Securities qualify as Tier 1 capital, subject to regulatory limitations, under guidelines established by the Federal Reserve.

Subordinated notes. On December 23, 2013, we completed a private offering of \$5.0 million in aggregate principal amount of subordinated promissory notes. The notes were structured to qualify as Tier 2 capital under applicable rules and regulations of the Federal Reserve. The proceeds from the offering were used to support our continued growth. The notes are unsecured, with quarterly interest payable at a fixed rate of 6.0% per annum, and unpaid principal and interest on the notes is due at the stated maturity on December 31, 2023. We may redeem the notes in whole or in part on any interest payment date that occurs on or after December 23, 2018 subject to approval of the Federal Reserve.

Under the terms of the notes, if we have not paid interest on the notes within 30 days of any interest payment date, or if our classified assets to total tangible capital ratio exceeds 40.0%, then the note holder that holds the greatest aggregate principal amount of the notes may appoint one representative to attend meetings of our board of directors as an observer. The board observation rights terminate when such overdue interest is paid or our classified assets to total tangible capital ratio no longer exceeds 40.0%. In addition, the terms of the notes provide that the note holders will have the same rights to inspect our books and records provided to holders our common stock under Texas law.

In connection with the issuance of the notes, we also issued warrants to purchase 25,000 shares of our common stock, at an exercise price of \$11.00 per share, exercisable at any time, in whole or in part, on or prior to December 31, 2023.

	As of June 30, 2017	As of December 31, 2016
	(Dollars in thousands)	
Junior subordinated debentures	\$ 3,093	\$ 3,093
Subordinated notes	4,946	4,942
Total	<u>\$ 8,039</u>	<u>\$ 8,035</u>

Liquidity and Capital Resources

Liquidity

Liquidity involves our ability to raise funds to support asset growth and acquisitions or reduce assets to meet deposit withdrawals and other payment obligations, to maintain reserve requirements and otherwise to operate on an ongoing basis and manage unexpected events. For the six months ended June 30, 2017 and the year ended December 31, 2016, our liquidity needs were primarily met by core deposits, wholesale borrowings, security and loan maturities and amortizing investment and loan portfolios. Use of brokered deposits, purchased funds from correspondent banks and overnight advances from the FHLB and the Federal Reserve Bank of Dallas are available and have been utilized to take advantage of the cost of these funding sources. We maintained two lines of credit with commercial banks that provide for extensions of credit with an availability to borrow up to an aggregate \$14.6 million as of June 30, 2017 and December 31, 2016. There were no advances under these lines of credit outstanding as of June 30, 2017 and December 31, 2016.

The following table illustrates, during the periods presented, the mix of our funding sources and the average assets in which those funds are invested as a percentage of our average total assets for the period indicated. Average assets totaled \$1.5 billion for the six months ended June 30, 2017 and \$1.2 billion for the year ended December 31, 2016.

	For the Six Months Ended June 30, 2017	For the Year Ended December 31, 2016
Sources of Funds:		
Deposits:		
Noninterest-bearing	23.3%	25.5%
Interest-bearing	57.3	57.9
Advances from FHLB	2.5	3.7
Other borrowings	0.5	0.7
Other liabilities	0.2	0.2
Stockholders' equity	16.2	12.0
Total	100.0%	100.0%
Uses of Funds:		
Loans	68.2%	77.2%
Securities available for sale	8.5	7.1
Interest-bearing deposits in other banks	16.4	7.8
Other noninterest-earning assets	6.9	7.9
Total	100.0%	100.0%
Average noninterest-bearing deposits to average deposits	28.9%	30.5%
Average loans to average deposits	84.7%	92.5%

Our primary source of funds is deposits, and our primary use of funds is loans. We do not expect a change in the primary source or use of our funds in the foreseeable future. Our average loans net of allowance for loan loss increased 17.3% for the six months ended June 30, 2017 compared to the same period in 2016. We invest excess deposits in interest-bearing deposits at other banks, the Federal Reserve, or liquid investments securities until these monies are needed to fund loan growth.

As of June 30, 2017, we had outstanding \$269.9 million in commitments to extend credit and \$5.9 million in commitments associated with outstanding standby and commercial letters of credit. As of December 31, 2016, we had outstanding \$236.9 million in commitments to extend credit and \$6.9 million in commitments associated with outstanding standby and commercial letters of credit. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the total outstanding may not necessarily reflect the actual future cash funding requirements.

As of June 30, 2017, we had cash and cash equivalents of \$173.1 million compared to \$234.8 million as of December 31, 2016. The decrease was primarily due to the funding of loan and investment growth over the period. Additionally, in December 31, 2016 we received \$94.5 million net proceeds from the sale of common stock in an underwritten public offering of which \$58.0 million is to pay the aggregate cash consideration for the Sovereign merger which is expected to close during the third quarter of 2017.

Capital Resources

Total stockholders' equity increased to \$247.6 million as of June 30, 2017, compared to \$239.1 million as of December 31, 2016, an increase of \$8.5 million, or 3.6%. The increase from December 31, 2016 was primarily the result of \$6.7 million in net income for the period.

Capital management consists of providing equity to support our current and future operations. The bank regulators view capital levels as important indicators of an institution's financial soundness. As a general matter, FDIC-insured depository institutions and their holding companies are required to maintain minimum capital relative to the amount and types of assets they hold. We are subject to regulatory capital requirements at the bank holding company and bank levels. See Note 12 "Capital Requirements and Restrictions on Retained Earnings" to our condensed consolidated financial statements in this Report for additional discussion regarding the regulatory capital requirements applicable to us and the Bank. As of June 30, 2017 and December 31, 2016, the Bank and we complied with all applicable regulatory capital requirements, and the Bank was classified

as “well capitalized,” for purposes of the prompt corrective action regulations. As we employ our capital and continue to grow our operations, our regulatory capital levels may decrease depending on our level of earnings. However, we expect to monitor and control our growth in order to remain in compliance with all regulatory capital standards applicable to us.

The following table presents the actual capital amounts and regulatory capital ratios for us and the Bank as of the dates indicated.

	As of June 30,		As of December 31,	
	2017		2016	
	Amount	Ratio	Amount	Ratio
(Dollars in thousands)				
Veritex Holdings, Inc.				
Total capital (to risk-weighted assets)	\$ 236,955	18.92%	\$ 228,566	22.02%
Tier 1 capital (to risk-weighted assets)	222,269	17.75	215,057	20.72
Common equity tier 1 (to risk-weighted assets)	219,176	17.50	211,964	20.42
Tier 1 capital (to average assets)	222,269	15.09	215,057	16.82
Veritex Community Bank				
Total capital (to risk-weighted assets)	\$ 139,381	11.14%	\$ 130,237	12.55%
Tier 1 capital (to risk-weighted assets)	129,642	10.36	121,713	11.73
Common equity tier 1 (to risk-weighted assets)	129,642	10.36	121,713	11.73
Tier 1 capital (to average assets)	129,642	8.81	121,713	9.52

Contractual Obligations

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

Other than normal changes in the ordinary course of business, there have been no significant changes in the types of contractual obligations or amounts due since December 31, 2016.

Off-Balance Sheet Items

In the normal course of business, the Company enters into various transactions, which, in accordance with GAAP, 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. The Company enters into these transactions to meet the financing needs of its 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.

The Company’s commitments to extend credit and outstanding standby letters of credit were \$269.9 million and \$5.9 million, respectively, as of June 30, 2017. 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.

Commitments to Extend Credit

The Company 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 the Company's commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of loan funding. The Company 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 the Company 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, 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 of the commitment. If the commitment is funded, the customer is obligated to reimburse the Company for the amount paid under this standby letter of credit.

Interest Rate Sensitivity and Market Risk

As a financial institution, our primary component of market risk is interest rate volatility. Our asset liability and funds management policy provides management with the guidelines for effective funds management, and we have established a measurement system for monitoring our net interest rate sensitivity position. We manage our sensitivity position within our established guidelines.

Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on most of our assets and liabilities, and the market value of all interest-earning assets and interest-bearing liabilities, other than those that have a short term to maturity. Interest rate risk is the potential of economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a loss of current fair market values. The objective is to measure the effect on net interest income and to adjust the balance sheet to minimize the inherent risk while at the same time maximizing income.

We manage our exposure to interest rates by structuring our balance sheet in the ordinary course of business. We do not enter into instruments such as leveraged derivatives, interest rate swaps, financial options, financial future contracts or forward delivery contracts for the purpose of reducing interest rate risk. Based upon the nature of our operations, we are not subject to foreign exchange or commodity price risk. We do not own any trading assets.

Our exposure to interest rate risk is managed by the Asset-Liability Committee of the Bank, in accordance with policies approved by its board of directors. The committee formulates strategies based on appropriate levels of interest rate risk. In determining the appropriate level of interest rate risk, the committee considers the impact on earnings and capital of the current outlook on interest rates, potential changes in interest rates, regional economies, liquidity, business strategies and other factors. The committee meets regularly to review, among other things, the sensitivity of assets and liabilities to interest rate changes, the book and market values of assets and liabilities, unrealized gains and losses, purchase and sale activities, commitments to originate loans and the maturities of investments and borrowings. Additionally, the committee reviews liquidity, cash flow flexibility, maturities of deposits and consumer and commercial deposit activity. Management employs methodologies to manage interest rate risk that include an analysis of relationships between interest-earning assets and interest-bearing liabilities, and an interest rate shock simulation model.

We use interest rate risk simulation models and shock analysis to test the interest rate sensitivity of net interest income and fair value of equity, and the impact of changes in interest rates on other financial metrics. Contractual maturities and re-pricing opportunities of loans are incorporated in the model, as are prepayment assumptions, maturity data and call options within the investment portfolio. Average life of our non-maturity deposit accounts are based on standard regulatory decay assumptions and are incorporated into the model. The assumptions used are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model's simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and the application and timing of various management strategies.

On a quarterly basis, we run two simulation models including a static balance sheet and dynamic growth balance sheet. These models test the impact on net interest income and fair value of equity from changes in market interest rates under various scenarios. Under the static and dynamic growth models, rates are shocked instantaneously and ramped rate changes over a twelve-month and twenty-four month horizon based upon parallel and non-parallel yield curve shifts. Parallel shock scenarios assume

instantaneous parallel movements in the yield curve compared to a flat yield curve scenario. Non-parallel simulation involves analysis of interest income and expense under various changes in the shape of the yield curve. Internal policy regarding internal rate risk simulations currently specifies that for instantaneous parallel shifts of the yield curve, estimated net interest income at risk for the subsequent one-year period should not decline by more than 12.5% for a 100 basis point shift, 15.0% for a 200 basis point shift, and 20.0% for a 300 basis point shift.

The following table summarizes the simulated change in net interest income and fair value of equity over a 12-month horizon as of the date indicated:

Change in Interest Rates (Basis Points)	As of June 30, 2017		As of December 31, 2016	
	Percent Change in Net Interest Income	Percent Change in Fair Value of Equity	Percent Change in Net Interest Income	Percent Change in Fair Value of Equity
+ 300	9.27 %	8.16 %	12.60 %	11.67 %
+ 200	7.21 %	9.98 %	9.63 %	12.04 %
+ 100	4.67 %	8.62 %	6.14 %	9.29 %
Base	0.23 %	— %	0.99 %	— %
-100	(3.56)%	(11.17)%	(2.56)%	(11.22)%

The results are primarily due to behavior of demand, money market and savings deposits during such rate fluctuations. We have found that, historically, interest rates on these deposits change more slowly than changes in the discount and federal funds rates. This assumption is incorporated into the simulation model and is generally not fully reflected in a gap analysis. The assumptions incorporated into the model are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model's simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and the application and timing of various strategies.

Impact of Inflation

Our condensed consolidated financial statements and related notes included elsewhere in this Report have been prepared in accordance with GAAP. These require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative value of money over time due to inflation or recession.

Unlike many industrial companies, substantially all of our assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of general levels of inflation. Interest rates may not necessarily move in the same direction or in the same magnitude as the prices of goods and services. However, other operating expenses do reflect general levels of inflation.

Non-GAAP Financial Measures

Our accounting and reporting policies conform to GAAP, and the prevailing practices in the banking industry. However, we also evaluate our performance based on certain additional financial measures discussed in this Report as being non-GAAP financial measures. We classify a financial measure as being a non-GAAP financial measure if that financial measure excludes or includes amounts, or is subject to adjustments that have the effect of excluding or including amounts, that are included or excluded, as the case may be, in the most directly comparable measure calculated and presented in accordance with GAAP as in effect from time to time in the United States in our statements of income, balance sheets or statements of cash flows. Non-GAAP financial measures do not include operating and other statistical measures or ratios or statistical measures calculated using exclusively either financial measures calculated in accordance with GAAP, operating measures or other measures that are not non-GAAP financial measures or both.

The non-GAAP financial measures that we discuss in this Report should not be considered in isolation or as a substitute for the most directly comparable or other financial measures calculated in accordance with GAAP. Moreover, the manner in which we calculate the non-GAAP financial measures discussed herein may differ from that of other companies reporting measures with similar names. You should understand how such other banking organizations calculate their financial measures similar or with names similar to the non-GAAP financial measures we have discussed in this filing when comparing such non-GAAP financial measures.

Tangible Book Value Per Common Share

Tangible book value per common share is a non-GAAP measure generally used by financial analysts and investment bankers to evaluate financial institutions. We calculate (1) tangible common equity as stockholders' equity less preferred stock, and goodwill, core deposit intangibles and other intangible assets, net of accumulated amortization, and (2) tangible book value per common share as tangible common equity divided by shares of common stock outstanding. The most directly comparable GAAP financial measure for tangible book value per common share is book value per common share.

We believe that this measure is important to many investors in the marketplace who are interested in changes from period to period in book value per common share exclusive of changes in intangible assets. Goodwill and other intangible assets have the effect of increasing total book value while not increasing our tangible book value.

The following table reconciles, as of the dates set forth below, total stockholders' equity to tangible common equity and presents our tangible book value per common share compared to our book value per common share:

	As of June 30,		As of December 31,	
	2017	2016	2016	
(Dollars in thousands, except share data)				
Tangible Common Equity				
Total stockholders' equity	\$ 247,602	\$ 138,850	\$	239,088
Adjustments:				
Goodwill	(26,865)	(26,865)		(26,865)
Intangible assets	(2,171)	(2,264)		(2,181)
Total tangible common equity	\$ 218,566	\$ 109,721	\$	210,042
Common shares outstanding(1)	15,233,010	10,727,863		15,195,328
Book value per common share	\$ 16.25	\$ 12.94	\$	15.73
Tangible book value per common share	\$ 14.35	\$ 10.23	\$	13.82

(1) Excludes the dilutive effect, if any, of 499,000, 449,000 and 454,000 shares of common stock issuable upon exercise of outstanding stock options as of June 30, 2017, June 30, 2016 and December 31, 2016, respectively, and 170,000, 172,000, and 147,000 shares of common stock issuable upon vesting of outstanding restricted stock units as of June 30, 2017, June 30, 2016 and December 31, 2016, respectively.

Tangible Common Equity to Tangible Assets

Tangible common equity to tangible assets is a non-GAAP measure generally used by financial analysts and investment bankers to evaluate financial institutions. We calculate tangible common equity, as described above, and tangible assets as total assets less goodwill, core deposit intangibles and other intangible assets, net of accumulated amortization. The most directly comparable GAAP financial measure for tangible common equity to tangible assets is total common stockholders' equity to total assets.

We believe that this measure is important to many investors in the marketplace who are interested in the relative changes from period to period in common equity and total assets, each exclusive of changes in intangible assets. Goodwill and other intangible assets have the effect of increasing both total stockholders' equity and assets while not increasing our tangible common equity or tangible assets.

The following table reconciles, as of the dates set forth below, total stockholders' equity to tangible common equity and total assets to tangible assets:

	As of June 30, 2017	As of December 31, 2016
(Dollars in thousands)		
Tangible Common Equity		
Total stockholders' equity	\$ 247,602	\$ 239,088
Adjustments:		
Goodwill	(26,865)	(26,865)
Intangible assets	(2,171)	(2,181)
Total tangible common equity	<u>\$ 218,566</u>	<u>\$ 210,042</u>
Tangible Assets		
Total assets	\$ 1,508,589	\$ 1,408,507
Adjustments:		
Goodwill	(26,865)	(26,865)
Intangible assets	(2,171)	(2,181)
Total tangible assets	<u>\$ 1,479,553</u>	<u>\$ 1,379,461</u>
Tangible Common Equity to Tangible Assets	14.77%	15.23%

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with GAAP and with general practices within the financial services industry. Application of these principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under current circumstances. These assumptions form the basis for our judgments about the carrying values of assets and liabilities that are not readily available from independent, objective sources. We evaluate our estimates on an ongoing basis. Use of alternative assumptions may have resulted in significantly different estimates. Actual results may differ from these estimates.

We have identified the following accounting policies and estimates that, due to the difficult, subjective or complex judgments and assumptions inherent in those policies and estimates and the potential sensitivity of our financial statements to those judgments and assumptions, are critical to an understanding of our financial condition and results of operations. We believe that the judgments, estimates and assumptions used in the preparation of our financial statements are appropriate.

Business Combinations

We apply 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. We use 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. Acquisition-related costs are expensed as incurred.

Investment Securities

Securities are classified as held to maturity and carried at amortized cost when we have the positive intent and ability to hold them until maturity. Securities to be held for indefinite periods of time are classified as available for sale and carried at fair value, with the unrealized holding gains and losses reported in other comprehensive income, net of tax. We determined the appropriate classification of securities at the time of purchase. Interest income includes amortization of purchase premiums and discounts. Realized gains and losses are derived from the amortized cost of the security sold. Credit related declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses, with the remaining unrealized loss recognized as a component of other comprehensive income. In estimating other-than-temporary impairment losses, we consider, among other things, (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 and our ability to retain the investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans Held for Sale

Loans held for sale consist of certain mortgage loans originated and intended for sale in the secondary market and are carried at the lower of cost or estimated fair value on an individual loan basis. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. We obtain purchase commitments from secondary market investors prior to closing the loans and do not retain the servicing obligations related to any such loans upon their sale. Gains and losses on sales of loans held for sale are based on the difference between the selling price and the carrying value of the related loan sold.

Loans and Allowance for Loan Losses

Loans, excluding certain purchased loans that have shown evidence of deterioration since origination as of the date of the acquisition, that we have the intent and ability to hold for the foreseeable future or until maturity or pay-off are stated at the amount of unpaid principal, reduced by unearned income and an allowance for loan losses. Interest on loans is recognized using the effective-interest method on the daily balances of the principal amounts outstanding. Fees associated with the originating of loans and certain direct loan origination costs are netted and the net amount is deferred and recognized over the life of the loan as an adjustment of yield.

The accrual of interest on loans is discontinued when there is a clear indication that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. When a loan is placed on non-accrual status, all previously accrued and unpaid interest is reversed. Interest income is subsequently recognized on a cash basis as long as the remaining book balance of the asset is deemed to be collectible. If collectability is questionable, then cash payments are applied to principal. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured in accordance with the terms of the loan agreement.

The allowance for loan losses is an estimated amount we believe is adequate to absorb inherent losses on existing loans that may be uncollectible based upon review and evaluation of the loan portfolio. Our periodic evaluation of the allowance is based on general economic conditions, the financial condition of borrowers, the value and liquidity of collateral, delinquency, prior loan loss experience, and the results of periodic reviews of the portfolio. The allowance for loan losses is comprised of two components: the general reserve and specific reserves. The general reserve is determined in accordance with current authoritative accounting guidance. The Company's calculation of the general reserve considers historical loss rates for the last three years adjusted for qualitative factors based upon general economic conditions and other qualitative risk factors both internal and external to the Company. Such qualitative factors include current local economic conditions and trends including unemployment, changes in lending staff, policies and procedures, changes in credit concentrations, changes in the trends and severity of problem loans and changes in trends in volume and terms of loans. These qualitative factors serve to compensate for additional areas of uncertainty inherent in the portfolio that are not reflected in our historic loss factors. For purposes of determining the general reserve, the loan portfolio, less cash secured loans, government guaranteed loans and impaired loans, is multiplied by our adjusted historical loss rate. Specific reserves are determined in accordance with current authoritative accounting guidance based on probable losses on specific classified loans.

The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries).

Due to the growth of the Bank over the past several years, a portion of the loans in our portfolio and our lending relationships are of relatively recent origin. The new loan portfolios have limited delinquency and credit loss history and have not yet exhibited an observable loss trend. The credit quality of loans in these loan portfolios are impacted by delinquency status and debt service coverage generated by the borrowers' business and fluctuations in the value of real estate collateral. We consider delinquency status to be the most meaningful indicator of the credit quality of 1-4 single family residential, home equity loans and lines of credit and other consumer loans. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process we refer to as "seasoning". As a result, a portfolio of older loans will usually behave more predictably than a portfolio of newer loans. Because the majority of our portfolio is relatively new, the current level of delinquencies and defaults may not be representative of the level that will prevail when the portfolio becomes more seasoned, which may be higher than current levels.

Delinquency statistics are updated at least monthly. Internal risk ratings are considered the most meaningful indicator of credit quality for new commercial, construction, and commercial real estate loans. Internal risk ratings are a key factor in identifying

loans that are individually evaluated for impairment and impact our estimates of loss factors used in determining the amount of the allowance for loan losses. Internal risk ratings are updated on a continuous basis.

Loans are considered impaired when, based on current information and events, it is probable we will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. If a loan is impaired, a specific valuation allowance is allocated, if necessary. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

Our policy requires measurement of the allowance for an impaired collateral dependent loan based on the fair value of the collateral. Other loan impairments are measured based on the present value of expected future cash flows or the loan's observable market price. At June 30, 2017 and December 31, 2016, all significant impaired loans have been determined to be collateral dependent and the allowance for loss has been measured utilizing the estimated fair value of the collateral.

From time to time, we may modify our loan agreement with a borrower. A modified loan is considered a troubled debt restructuring when two conditions are met: (1) the borrower is experiencing financial difficulty and (2) concessions are made by us that would not otherwise be considered for a borrower with similar credit risk characteristics. Modifications to loan terms may include a lower interest rate, a reduction of principal, or a longer term to maturity. All troubled debt restructurings are considered impaired loans. We review each troubled debt restructured loan and determine on a case by case basis if a specific allowance for loan loss is required. An allowance for loan loss allocation is based on either the present value of estimated future cash flows or the estimated fair value of the underlying collateral.

We have certain lending policies and procedures in place that are designed to maximize loan income with an acceptable level of risk. We review and approve these policies and procedures on a regular basis and makes changes as appropriate. We receive frequent reports related to loan originations, quality, concentrations, delinquencies, non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions, both by type of loan and geography.

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and effectively. Underwriting standards are designed to determine whether the borrower possesses sound business ethics and practices and to evaluate 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. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and include personal guarantees.

Real estate loans are also subject to underwriting standards and processes similar to commercial loans. These loans are underwritten primarily based on projected cash flows and, secondarily, as loans secured by real estate. The repayment of real estate loans is generally largely dependent on the successful operation of the property securing the loans or the business conducted on the property securing the loan. Real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing our real estate portfolio are generally diverse in terms of type and geographic location, throughout the Dallas metropolitan area. This diversity helps reduce the exposure to adverse economic events that affect any single market or industry.

We utilize methodical credit standards and analysis to supplement our policies and procedures in underwriting consumer loans. Our loan policy addresses types of consumer loans that may be originated and the collateral, if secured, which must be perfected. The relatively smaller individual dollar amounts of consumer loans that are spread over numerous individual borrowers also minimizes our risk.

Emerging Growth Company

The JOBS Act permits an "emerging growth company" to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. However, we have "opted out" of this provision. As a result, we will comply with new or revised accounting standards to the same extent that compliance is required for non-emerging growth companies. This decision to opt out of the extended transition period under the JOBS Act is irrevocable.

Special Cautionary Notice Regarding Forward-Looking Statements

Forward-looking statements included in this Report are based on various facts and derived utilizing numerous important assumptions and are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements include the information concerning our future financial performance, business and growth strategy, projected plans and objectives, as well as projections of macroeconomic and industry trends, which are inherently unreliable due to the multiple factors that impact economic trends, and any such variations may be material. Statements preceded by, followed by or that otherwise include the words “believes,” “expects,” “anticipates,” “intends,” “projects,” “estimates,” “plans” and similar expressions or future or conditional verbs such as “will,” “should,” “would,” “may” and “could” are generally forward-looking in nature and not historical facts, although not all forward-looking statements include the foregoing. You should understand that the following important factors could affect our future results and cause actual results to differ materially from those expressed in the forward-looking statements:

- risks related to the concentration of our business within the Dallas metropolitan area, including risks associated with any downturn in the real estate sector and risks associated with a decline in the values of single family homes in the Dallas metropolitan area;
- our ability to implement our growth strategy, including identifying and consummating suitable acquisitions;
- risks related to the integration of any acquired businesses, including exposure to potential asset quality and credit quality risks and unknown or contingent liabilities, the time and costs associated with integrating systems, technology platforms, procedures and personnel, the need for additional capital to finance such transactions, and possible failures in realizing the anticipated benefits from acquisitions;
- our ability to recruit and retain successful bankers that meet our expectations in terms of customer relationships and profitability;
- our ability to retain executive officers and key employees and their customer and community relationships;
- risks associated with our limited operating history and the relatively unseasoned nature of a significant portion of our loan portfolio;
- market conditions and economic trends nationally, regionally and particularly in the Dallas metropolitan area and Texas;
- risks related to our strategic focus on lending to small to medium-sized businesses;
- the sufficiency of the assumptions and estimates we make in establishing reserves for potential loan losses;
- risks associated with our commercial loan portfolio, including the risk for deterioration in value of the general business assets that generally secure such loans;
- risks associated with our commercial real estate and construction loan portfolios, including the risks inherent in the valuation of the collateral securing such loans;
- potential changes in the prices, values and sales volumes of commercial and residential real estate securing our real estate loans;
- risks related to the significant amount of credit that we have extended to a limited number of borrowers and in a limited geographic area;
- our ability to maintain adequate liquidity and to raise necessary capital to fund our acquisition strategy and operations or to meet increased minimum regulatory capital levels;
- changes in market interest rates that affect the pricing of our loans and deposits and our net interest income;
- potential fluctuations in the market value and liquidity of our investment securities;

- the effects of competition from a wide variety of local, regional, national and other providers of financial, investment and insurance services;
- our ability to maintain an effective system of disclosure controls and procedures and internal controls over financial reporting;
- risks associated with fraudulent and negligent acts by our customers, employees or vendors;
- our ability to keep pace with technological change or difficulties when implementing new technologies;
- risks associated with system failures or failures to prevent breaches of our network security;
- risks associated with data processing system failures and errors;
- our ability to successfully execute the acquisition of Sovereign;
- our actual cost savings resulting from the acquisition of Sovereign are less than expected, we are unable to realize those cost savings as soon as expected or we incur additional or unexpected costs;
- our revenues after the Sovereign acquisition are less than expected;
- potential impairment on the goodwill we have recorded or may record in connection with business acquisitions;
- the institution and outcome of litigation and other legal proceedings against us or to which we become subject;
- our ability to comply with various governmental and regulatory requirements applicable to financial institutions;
- the impact of recent and future legislative and regulatory changes, including changes in banking, securities and tax laws and regulations and their application by our regulators, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act;
- governmental monetary and fiscal policies, including the policies of the Federal Reserve;
- our ability to comply with supervisory actions by federal and state banking agencies;
- changes in the scope and cost of FDIC, insurance and other coverage; and
- systemic risks associated with the soundness of other financial institutions.

Other factors not identified above, including those described under the headings “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in our Annual Report on Form 10-K for the year ended December 31, 2016, as well as the information contained in this Quarterly Report on Form 10-Q may also cause actual results to differ materially from those described in our forward-looking statements. Most of these factors are difficult to anticipate and are generally beyond our control. You should consider these factors in connection with considering any forward-looking statements that may be made by us. We undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events unless we are required to do so by law.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company manages market risk, which, as a financial institution is primarily interest rate volatility, through the Asset-Liability Committee of the Bank, in accordance with policies approved by its board of directors. The Company uses an interest rate risk simulation model and shock analysis to test the interest rate sensitivity of net interest income and fair value of equity, and the impact of changes in interest rates on other financial metrics. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Interest Rate Sensitivity and Market Risk” herein for a discussion of how we manage market risk.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures — As of the end of the period covered by this Report, 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 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) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) were effective as of the end of the period covered by this Report.

Changes in internal control over financial reporting —There were no changes in the Company’s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are from time to time subject to claims and litigation arising in the ordinary course of business. These claims and litigation may include, among other things, allegations of violation of banking and other applicable regulations, competition law, labor laws and consumer protection laws, as well as claims or litigation relating to intellectual property, securities, breach of contract and tort. We intend to defend ourselves vigorously against any pending or future claims and litigation.

At this time, in the opinion of management, the likelihood is remote that the impact of such proceedings, either individually or in the aggregate, would have a material adverse effect on our combined results of operations, financial condition or cash flows. However, one or more unfavorable outcomes in any claim or litigation against us could have a material adverse effect for the period in which they are resolved. In addition, regardless of their merits or their ultimate outcomes, such matters are costly, divert management's attention and may materially adversely affect our reputation, even if resolved in our favor.

Item 1A. Risk Factors

In evaluating an investment in our common stock, investors should consider carefully, among other things, the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016, as well as the information contained in this Quarterly Report on Form 10-Q and our other reports and registration statements filed with the SEC.

There has been no material change in the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description of Exhibit
2.1	Agreement and Plan of Reorganization dated December 14, 2016, by and between Veritex Holdings, Inc., Spartan Merger Sub, Inc., and Sovereign Bancshares, Inc. (incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed December 14, 2016).
3.1	Second Amended and Restated Certificate of Formation of Veritex Holdings, Inc. (incorporated by reference to Exhibit 3.1 to Amendment No. 1 to the Company's Registration Statement on Form S-1 filed September 22, 2014 (File No. 333-198484)).
3.2*	Third Amended and Restated Bylaws of Veritex Holdings, Inc.
3.3*	Third Amended and Restated Bylaws of Veritex Holdings, Inc., marked to show amendments effective as of May 18, 2017.
31.1*	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following materials from Veritex Holdings' Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, formatted in XBRL (Extensible Business Reporting Language), furnished herewith: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Comprehensive Income (Loss), (iv) Condensed Consolidated Statements of Changes in Shareholders' Equity, (v) Condensed Consolidated Statements of Cash Flows, and (vi) Notes to Condensed Consolidated Financial Statements.

* Filed with this Quarterly Report on Form 10-Q

** Furnished with this Quarterly Report on Form 10-Q

SIGNATURES

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

VERITEX HOLDINGS, INC.

(Registrant)

Date: July 25, 2017

/s/ C. Malcolm Holland, III

C. Malcolm Holland, III

Chairman and Chief Executive Officer

(Principal Executive Officer)

Date: July 25, 2017

/s/ Noreen E. Skelly

Noreen E. Skelly

Chief Financial Officer

(Principal Financial and Accounting Officer)

**THIRD AMENDED AND RESTATED
BYLAWS
OF
VERITEX HOLDINGS, INC.**

**ARTICLE I
Identification**

1.01 Name. The name of the Corporation (herein so called) is “Veritex Holdings, Inc.”

1.02 Registered Office and Registered Agent. The registered agent and office of the Corporation shall be as designated by the Board of Directors (herein so called) from time to time pursuant to applicable law.

**ARTICLE II
Capital Stock**

2.01 Certificates Representing Shares of Capital Stock. Every holder of stock in the Corporation shall be entitled to have a certificate, in the form determined by the Board of Directors, signed by, or in the name of the Corporation by, the President and the Treasurer or the Secretary (the offices of the Corporation with the first letter capitalized as hereinabove set forth are herein so called) of the Corporation, certifying the number of shares owned by him in the Corporation, and may be sealed with the seal of the Corporation or a facsimile thereof. Certificates shall be consecutively numbered and shall be entered in the books of the Corporation as they are issued. Each certificate shall state on its face the holder’s name, the number and class of shares, the par value of shares or a statement that such shares are without par value, and such other matters as may be required by law. If the certificate is countersigned by a transfer agent or registered by a registrar, either of which is other than the Corporation itself or an employee of the Corporation, any or all of the signatures on the certificate may be facsimiles. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the time of issue.

2.02 Issuance of Shares. The shares of stock with par value (both treasury and authorized but unissued) may be issued for such consideration, having a value not less than the par value thereof, and to such persons, as is determined from time to time by the Board of Directors. The Corporation may not issue any of its shares until the full amount of the consideration therefor has been paid.

2.03 Payment for Shares.

(a) Kind. The consideration for the issuance of shares shall consist of money paid, labor done, or property actually received. Neither promissory notes nor the promise of future services shall constitute payment for shares.

(b) Valuation. In the absence of fraud in the transaction, the judgment of the Board of Directors as to the value of consideration received shall be conclusive.

(c) Effect. When consideration, fixed as provided by law, has been paid, the shares shall be deemed to have been issued and shall be considered fully paid and nonassessable.

(d) Allocation of Consideration. The consideration received for shares shall be allocated by the Board of Directors, in accordance with applicable law, between stated capital and capital surplus accounts.

2.04 Lost, Stolen or Destroyed Certificates. In the event of the loss, theft or destruction of any certificate of stock, another may be issued in its place pursuant to such regulations as the Board of Directors may establish concerning proof of such loss, theft or destruction and concerning the giving of a satisfactory bond(s) of indemnity.

2.05 Registration of Transfer of Stock. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment, or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate, and record the transaction on its books.

2.06 Registered Owner. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to vote as such owner, to receive notices and dividends, and otherwise to exercise all the rights and powers of a shareholder. The Corporation shall not be bound to recognize any equitable or other claim to, or interest in, such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the applicable laws of the State of Texas.

2.07 Record Dates. In order that the Corporation may determine the shareholders entitled to notice of, or to vote, at any meeting of shareholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting, nor more than fifty (50) days nor less than ten (10) days prior to any other action.

2.08 Voting Rights of Fiduciaries and Pledged Stock. Trustees holding stock in a fiduciary capacity shall be entitled to vote the shares so held if such shares have been transferred into their names as trustees. Persons whose stock is pledged shall be entitled to vote, unless the stock has been transferred on the books of the Corporation into the name of the pledgee, in which case only the pledgee, or his proxy, may represent such stock and vote the shares so held.

2.09 Preemptive Rights.

(a) Generally. Until the consummation of a Public Offering, holders of Common Stock of the Corporation holding shares representing one percent (1%) or more of the then outstanding and issued shares of the Common Stock of the Corporation (such holders, "Eligible Holders") shall have preemptive rights solely to the extent set forth in this Section 2.09 (and, for the avoidance of doubt, shall not have such preemptive rights following the consummation of a Public Offering). All other holders of the capital stock

of the Corporation shall not have preemptive rights unless, and then only to the extent that, the Board of Directors shall determine to grant such rights in connection with any future issuance of preferred stock. For purposes of this Section 2.09, “Public Offering” means a public offering of interests in the Corporation to the general public through one or more registration statements filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended.

(b) Notice of Intended Issuances. If the Corporation proposes to issue any shares of capital stock of the Corporation (a “New Issuance”), the Corporation shall provide written notice to Eligible Holders of such proposed New Issuance no later than twenty (20) business days prior to the anticipated issuance date (the “Preemptive Rights Notice”). Each Eligible Holder shall have the right to purchase for cash up to his, her or its respective pro rata portion of the securities comprising the New Issuance (which pro rata portion shall be, with respect to any Eligible Holder as of the date of determination, a ratio obtained by dividing (a) the total number of shares of common stock held by such Eligible Holder as of such date of determination by (b) the total number of shares of common stock held by all Eligible Holders as of such date of determination, at the price and on the same terms and conditions and at the same time as the New Issuance. The Preemptive Rights Notice shall set forth all material terms and conditions of the New Issuance, including the number of shares of capital stock of the Corporation proposed to be issued, the issue price and the maximum number of shares that each Eligible Holder to whom the Preemptive Rights Notice is delivered may purchase in the New Issuance pursuant to the immediately preceding sentence.

(c) Exercise of Preemptive Right. A Eligible Holder may elect to participate in the New Issuance to the extent described in Section 2.09(b) by delivering an irrevocable written notice to the Corporation by the date specified by the Corporation in the Preemptive Rights Notice (which shall be no later than five(5) business days before the anticipated date of the New Issuance), setting forth the number of shares he, she or it wishes to purchase in the New Issuance up to his, her or its pro rata portion of the New Issuance and further specifying whether or not such Eligible Holder desires to purchase more than his, her or its pro rata portion of the New Issuance; provided, however, that in order to exercise rights under this section (“Preemptive Rights”), such Eligible Holder must (x) represent and warrant to the Corporation that such Eligible Holder qualifies as an “accredited investor” as defined by Rule 501 of Regulation D under the Securities Act of 1933, as amended, or a “qualified institutional buyer” as defined in Rule I 44A under the Securities Act of 1933, as amended (or meets a relevant successor standard) and (y) execute all customary transaction documentation in connection with such New Issuance on the same terms as any other participant in the New Issuance (including any third party); and provided, further, that in the event that the Corporation is issuing more than one type or class of securities in connection with such New Issuance, each Eligible Holder participating in such issuance shall be required to acquire the same percentage of all such types and classes of securities. If any Eligible Holder elects not to purchase a pro rata portion of the New Issuance, the Corporation shall allocate any remaining amount among those Eligible Holders, on a pro rata basis, who have indicated in their notice to the Corporation a desire to purchase a portion of the New Issuance in excess of their respective pro rata portions.

(d) Completion of New Issuance. In the event the Eligible Holders agree to purchase all of the New Issuance, the closing of the acceptances of the Preemptive Rights by such electing Eligible Holders shall be consummated as promptly as practicable, but in any event within thirty (30) days after the anticipated date of the New Issuance (subject to extension for any required consent or approval by any governmental authority). In the event that the Eligible Holders do not agree to purchase all of the New Issuance, then the corporation shall have the right, but not the obligation, to issue the securities that the Eligible Holders did not elect to purchase on terms and conditions in the aggregate no more favorable to the other offeree(s) than those set forth in the Preemptive Rights Notice, pursuant to one or more definitive agreements. The closing of the acceptances of the Preemptive Rights shall take place at the same time as the closing(s) under such definitive agreements, which in any event shall occur within sixty (60) days after the anticipated date of the New Issuance. In the event that the New Issuance is not consummated within the time frames described above, as applicable, then the Corporation's right to consummate such New Issuance shall expire and the Corporation shall be required to comply with the procedures set forth in this Section 2.09 prior to any subsequent New Issuance. At the consummation of any New Issuance, the Corporation shall issue certificates or instruments representing the securities to be purchased by each Eligible Holder exercising Preemptive Rights registered in the name of such Eligible Holder (or of such Eligible Holder's designee that is an affiliate of such Eligible Holder), promptly following payment by such Eligible Holder of the purchase price for such exercise in accordance with the terms and conditions as specified in the Preemptive Rights Notice.

(e) Exempt Issuances. Notwithstanding anything to the contrary herein, no Eligible Holder shall have any Preemptive Rights in connection with any issuance of capital stock of the Corporation (including common stock) or other equity interests of the Corporation or securities convertible into shares of capital stock or other equity interests in the Corporation or any of its subsidiaries: (1) to management, employees, officers, directors or consultants of the Corporation or any of its subsidiaries pursuant to incentive programs or plans approved by the Board of Directors (including any such programs or plans in existence on the date hereof and including inducement grants to prospective management, employees, officers or Directors); (2) by the Corporation or any of its subsidiaries to a third party as consideration in connection with (x) an acquisition or strategic business combination approved by the Board of Directors or (y) an investment by the Corporation or its subsidiaries approved by the Board of Directors in any party that is not prior to such transaction an affiliate of the Corporation or any shareholder (whether by merger, consolidation, stock swap, sale of assets or securities, or otherwise); (3) by the Corporation in a Public Offering (including any equity interests in an entity holding equity interests in the Corporation); (4) upon the exercise, conversion or exchange of options, warrants or other convertible securities; (5) in connection with any stock split, stock dividend paid on proportionate basis to all holders of the affected class of capital stock or recapitalization; (6) in connection with the purchase and sale transactions contemplated by the Stock Subscription Agreements, executed in connection with the Private Offering Memorandum dated March 11, 2010, by and between the Corporation and the purchasers of common stock listed therein (the "Subscription Agreements"); or (7) in connection with the Corporation's participation in the United

ARTICLE III
Meetings of Shareholders

3.01 Annual Meetings. Annual meetings of shareholders, shall be held at such date, time and place either within or without the State of Texas as may be designated from time to time by the Board of Directors and stated in the notice of the meeting. At the shareholders annual meeting, the shareholders shall elect a Board of Directors and transact such other business as may properly be brought before the meeting.

3.02 Notice of Annual Meetings. Printed or written notice of each annual meeting shall be given, which shall state the place, date and time of the meeting. The notice shall be delivered either personally or by mail, to each shareholder entitled to vote at such meeting not less than ten (10) nor more than sixty (60) days before the meeting. If mailed, notice is given when deposited in the United States mail, postage prepaid, directed to a shareholder at his address as it shall appear on the stock transfer books of the Corporation, unless he shall have filed with the Secretary of the Corporation a written request that notices intended for him be mailed to some other address, in which case it shall be given when mailed as above stated to the address designated in such request.

3.03 Special Meetings. Special meetings of the shareholders for any proper purpose or purposes may be called at any time by the Board of Directors, the Chairman or the President, to be held on such date, and at such time and place within or without the State of Texas as the Board of Directors, the Chairman or the President, whichever has called the meeting, shall direct. A special meeting of the shareholders shall be called by the Chairman, the President, or the Secretary at the request in writing of shareholders owning not less than ten percent (10%) of all shares of capital stock of the Corporation issued and outstanding and entitled to vote at such meeting. Any such written request shall state a proper purpose or purposes of the meeting and shall be delivered to the Chairman, the President, or the Secretary.

3.04 Notice of Special Meetings. Printed or written notice of a special meeting stating the place, date and hour of the meeting and the purpose or purposes for which the meeting is called, shall be given, either personally or by mail, by or at the direction of the Chairman, the President, the Secretary or any other officer calling the meeting, to each shareholder entitled to vote at such meeting not less than ten (10) nor more than sixty (60) days before the date of the meeting. If mailed, notice is given when deposited in the United States mail as provided in Section 3.02 hereof.

3.05 Business at Special Meetings. Business transacted at any special meeting of shareholders shall be limited to the purposes stated in the notice of said meeting.

3.06 Voting List. The officer who has charge of the stock ledger of the Corporation shall prepare and make, at least eleven (11) days before every meeting of shareholders, a complete list of the shareholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each shareholder and the number of shares registered in the name of

each shareholder. Such list, for a period of at least ten (10) days prior to the meeting, shall be kept on file at the registered office or the principal place of business of the Corporation and shall be open to the examination of any shareholder, during ordinary business hours. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any shareholder who is present.

3.07 Quorum. The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the shareholders for the transaction of business except as otherwise provided by statute or by the Certificate of Formation (herein so called) of the Corporation. If, however, such quorum shall not be present or represented at any meeting of the shareholders, the shareholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each shareholder of record entitled to vote at the meeting.

3.08 Act of Shareholders at a Meeting. When a quorum is present at any meeting, unless cumulative voting is provided for in the Certificate of Formation, directors shall be elected by a plurality of the votes cast at the election, and except where otherwise provided by law, the Certificate of Formation or these Bylaws all other questions shall be determined by a majority of the votes cast on such question.

3.09 Voting of Shares. Except as otherwise provided in these Bylaws or to the extent that voting rights of the shares of any class or classes are limited or denied by the Certificate of Formation, or permitted by the rules of any stock exchange on which the Corporation's shares are listed and traded, each shareholder, on each matter submitted to a vote at a meeting of shareholders, shall have one vote for each share of stock registered in his name on the books of the Corporation. Such votes may be cast in person or by proxy as provided in Section 3.13. The Board of Directors, in its discretion, or the officer of the Corporation presiding at a meeting of the shareholders, in such officer's discretion, may require that any votes cast at such meeting shall be cast by written ballot.

3.10 Action without a Meeting. Any action required to be taken at any annual or special meeting of shareholders of the Corporation, or any action which may be taken at any annual or special meeting of such shareholders, may be taken without a meeting, without prior notice and without a vote, if (a) a consent or consents in writing, setting forth the action so taken, shall be signed by all of the holders of outstanding stock entitled to vote with respect to the subject matter thereof, which such consent shall have the same force and effect as a unanimous vote at a meeting, or (b) if provided for by the Certificate of Formation, a consent or consents in writing, setting forth the action so taken, shall be signed by the holder or holders of shares having not less than the minimum number of votes that would be necessary to take such action at a meeting at which the holders of all shares entitled to vote on the action were present and voted.

3.11 Adjournments. In the absence of a quorum at any annual or special meeting, a majority in interest of the shareholders entitled to vote, present in person or by proxy, or if no shareholder entitled to vote is present in person or by proxy, any officer entitled to preside or act as secretary of such meeting, may adjourn the meeting from time to time until a quorum shall be present.

3.12 Voting Inspectors. The Board of Directors may appoint voting inspectors to serve at any election of directors and at balloting on any other matter that may properly come before a meeting of shareholders. If no such appointment shall be made, or if any of the inspectors so appointed shall fail to attend, or refuse to attend or be unable to serve, then such appointment shall be made by the presiding officer at any shareholder meeting.

3.13 Proxies. Each shareholder entitled to vote at a meeting of shareholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for him by proxy, provided that the instrument authorizing such proxy to act shall have been executed in writing (which shall include facsimile or other electronic means) by the shareholder himself or by his duly authorized attorney. Each proxy shall be filed with the Secretary of the Corporation prior to or at the time of the meeting. No such proxy shall be voted or acted upon after eleven (11) months from its execution date, unless the proxy provides for a longer period. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if and only as long as it is coupled with an interest sufficient in law to support an irrevocable power. A proxy may be made irrevocable regardless of whether the interest with which it is coupled is an interest in the stock itself or an interest in the Corporation generally.

3.14 Conduct of Business. The Board of Directors of the Corporation may adopt by resolution such rules and regulations for the conduct of any meeting of the shareholders as it shall deem appropriate. Except to the extent inconsistent with such rules and regulations as adopted by the Board of Directors, the chairman of any meeting of the shareholders shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are appropriate for the proper conduct of the meeting. Such rules, regulations or procedures, whether adopted by the Board of Directors or prescribed by the chairman of the meeting, may include, without limitation, the following: (i) the establishment of an agenda or order of business for the meeting; (ii) the determination of when the polls shall open and close for any given matter to be voted on at the meeting; (iii) rules and procedures for maintaining order at the meeting and the safety of those present; (iv) limitations on attendance at or participation in the meeting to shareholders of record of the Corporation, their duly authorized and constituted proxies or such other persons as the chairman of the meeting shall determine; (v) restrictions on entry to the meeting after the time fixed for the commencement thereof; and (vi) limitations on the time allotted to questions or comments by participants.

ARTICLE IV **Board of Directors**

4.01 Powers. The business of the Corporation shall be managed by, or under the direction of, its Board of Directors which may exercise all such powers of the Corporation and do all such lawful acts and things as are not directed or required to be exercised or done by the

shareholders by applicable statute, or by the Certificate of Formation, or by these Bylaws. Unless otherwise restricted by the Certificate of Formation or by these Bylaws, the Board of Directors may hold its meetings, and have an office or offices, outside of the State of Texas.

4.02 Number and Qualifications.

(a) The number of directors which shall constitute the whole Board of Directors, which shall not be less than three, shall be determined from time to time by a resolution adopted by a majority of the Board of Directors; provided that no decrease in the number of directors which would have the effect of shortening the term of an incumbent director may be made by the Board of Directors. Each director shall hold office for the term for which such director is elected, and until such director's successor shall have been elected and qualified or until such director's earlier death, resignation or removal.

(b) The directors need not be shareholders, nor residents of the State of Texas.

4.03 Election and Term of Office. At the annual meeting of shareholders, the shareholders shall elect directors to hold office until the next succeeding annual meeting. Each director (whether elected at an annual meeting or to fill a vacancy, or otherwise, as hereinafter provided) shall continue in office until his successor shall have been elected and qualified or until his earlier death, resignation or removal.

4.04 Resignation. Any director may resign at any time by giving written notice of such resignation to the Board of Directors, the Chairman, the President or the Secretary. Any such resignation shall take effect at the time specified therein or, if no time be specified, upon receipt thereof by the Board of Directors or one (1) of the above named officers; and, unless specified therein, the acceptance of such resignation shall not be necessary to make it effective.

4.05 Removal. At any special meeting of the shareholders, duly called as provided in these Bylaws, any director may, by the affirmative vote of the holders of four fifths (4/5) of all the shares of stock outstanding and entitled to vote for the election of directors, be removed from office for cause. At such meeting a successor or successors may be elected, or if any such vacancy is not so filled, it may be filled by the directors as provided in Section 4.06.

4.06 Vacancies and Additional Directorships.

(a) If any vacancy shall occur among the directors by reason of death, resignation, removal or otherwise, the directors then in office shall continue to act and may fill any such vacancies by a majority vote of the directors then in office, though less than a quorum, or by a sole remaining director.

(b) A director elected to fill a vacancy shall be elected for the unexpired term of his predecessor in office or, if elected to fill a vacancy created by an increase in the number of directorships, until the next annual meeting of shareholders.

4.07 Compensation. By resolution of the Board of Directors, the directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and non-executive directors may receive such reasonable compensation for their services as directors, in amounts

which shall, from time to time, be determined by the Board of Directors, whether in the form of a stated salary as director or a fixed fee for attendance at each meeting of the Board of Directors and any committees thereof. Members of special or standing committees may be allowed like compensation for serving on committees of the Board of Directors. Nothing herein contained shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

4.08 Committees. The Board of Directors may designate one or more committees, each committee to consist of one or more of the directors of the Corporation. Each member of a committee must meet the requirements for membership, if any, imposed by applicable law and the rules and regulations of any securities exchange or quotation system on which the securities of the Corporation are listed or quoted for trading. Any committee, to the extent permitted by law and provided in the resolution establishing such committee, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it. Each committee shall keep regular minutes and report to the Board of Directors when required. The resolution of the Board of Directors establishing any committee of the Board of Directors and/or the charter of any such committee may establish requirements or procedures relating to the governance and/or operation of such committee consistent with these Bylaws.

4.09 Interested Directors. No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association or other organization in which one or more of its directors or officers are directors or officers or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorizes the contract or transaction, or solely because any such director's or officer's vote is counted for such purpose if: (i) the material facts as to the director's or officer's relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative vote of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (ii) the material facts as to the director's or officer's relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or (iii) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified by the Board of Directors, a committee thereof or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

ARTICLE V

Meetings of Board of Directors

5.01 Place. The Board of Directors of the Corporation may hold meetings, both regular and special, either within or without the State of Texas.

5.02 First Meeting. The first meeting of each newly elected Board of Directors shall be held immediately after their election by the shareholders or at such time and place as shall be specified in a notice given as provided in Section 5.04 for special meetings of the Board of Directors, or as shall be specified in a written waiver signed by all of the directors.

5.03 Regular Meetings. The Board of Directors shall by resolution provide for the holding of regular meetings and give the times and places at which such meetings shall be held. Notice of regular meetings shall not be required to be given, provided that whenever the time or place of regular meetings shall be fixed or changed, notice of such action shall be given to each director by (i) mailing written notice not less than five (5) days before the meeting or (ii) transmission by facsimile or other electronic means not less than seventy-two (72) hours before the meeting.

5.04 Special Meetings. Special meetings of the Board of Directors may be held upon notice to each director at his residence or usual place of business by (i) mailing written notice not less than five (5) days before the meeting or (ii) transmission by facsimile or other electronic means not less than seventy-two (72) hours before the meeting, upon the call of the Chairman, the President, or any two or more directors at any place within or without the State of Texas. Special meetings shall be called by the President or Secretary of the Corporation in like manner and on like notice on the written request of two (2) directors. Notice of any meeting of the Board of Directors may be waived in writing signed by the person or persons entitled to the notice whether before or after the time of the meeting. Neither the business to be transacted at, nor the purpose of, any meeting of the Board of Directors need be specified in the notice or waiver of notice of the meeting.

5.05 Procedure. The Board of Directors shall keep regular minutes of its proceedings. The minutes shall be placed in the minute books of the Corporation.

5.06 Quorum; Act of Directors' at a Meeting.

(a) At all meetings of the Board of Directors, such number of directors as represents at least a majority of all directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors, unless the act of a greater number is specifically required by applicable law, the Certificate of Formation, or these Bylaws.

(b) If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

5.07 Action Without a Meeting. Any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting, without prior notice and without a vote, if all members of the Board of Directors consent thereto in writing, and the writing or writings are filed with the minutes of the proceedings of the Board of Directors, Such consent shall have the same force and effect as a unanimous vote at a meeting.

5.08 Telephone Meeting. Members of the Board of Directors may participate in a meeting of the Board of Directors by means of conference telephone or similar communications

equipment by means of which all persons participating in the meeting can hear each other. Participation in such a meeting shall constitute presence in person at the meeting, except where a person participates in the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

5.09 Conduct of Business. At any duly called meeting of the Board of Directors, business shall be transacted in such order and manner as the Board of Directors may from time to time determine. Meetings of the Board of Directors shall be presided over by the Chairman, if any, or in the absence of the Chairman by the President, or in their absence by a chairman chosen at the meeting. The Corporation shall provide each director with copies of all notices, minutes, consents and other materials provided to all other members of the Board of Directors concurrently as such materials are provided to the other members.

ARTICLE VI

Notices

6.01 Methods of Giving Notice. Whenever by applicable law, the Certificate of Formation, these Bylaws, or otherwise, notice is required to be given to any director, committee member, or shareholder, and no provision is made as to how the notice shall be given, it shall not be construed to mean personal notice, but any such notice may be given in writing by mail, addressed to such director, committee member, or shareholder, at his address as it appears on the records of the Corporation, with postage thereon prepaid, or in any other method permitted by law. Any notice required or permitted to be given by mail shall be deemed to be given at the time when the same shall be deposited in the United States mails or in the mails of any foreign country.

6.02 Waiver of Notice. Whenever by applicable law, the Certificate of Formation, these Bylaws, or otherwise, notice is required to be given to any director, committee member, or shareholder, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed to be equivalent to the giving of such notice.

6.03 Attendance as Waiver. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business on the ground that the meeting is not lawfully called or convened.

6.04 Purpose of Meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the shareholders, directors, or members of a committee, need be specified in any written waiver of notice unless so required by applicable law, the Certificate of Formation, or these Bylaws.

ARTICLE VII

Officers and Agents

7.01 Number and Qualification. The officers of the Corporation shall be a President and a Secretary, elected by the Board of Directors, and such other officers and agents as may be appointed in accordance with the provisions of these Bylaws. No officer or agent need be a

shareholder, a director, or a resident of the State of Texas. Any two (2) or more offices may be held by the same person unless prohibited by applicable statute.

7.02 Election and Term. Each officer shall be elected by the Board of Directors. Each such officer (whether elected at the first meeting of the Board of Directors after the annual meeting of shareholders or to fill a vacancy or otherwise) shall hold his office until his successor shall have been elected and qualified, or until his earlier death, resignation, or removal.

7.03 Other Officers and Agents. The Board of Directors from time to time may appoint a Chairman of the Board of Directors, Vice Presidents, a Treasurer, or other officers or agents, to hold office for such period, have such authority and perform such duties as are provided in these Bylaws or as may be provided in the resolutions appointing them. The Board of Directors may delegate to any officer or agent the power to appoint any such subordinate officers or agents and to prescribe their respective terms of office, authorities and duties.

7.04 Authority. Officers and agents shall have such authority and perform such duties in the management of the Corporation as are provided in these Bylaws or as may be determined by resolution of the Board of Directors.

7.05 Resignation. Any officer may resign at any time by giving written notice of such resignation to the Board of Directors, the Chairman, the President or the Secretary. Any such resignation shall take effect at the time specified therein or, if no time be specified, upon receipt thereof by the Board of Directors or one (1) of the above named officers; and, unless specified therein, the acceptance of such resignation shall not be necessary to make it effective.

7.06 Removal. The officers of the Corporation shall hold office until their successors are chosen and qualified. Any officer elected by the Board of Directors or the President or any other officer of the Corporation may be removed, with or without cause, by the Board of Directors. Any officers appointed by the President or any other officer of the Corporation may also be removed from such officer positions by the President or such other officer, with or without cause.

7.07 Vacancies. Any vacancy occurring in any office by reason of death, resignation, removal, disqualification or any other cause shall be filled for the unexpired portion of the term of office in the manner prescribed by these Bylaws for regular election or appointment to such office.

7.08 Compensation. The salaries or other compensation of the officers and agents of the Corporation shall be fixed from time to time by the Board of Directors, except that the Board of Directors may delegate to any person the power to fix the salaries or other compensation of any officers or agents appointed in accordance with the provisions of these Bylaws. No officer shall be prevented from receiving such salary or other compensation by reason of the fact that he is also a director of the Corporation.

7.09 Surety Bonds. If required by the Board of Directors, any officer so required shall give the Corporation a bond (which shall be renewed as the Board of Directors may require) in such sum, and with such surety or sureties, as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his office and for the restoration to the Corporation, in

case of his death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to the Corporation.

ARTICLE VIII
Special Corporate Acts and Execution of Instruments

8.01 **Execution of Instruments.** The Board of Directors may authorize any officer or officers, or agent or agents, to enter into any contract or execute and deliver any instrument in the name and on behalf of the Corporation, and such authorization may be general or confined to specific instances.

8.02 **Borrowing.** No loans or advances shall be obtained by or contracted for, by or on behalf of the Corporation, and no negotiable paper shall be issued in its name, unless, and except as, authorized by the Board of Directors. Such authorization may be general or confined to specific instances. Any officer or agent of the Corporation thereunto so authorized may obtain loans and advances for the Corporation, and for such loans and advances may make, execute and deliver promissory notes, bonds or other evidences of indebtedness of the Corporation. Any officer or agent of the Corporation thereunto so authorized may pledge, hypothecate or transfer as security for the payment of any and all loans, advances, indebtedness and liabilities of the Corporation, any and all stocks, bonds, other securities, and other personal property at any time held by the Corporation, and to that end may endorse, assign and deliver the same and do every act and thing necessary or proper in connection therewith.

8.03 **Deposits.** All funds of the Corporation not otherwise employed shall be deposited from time to time to its credit in such banks or trust companies or with such banks or other depositories as the Board of Directors may select, or as may be selected by any officer or officers or agent or agents authorized so to do by the Board of Directors. Endorsements for deposit to the credit of the Corporation in any of its duly authorized depositories shall be made in such manner as the Board of Directors from time to time may determine.

8.04 **Checks and Drafts.** All checks, drafts or other orders for the payment of money, and all notes or other evidences of indebtedness issued in the name of the Corporation, shall be signed by such officer or officers or agent or agents of the Corporation, and in such manner, as from time to time shall be determined by the Board of Directors.

8.05 **Proxies.** Proxies to vote with respect to shares of stock of other corporations owned by or standing in the name of the Corporation may be executed and delivered from time to time on behalf of the Corporation by the President or by any other person or persons thereunto authorized by the Board of Directors.

ARTICLE IX
General Provisions

9.01 **Dividends.** Dividends upon the capital stock of the Corporation, subject to the provisions of the Certificate of Formation with regard thereto, if any, may be declared by the Board of Directors pursuant to applicable law. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the Certificate of Formation. If any

dividend is to be paid in shares of the Corporation's theretofore unissued capital stock, the Board of Directors shall, by resolution, direct that there be transferred from surplus to the capital account in respect of such shares an amount which is not less than the aggregate par value of par value shares being declared as a dividend and, in the case of shares without par value being declared as a dividend, such amount as shall be determined by the Board of Directors. No transfer from surplus to capital shall be necessary if shares are being distributed by the Corporation pursuant to a split-up or division of its stock rather than as payment of a dividend declared payable in stock of the Corporation.

9.02 Reserves. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in its sole and absolute discretion, deems proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for such other purpose as the Board of Directors shall deem conducive to the interest of the Corporation, and the Board of Directors may modify or abolish any such reserve in the manner in which it was created.

9.03 Books and Records. The Corporation shall keep correct and complete books and records of account and shall keep minutes of the proceedings of its shareholders, Board of Directors, and committees, if any, and shall keep at its registered office or principal place of business, or at the office of its transfer agent or registrar, a record of its shareholders, both past and current, giving the names and addresses of all shareholders and the number and class of shares held by each.

9.04 Fiscal Year. The fiscal year may be changed from time to time by resolution of the Board of Directors. Until a resolution of the Directors is adopted fixing another fiscal year, the fiscal year of the Corporation shall end on December 31 of each year.

9.05 Construction. Whenever the context so requires, the masculine shall include the feminine and neuter, and the singular shall include the plural, and conversely. If any portion of these Bylaws shall be invalid or inoperative, then, so far as is reasonable and possible:

- (a) The remainder of these Bylaws shall be considered valid and operative; and
- (b) Effect shall be given to the intent manifested by the portion held invalid or inoperative.

9.06 Table of Contents and Headings. The table of contents and headings are for organization, convenience and clarity. In interpreting these Bylaws, they shall be subordinated in importance to the other written material.

9.07 Relation of Bylaws to Certificate of Formation. These Bylaws are subject to, and governed by, the Certificate of Formation.

9.08 Loans to Directors. Officers and Employees. The Corporation may lend money to, or guarantee any obligation of, or otherwise assist any employee of the Corporation, or any director or officer of the Corporation, whenever, in the judgment of the Board of Directors, such

loan, guaranty, or assistance may reasonably be expected to benefit the Corporation. The loan, guaranty or other assistance may be with or without interest, and may be unsecured, or secured in such manner as the Board of Directors shall approve, including, without limitation, a pledge of stock of the Corporation.

9.09 Counterparts; Facsimile. In the event any agreement, consent, instrument or writing is required to be executed by, or delivered to, a shareholder or a director, such agreement, consent, instrument or writing may be executed in one or more counterparts, one or more of which may be transmitted by facsimile or other means of electronic transmission, each of which shall be deemed an original, and all of which, when taken together, shall constitute one and the same instrument.

9.10 Forum For Adjudication of Certain Disputes. Unless the Corporation consents in writing to the selection of an alternative forum, Dallas County in the State of Texas shall be the sole and exclusive forum for (a) any derivative action or proceeding brought on behalf of the Corporation, (b) any action asserting a claim of breach of a fiduciary duty owed by any director, officer, or employee of the Corporation to the Corporation or the Corporation's shareholders, (c) any action asserting a claim against the Corporation or any director, officer, or employee of the Corporation arising pursuant to any provision of the Texas Business Organizations Code ("TBOC") or the Corporation's Certificate of Formation or Bylaws, or (d) any action asserting a claim against the Corporation or any director, officer, or employee of the Corporation governed by the internal affairs doctrine of the State of Texas. Failure to enforce the foregoing provisions would cause the Corporation irreparable harm and the Corporation shall be entitled to equitable relief, including injunctive relief and specific performance, to enforce the foregoing provisions. Any person or entity purchasing or otherwise acquiring any interest in shares of capital stock of the Corporation shall be deemed to have notice of and consented to the provisions of this Section 9.10.

ARTICLE X

Indemnification; Insurance

10.01 Indemnification of Directors and Former Directors. Each person who was or is a respondent or defendant or is threatened to be made a respondent or defendant, or testifies or otherwise participates, in any threatened, pending, or completed action, suit or proceeding, whether civil, criminal, administrative, arbitrative or investigative, any appeal in such an action, suit or proceeding, or any inquiry or investigation that could lead to such an action, suit, or proceeding (any of the foregoing hereinafter called a "proceeding"), whether or not by or in the right of the Corporation, because such person is or was a director of the Corporation or, while a director of the Corporation, is or was serving at the request of the Corporation as a director, officer, partner, venturer, proprietor, trustee, employee, administrator, agent or similar functionary (a "representative") of another foreign or domestic corporation, limited or general partnership, limited liability company, business trust, real estate investment trust, joint venture, joint stock company, cooperative, association, bank, insurance company, credit union, association, proprietorship, trust, employee benefit plan, other enterprise or other organization (each, an "organization") (hereinafter a "Covered Director") shall be indemnified by the Corporation to the fullest extent authorized or permitted by applicable law, as the same exists or may hereafter be changed, against all judgments (including arbitration awards), court costs,

penalties, excise and similar taxes, fines, settlements, reasonable attorneys' fees and other reasonable expenses (all of the foregoing hereinafter referred to as "expenses") actually incurred by such person in connection with such proceeding and such right to indemnification shall continue as to a person who has ceased to be a director or representative and shall inure to the benefit of his or her heirs, executors and administrators. **It is expressly acknowledged that the indemnification provided in this ARTICLE X could involve indemnification for negligence or under theories of strict liability.**

10.02 Indemnification of Officers and Former Officers. The Corporation shall indemnify each person who was or is a respondent or defendant or threatened to be made a respondent or defendant, or testifies or otherwise participates, in any proceeding, whether or not by or in the right of the Corporation, because such person is or was an officer of the Corporation or, while an officer of the Corporation, is or was serving at the request of the Corporation as a representative of another organization (hereinafter a "Covered Officer" and together with a Covered Director, a "Covered Person"), to the same extent that the Corporation may indemnify and advance expenses to a director of the Corporation under the TBOC, and such right to indemnification shall continue as to a person who has ceased to be an officer or representative and shall inure to the benefit of his or her heirs, executors and administrators.

10.03 Right to Advancement of Expenses. In addition to the right to indemnification conferred in Section 10.01 or Section 10.02, as the case may be, a Covered Person shall also have the right to be paid or reimbursed by the Corporation the reasonable expenses incurred in defending, testifying or otherwise participating in any such proceeding, in advance of the final disposition of the proceeding (hereinafter an "advancement of expenses") and without any determination as to the person's ultimate entitlement to indemnification; provided, however, that, an advancement of expenses incurred by a Covered Person in advance of the final disposition of a proceeding shall be made only upon delivery to the Corporation of a written affirmation by such person of such person's good faith belief that he or she has met the standard of conduct necessary for indemnification under the TBOC and a written undertaking (hereinafter an "undertaking"), by or on behalf of such person, to repay all amounts so advanced if it shall be ultimately determined by final judicial decision from which there is no further right to appeal (hereinafter, a "final adjudication") that the Covered Person has not met that standard or that indemnification of the Covered Person against expenses incurred by such person in connection with that proceeding is prohibited by the TBOC.

10.04 Right of Indemnitee to Bring Suit. If a claim under Section 10.01, Section 10.02 or Section 10.03 is not paid in full by the Corporation within 60 days after a written claim therefor has been received by the Corporation, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be 20 days, the Covered Person may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. If successful in whole or in part in any such suit, or in a suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the Covered Person shall also be entitled to be paid the expense of prosecuting or defending such suit. In (a) any suit brought by the Covered Person to enforce a right to indemnification hereunder (but not in a suit brought by a Covered Person to enforce a right to an advancement of expenses) it shall be a defense that, and (b) in any suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the Corporation shall be entitled to recover

such expenses upon a final adjudication that the Covered Person has not met any applicable standard for indemnification set forth in the TBOC. Neither the failure of the Corporation (including its directors who are not parties to such action, a committee of such directors, special legal counsel, or its shareholders) to have made a determination prior to the commencement of such suit that indemnification of the Covered Person is proper in the circumstances because the Covered Person has met the applicable standard of conduct set forth in the TBOC, nor an actual determination by the Corporation (including a determination by its directors who are not parties to such action, a committee of such directors, special legal counsel, or its shareholders) that the Covered Person has not met such applicable standard of conduct, shall create a presumption that the Covered Person has not met the applicable standard of conduct or, in the case of such a suit brought by the Covered Person, shall be a defense to such suit. In any suit brought by the Covered Person to enforce a right to indemnification or to an advancement of expenses hereunder, or by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the burden of proving that the Covered Person is not entitled to be indemnified, or to such advancement of expenses, under this ARTICLE X or otherwise shall be on the Corporation.

10.05 Indemnification of Other Persons. This ARTICLE X shall not limit the right of the Corporation to the extent and in the manner authorized or permitted by law to indemnify and to advance expenses to persons other than Covered Persons. Without limiting the foregoing, the Corporation may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification and to the advancement of expenses to any employee or agent of the Corporation and to any person who is or was serving at the request of the Corporation as a representative of another organization to the same extent that it may indemnify and advance expenses to Covered Persons under this ARTICLE X and to any such further extent as may be authorized or permitted by law.

10.06 Non-Exclusivity of Rights. The rights provided to a Covered Person pursuant to this ARTICLE X shall not be exclusive of any other right which any such person may have or hereafter acquire under any law (common or statutory), provision of the Certificate of Formation or these Bylaws, agreement, vote of shareholders or disinterested directors, or otherwise.

10.07 Insurance and Other Arrangements. The Corporation may, to the extent permitted by law, purchase and maintain insurance, create a trust fund, establish any form of self-insurance (including a contract to indemnify), secure its indemnity obligation by grant of a security interest or other lien on assets of the Corporation, establish a letter of credit guaranty or security arrangement, or establish and maintain any other arrangement (any of the foregoing hereinafter called an "arrangement") on behalf of any person who is or was serving as a director, officer, employee, or agent of the Corporation or is or was serving at the request of the Corporation as a representative of another organization against any liability asserted against such person and incurred by such person in such a capacity or arising out of his or her status as such a person, whether or not the Corporation would have the power to indemnify such person against such liability. If the insurance or other arrangement involves self-insurance or is with a person or entity that is not regularly engaged in the business of providing insurance coverage, the insurance or arrangement may provide for payment of a liability with respect to which the Corporation would not have the power to indemnify the person only if the insurance or arrangement has been approved by the shareholders.

10.08 Amendments. Any repeal or amendment of this ARTICLE X by the Board of Directors or the shareholders of the Corporation or by changes in applicable law, or the adoption of any other provision of these Bylaws inconsistent with this ARTICLE X, will, to the extent permitted by applicable law, be prospective only (except to the extent such amendment or change in applicable law permits the Corporation to provide broader indemnification rights on a retroactive basis than permitted prior thereto), and will not in any way diminish or adversely affect any right or protection existing hereunder in respect of any act or omission occurring prior to such repeal or amendment or adoption of such inconsistent provision.

10.09 Certain Definitions. For purposes of this ARTICLE X, (a) the Corporation shall be deemed to have requested a director or officer of the Corporation to serve as a representative of an employee benefit plan whenever the performance by such person of his or her duties to the Corporation also imposes duties on or otherwise involves services by such person to the plan or participants or beneficiaries of the plan, and (b) any action taken or omitted by a such a person with respect to an employee benefit plan in the performance of such person's duties for a purpose reasonably believed by such person to be in the interest of the participants and beneficiaries of the plan shall be deemed to be for a purpose which is "not opposed to the best interests" of the Corporation for purposes of Section 8.001 of the TBOC.

10.10 Contract Rights. The rights provided to Covered Persons pursuant to this ARTICLE X shall be contract rights and such rights shall continue as to a Covered Person who has ceased to be a director, officer, agent or employee and shall inure to the benefit of the Covered Person's heirs, executors and administrators.

10.11 Severability. If any provision or provisions of this ARTICLE X shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this ARTICLE X shall not in any way be affected or impaired thereby; and (b) to the fullest extent possible, the provisions of this ARTICLE X (including, without limitation, each such portion of this ARTICLE X containing any such provision held to be invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

10.12 Federal Deposit Insurance Act. Notwithstanding any provision of this ARTICLE X to the contrary, all indemnification payments shall be consistent with the requirements of Section 18(k) of the Federal Deposit Insurance Act and the implementing regulations thereunder.

ARTICLE XI

Business Opportunities

11.01 Other Business Ventures. Any shareholder of the Corporation or any of its affiliates may engage in or possess an interest in other business ventures of any nature or description, independently or with others, similar or dissimilar to the business of the Corporation or any subsidiary thereof, and the Corporation, any subsidiary of the Corporation, the directors of the Corporation, the directors of any subsidiary of the Corporation and the other shareholders shall have no rights in and to such ventures or the income or profits derived therefrom, and the pursuit of any such venture, even if competitive with the business of the Corporation or any subsidiary thereof, shall not be deemed wrongful or improper; provided, however, that in no

event shall any shareholder or any of its affiliates use confidential information of the Corporation in connection with their engagement in or possession of an interest in other business ventures of any nature or description, independently or with others, similar or dissimilar to the business of the Corporation or any subsidiary thereof.

11.02 Referral of Business Opportunities. To the fullest extent permitted by applicable law or regulation, no shareholder (other than any shareholder that maybe employed by the Corporation), nor any of its affiliates, shall be obligated to refer or present any particular business opportunity to the Corporation or any subsidiary thereof even if such opportunity is of a character that, if referred or presented to the Corporation or any subsidiary thereof, could be taken by the Corporation or any subsidiary thereof, and any such shareholder or any of its affiliates shall have the right to take for its own account (individually or as a partner, shareholder, member, participant or fiduciary) or to recommend to others such particular opportunity; provided, however, that (i) if a particular opportunity is solely and expressly presented by a third party to a director or, to the actual knowledge of any director nominated by a shareholder, to the shareholder designating such director or an affiliate thereof, as an opportunity specifically for the Corporation or any of its subsidiaries, such opportunity shall be presented to the Board of Directors; and (ii) if both (x) the Corporation or any subsidiary thereof, and (y) any such director or, to the actual knowledge of any such director, the shareholder nominating such director or an affiliate thereof, pursue the same opportunity, such shareholder and any director designated by such shareholder shall (1) abstain from any vote or approval of the shareholders or Board of Directors related to such business opportunity and (2) be deemed to have voted their shares of common stock or Board of Director votes, as applicable, with respect to such matter in the same proportion as the votes of the other shareholders or directors, as applicable, in the aggregate on such matter.

ARTICLE XII

Amendments

The Board of Directors may amend or repeal these Bylaws, or adopt new Bylaws except to the extent (a) such power shall be reserved exclusively to the shareholders in whole or part by the Certificate of Formation or the TBOC or (b) the shareholders in amending, repealing or adopting a particular Bylaw shall have expressly provided in such Bylaw or in this ARTICLE XII that the Board of Directors may not amend or repeal that Bylaw. Unless the Certificate of Formation or a Bylaw adopted by the shareholders shall provide otherwise as to all or some portion of the Bylaws, the shareholders may amend, repeal, or adopt Bylaws even though the Bylaws may also be amended, repealed, or adopted by the Board of Directors. Notwithstanding anything herein to the contrary, Section 4.02(a) of these Bylaws may not be amended without the affirmative vote of a majority of the issued and outstanding shares of the Corporation.

**THIRD AMENDED AND RESTATED
BYLAWS
OF
VERITEX HOLDINGS, INC.**

**ARTICLE I
Identification**

1.01 Name. The name of the Corporation (herein so called) is “Veritex Holdings, Inc.”

1.02 Registered Office and Registered Agent. The registered agent and office of the Corporation shall be as designated by the Board of Directors (herein so called) from time to time pursuant to applicable law.

**ARTICLE II
Capital Stock**

2.01 Certificates Representing Shares of Capital Stock. Every holder of stock in the Corporation shall be entitled to have a certificate, in the form determined by the Board of Directors, signed by, or in the name of the Corporation by, the President and the Treasurer or the Secretary (the offices of the Corporation with the first letter capitalized as hereinabove set forth are herein so called) of the Corporation, certifying the number of shares owned by him in the Corporation, and may be sealed with the seal of the Corporation or a facsimile thereof. Certificates shall be consecutively numbered and shall be entered in the books of the Corporation as they are issued. Each certificate shall state on its face the holder’s name, the number and class of shares, the par value of shares or a statement that such shares are without par value, and such other matters as may be required by law. If the certificate is countersigned by a transfer agent or registered by a registrar, either of which is other than the Corporation itself or an employee of the Corporation, any or all of the signatures on the certificate may be facsimiles. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the time of issue.

2.02 Issuance of Shares. The shares of stock with par value (both treasury and authorized but unissued) may be issued for such consideration, having a value not less than the par value thereof, and to such persons, as is determined from time to time by the Board of Directors. The Corporation may not issue any of its shares until the full amount of the consideration therefor has been paid.

2.03 Payment for Shares.

(a) Kind. The consideration for the issuance of shares shall consist of money paid, labor done, or property actually received. Neither promissory notes nor the promise of future services shall constitute payment for shares.

(b) Valuation. In the absence of fraud in the transaction, the judgment of the Board of Directors as to the value of consideration received shall be conclusive.

(c) Effect. When consideration, fixed as provided by law, has been paid, the shares shall be deemed to have been issued and shall be considered fully paid and nonassessable.

(d) Allocation of Consideration. The consideration received for shares shall be allocated by the Board of Directors, in accordance with applicable law, between stated capital and capital surplus accounts.

2.04 Lost, Stolen or Destroyed Certificates. In the event of the loss, theft or destruction of any certificate of stock, another may be issued in its place pursuant to such regulations as the Board of Directors may establish concerning proof of such loss, theft or destruction and concerning the giving of a satisfactory bond(s) of indemnity.

2.05 Registration of Transfer of Stock. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation, or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate, and record the transaction on its books.

2.06 Registered Owner. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to vote as such owner, to receive notices and dividends, and otherwise to exercise all the rights and powers of a shareholder. The Corporation shall not be bound to recognize any equitable or other claim to, or interest in, such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the applicable laws of the State of Texas.

2.07 Record Dates. In order that the Corporation may determine the shareholders entitled to notice of, or to vote, at any meeting of shareholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting, nor more than fifty (50) days nor less than ten (10) days prior to any other action.

2.08 Voting Rights of Fiduciaries and Pledged Stock. Trustees holding stock in a fiduciary capacity shall be entitled to vote the shares so held if such shares have been transferred into their names as trustees. Persons whose stock is pledged shall be entitled to vote, unless the stock has been transferred on the books of the Corporation into the name of the pledgee, in which case only the pledgee, or his proxy, may represent such stock and vote the shares so held.

2.09 Preemptive Rights.

(a) Generally. Until the consummation of a Public Offering, holders of Common Stock of the Corporation holding shares representing one percent (1%) or more of the then outstanding and issued shares of the Common Stock of the Corporation (such holders, "Eligible Holders") shall have preemptive rights solely to the extent set forth in this Section 2.09 (and, for the avoidance of doubt, shall not have such preemptive rights following the consummation of a Public Offering). All other holders of the capital stock

of the Corporation shall not have preemptive rights unless, and then only to the extent that, the Board of Directors shall determine to grant such rights in connection with any future issuance of preferred stock. For purposes of this Section 2.09, “Public Offering” means a public offering of interests in the Corporation to the general public through one or more registration statements filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended.

(b) Notice of Intended Issuances. If the Corporation proposes to issue any shares of capital stock of the Corporation (a “New Issuance”), the Corporation shall provide written notice to Eligible Holders of such proposed New Issuance no later than twenty (20) business days prior to the anticipated issuance date (the “Preemptive Rights Notice”). Each Eligible Holder shall have the right to purchase for cash up to his, her or its respective pro rata portion of the securities comprising the New Issuance (which pro rata portion shall be, with respect to any Eligible Holder as of the date of determination, a ratio obtained by dividing (a) the total number of shares of common stock held by such Eligible Holder as of such date of determination by (b) the total number of shares of common stock held by all Eligible Holders as of such date of determination, at the price and on the same terms and conditions and at the same time as the New Issuance. The Preemptive Rights Notice shall set forth all material terms and conditions of the New Issuance, including the number of shares of capital stock of the Corporation proposed to be issued, the issue price and the maximum number of shares that each Eligible Holder to whom the Preemptive Rights Notice is delivered may purchase in the New Issuance pursuant to the immediately preceding sentence.

(c) Exercise of Preemptive Right. A Eligible Holder may elect to participate in the New Issuance to the extent described in Section 2.09(b) by delivering an irrevocable written notice to the Corporation by the date specified by the Corporation in the Preemptive Rights Notice (which shall be no later than five(5) business days before the anticipated date of the New Issuance), setting forth the number of shares he, she or it wishes to purchase in the New Issuance up to his, her or its pro rata portion of the New Issuance and further specifying whether or not such Eligible Holder desires to purchase more than his, her or its pro rata portion of the New Issuance; provided, however, that in order to exercise rights under this section (“Preemptive Rights”), such Eligible Holder must (x) represent and warrant to the Corporation that such Eligible Holder qualifies as an “accredited investor” as defined by Rule 501 of Regulation D under the Securities Act of 1933, as amended, or a “qualified institutional buyer” as defined in Rule I 44A under the Securities Act of 1933, as amended (or meets a relevant successor standard) and (y) execute all customary transaction documentation in connection with such New Issuance on the same terms as any other participant in the New Issuance (including any third party); and provided, further, that in the event that the Corporation is issuing more than one type or class of securities in connection with such New Issuance, each Eligible Holder participating in such issuance shall be required to acquire the same percentage of all such types and classes of securities. If any Eligible Holder elects not to purchase a pro rata portion of the New Issuance, the Corporation shall allocate any remaining amount among those Eligible Holders, on a pro rata basis, who have indicated in their notice to the Corporation a desire to purchase a portion of the New Issuance in excess of their respective pro rata portions.

(d) Completion of New Issuance. In the event the Eligible Holders agree to purchase all of the New Issuance, the closing of the acceptances of the Preemptive Rights by such electing Eligible Holders shall be consummated as promptly as practicable, but in any event within thirty (30) days after the anticipated date of the New Issuance (subject to extension for any required consent or approval by any governmental authority). In the event that the Eligible Holders do not agree to purchase all of the New Issuance, then the corporation shall have the right, but not the obligation, to issue the securities that the Eligible Holders did not elect to purchase on terms and conditions in the aggregate no more favorable to the other offeree(s) than those set forth in the Preemptive Rights Notice, pursuant to one or more definitive agreements. The closing of the acceptances of the Preemptive Rights shall take place at the same time as the closing(s) under such definitive agreements, which in any event shall occur within sixty (60) days after the anticipated date of the New Issuance. In the event that the New Issuance is not consummated within the time frames described above, as applicable, then the Corporation's right to consummate such New Issuance shall expire and the Corporation shall be required to comply with the procedures set forth in this Section 2.09 prior to any subsequent New Issuance. At the consummation of any New Issuance, the Corporation shall issue certificates or instruments representing the securities to be purchased by each Eligible Holder exercising Preemptive Rights registered in the name of such Eligible Holder (or of such Eligible Holder's designee that is an affiliate of such Eligible Holder), promptly following payment by such Eligible Holder of the purchase price for such exercise in accordance with the terms and conditions as specified in the Preemptive Rights Notice.

(e) Exempt Issuances. Notwithstanding anything to the contrary herein, no Eligible Holder shall have any Preemptive Rights in connection with any issuance of capital stock of the Corporation (including common stock) or other equity interests of the Corporation or securities convertible into shares of capital stock or other equity interests in the Corporation or any of its subsidiaries: (1) to management, employees, officers, directors or consultants of the Corporation or any of its subsidiaries pursuant to incentive programs or plans approved by the Board of Directors (including any such programs or plans in existence on the date hereof and including inducement grants to prospective management, employees, officers or Directors); (2) by the Corporation or any of its subsidiaries to a third party as consideration in connection with (x) an acquisition or strategic business combination approved by the Board of Directors or (y) an investment by the Corporation or its subsidiaries approved by the Board of Directors in any party that is not prior to such transaction an affiliate of the Corporation or any shareholder (whether by merger, consolidation, stock swap, sale of assets or securities, or otherwise); (3) by the Corporation in a Public Offering (including any equity interests in an entity holding equity interests in the Corporation); (4) upon the exercise, conversion or exchange of options, warrants or other convertible securities; (5) in connection with any stock split, stock dividend paid on proportionate basis to all holders of the affected class of capital stock or recapitalization; (6) in connection with the purchase and sale transactions contemplated by the Stock Subscription Agreements, executed in connection with the Private Offering Memorandum dated March 11, 2010, by and between the Corporation and the purchasers of common stock listed therein (the "Subscription Agreements"); or (7) in connection with the Corporation's participation in the United

States Department of the Treasury's Small Business Lending Fund as approved by the Board of Directors.

ARTICLE III
Meetings of Shareholders

3.01 **Annual Meetings.** Annual meetings of shareholders, shall be held at such date, time and place either within or without the State of Texas as may be designated from time to time by the Board of Directors and stated in the notice of the meeting. At the shareholders annual meeting, the shareholders shall elect a Board of Directors and transact such other business as may properly be brought before the meeting.

3.02 **Notice of Annual Meetings.** Printed or written notice of each annual meeting shall be given, which shall state the place, date and time of the meeting. The notice shall be delivered either personally or by mail, to each shareholder entitled to vote at such meeting not less than ten (10) nor more than sixty (60) days before the meeting. If mailed, notice is given when deposited in the United States mail, postage prepaid, directed to a shareholder at his address as it shall appear on the stock transfer books of the Corporation, unless he shall have filed with the Secretary of the Corporation a written request that notices intended for him be mailed to some other address, in which case it shall be given when mailed as above stated to the address designated in such request.

3.03 **Special Meetings.** Special meetings of the shareholders for any proper purpose or purposes may be called at any time by the Board of Directors, the Chairman or the President, to be held on such date, and at such time and place within or without the State of Texas as the Board of Directors, the Chairman or the President, whichever has called the meeting, shall direct. A special meeting of the shareholders shall be called by the Chairman, the President, or the Secretary at the request in writing of shareholders owning not less than ten percent (10%) of all shares of capital stock of the Corporation issued and outstanding and entitled to vote at such meeting. Any such written request shall state a proper purpose or purposes of the meeting and shall be delivered to the Chairman, the President, or the Secretary.

3.04 **Notice of Special Meetings.** Printed or written notice of a special meeting stating the place, date and hour of the meeting and the purpose or purposes for which the meeting is called, shall be given, either personally or by mail, by or at the direction of the Chairman, the President, the Secretary or any other officer calling the meeting, to each shareholder entitled to vote at such meeting not less than ten (10) nor more than sixty (60) days before the date of the meeting. If mailed, notice is given when deposited in the United States mail as provided in Section 3.02 hereof.

3.05 **Business at Special Meetings.** Business transacted at any special meeting of shareholders shall be limited to the purposes stated in the notice of said meeting.

3.06 **Voting List.** The officer who has charge of the stock ledger of the Corporation shall prepare and make, at least eleven (11) days before every meeting of shareholders, a complete list of the shareholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each shareholder and the number of shares registered in the name of

each shareholder. Such list, for a period of at least ten (10) days prior to the meeting, shall be kept on file at the registered office or the principal place of business of the Corporation and shall be open to the examination of any shareholder, during ordinary business hours. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any shareholder who is present.

3.07 Quorum. The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the shareholders for the transaction of business except as otherwise provided by statute or by the Certificate of Formation (herein so called) of the Corporation. If, however, such quorum shall not be present or represented at any meeting of the shareholders, the shareholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each shareholder of record entitled to vote at the meeting.

3.08 Act of Shareholders at a Meeting. When a quorum is present at any meeting, unless cumulative voting is provided for in the Certificate of Formation, directors shall be elected by a plurality of the votes cast at the election, and except where otherwise provided by law, the Certificate of Formation or these Bylaws all other questions shall be determined by a majority of the votes cast on such question.

3.09 Voting of Shares. Except as otherwise provided in these Bylaws or to the extent that voting rights of the shares of any class or classes are limited or denied by the Certificate of Formation, or permitted by the rules of any stock exchange on which the Corporation's shares are listed and traded, each shareholder, on each matter submitted to a vote at a meeting of shareholders, shall have one vote for each share of stock registered in his name on the books of the Corporation. Such votes may be cast in person or by proxy as provided in Section 3.13. The Board of Directors, in its discretion, or the officer of the Corporation presiding at a meeting of the shareholders, in such officer's discretion, may require that any votes cast at such meeting shall be cast by written ballot.

3.10 Action without a Meeting. Any action required to be taken at any annual or special meeting of shareholders of the Corporation, or any action which may be taken at any annual or special meeting of such shareholders, may be taken without a meeting, without prior notice and without a vote, if (a) a consent or consents in writing, setting forth the action so taken, shall be signed by all of the holders of outstanding stock entitled to vote with respect to the subject matter thereof, which such consent shall have the same force and effect as a unanimous vote at a meeting, or (b) if provided for by the Certificate of Formation, a consent or consents in writing, setting forth the action so taken, shall be signed by the holder or holders of shares having not less than the minimum number of votes that would be necessary to take such action at a meeting at which the holders of all shares entitled to vote on the action were present and voted.

3.11 Adjournments. In the absence of a quorum at any annual or special meeting, a majority in interest of the shareholders entitled to vote, present in person or by proxy, or if no shareholder entitled to vote is present in person or by proxy, any officer entitled to preside or act as secretary of such meeting, may adjourn the meeting from time to time until a quorum shall be present.

3.12 Voting Inspectors. The Board of Directors may appoint voting inspectors to serve at any election of directors and at balloting on any other matter that may properly come before a meeting of shareholders. If no such appointment shall be made, or if any of the inspectors so appointed shall fail to attend, or refuse to attend or be unable to serve, then such appointment shall be made by the presiding officer at any shareholder meeting.

3.13 Proxies. Each shareholder entitled to vote at a meeting of shareholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for him by proxy, provided that the instrument authorizing such proxy to act shall have been executed in writing (which shall include facsimile or other electronic means) by the shareholder himself or by his duly authorized attorney. Each proxy shall be filed with the Secretary of the Corporation prior to or at the time of the meeting. No such proxy shall be voted or acted upon after eleven (11) months from its execution date, unless the proxy provides for a longer period. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if and only as long as it is coupled with an interest sufficient in law to support an irrevocable power. A proxy may be made irrevocable regardless of whether the interest with which it is coupled is an interest in the stock itself or an interest in the Corporation generally.

3.14 Conduct of Business. The Board of Directors of the Corporation may adopt by resolution such rules and regulations for the conduct of any meeting of the shareholders as it shall deem appropriate. Except to the extent inconsistent with such rules and regulations as adopted by the Board of Directors, the chairman of any meeting of the shareholders shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are appropriate for the proper conduct of the meeting. Such rules, regulations or procedures, whether adopted by the Board of Directors or prescribed by the chairman of the meeting, may include, without limitation, the following: (i) the establishment of an agenda or order of business for the meeting; (ii) the determination of when the polls shall open and close for any given matter to be voted on at the meeting; (iii) rules and procedures for maintaining order at the meeting and the safety of those present; (iv) limitations on attendance at or participation in the meeting to shareholders of record of the Corporation, their duly authorized and constituted proxies or such other persons as the chairman of the meeting shall determine; (v) restrictions on entry to the meeting after the time fixed for the commencement thereof; and (vi) limitations on the time allotted to questions or comments by participants.

ARTICLE IV **Board of Directors**

4.01 Powers. The business of the Corporation shall be managed by, or under the direction of, its Board of Directors which may exercise all such powers of the Corporation and do all such lawful acts and things as are not directed or required to be exercised or done by the

shareholders by applicable statute, or by the Certificate of Formation, or by these Bylaws. Unless otherwise restricted by the Certificate of Formation or by these Bylaws, the Board of Directors may hold its meetings, and have an office or offices, outside of the State of Texas.

4.02 Number and Qualifications.

(a) ~~The number which shall constitute the entire Board of Directors shall not be less than seven (7) and shall not be more than nine (9); provided, the number which shall constitute the entire Board of Directors may be increased to no more than eleven (11) if 75% or more of the members of the Board of Directors consent thereto and such increase in the number is made in connection with a merger and/or acquisition involving the Corporation and/or its subsidiaries to allow for the appointment of a person(s) to fill the newly created position who is associated with a party to the transaction. The number of directors which shall constitute the whole Board of Directors, which shall not be less than three, shall be determined from time to time by a resolution adopted by a majority of the Board of Directors; provided that no decrease in the number of directors which would have the effect of shortening the term of an incumbent director may be made by the Board of Directors. Each director shall hold office for the term for which such director is elected, and until such director's successor shall have been elected and qualified or until such director's earlier death, resignation or removal.~~

(b) The directors need not be shareholders, nor residents of the State of Texas.

4.03 Election and Term of Office. At the annual meeting of shareholders, the shareholders shall elect directors to hold office until the next succeeding annual meeting. Each director (whether elected at an annual meeting or to fill a vacancy, or otherwise, as hereinafter provided) shall continue in office until his successor shall have been elected and qualified or until his earlier death, resignation or removal.

4.04 Resignation. Any director may resign at any time by giving written notice of such resignation to the Board of Directors, the Chairman, the President or the Secretary. Any such resignation shall take effect at the time specified therein or, if no time be specified, upon receipt thereof by the Board of Directors or one (1) of the above named officers; and, unless specified therein, the acceptance of such resignation shall not be necessary to make it effective.

4.05 Removal. At any special meeting of the shareholders, duly called as provided in these Bylaws, any director may, by the affirmative vote of the holders of four fifths (4/5) of all the shares of stock outstanding and entitled to vote for the election of directors, be removed from office for cause. At such meeting a successor or successors may be elected, or if any such vacancy is not so filled, it may be filled by the directors as provided in Section 4.06.

4.06 Vacancies and Additional Directorships.

(a) If any vacancy shall occur among the directors by reason of death, resignation, removal or otherwise, the directors then in office shall continue to act and may fill any such vacancies by a majority vote of the directors then in office, though less than a quorum, or by a sole remaining director.

(b) A director elected to fill a vacancy shall be elected for the unexpired term of his predecessor in office or, if elected to fill a vacancy created by an increase in the number of directorships, until the next annual meeting of shareholders.

4.07 Compensation. By resolution of the Board of Directors, the directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and non-executive directors may receive such reasonable compensation for their services as directors, in amounts

which shall, from time to time, be determined by the Board of Directors, whether in the form of a stated salary as director or a fixed fee for attendance at each meeting of the Board of Directors and any committees thereof. Members of special or standing committees may be allowed like compensation for serving on committees of the Board of Directors. Nothing herein contained shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

4.08 Committees. The Board of Directors may designate one or more committees, each committee to consist of one or more of the directors of the Corporation. Each member of a committee must meet the requirements for membership, if any, imposed by applicable law and the rules and regulations of any securities exchange or quotation system on which the securities of the Corporation are listed or quoted for trading. Any committee, to the extent permitted by law and provided in the resolution establishing such committee, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it. Each committee shall keep regular minutes and report to the Board of Directors when required. The resolution of the Board of Directors establishing any committee of the Board of Directors and/or the charter of any such committee may establish requirements or procedures relating to the governance and/or operation of such committee consistent with these Bylaws.

4.09 Interested Directors. No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association or other organization in which one or more of its directors or officers are directors or officers or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorizes the contract or transaction, or solely because any such director's or officer's vote is counted for such purpose if: (i) the material facts as to the director's or officer's relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative vote of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (ii) the material facts as to the director's or officer's relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or (iii) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified by the Board of Directors, a committee thereof or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

ARTICLE V **Meetings of Board of Directors**

5.01 Place. The Board of Directors of the Corporation may hold meetings, both regular and special, either within or without the State of Texas.

5.02 First Meeting. The first meeting of each newly elected Board of Directors shall be held immediately after their election by the shareholders or at such time and place as shall be specified in a notice given as provided in Section 5.04 for special meetings of the Board of Directors, or as shall be specified in a written waiver signed by all of the directors.

5.03 Regular Meetings. The Board of Directors shall by resolution provide for the holding of regular meetings and give the times and places at which such meetings shall be held. Notice of regular meetings shall not be required to be given, provided that whenever the time or place of regular meetings shall be fixed or changed, notice of such action shall be given to each director by (i) mailing written notice not less than five (5) days before the meeting or (ii) transmission by facsimile or other electronic means not less than seventy-two (72) hours before the meeting.

5.04 Special Meetings. Special meetings of the Board of Directors may be held upon notice to each director at his residence or usual place of business by (i) mailing written notice not less than five (5) days before the meeting or (ii) transmission by facsimile or other electronic means not less than seventy-two (72) hours before the meeting, upon the call of the Chairman, the President, or any two or more directors at any place within or without the State of Texas. Special meetings shall be called by the President or Secretary of the Corporation in like manner and on like notice on the written request of two (2) directors. Notice of any meeting of the Board of Directors may be waived in writing signed by the person or persons entitled to the notice whether before or after the time of the meeting. Neither the business to be transacted at, nor the purpose of, any meeting of the Board of Directors need be specified in the notice or waiver of notice of the meeting.

5.05 Procedure. The Board of Directors shall keep regular minutes of its proceedings. The minutes shall be placed in the minute books of the Corporation.

5.06 Quorum; Act of Directors' at a Meeting.

(a) At all meetings of the Board of Directors, such number of directors as represents at least a majority of all directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors, unless the act of a greater number is specifically required by applicable law, the Certificate of Formation, or these Bylaws.

(b) If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

5.07 Action Without a Meeting. Any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting, without prior notice and without a vote, if all members of the Board of Directors consent thereto in writing, and the writing or writings are filed with the minutes of the proceedings of the Board of Directors, Such consent shall have the same force and effect as a unanimous vote at a meeting.

5.08 Telephone Meeting. Members of the Board of Directors may participate in a meeting of the Board of Directors by means of conference telephone or similar communications

equipment by means of which all persons participating in the meeting can hear each other. Participation in such a meeting shall constitute presence in person at the meeting, except where a person participates in the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

5.09 Conduct of Business. At any duly called meeting of the Board of Directors, business shall be transacted in such order and manner as the Board of Directors may from time to time determine. Meetings of the Board of Directors shall be presided over by the Chairman, if any, or in the absence of the Chairman by the President, or in their absence by a chairman chosen at the meeting. The Corporation shall provide each director with copies of all notices, minutes, consents and other materials provided to all other members of the Board of Directors concurrently as such materials are provided to the other members.

ARTICLE VI

Notices

6.01 Methods of Giving Notice. Whenever by applicable law, the Certificate of Formation, these Bylaws, or otherwise, notice is required to be given to any director, committee member, or shareholder, and no provision is made as to how the notice shall be given, it shall not be construed to mean personal notice, but any such notice may be given in writing by mail, addressed to such director, committee member, or shareholder, at his address as it appears on the records of the Corporation, with postage thereon prepaid, or in any other method permitted by law. Any notice required or permitted to be given by mail shall be deemed to be given at the time when the same shall be deposited in the United States mails or in the mails of any foreign country.

6.02 Waiver of Notice. Whenever by applicable law, the Certificate of Formation, these Bylaws, or otherwise, notice is required to be given to any director, committee member, or shareholder, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed to be equivalent to the giving of such notice.

6.03 Attendance as Waiver. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business on the ground that the meeting is not lawfully called or convened.

6.04 Purpose of Meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the shareholders, directors, or members of a committee, need be specified in any written waiver of notice unless so required by applicable law, the Certificate of Formation, or these Bylaws.

ARTICLE VII

Officers and Agents

7.01 Number and Qualification. The officers of the Corporation shall be a President and a Secretary, elected by the Board of Directors, and such other officers and agents as may be appointed in accordance with the provisions of these Bylaws. No officer or agent need be a

shareholder, a director, or a resident of the State of Texas. Any two (2) or more offices may be held by the same person unless prohibited by applicable statute.

7.02 Election and Term. Each officer shall be elected by the Board of Directors. Each such officer (whether elected at the first meeting of the Board of Directors after the annual meeting of shareholders or to fill a vacancy or otherwise) shall hold his office until his successor shall have been elected and qualified, or until his earlier death, resignation, or removal.

7.03 Other Officers and Agents. The Board of Directors from time to time may appoint a Chairman of the Board of Directors, Vice Presidents, a Treasurer, or other officers or agents, to hold office for such period, have such authority and perform such duties as are provided in these Bylaws or as may be provided in the resolutions appointing them. The Board of Directors may delegate to any officer or agent the power to appoint any such subordinate officers or agents and to prescribe their respective terms of office, authorities and duties.

7.04 Authority. Officers and agents shall have such authority and perform such duties in the management of the Corporation as are provided in these Bylaws or as may be determined by resolution of the Board of Directors.

7.05 Resignation. Any officer may resign at any time by giving written notice of such resignation to the Board of Directors, the Chairman, the President or the Secretary. Any such resignation shall take effect at the time specified therein or, if no time be specified, upon receipt thereof by the Board of Directors or one (1) of the above named officers; and, unless specified therein, the acceptance of such resignation shall not be necessary to make it effective.

7.06 Removal. The officers of the Corporation shall hold office until their successors are chosen and qualified. Any officer elected by the Board of Directors or the President or any other officer of the Corporation may be removed, with or without cause, by the Board of Directors. Any officers appointed by the President or any other officer of the Corporation may also be removed from such officer positions by the President or such other officer, with or without cause.

7.07 Vacancies. Any vacancy occurring in any office by reason of death, resignation, removal, disqualification or any other cause shall be filled for the unexpired portion of the term of office in the manner prescribed by these Bylaws for regular election or appointment to such office.

7.08 Compensation. The salaries or other compensation of the officers and agents of the Corporation shall be fixed from time to time by the Board of Directors, except that the Board of Directors may delegate to any person the power to fix the salaries or other compensation of any officers or agents appointed in accordance with the provisions of these Bylaws. No officer shall be prevented from receiving such salary or other compensation by reason of the fact that he is also a director of the Corporation.

7.09 Surety Bonds. If required by the Board of Directors, any officer so required shall give the Corporation a bond (which shall be renewed as the Board of Directors may require) in such sum, and with such surety or sureties, as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his office and for the restoration to the Corporation, in

case of his death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to the Corporation.

ARTICLE VIII

Special Corporate Acts and Execution of Instruments

8.01 Execution of Instruments. The Board of Directors may authorize any officer or officers, or agent or agents, to enter into any contract or execute and deliver any instrument in the name and on behalf of the Corporation, and such authorization may be general or confined to specific instances.

8.02 Borrowing. No loans or advances shall be obtained by or contracted for, by or on behalf of the Corporation, and no negotiable paper shall be issued in its name, unless, and except as, authorized by the Board of Directors. Such authorization may be general or confined to specific instances. Any officer or agent of the Corporation thereunto so authorized may obtain loans and advances for the Corporation, and for such loans and advances may make, execute and deliver promissory notes, bonds or other evidences of indebtedness of the Corporation. Any officer or agent of the Corporation thereunto so authorized may pledge, hypothecate or transfer as security for the payment of any and all loans, advances, indebtedness and liabilities of the Corporation, any and all stocks, bonds, other securities, and other personal property at any time held by the Corporation, and to that end may endorse, assign and deliver the same and do every act and thing necessary or proper in connection therewith.

8.03 Deposits. All funds of the Corporation not otherwise employed shall be deposited from time to time to its credit in such banks or trust companies or with such banks or other depositories as the Board of Directors may select, or as may be selected by any officer or officers or agent or agents authorized so to do by the Board of Directors. Endorsements for deposit to the credit of the Corporation in any of its duly authorized depositories shall be made in such manner as the Board of Directors from time to time may determine.

8.04 Checks and Drafts. All checks, drafts or other orders for the payment of money, and all notes or other evidences of indebtedness issued in the name of the Corporation, shall be signed by such officer or officers or agent or agents of the Corporation, and in such manner, as from time to time shall be determined by the Board of Directors.

8.05 Proxies. Proxies to vote with respect to shares of stock of other corporations owned by or standing in the name of the Corporation may be executed and delivered from time to time on behalf of the Corporation by the President or by any other person or persons thereunto authorized by the Board of Directors.

ARTICLE IX

General Provisions

9.01 Dividends. Dividends upon the capital stock of the Corporation, subject to the provisions of the Certificate of Formation with regard thereto, if any, may be declared by the Board of Directors pursuant to applicable law. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the Certificate of Formation. If any

dividend is to be paid in shares of the Corporation's theretofore unissued capital stock, the Board of Directors shall, by resolution, direct that there be transferred from surplus to the capital account in respect of such shares an amount which is not less than the aggregate par value of par value shares being declared as a dividend and, in the case of shares without par value being declared as a dividend, such amount as shall be determined by the Board of Directors. No transfer from surplus to capital shall be necessary if shares are being distributed by the Corporation pursuant to a split-up or division of its stock rather than as payment of a dividend declared payable in stock of the Corporation.

9.02 Reserves. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in its sole and absolute discretion, deems proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for such other purpose as the Board of Directors shall deem conducive to the interest of the Corporation, and the Board of Directors may modify or abolish any such reserve in the manner in which it was created.

9.03 Books and Records. The Corporation shall keep correct and complete books and records of account and shall keep minutes of the proceedings of its shareholders, Board of Directors, and committees, if any, and shall keep at its registered office or principal place of business, or at the office of its transfer agent or registrar, a record of its shareholders, both past and current, giving the names and addresses of all shareholders and the number and class of shares held by each.

9.04 Fiscal Year. The fiscal year may be changed from time to time by resolution of the Board of Directors. Until a resolution of the Directors is adopted fixing another fiscal year, the fiscal year of the Corporation shall end on December 31 of each year.

9.05 Construction. Whenever the context so requires, the masculine shall include the feminine and neuter, and the singular shall include the plural, and conversely. If any portion of these Bylaws shall be invalid or inoperative, then, so far as is reasonable and possible:

- (a) The remainder of these Bylaws shall be considered valid and operative; and
- (b) Effect shall be given to the intent manifested by the portion held invalid or inoperative.

9.06 Table of Contents and Headings. The table of contents and headings are for organization, convenience and clarity. In interpreting these Bylaws, they shall be subordinated in importance to the other written material.

9.07 Relation of Bylaws to Certificate of Formation. These Bylaws are subject to, and governed by, the Certificate of Formation.

9.08 Loans to Directors. Officers and Employees. The Corporation may lend money to, or guarantee any obligation of, or otherwise assist any employee of the Corporation, or any director or officer of the Corporation, whenever, in the judgment of the Board of Directors, such

loan, guaranty, or assistance may reasonably be expected to benefit the Corporation. The loan, guaranty or other assistance may be with or without interest, and may be unsecured, or secured in such manner as the Board of Directors shall approve, including, without limitation, a pledge of stock of the Corporation.

9.09 Counterparts; Facsimile. In the event any agreement, consent, instrument or writing is required to be executed by, or delivered to, a shareholder or a director, such agreement, consent, instrument or writing may be executed in one or more counterparts, one or more of which may be transmitted by facsimile or other means of electronic transmission, each of which shall be deemed an original, and all of which, when taken together, shall constitute one and the same instrument.

9.10 Forum For Adjudication of Certain Disputes. Unless the Corporation consents in writing to the selection of an alternative forum, Dallas County in the State of Texas shall be the sole and exclusive forum for (a) any derivative action or proceeding brought on behalf of the Corporation, (b) any action asserting a claim of breach of a fiduciary duty owed by any director, officer, or employee of the Corporation to the Corporation or the Corporation's shareholders, (c) any action asserting a claim against the Corporation or any director, officer, or employee of the Corporation arising pursuant to any provision of the Texas Business Organizations Code ("TBOC") or the Corporation's Certificate of Formation or Bylaws, or (d) any action asserting a claim against the Corporation or any director, officer, or employee of the Corporation governed by the internal affairs doctrine of the State of Texas. Failure to enforce the foregoing provisions would cause the Corporation irreparable harm and the Corporation shall be entitled to equitable relief, including injunctive relief and specific performance, to enforce the foregoing provisions. Any person or entity purchasing or otherwise acquiring any interest in shares of capital stock of the Corporation shall be deemed to have notice of and consented to the provisions of this Section 9.10.

ARTICLE X Indemnification; Insurance

10.01 Indemnification of Directors and Former Directors. Each person who was or is a respondent or defendant or is threatened to be made a respondent or defendant, or testifies or otherwise participates, in any threatened, pending, or completed action, suit or proceeding, whether civil, criminal, administrative, arbitrative or investigative, any appeal in such an action, suit or proceeding, or any inquiry or investigation that could lead to such an action, suit, or proceeding (any of the foregoing hereinafter called a "proceeding"), whether or not by or in the right of the Corporation, because such person is or was a director of the Corporation or, while a director of the Corporation, is or was serving at the request of the Corporation as a director, officer, partner, venturer, proprietor, trustee, employee, administrator, agent or similar functionary (a "representative") of another foreign or domestic corporation, limited or general partnership, limited liability company, business trust, real estate investment trust, joint venture, joint stock company, cooperative, association, bank, insurance company, credit union, association, proprietorship, trust, employee benefit plan, other enterprise or other organization (each, an "organization") (hereinafter a "Covered Director") shall be indemnified by the Corporation to the fullest extent authorized or permitted by applicable law, as the same exists or may hereafter be changed, against all judgments (including arbitration awards), court costs,

penalties, excise and similar taxes, fines, settlements, reasonable attorneys' fees and other reasonable expenses (all of the foregoing hereinafter referred to as "expenses") actually incurred by such person in connection with such proceeding and such right to indemnification shall continue as to a person who has ceased to be a director or representative and shall inure to the benefit of his or her heirs, executors and administrators. **It is expressly acknowledged that the indemnification provided in this ARTICLE X could involve indemnification for negligence or under theories of strict liability.**

10.02 Indemnification of Officers and Former Officers. The Corporation shall indemnify each person who was or is a respondent or defendant or threatened to be made a respondent or defendant, or testifies or otherwise participates, in any proceeding, whether or not by or in the right of the Corporation, because such person is or was an officer of the Corporation or, while an officer of the Corporation, is or was serving at the request of the Corporation as a representative of another organization (hereinafter a "Covered Officer") and together with a Covered Director, a "Covered Person"), to the same extent that the Corporation may indemnify and advance expenses to a director of the Corporation under the TBOC, and such right to indemnification shall continue as to a person who has ceased to be an officer or representative and shall inure to the benefit of his or her heirs, executors and administrators.

10.03 Right to Advancement of Expenses. In addition to the right to indemnification conferred in Section 10.01 or Section 10.02, as the case may be, a Covered Person shall also have the right to be paid or reimbursed by the Corporation the reasonable expenses incurred in defending, testifying or otherwise participating in any such proceeding, in advance of the final disposition of the proceeding (hereinafter an "advancement of expenses") and without any determination as to the person's ultimate entitlement to indemnification; provided, however, that, an advancement of expenses incurred by a Covered Person in advance of the final disposition of a proceeding shall be made only upon delivery to the Corporation of a written affirmation by such person of such person's good faith belief that he or she has met the standard of conduct necessary for indemnification under the TBOC and a written undertaking (hereinafter an "undertaking"), by or on behalf of such person, to repay all amounts so advanced if it shall be ultimately determined by final judicial decision from which there is no further right to appeal (hereinafter, a "final adjudication") that the Covered Person has not met that standard or that indemnification of the Covered Person against expenses incurred by such person in connection with that proceeding is prohibited by the TBOC.

10.04 Right of Indemnitee to Bring Suit. If a claim under Section 10.01, Section 10.02 or Section 10.03 is not paid in full by the Corporation within 60 days after a written claim therefor has been received by the Corporation, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be 20 days, the Covered Person may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. If successful in whole or in part in any such suit, or in a suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the Covered Person shall also be entitled to be paid the expense of prosecuting or defending such suit. In (a) any suit brought by the Covered Person to enforce a right to indemnification hereunder (but not in a suit brought by a Covered Person to enforce a right to an advancement of expenses) it shall be a defense that, and (b) in any suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the Corporation shall be entitled to recover

such expenses upon a final adjudication that the Covered Person has not met any applicable standard for indemnification set forth in the TBOC. Neither the failure of the Corporation (including its directors who are not parties to such action, a committee of such directors, special legal counsel, or its shareholders) to have made a determination prior to the commencement of such suit that indemnification of the Covered Person is proper in the circumstances because the Covered Person has met the applicable standard of conduct set forth in the TBOC, nor an actual determination by the Corporation (including a determination by its directors who are not parties to such action, a committee of such directors, special legal counsel, or its shareholders) that the Covered Person has not met such applicable standard of conduct, shall create a presumption that the Covered Person has not met the applicable standard of conduct or, in the case of such a suit brought by the Covered Person, shall be a defense to such suit. In any suit brought by the Covered Person to enforce a right to indemnification or to an advancement of expenses hereunder, or by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the burden of proving that the Covered Person is not entitled to be indemnified, or to such advancement of expenses, under this ARTICLE X or otherwise shall be on the Corporation.

10.05 Indemnification of Other Persons. This ARTICLE X shall not limit the right of the Corporation to the extent and in the manner authorized or permitted by law to indemnify and to advance expenses to persons other than Covered Persons. Without limiting the foregoing, the Corporation may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification and to the advancement of expenses to any employee or agent of the Corporation and to any person who is or was serving at the request of the Corporation as a representative of another organization to the same extent that it may indemnify and advance expenses to Covered Persons under this ARTICLE X and to any such further extent as may be authorized or permitted by law.

10.06 Non-Exclusivity of Rights. The rights provided to a Covered Person pursuant to this ARTICLE X shall not be exclusive of any other right which any such person may have or hereafter acquire under any law (common or statutory), provision of the Certificate of Formation or these Bylaws, agreement, vote of shareholders or disinterested directors, or otherwise.

10.07 Insurance and Other Arrangements. The Corporation may, to the extent permitted by law, purchase and maintain insurance, create a trust fund, establish any form of self-insurance (including a contract to indemnify), secure its indemnity obligation by grant of a security interest or other lien on assets of the Corporation, establish a letter of credit guaranty or security arrangement, or establish and maintain any other arrangement (any of the foregoing hereinafter called an "arrangement") on behalf of any person who is or was serving as a director, officer, employee, or agent of the Corporation or is or was serving at the request of the Corporation as a representative of another organization against any liability asserted against such person and incurred by such person in such a capacity or arising out of his or her status as such a person, whether or not the Corporation would have the power to indemnify such person against such liability. If the insurance or other arrangement involves self-insurance or is with a person or entity that is not regularly engaged in the business of providing insurance coverage, the insurance or arrangement may provide for payment of a liability with respect to which the Corporation would not have the power to indemnify the person only if the insurance or arrangement has been approved by the shareholders.

10.08 Amendments. Any repeal or amendment of this ARTICLE X by the Board of Directors or the shareholders of the Corporation or by changes in applicable law, or the adoption of any other provision of these Bylaws inconsistent with this ARTICLE X, will, to the extent permitted by applicable law, be prospective only (except to the extent such amendment or change in applicable law permits the Corporation to provide broader indemnification rights on a retroactive basis than permitted prior thereto), and will not in any way diminish or adversely affect any right or protection existing hereunder in respect of any act or omission occurring prior to such repeal or amendment or adoption of such inconsistent provision.

10.09 Certain Definitions. For purposes of this ARTICLE X, (a) the Corporation shall be deemed to have requested a director or officer of the Corporation to serve as a representative of an employee benefit plan whenever the performance by such person of his or her duties to the Corporation also imposes duties on or otherwise involves services by such person to the plan or participants or beneficiaries of the plan, and (b) any action taken or omitted by a such a person with respect to an employee benefit plan in the performance of such person's duties for a purpose reasonably believed by such person to be in the interest of the participants and beneficiaries of the plan shall be deemed to be for a purpose which is "not opposed to the best interests" of the Corporation for purposes of Section 8.001 of the TBOC.

10.10 Contract Rights. The rights provided to Covered Persons pursuant to this ARTICLE X shall be contract rights and such rights shall continue as to a Covered Person who has ceased to be a director, officer, agent or employee and shall inure to the benefit of the Covered Person's heirs, executors and administrators.

10.11 Severability. If any provision or provisions of this ARTICLE X shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this ARTICLE X shall not in any way be affected or impaired thereby; and (b) to the fullest extent possible, the provisions of this ARTICLE X (including, without limitation, each such portion of this ARTICLE X containing any such provision held to be invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

10.12 Federal Deposit Insurance Act. Notwithstanding any provision of this ARTICLE X to the contrary, all indemnification payments shall be consistent with the requirements of Section 18(k) of the Federal Deposit Insurance Act and the implementing regulations thereunder.

ARTICLE XI

Business Opportunities

11.01 Other Business Ventures. Any shareholder of the Corporation or any of its affiliates may engage in or possess an interest in other business ventures of any nature or description, independently or with others, similar or dissimilar to the business of the Corporation or any subsidiary thereof, and the Corporation, any subsidiary of the Corporation, the directors of the Corporation, the directors of any subsidiary of the Corporation and the other shareholders shall have no rights in and to such ventures or the income or profits derived therefrom, and the pursuit of any such venture, even if competitive with the business of the Corporation or any subsidiary thereof, shall not be deemed wrongful or improper; provided, however, that in no

event shall any shareholder or any of its affiliates use confidential information of the Corporation in connection with their engagement in or possession of an interest in other business ventures of any nature or description, independently or with others, similar or dissimilar to the business of the Corporation or any subsidiary thereof.

11.02 Referral of Business Opportunities. To the fullest extent permitted by applicable law or regulation, no shareholder (other than any shareholder that maybe employed by the Corporation), nor any of its affiliates, shall be obligated to refer or present any particular business opportunity to the Corporation or any subsidiary thereof even if such opportunity is of a character that, if referred or presented to the Corporation or any subsidiary thereof, could be taken by the Corporation or any subsidiary thereof, and any such shareholder or any of its affiliates shall have the right to take for its own account (individually or as a partner, shareholder, member, participant or fiduciary) or to recommend to others such particular opportunity; provided, however, that (i) if a particular opportunity is solely and expressly presented by a third party to a director or, to the actual knowledge of any director nominated by a shareholder, to the shareholder designating such director or an affiliate thereof, as an opportunity specifically for the Corporation or any of its subsidiaries, such opportunity shall be presented to the Board of Directors; and (ii) if both (x) the Corporation or any subsidiary thereof, and (y) any such director or, to the actual knowledge of any such director, the shareholder nominating such director or an affiliate thereof, pursue the same opportunity, such shareholder and any director designated by such shareholder shall (1) abstain from any vote or approval of the shareholders or Board of Directors related to such business opportunity and (2) be deemed to have voted their shares of common stock or Board of Director votes, as applicable, with respect to such matter in the same proportion as the votes of the other shareholders or directors, as applicable, in the aggregate on such matter.

ARTICLE XII **Amendments**

The Board of Directors may amend or repeal these Bylaws, or adopt new Bylaws except to the extent (a) such power shall be reserved exclusively to the shareholders in whole or part by the Certificate of Formation or the TBOC or (b) the shareholders in amending, repealing or adopting a particular Bylaw shall have expressly provided in such Bylaw or in this **ARTICLE XII** that the Board of Directors may not amend or repeal that Bylaw. Unless the Certificate of Formation or a Bylaw adopted by the shareholders shall provide otherwise as to all or some portion of the Bylaws, the shareholders may amend, repeal, or adopt Bylaws even though the Bylaws may also be amended, repealed, or adopted by the Board of Directors. Notwithstanding anything herein to the contrary, Section 4.02(a) of these Bylaws may not be amended without the affirmative vote of a majority of the issued and outstanding shares of the Corporation.

CERTIFICATION

I, C. Malcolm Holland, III, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Veritex Holdings, Inc. for the quarter ended June 30, 2017;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 25, 2017

/S/ C. Malcolm Holland, III

C. Malcolm Holland, III

Chairman of the Board & Chief Executive Officer

CERTIFICATION

I, Noreen E. Skelly, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Veritex Holdings, Inc. for the quarter ended June 30, 2017;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 25, 2017

/S/ Noreen E. Skelly
Noreen E. Skelly
Chief Financial Officer

CERTIFICATION

In connection with the Quarterly Report on Form 10-Q of Veritex Holdings, Inc. (the "Company") for the quarter ended June 30, 2017 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, C. Malcolm Holland, III, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ C. Malcolm Holland, III

C. Malcolm Holland, III

Chairman of the Board & Chief Executive Officer

Date: July 25, 2017

CERTIFICATION

In connection with the Quarterly Report on Form 10-Q of Veritex Holdings, Inc. (the “Company”) for the quarter ended June 30, 2017 (the “Report”), as filed with the Securities and Exchange Commission on the date hereof, I, Noreen E. Skelly, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ Noreen E. Skelly

Noreen E. Skelly

Chief Financial Officer

Date: July 25, 2017