FIRST FINANCIAL BANKSHARES INC
Form 10-Q
April 26, 2013
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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 March 31, 2013

Commission file number 0-7674

FIRST FINANCIAL BANKSHARES, INC.

(Exact name of registrant as specified in its charter)

Texas	**75-0944023**
(State or other jurisdiction of incorporation	**(I.R.S. Employer**

or organization)	**Identification No.)**
400 Pine Street, Abilene, Texas	**79601**
(Address of principal executive offices)	**(Zip Code)**

(325) 627-7155

(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 x 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 Regulations 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 x No ¨

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

Class	**Outstanding at April 26, 2013**
Common Stock, $0.01 par value per share	31,532,851

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PART I

FINANCIAL INFORMATION

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

The consolidated balance sheets of First Financial Bankshares, Inc. (the Company) at March 31, 2013 and 2012 and December 31, 2012, and the consolidated statements of earnings, comprehensive earnings, changes in shareholders equity and cash flows for the three months ended March 31, 2013 and 2012, follow on pages 2 through 6.

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FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

	March 31, 2013	March 31, 2012	December 31, 2012
	(Unaudited)	(Unaudited)	
ASSETS			
CASH AND DUE FROM BANKS	$ 113,958	$ 131,163	$ 207,018
FEDERAL FUNDS SOLD	3,175	11,200	14,045
INTEREST-BEARING DEPOSITS IN BANKS	20,065	84,169	139,676
Total cash and cash equivalents	137,198	226,532	360,739
INTEREST-BEARING TIME DEPOSITS IN BANKS	45,172	62,018	49,005
SECURITIES AVAILABLE-FOR-SALE, at fair value	1,958,151	1,960,760	1,819,035
SECURITIES HELD-TO-MATURITY (fair value of $920, $2,612 and $1,080 at March 31, 2013 and 2012 and December 31, 2012, respectively)	903	2,581	1,061
LOANS			
Held for investment	2,128,015	1,793,172	2,077,166
Less - allowance for loan losses	(34,672)	(34,529)	(34,839)
Net loans held for investment	2,093,343	1,758,643	2,042,327
Held for sale	10,122	5,695	11,457
Net loans	2,103,465	1,764,338	2,053,784
BANK PREMISES AND EQUIPMENT, net	86,265	79,308	84,122
INTANGIBLE ASSETS	71,963	72,078	71,973
OTHER ASSETS	52,863	59,635	62,293
Total assets	$ 4,455,980	$ 4,227,250	$ 4,502,012
LIABILITIES AND SHAREHOLDERS EQUITY			
NONINTEREST-BEARING DEPOSITS	$ 1,237,840	$ 1,125,577	$ 1,311,708
INTEREST-BEARING DEPOSITS	2,312,286	2,272,495	2,320,876
Total deposits	3,550,126	3,398,072	3,632,584
DIVIDENDS PAYABLE	7,879	7,553	
SHORT-TERM BORROWINGS	263,345	237,567	259,697
OTHER LIABILITIES	70,378	67,053	52,768
Total liabilities	3,891,728	3,710,245	3,945,049
COMMITMENTS AND CONTINGENCIES			
SHAREHOLDERS EQUITY			
Common stock - $0.01 par value, authorized 80,000,000 shares; 31,519,973, 31,477,483, and 31,496,881 shares issued at March 31, 2013 and 2012 and December 31, 2012, respectively	315	315	315
Capital surplus	278,122	276,623	277,412
Retained earnings	238,625	195,074	227,927
Treasury stock (shares at cost: 268,348, 261,454, and 266,845 at March 31, 2013 and 2012 and December 31, 2012, respectively)	(5,138)	(4,712)	(5,007)
Deferred compensation	5,138	4,712	5,007
Accumulated other comprehensive earnings	47,190	44,993	51,309

Total shareholders equity	564,252	517,005	556,963
Total liabilities and shareholders equity	$ 4,455,980	$ 4,227,250	$ 4,502,012

See notes to consolidated financial statements.

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FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)

(Dollars in thousands, except per share amounts)

	Three Months Ended March 31, 2013	2012
INTEREST INCOME:		
Interest and fees on loans	$ 26,445	$ 24,640
Interest on investment securities:		
Taxable	6,375	8,804
Exempt from federal income tax	6,579	6,141
Interest on federal funds sold and interest-bearing deposits in banks	176	212
Total interest income	39,575	39,797
INTEREST EXPENSE:		
Interest on deposits	867	1,482
Other	37	58
Total interest expense	904	1,540
Net interest income	38,671	38,257
PROVISION FOR LOAN LOSSES	401	1,296
Net interest income after provision for loan losses	38,270	36,961
NONINTEREST INCOME:		
Trust fees	3,793	3,454
Service charges on deposit accounts	3,895	3,882
ATM, interchange and credit card fees	3,729	3,676
Real estate mortgage operations	1,384	1,050
Net gain on available-for-sale securities (includes $222 and $346 for the three months ended March 31, 2013 and 2012, respectively, related to accumulated other comprehensive earnings reclassifications)	222	346
Net gain (loss) on sale of foreclosed assets	(316)	6
Other	1,253	884
Total noninterest income	13,960	13,298
NONINTEREST EXPENSE:		
Salaries and employee benefits	15,180	14,229
Net occupancy expense	1,766	1,737
Equipment expense	2,281	2,108
FDIC insurance premiums	572	527
ATM, interchange and credit card expenses	1,340	1,249
Professional and service fees	803	737
Printing, stationery and supplies	472	505
Amortization of intangible assets	10	44
Other	5,047	5,332
Total noninterest expense	27,471	26,468
EARNINGS BEFORE INCOME TAXES	24,759	23,791
INCOME TAX EXPENSE (includes $78 and $121 for the three months ended March 31, 2013 and 2012, respectively, related to income tax expense from reclassification items)	6,182	6,035

NET EARNINGS	$ 18,577	$ 17,756
EARNINGS PER SHARE, BASIC	$ 0.59	$ 0.56
EARNINGS PER SHARE, ASSUMING DILUTION	$ 0.59	$ 0.56
DIVIDENDS PER SHARE	$ 0.25	$ 0.24

See notes to consolidated financial statements.

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FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (UNAUDITED)

(Dollars in thousands)

	Three Months Ended March 31, 2013	2012
NET EARNINGS	$ 18,577	$ 17,756
OTHER ITEMS OF COMPREHENSIVE EARNINGS:		
Change in unrealized gain on investment securities available-for-sale, before income taxes	(6,115)	(3,088)
Reclassification adjustment for realized gains on investment securities included in net earnings, before income tax	(222)	(346)
Total other items of comprehensive earnings	(6,337)	(3,434)
Income tax expense related to other items of comprehensive earnings	2,218	1,202
COMPREHENSIVE EARNINGS	$ 14,458	$ 15,524

See notes to consolidated financial statements.

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FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(Dollars in thousands, except per share amounts)

	Common Stock				Treasury Stock			Accumulated Other	Total
	Shares	Amount	Capital Surplus	Retained Earnings	Shares	Amounts	Deferred Compensation	Comprehensive Earnings	Shareholders Equity
Balances at December 31, 2011	31,459,635	$ 314	$ 276,127	$ 184,871	(258,235)	$ (4,597)	$ 4,597	$ 47,225	$ 508,537
Net earnings (unaudited)				17,756					17,756
Stock issuances (unaudited)	17,848	1	398						399
Cash dividends declared, $0.24 per share (unaudited)				(7,553)					(7,553)
Change in unrealized gain in investment securities available-for-sale, net of related income taxes (unaudited)								(2,232)	(2,232)
Additional tax benefit related to directors deferred compensation plan (unaudited)			10						10
Shares purchased in connection with directors deferred compensation plan, net (unaudited)					(3,219)	(115)	115		
Stock option expense (unaudited)			88						88
Balances at March 31, 2012 (unaudited)	31,477,483	$ 315	$ 276,623	$ 195,074	(261,454)	$ (4,712)	$ 4,712	$ 44,993	$ 517,005
Balances at December 31, 2012	31,496,881	$ 315	$ 277,412	$ 227,927	(266,845)	$ (5,007)	$ 5,007	$ 51,309	$ 556,963
Net earnings (unaudited)				18,577					18,577
Stock issuances (unaudited)	23,092		612						612
Cash dividends declared, $0.25 per share (unaudited)				(7,879)					(7,879)
Change in unrealized gain in investment securities available-for-sale, net of related income taxes (unaudited)								(4,119)	(4,119)
Additional tax benefit related to directors deferred compensation plan (unaudited)			10						10
Shares purchased in connection with directors deferred compensation plan, net (unaudited)					(1,503)	(131)	131		
Stock option expense (unaudited)			88						88
Balances at March 31, 2013 (unaudited)	31,519,973	$ 315	$ 278,122	$ 238,625	(268,348)	$ (5,138)	$ 5,138	$ 47,190	$ 564,252

See notes to consolidated financial statements.

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FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in thousands)

	Three Months Ended March 31, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 18,577	$ 17,756
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	2,007	1,887
Provision for loan losses	401	1,296
Securities premium amortization (discount accretion), net	4,208	3,610
Gain on sale of assets, net	(74)	(474)
Deferred federal income tax expense (benefit)		(4)
Change in loans held for sale	1,334	4,934
Change in other assets	8,732	1,842
Change in other liabilities	7,440	5,897
Total adjustments	24,048	18,988
Net cash provided by operating activities	42,625	36,744
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net decrease (increase) in interest-bearing time deposits in banks	3,833	(843)
Activity in available-for-sale securities:		
Sales	5,227	21,003
Maturities	94,803	76,390
Purchases	(236,984)	(222,889)
Activity in held-to-maturity securities maturities	158	1,028
Net increase in loans	(51,454)	(18,162)
Purchases of bank premises and equipment and other assets	(4,567)	(5,063)
Proceeds from sale of other assets	1,015	1,555
Net cash used in investing activities	(187,969)	(146,981)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in noninterest-bearing deposits	(73,868)	24,001
Net increase (decrease) in interest-bearing deposits	(8,590)	39,272
Net increase in short-term borrowings	3,648	29,811
Common stock transactions:		
Proceeds from stock issuances	613	399
Dividends paid		(7,550)
Net cash provided by (used in) financing activities	(78,197)	85,933
NET DECREASE IN CASH AND CASH EQUIVALENTS	(223,541)	(24,304)
CASH AND CASH EQUIVALENTS, beginning of period	360,739	250,836
CASH AND CASH EQUIVALENTS, end of period	$ 137,198	$ 226,532

SUPPLEMENTAL INFORMATION AND NONCASH TRANSACTIONS		
Interest paid	$ 953	$ 1,653
Federal income tax paid		
Transfer of loans to foreclosed assets	39	82
Investment securities purchased but not settled	21,095	21,895

See notes to consolidated financial statements.

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FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 Basis of Presentation

The interim consolidated financial statements include the accounts of the Company, a Texas corporation and a financial holding company registered under the Bank Holding Company Act of 1956, as amended, or BHCA, and its wholly-owned subsidiaries: First Financial Bank, National Association, Abilene, Texas; First Technology Services, Inc.; First Financial Trust & Asset Management Company, National Association; First Financial Investments, Inc.; and First Financial Insurance Agency, Inc.

Through our subsidiary bank, we conduct full-service commercial banking business. Our banking centers are located primarily in Central, North Central and West Texas. As of March 31, 2013, we had 56 financial centers across Texas, with eleven locations in Abilene, two locations in Cleburne, two locations in Stephenville, two locations in Granbury, three locations in San Angelo, three locations in Weatherford, and one location each in Mineral Wells, Hereford, Sweetwater, Eastland, Ranger, Rising Star, Cisco, Southlake, Grapevine, Aledo, Willow Park, Brock, Alvarado, Burleson, Keller, Trophy Club, Boyd, Bridgeport, Decatur, Roby, Trent, Merkel, Clyde, Moran, Albany, Midlothian, Crowley, Glen Rose, Odessa, Waxahachie, Acton, Fort Worth and Huntsville. Our trust subsidiary has six locations which consist of Abilene, San Angelo, Stephenville, Sweetwater, Fort Worth and Odessa, all in Texas.

In the opinion of management, the unaudited interim consolidated financial statements reflect all adjustments necessary for a fair presentation of the Company s financial position and unaudited results of operations and should be read in conjunction with the Company s audited consolidated financial statements, and notes thereto in the Company s Annual Report on Form 10-K, for the year ended December 31, 2012. All adjustments were of a normal recurring nature. However, the results of operations for the three months ended March 31, 2013, are not necessarily indicative of the results to be expected for the year ending December 31, 2013, due to seasonality, changes in economic conditions and loan credit quality, interest rate fluctuations, regulatory and legislative changes and other factors. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted under SEC rules and regulations. The Company evaluated subsequent events for potential recognition and/or disclosure through the date the consolidated financial statements were issued.

Effective December 30, 2012, the Company consolidated its eleven bank charters into one charter. The Company cited regulatory, compliance and technology complexities and the opportunity for cost savings as its reason for making this change. The Company noted it expects to operate the one charter as it previously did with eleven charters with local management and board decisions to benefit the customers and communities it serves.

On October 26, 2011, the Company s Board of Directors authorized the repurchase of up to 750,000 common shares through September 30, 2014. The stock buyback plan authorizes management to repurchase the stock at such time as repurchases are considered beneficial to shareholders. Any repurchase of stock will be made through the open market, block trades or in privately negotiated transactions in accordance with applicable laws and regulations. Under the repurchase plan, there is no minimum number of shares that the Company is required to repurchase. Through March 31, 2013, no shares have been repurchased under this authorization.

On April 24, 2012, the Company s shareholders approved an amendment to the Company s Amended and Restated Certificate of Formation to increase the number of authorized common shares to 80,000,000.

Goodwill and other intangible assets are evaluated annually for impairment as of the end of the second quarter. No such impairment has been noted in connection with the current or any prior evaluations.

Note 2 Earnings Per Share

Basic earnings per common share is computed by dividing net income available to common shareholders by the weighted average number of shares outstanding during the periods presented. In computing diluted earnings per common share for the three months ended March 31, 2013 and 2012, the Company assumes that all dilutive outstanding options to purchase common stock have been exercised at the beginning of the period (or the time of issuance, if later). The dilutive effect of the outstanding options is reflected by application of the treasury stock method, whereby the proceeds from the exercised options are assumed to be used to purchase common stock at the average market price during the respective periods. The weighted average common shares outstanding used in computing basic earnings per common share for the three months ended March 31, 2013 and 2012, were 31,507,975 and 31,466,706 shares, respectively. The weighted average common shares outstanding used in computing fully diluted earnings per common share for the three months ended March 31, 2013 and 2012, were 31,601,364 and 31,479,743 respectively.

Note 3 Interest-bearing Time Deposits in Banks and Securities

Interest-bearing time deposits in banks totaled $45,172,000 and $49,005,000 at March 31, 2013 and December 31, 2012, respectively, and have original maturities generally ranging from one to two years. Of these amounts, $40,943,000 and $44,776,000 are time deposits with balances greater than $100,000 at March 31, 2013 and December 31, 2012, respectively.

The Company records its available-for-sale and trading securities portfolio at fair value.

Management classifies debt and equity securities as held-to-maturity, available-for-sale, or trading based on its intent. Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at cost, adjusted for amortization of premiums and accretion of discounts, which are recognized as adjustments to interest income using the interest method. Securities not classified as held-to-maturity or trading are classified as available-for-sale and recorded at estimated fair value, with all unrealized gains and unrealized losses judged to be temporary, net of deferred income taxes, excluded from earnings and reported in the consolidated statements of comprehensive earnings. Available-for-sale securities that have unrealized losses that are judged other than temporary are included in gain (loss) on sale of securities and a new cost basis is established. Securities classified as trading are recorded at estimated fair value with unrealized gains and losses included in earnings.

Fair values of these securities are determined based on methodologies in accordance with current authoritative accounting guidance. Fair values are volatile and may be influenced by a number of factors, including market interest rates, prepayment speeds, discount rates, credit ratings and yield curves. Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on the quoted prices of similar instruments or an estimate of fair value by using a range of fair value estimates in the market place as a result of the illiquid market specific to the type of security.

When the fair value of a security is below its amortized cost, and depending on the length of time the condition exists and the extent the fair value is below amortized cost, additional analysis is performed to determine whether an other-than-temporary impairment condition exists. Available-for-sale and held-to-maturity securities are analyzed quarterly for possible other-than-temporary impairment. The analysis considers (i) whether we have the intent to sell our securities prior to recovery and/or maturity, (ii) whether it is more likely than not that we will have to sell our securities prior to recovery and/or maturity, (iii) the length of time and extent to which the fair value has been less than costs, and (iv) the financial condition of the issuer. Often, the information available to conduct these assessments is limited and rapidly changing, making estimates of fair value subject to judgment. If actual information or conditions are different than estimated, the extent of the impairment of the security may be different than previously estimated, which could have a material effect on the Company s results of operations and financial condition.

The Company s investment portfolio consists of traditional investments, substantially all in U.S. Treasury securities, obligations of U.S. government sponsored-enterprises and agencies, mortgage pass-through securities, corporate bonds and general obligation or revenue based municipal bonds. Pricing for such securities is generally readily available and transparent in the market. The Company utilizes independent third party pricing services to assist in valuing its investment securities. The Company reviews the prices supplied by the independent pricing services as well as the underlying pricing methodologies for reasonableness and to ensure such prices are aligned with traditional pricing matrices. The Company validates quarterly, on a sample basis, prices supplied by the independent pricing services by comparison to prices obtained from other third party sources.

A summary of available-for-sale and held-to-maturity securities follows (in thousands):

	March 31, 2013			
	Amortized Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Securities available-for-sale:				
U.S. Treasury securities	$ 6,017	$ 23	$	$ 6,040
Obligations of U.S. government sponsored-enterprises and agencies	189,913	3,451		193,364
Obligations of states and political subdivisions	865,282	53,191	(558)	917,915
Corporate bonds and other	111,669	5,553		117,222
Residential mortgage-backed securities	592,911	23,866	(213)	616,564
Commercial mortgage-backed securities	106,898	1,408	(1,260)	107,046
Total securities available-for-sale	$ 1,872,690	$ 87,492	$ (2,031)	$ 1,958,151
Securities held-to-maturity:				
Obligations of states and political subdivisions	$ 595	$ 5	$	$ 600
Residential mortgage-backed securities	308	12		320
Total debt securities held-to-maturity	$ 903	$ 17	$	$ 920

	December 31, 2012			
	Amortized Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Securities available-for-sale:				
U.S. Treasury securities	$ 6,042	$ 48	$	$ 6,090
Obligations of U.S. government sponsored-enterprises and agencies	219,420	4,060		223,480
Obligations of states and political subdivisions	786,278	57,541	(129)	843,690
Corporate bonds and other	117,244	6,020	(73)	123,191
Residential mortgage-backed securities	564,434	23,285	(443)	587,276
Commercial mortgage-backed securities	33,819	1,739	(250)	35,308
Total securities available-for-sale	$ 1,727,237	$ 92,693	$ (895)	$ 1,819,035
Securities held-to-maturity:				
Obligations of states and political subdivisions	$ 735	$ 7	$	$ 742
Residential mortgage-backed securities	294	11		305
Commercial mortgage-backed securities	32	1		33
Total debt securities held-to-maturity	$ 1,061	$ 19	$	$ 1,080

The Company invests in mortgage-backed securities that have expected maturities that differ from their contractual maturities. These differences arise because borrowers may have the right to call or prepay obligations with or without a prepayment penalty. These securities include collateralized mortgage obligations (CMOs) and other asset backed securities. The expected maturities of these securities at March 31, 2013, were computed by using scheduled amortization of balances and historical prepayment rates. At March 31, 2013 and December 31, 2012, the Company did not hold any CMOs that entail higher risks than standard mortgage-backed securities.

The amortized cost and estimated fair value of debt securities at March 31, 2013, by contractual and expected maturity, are shown below (in thousands):

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost Basis	Estimated Fair Value	Amortized Cost Basis	Estimated Fair Value
Due within one year	$ 142,205	$ 144,366	$ 595	$ 600
Due after one year through five years	509,641	532,461		
Due after five years through ten years	495,789	530,064		
Due after ten years	25,246	27,650		
Mortgage-backed securities	699,809	723,610	308	320
Total	$ 1,872,690	$ 1,958,151	$ 903	$ 920

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The following tables disclose, as of March 31, 2013 and December 31, 2012, the Company s investment securities that have been in a continuous unrealized-loss position for less than 12 months and for 12 months or longer (in thousands):

	Less than 12 Months		12 Months or Longer		Total	
March 31, 2013	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Obligations of states and political subdivisions	$ 42,102	$ 558	$	$	$ 42,102	$ 558
Residential mortgage-backed securities	8,664	9	14,885	204	23,549	213
Commercial mortgage-backed securities	38,472	1,260			38,472	1,260
Total	$ 89,238	$ 1,827	$ 14,885	$ 204	$ 104,123	$ 2,031

	Less than 12 Months		12 Months or Longer		Total	
December 31, 2012	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Obligations of states and political subdivisions	$ 36,480	$ 129	$	$	$ 36,480	$ 129
Residential mortgage-backed securities	17,344	401	3,574	42	20,918	443
Commercial mortgage-backed securities	12,453	250			12,453	250
Corporate bonds and other	4,994	73			4,994	73
Total	$ 71,271	$ 853	$ 3,574	$ 42	$ 74,845	$ 895

The number of investment positions in an unrealized loss position totaled 108 at March 31, 2013. We do not believe these unrealized losses are other than temporary as (i) we do not have the intent to sell our securities prior to recovery and/or maturity and (ii) it is more likely than not that we will not have to sell our securities prior to recovery and/or maturity. In making the determination, we also consider the length of time and extent to which fair value has been less than cost and the financial condition of the issuer. The unrealized losses noted are interest rate related due to the level of interest rates at March 31, 2013 compared to the time of purchase. We have reviewed the ratings of the issuers and have not identified any issues related to the ultimate repayment of principal as a result of credit concerns on these securities. Our mortgage related securities are backed by GNMA, FNMA and FHLMC or are collateralized by securities backed by these agencies.

Securities, carried at approximately $870,328,000 at March 31, 2013, were pledged as collateral for public or trust fund deposits, repurchase agreements and for other purposes required or permitted by law.

During the quarter ended March 31, 2013 and 2012, sales of investment securities that were classified as available-for-sale totaled $5,227,000 and $21,003,000, respectively. Gross realized gains from securities sales and calls during the first quarter of 2013 and 2012 totaled $223,000 and $346,000, respectively. Gross realized losses from securities sales and calls during the first quarter of 2013 totaled $1,000. There were no losses realized on securities sales and calls during the first quarter of 2012. The specific identification method was used to determine cost in order to compute the realized gains and losses.

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Note 4 Loans and Allowance for Loan Losses

Loans held for investment are stated at the amount of unpaid principal, reduced by unearned income and an allowance for loan losses. Interest on loans is calculated by using the simple interest method on daily balances of the principal amounts outstanding. The Company defers and amortizes net loan origination fees and costs as an adjustment to yield. The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes the collectability of the principal is unlikely.

The Company has certain lending policies and procedures in place that are designed to maximize loan income with an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis and makes changes as appropriate. Management receives and reviews 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 geographic location.

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.

Agricultural loans are subject to underwriting standards and processes similar to commercial loans. These agricultural loans are based primarily on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. Most agricultural loans are secured by the agriculture related assets being financed, such as farm land, cattle or equipment and include personal guarantees.

Real estate loans are also subject to underwriting standards and processes similar to commercial and agricultural 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 the Company s real estate portfolio are generally diverse in terms of type and geographic location. This diversity helps reduce the exposure to adverse economic events that affect any single market or industry. Generally, real estate loans are owner occupied which further reduces the Company s risk.

Consumer loan underwriting utilizes methodical credit standards and analysis to supplement the Company s underwriting policies and procedures. The Company s 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 minimize the Company s risk.

The allowance is an amount management believes is appropriate to absorb probable losses that have been incurred on existing loans as of the balance sheet date based upon management s review and evaluation of the loan portfolio. The allowance for loan losses is comprised of three elements: (i) specific reserves determined in accordance with current authoritative accounting guidance based on probable losses on specific classified loans; (ii) general reserve determined in accordance with current authoritative accounting guidance that considers historical loss rates; and (iii) qualitative reserves determined in accordance with current authoritative accounting guidance based upon general economic conditions and other qualitative risk factors both internal and external to the Company. The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries). Management s periodic evaluation of the appropriateness 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. For purposes of determining our general reserve, the loan portfolio, less cash secured loans, government guaranteed loans and classified loans, is multiplied by the Company s historical loss rate. Our methodology is constructed so that specific allocations are increased in accordance with deterioration in credit quality and a corresponding increase in risk of loss on a particular loan. In addition, we adjust our allowance for qualitative factors such as current local economic conditions and trends, including, without limitations, 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. This additional allocation based on qualitative factors serves to compensate for additional areas of uncertainty inherent in our portfolio that are not reflected in our historic loss factors.

Although we believe we use the best information available to make loan loss allowance determinations, future adjustments could be necessary if circumstances or economic conditions differ substantially from the assumptions used in making our initial determinations. A further downturn in the economy and employment could result in increased levels of non-performing assets and charge-offs, increased loan provisions and reductions in income. Additionally, bank regulatory agencies periodically review our allowance for loan losses and could require additions to the loan loss allowance based on their judgment of information available to them at the time of their examination.

Accrual of interest is discontinued on a loan and payments are applied to principal when management believes, after considering economic and business conditions and collection efforts, the borrower s financial condition is such that collection of interest is doubtful. Except consumer loans, generally all loans past due greater than 90 days, based on contractual terms, are placed on non-accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Consumer loans are generally charged-off when a loan becomes past due 90 days. For other loans in the portfolio, facts and circumstances are evaluated in making charge-off decisions.

Loans are considered impaired when, based on current information and events, management determines that 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 uncollectable.

The Company s 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 March 31, 2013 and 2012, and December 31, 2012, 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.

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From time to time, the Company modifies its loan agreement with a borrower. A modified loan is considered a troubled debt restructuring when two conditions are met: (i) the borrower is experiencing financial difficulty and (ii) concessions are made by the Company 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. To date, these troubled debt restructurings have been such that, after considering economic and business conditions and collection efforts, the collection of interest is doubtful and therefore the loan has been placed on non-accrual. Each of these loans is evaluated for impairment and a specific reserve is recorded based on probable losses, taking into consideration the related collateral and modified loan terms and cash flow. As of March 31, 2013 and 2012, and December 31, 2012, all of the Company s troubled debt restructured loans are included in the non-accrual totals.

The Company originates certain mortgage loans for sale in the secondary market. Accordingly, these loans are classified as held for sale and are carried at the lower of cost or fair value on an aggregate basis. Loans held for sale totaled $10,122,000, $5,695,000 and $11,457,000, at March 31, 2013 and 2012 and December 31, 2012, respectively, in which the carrying amounts approximate fair value. The mortgage loan sales contracts contain indemnification clauses should the loans default, generally in the first three to six months, or if documentation is determined not to be in compliance with regulations. The Company s historic losses as a result of these indemnities have been insignificant.

Major classifications of loans held for investment are as follows (in thousands):

	March 31,		December 31,
	2013	2012	2012
Commercial	$ 513,422	$ 433,351	$ 509,609
Agricultural	55,247	57,977	68,306
Real estate	1,275,564	1,083,244	1,226,823
Consumer	283,782	218,600	272,428
Total loans held for investment	$ 2,128,015	$ 1,793,172	$ 2,077,166

The Company s non-accrual loans, loans still accruing and past due 90 days or more and restructured loans are as follows (in thousands):

	March 31,		December 31,
	2013	2012	2012
Non-accrual loans	$ 22,509	$ 20,963	$ 21,800
Loans still accruing and past due 90 days or more	24	53	97
Restructured loans*			
Total	$ 22,533	$ 21,016	$ 21,897

* Restructured loans whose interest collection, after considering economic and business conditions and collection efforts, is doubtful are included in non-accrual loans.

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The Company s recorded investment in impaired loans and the related valuation allowance are as follows (in thousands):

March 31, 2013		March 31, 2012		December 31, 2012	
Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance
$ 22,509	$5,793	$20,963	$5,357	$21,800	$6,010

The average recorded investment in impaired loans for the three months ended March 31, 2013 and 2012 and the year ended December 31, 2012 was approximately $23,163,000, $21,957,000 and $24,025,000, respectively. The Company had $25,718,000, $28,868,000 and $25,462,000 in non-accrual, past due 90 days still accruing and restructured loans and foreclosed assets at March 31, 2013 and 2012, and December 31, 2012, respectively. Non-accrual loans totaled $22,509,000, $20,963,000 and $21,800,000, respectively, and consisted of the following amounts by type (in thousands):

	March 31,		December 31,
	2013	2012	2012
Commercial	$ 1,133	$ 3,665	$ 2,251
Agricultural	473	923	372
Real estate	20,502	16,026	18,698
Consumer	401	349	479
Total	$ 22,509	$ 20,963	$ 21,800

No additional funds are committed to be advanced in connection with impaired loans.

The Company s impaired loans and related allowance as of March 31, 2013 and 2012, and December 31, 2012, are summarized in the following table (in thousands). No interest income was recognized on impaired loans subsequent to their classification as impaired.

March 31, 2013	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Three-month Average Recorded Investment
Commercial	$ 1,555	$ 25	$ 1,108	$ 1,133	$ 555	$ 1,232
Agricultural	489	25	448	473	169	483
Real Estate	24,937	1,956	18,546	20,502	4,901	21,028
Consumer	466	77	324	401	168	420
Total	$ 27,447	$ 2,083	$ 20,426	$ 22,509	$ 5,793	$ 23,163

March 31, 2012	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Three-month Average Recorded Investment
Commercial	$ 4,218	$ 24	$ 3,641	$ 3,665	$ 1,990	$ 3,817
Agricultural	948		923	923	170	922
Real Estate	20,058	3,470	12,556	16,026	3,082	16,838

Consumer	414	55	294	349	115	380
Total	$ 25,638	$ 3,549	$ 17,414	$ 20,963	$ 5,357	$ 21,957

December 31, 2012	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Year-to-Date Average Recorded Investment
Commercial	$ 2,677	$ 20	$ 2,231	$ 2,251	$ 1,350	$ 2,966
Agricultural	381		372	372	131	437
Real Estate	22,569	2,049	16,649	18,698	4,356	20,164
Consumer	543	115	364	479	173	458
Total	$ 26,170	$ 2,184	$ 19,616	$ 21,800	$ 6,010	$ 24,025

The Company recognized interest income on impaired loans prior to being recognized as impaired of approximately $384,000 during the year ended December 31, 2012. Such amounts for the three-month period ended March 31, 2013 and 2012 were not significant.

From a credit risk standpoint, the Company classifies its loans in one of four 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 about the risks of default and loss associated with the loan. The Company reviews the ratings on our credits as part of our on-going monitoring of the credit quality of our loan portfolio. Ratings are adjusted to reflect the degree of risk and loss that are 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 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 exist in 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 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.

At March 31, 2013 and December 31, 2012, the following summarizes the Company s internal ratings of its loans held for investment (in thousands):

March 31, 2013	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$ 501,859	$ 2,083	$ 9,449	$ 31	$ 513,422
Agricultural	51,321	337	3,582	7	55,247
Real Estate	1,222,112	15,015	38,281	156	1,275,564
Consumer	282,545	349	870	18	283,782
Total	$ 2,057,837	$ 17,784	$ 52,182	$ 212	$ 2,128,015

December 31, 2012	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$ 498,188	$ 2,193	$ 9,198	$ 30	$ 509,609
Agricultural	64,397	342	3,559	8	68,306
Real Estate	1,176,330	14,680	35,673	140	1,226,823
Consumer	271,114	382	911	21	272,428
Total	$ 2,010,029	$ 17,597	$ 49,341	$ 199	$ 2,077,166

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At March 31, 2013 and December 31, 2012, the Company s past due loans are as follows (in thousands):

March 31, 2013	15-59 Days Past Due*	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	90 Days Past Due Still Accruing
Commercial	$ 4,146	$ 307	$ 283	$ 4,736	$ 508,686	$ 513,422	$ 3
Agricultural	641	16		657	54,590	55,247	
Real Estate	14,962	1,653	1,907	18,522	1,257,042	1,275,564	
Consumer	1,629	227	144	2,000	281,782	283,782	21
Total	$ 21,378	$ 2,203	$ 2,334	$ 25,915	$ 2,102,100	$ 2,128,015	$ 24

December 31, 2012	15-59 Days Past Due*	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	90 Days Past Due Still Accruing
Commercial	$ 1,708	$ 470	$ 247	$ 2,425	$ 507,184	$ 509,609	$
Agricultural	467	95		562	67,744	68,306	
Real Estate	10,141	2,711	1,237	14,089	1,212,734	1,226,823	34
Consumer	1,660	287	163	2,110	270,318	272,428	63
Total	$ 13,976	$ 3,563	$ 1,647	$ 19,186	$ 2,057,980	$ 2,077,166	$ 97

* The Company monitors commercial, agricultural and real estate loans after such loans are 15 days past due. Consumer loans are monitored after such loans are 30 days past due.

The allowance for loan losses as of March 31, 2013 and 2012, and December 31, 2012, is presented below. Management has evaluated the adequacy of the allowance for loan losses by estimating the probable losses in various categories of the loan portfolio, which are identified below (in thousands):

	March 31, 2013	March 31, 2012	December 31, 2012
Allowance for loan losses provided for:			
Loans specifically evaluated as impaired	$ 5,793	$ 5,357	$ 6,010
Remaining portfolio	28,879	29,172	28,829
Total allowance for loan losses	$ 34,672	$ 34,529	$ 34,839

The following table details the allowance for loan losses at March 31, 2013 and December 31, 2012 by portfolio segment (in thousands). Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

March 31, 2013	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	$ 2,542	$ 388	$ 8,983	$ 315	$ 12,228
Loans collectively evaluated for impairment	3,962	1,078	15,878	1,526	22,444
Total	$ 6,504	$ 1,466	$ 24,861	$ 1,841	$ 34,672

December 31, 2012	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	$ 3,253	$ 388	$ 8,380	$ 308	$ 12,329
Loans collectively evaluated for impairment	4,090	1,153	15,683	1,584	22,510
Total	$ 7,343	$ 1,541	$ 24,063	$ 1,892	$ 34,839

Changes in the allowance for loan losses for the three months ended March 31, 2013 and 2012 are summarized as follows (in thousands):

Three months ended March 31, 2013	Commercial	Agricultural	Real Estate	Consumer	Total
Beginning balance	$ 7,343	$ 1,541	$ 24,063	$ 1,892	$ 34,839
Provision for loan losses	(672)	(86)	1,120	39	401
Recoveries	121	11	28	95	255
Charge-offs	(288)		(350)	(185)	(823)
Ending balance	$ 6,504	$ 1,466	$ 24,861	$ 1,841	$ 34,672

Three months ended March 31, 2012	Commercial	Agricultural	Real Estate	Consumer	Total
Beginning balance	$ 9,664	$ 1,482	$ 21,533	$ 1,636	$ 34,315
Provision for loan losses	94	(119)	1,161	160	1,296
Recoveries	103	12	113	95	323
Charge-offs	(249)	(22)	(972)	(162)	(1,405)
Ending balance	$ 9,612	$ 1,353	$ 21,835	$ 1,729	$ 34,529

The Company s recorded investment in loans as of March 31, 2013 and December 31, 2012 related to the balance in the allowance for loan losses on the basis of the Company s impairment methodology was as follows (in thousands):

March 31, 2013	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	$ 11,563	$ 3,926	$ 53,452	$ 1,237	$ 70,178
Loans collectively evaluated for impairment	501,859	51,321	1,222,112	282,545	2,057,837
Total	$ 513,422	$ 55,247	$ 1,275,564	$ 283,782	$ 2,128,015

December 31, 2012	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	$ 11,421	$ 3,909	$ 50,493	$ 1,314	$ 67,137
Loans collectively evaluated for impairment	498,188	64,397	1,176,330	271,114	2,010,029
Total	$ 509,609	$ 68,306	$ 1,226,823	$ 272,428	$ 2,077,166

The Company s loans that were modified in the three months ended March 31, 2013 and 2012 and considered a troubled debt restructuring are as follows (dollars in thousands):

	Three months ended March 31, 2013		Three months ended March 31, 2012	
	Pre-Modification Recorded	Post-Modification Recorded	Pre-Modification Recorded	Post-Modification Recorded

	Number	Investment	Investment	Number	Investment	Investment
Commercial	2	$ 120	$ 120	4	$ 127	$ 127
Agricultural	1	24	24	2	108	108
Real Estate	4	796	796	13	3,803	3,803
Consumer						
Total	7	$ 940	$ 940	19	$ 4,038	$ 4,038

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The balances below provide information as to how the loans were modified as troubled debt restructured loans during the three months ended March 31, 2013 and 2012 (in thousands):

	Three months ended March 31, 2013			Three months ended March 31, 2012		
	Adjusted Interest Rate	Extended Maturity	Combined Rate and Maturity	Adjusted Interest Rate	Extended Maturity	Combined Rate and Maturity
Commercial	$	$ 120	$	$ 17	$ 62	$ 48
Agricultural		24			13	95
Real Estate	272	350	174			3,803
Consumer						
Total	$ 272	$ 494	$ 174	$ 17	$ 75	$ 3,946

During the three months ended March 31, 2013, 11 loans totaling $1,167,000 that had been modified as a troubled debt restructured loan within the previous 12 months defaulted on the modified loan. A default for purposes of this disclosure is a troubled debt restructured loan in which the borrower is 90 days past due or results in the foreclosure and repossession of the applicable collateral. There were no such defaults for the three months ended March 31, 2012. The loans are as follows (dollars in thousands):

	Three months ended March 31, 2013	
	Number	Balance
Commercial	5	$ 217
Agriculture		
Real Estate	5	931
Consumer	1	19
Total	11	$ 1,167

As of March 31, 2013, the Company has no commitments to lend additional funds to loan customers whose terms have been modified in troubled debt restructurings.

Our subsidiary bank has established a line of credit with the Federal Home Loan Bank of Dallas to provide liquidity and meet pledging requirements for those customers eligible to have securities pledged to secure certain uninsured deposits. At March 31, 2013, approximately $1,118,519,000 in loans held by the bank were subject to blanket liens as security for these lines of credit. At March 31, 2013, $68,600,000 in letters of credit issued by the Federal Home Loan Bank of Dallas were outstanding under these lines of credit. The letters of credit were pledged as collateral for public funds held by our bank.

Note 5 Income Taxes

Income tax expense was $6,182,000 for the first quarter in 2013 as compared to $6,035,000 for the same period in 2012. Our effective tax rates on pretax income were 25.0% and 25.4% for the first quarter of 2013 and 2