

FIRST FINANCIAL BANKSHARES INC
Form 10-Q
October 30, 2018
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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 September 30, 2018
Commission file number 0-7674

FIRST FINANCIAL BANKSHARES, INC.
(Exact name of registrant as specified in its charter)

Texas
(State or other jurisdiction of
incorporation or organization)

75-0944023
(I.R.S. Employer
Identification No.)

400 Pine Street, Abilene, Texas
(Address of principal executive offices)

79601
(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 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 No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

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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 October 30, 2018
Common Stock, \$0.01 par value per share	67,721,632

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

The consolidated balance sheets of First Financial Bankshares, Inc. (the Company or we) at September 30, 2018 and 2017 and December 31, 2017, and the consolidated statements of earnings and comprehensive earnings for the three and nine months ended September 30, 2018 and 2017, and the consolidated statements of shareholders' equity and cash flows for the nine months ended September 30, 2018 and 2017, follow on pages 4 through 8.

Table of Contents**FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(Dollars in thousands, except per share amounts)**

	September 30, 2018	September 30, 2017	December 31, 2017
	(Unaudited)		
ASSETS			
CASH AND DUE FROM BANKS	\$ 164,998	\$ 177,615	\$ 209,583
INTEREST-BEARING DEPOSITS IN BANKS	34,511	166,820	162,764
Total cash and cash equivalents	199,509	344,435	372,347
INTEREST-BEARING TIME DEPOSITS IN BANKS	1,458	1,458	1,458
SECURITIES AVAILABLE-FOR-SALE, at fair value	3,144,367	2,885,483	3,087,473
LOANS:			
Held for investment	3,867,040	3,472,227	3,485,569
Less-allowance for loan losses	(50,871)	(47,922)	(48,156)
Net loans held for investment	3,816,169	3,424,305	3,437,413
Held for sale	18,496	19,119	15,130
Net loans	3,834,665	3,443,424	3,452,543
BANK PREMISES AND EQUIPMENT, net	130,815	125,668	124,026
INTANGIBLE ASSETS	174,907	141,355	141,143
OTHER ASSETS	85,510	67,341	75,725
Total assets	\$ 7,571,231	\$ 7,009,164	\$ 7,254,715
LIABILITIES AND SHAREHOLDERS' EQUITY			
NONINTEREST-BEARING DEPOSITS	\$ 2,146,984	\$ 1,949,174	\$ 2,041,650
INTEREST-BEARING DEPOSITS	3,998,298	3,748,286	3,921,311
Total deposits	6,145,282	5,697,460	5,962,961
DIVIDENDS PAYABLE	14,216	12,580	12,589
BORROWINGS	380,760	351,435	331,000
OTHER LIABILITIES	35,234	41,133	25,397
Total liabilities	6,575,492	6,102,608	6,331,947
COMMITMENTS AND CONTINGENCIES			
SHAREHOLDERS' EQUITY:			
Common stock 0.01 par value, authorized 120,000,000 shares; 67,693,586, 66,223,957 and 66,260,444 shares issued at September 30, 2018 and 2017 and December 31, 2017, respectively)	677	662	663

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Capital surplus	440,589	376,286	378,062
Retained earnings	582,449	493,706	517,257
Treasury stock (shares at cost: 471,070, 498,459, and 495,964 at September 30, 2018 and 2017 and December 31, 2017, respectively)	(7,512)	(7,028)	(7,148)
Deferred compensation	7,512	7,028	7,148
Accumulated other comprehensive earnings (loss)	(27,976)	35,902	26,786
Total shareholders' equity	995,739	906,556	922,768
Total liabilities and shareholders' equity	\$ 7,571,231	\$ 7,009,164	\$ 7,254,715

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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
INTEREST INCOME:				
Interest and fees on loans	\$ 51,428	\$ 42,749	\$ 147,279	\$ 123,643
Interest on investment securities:				
Taxable	12,593	8,074	36,666	23,848
Exempt from federal income tax	9,558	11,091	29,882	33,991
Interest on federal funds sold and interest-bearing deposits in banks	470	640	1,382	1,037
Total interest income	74,049	62,554	215,209	182,519
INTEREST EXPENSE:				
Interest on deposits	4,330	2,228	11,854	5,748
Other	293	638	869	978
Total interest expense	4,623	2,866	12,723	6,726
Net interest income	69,426	59,688	202,486	175,793
PROVISION FOR LOAN LOSSES	1,450	1,415	3,865	5,090
Net interest income after provision for loan losses	67,976	58,273	198,621	170,703
NONINTEREST INCOME:				
Trust fees	7,291	6,040	21,265	17,804
Service charges on deposit accounts	5,690	5,083	15,950	14,517
ATM, interchange and credit card fees	7,533	6,340	21,570	19,102
Real estate mortgage operations	4,834	3,891	11,718	11,496
Net gain on sale of available-for-sale securities (includes \$58 and \$1,075 for the three months ended September 30, 2018 and 2017, respectively, and \$1,346 and \$1,825 for the nine months ended September 30, 2018 and 2017, respectively, related to accumulated other comprehensive earnings reclassifications)	58	1,075	1,346	1,825
Net gain (loss) on sale of foreclosed assets	84	(11)	201	(42)
Net gain (loss) on sale of assets	(61)	(15)	(152)	(211)
Interest on loan recoveries	199	405	607	896
Other	1,427	1,452	4,461	3,328
Total noninterest income	27,055	24,260	76,966	68,715

NONINTEREST EXPENSE:

Salaries and employee benefits	26,377	24,143	79,442	70,867
Net occupancy expense	2,900	2,711	8,589	8,081
Equipment expense	3,482	3,294	10,438	10,397
FDIC insurance premiums	570	561	1,768	1,657
ATM, interchange and credit card expenses	2,344	2,001	6,692	5,517
Professional and service fees	2,174	2,036	6,613	5,878
Printing, stationery and supplies	387	449	1,485	1,423
Operational and other losses	981	1,081	1,852	2,639
Software amortization and expense	540	742	1,542	2,237
Amortization of intangible assets	279	143	1,049	477
Other	7,472	6,803	22,978	20,718
Total noninterest expense	47,506	43,964	142,448	129,891
EARNINGS BEFORE INCOME TAXES	47,525	38,569	133,139	109,527
INCOME TAX EXPENSE (includes \$12 and \$376 for the three months ended September 30, 2018 and 2017, respectively, and \$283 and \$639 for the nine months ended September 30, 2018 and 2017, respectively, related to income tax expense from reclassification items)	7,475	9,195	20,937	25,300
NET EARNINGS	\$ 40,050	\$ 29,374	\$ 112,202	\$ 84,227
EARNINGS PER SHARE, BASIC	\$ 0.59	\$ 0.44	\$ 1.66	\$ 1.27
EARNINGS PER SHARE, ASSUMING DILUTION	\$ 0.59	\$ 0.44	\$ 1.65	\$ 1.27
DIVIDENDS PER SHARE	\$ 0.21	\$ 0.19	\$ 0.61	\$ 0.56

See notes to consolidated financial statements.

Table of Contents**FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS) - (UNAUDITED)****(Dollars in thousands)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
NET EARNINGS	\$ 40,050	\$ 29,374	\$ 112,202	\$ 84,227
OTHER ITEMS OF COMPREHENSIVE EARNINGS (LOSS):				
Change in unrealized gain (loss) on investment securities available-for-sale, before income taxes	(20,930)	1,729	(75,236)	28,682
Reclassification adjustment for realized gains on investment securities included in net earnings, before income tax	(58)	(1,075)	(1,346)	(1,825)
Total other items of comprehensive earnings (loss)	(20,988)	654	(76,582)	26,857
Income tax benefit (expense) related to other items of comprehensive earnings	4,407	(229)	16,082	(9,400)
Reclassification of certain income tax effects related to the change in the U.S. statutory federal income tax rate under the Tax Cuts and Jobs Act to retained earnings			5,759	
COMPREHENSIVE EARNINGS	\$ 23,469	\$ 29,799	\$ 57,461	\$ 101,684

See notes to consolidated financial statements.

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FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Dollars in thousands, except per share amounts)

	Common Stock Shares	Common Stock Amount	Capital Surplus	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Deferred Compensation	Accumulated Other Comprehensive Earnings	Total Shareholders' Equity
Balances at December 31, 2016	66,094,695	\$ 661	\$ 372,245	\$ 446,534	(507,409)	\$(6,671)	\$ 6,671	\$ 18,445	\$ 837,885
Net earnings (unaudited)				84,227					84,227
Stock option exercises (unaudited)	114,612	1	2,259						2,260
Restricted stock grant (unaudited)	14,650		600						600
Cash dividends declared, \$0.56 per share (unaudited)				(37,055)					(37,055)
Change in unrealized gain in investment securities available-for-sale, net of related income taxes (unaudited)								17,457	17,457
Shares purchased (redeemed) in connection with directors' deferred compensation plan, net (unaudited)					8,950	(357)	357		
Stock option expense (unaudited)			1,182						1,182
Balances at September 30, 2017 (unaudited)	66,223,957	\$ 662	\$ 376,286	\$ 493,706	(498,459)	\$(7,028)	\$ 7,028	\$ 35,902	\$ 906,556

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Balances at December 31, 2017	66,260,444	\$ 663	\$ 378,062	\$ 517,257	(495,964)	\$(7,148)	\$ 7,148	\$ 26,786	\$ 922,768
Net earnings (unaudited)				112,202					112,202
Stock option exercises (unaudited)	133,061	1	2,799						2,800
Restricted stock grant (unaudited)	10,710		523						523
Cash dividends declared, \$0.61 per share (unaudited)				(41,272)					(41,272)
Stock issued in acquisition of Commercial Bancshares, Inc.	1,289,371	13	58,074						58,087
Change in unrealized gain (loss) in investment securities available-for-sale, net of related income taxes (unaudited)							(60,500)		(60,500)
Shares purchased (redeemed) in connection with directors deferred compensation plan, net (unaudited)					24,894	(364)	364		
Stock option expense (unaudited)			1,131						1,131
Reclassification of certain income tax effects related to the change in the U.S. statutory federal income tax rate under the Tax Cuts and Jobs Act to retained earnings (unaudited)				(5,759)			5,759		
Reclassification of unrealized gain				21			(21)		

in equity
 securities at
 December 31,
 2017 from
 accumulated
 other
 comprehensive
 earnings to
 retained earnings
 (unaudited)

Balances at September 30, 2018 (unaudited)	67,693,586	\$ 677	\$ 440,589	\$ 582,449	(471,070)	\$ (7,512)	\$ 7,512	\$ (27,976)	\$ 995,739
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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)

	Nine Months Ended September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 112,202	\$ 84,227
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	9,554	9,447
Provision for loan losses	3,865	5,090
Securities premium amortization (discount accretion), net	21,005	23,009
Gain on sale of assets, net	(1,254)	(1,572)
Deferred federal income tax benefit	8,107	1,290
Change in loans held-for-sale	(2,928)	7,779
Change in other assets	2,699	18,703
Change in other liabilities	5,653	7,172
Total adjustments	46,701	70,918
Net cash provided by operating activities	158,903	155,145
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash received in acquisition of Commercial Bancshares, Inc.	18,653	
Net decrease in interest-bearing time deposits in banks		249
Activity in available-for-sale securities:		
Sales	220,259	120,576
Maturities	3,354,571	4,299,781
Purchases	(3,650,127)	(4,450,719)
Activity in held-to-maturity securities maturities		124
Net increase in loans	(116,860)	(119,911)
Purchases of bank premises and equipment and other assets	(12,381)	(12,626)
Proceeds from sale of bank premises and equipment and other assets	810	4,857
Net cash used in investing activities	(185,075)	(157,669)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in noninterest-bearing deposits	(56,706)	231,452
Net increase in interest-bearing deposits	(102,875)	(12,531)
Net increase (decrease) in borrowings	49,760	(94,335)
Common stock transactions:		
Proceeds from stock issuances	2,800	2,260
Dividends paid	(39,645)	(36,373)

Net cash provided by (used in) financing activities	(146,666)	90,473
NET DECREASE IN CASH AND CASH EQUIVALENTS	(172,838)	87,949
CASH AND CASH EQUIVALENTS, beginning of period	372,347	256,486
CASH AND CASH EQUIVALENTS, end of period	\$ 199,509	\$ 344,435
SUPPLEMENTAL INFORMATION AND NONCASH TRANSACTIONS:		
Interest paid	\$ 12,617	\$ 6,772
Federal income taxes paid	20,351	21,896
Transfer of loans and bank premises to other real estate	126	2,044
Investment securities purchased but not settled	13,453	993
Restricted stocks grant to directors and officers	523	600
Stock issued in acquisition of Commercial Bancshares, Inc.	58,087	
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 unaudited 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 a full-service commercial banking business. Our banking centers are located primarily in Central, North Central, Southeast and West Texas. As of September 30, 2018, we had 72 financial centers across Texas, with eleven locations in Abilene, three locations in Weatherford, two locations in Cleburne, Conroe, San Angelo, Stephenville and Granbury, and one location each in Acton, Albany, Aledo, Alvarado, Beaumont, Boyd, Bridgeport, Brock, Burseson, Cisco, Clyde, Cut and Shoot, Decatur, Eastland, El Campo, Fort Worth, Fulshear, Glen Rose, Grapevine, Hereford, Huntsville, Keller, Kingwood, Magnolia, Mauriceville, Merkel, Midlothian, Mineral Wells, Montgomery, Moran, New Waverly, Newton, Odessa, Orange, Palacios, Port Arthur, Ranger, Rising Star, Roby, Southlake, Sweetwater, Tomball, Trent, Trophy Club, Vidor, Waxahachie, Willis and Willow Park, all in Texas. Our trust subsidiary has seven locations which are located in Abilene, Fort Worth, Odessa, Beaumont, San Angelo, Stephenville and Sweetwater.

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, 2017. All adjustments were of a normal recurring nature. However, the results of operations for the three and nine months ended September 30, 2018, are not necessarily indicative of the results to be expected for the year ending December 31, 2018, due to seasonality, changes in economic conditions and loan credit quality, interest rate fluctuations, regulatory and legislative changes and other factors. The preparation of financial statements in conformity with United States generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the financial statement date. Actual results could vary. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted under U.S. Securities and Exchange Commission (SEC) rules and regulations. The Company evaluated subsequent events for potential recognition and/or disclosure through the date the consolidated financial statements were issued.

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.

New Revenue Recognition Standard

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

The majority of the Company's revenue is derived from loan and investment income which are specifically excluded from the scope of this standard. Of the Company's remaining sources of income, substantially all sources of revenue are recognized either by transaction (ATM, interchange, wire transfer,

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etc.) or when the Company charges a customer for a service that has already been rendered (monthly service charges, account fees, monthly trust management fees, etc.). Payment for such performance obligations are generally received at the time the performance obligations are satisfied. Other non-interest income primarily includes items such as letter of credit fees, gains on the sale of loans held for sale and servicing fees, none of which are subject to the requirements of ASC 606. See note 13 for additional discussion related to the Company's adoption of ASC 606.

Note 2 - Stock Repurchase

On July 25, 2017, the Company's Board of Directors authorized the repurchase of up to 2,000,000 common shares through September 30, 2020. The shares buyback plan authorizes management to repurchase the shares at such time as repurchases are considered beneficial to shareholders. Any repurchase of shares 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 September 30, 2018, no shares were repurchased under this authorization.

Note 3 - 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 and nine months ended September 30, 2018, and 2017, the Company assumes that all dilutive outstanding options to purchase common shares have been exercised at the beginning of the period (or the time of issuance, if later). The dilutive effect of these outstanding options and the restricted shares is reflected by application of the treasury stock method, whereby the proceeds from exercised options and restricted shares are assumed to be used to purchase common shares 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 September 30, 2018 and 2017 were 67,635,058 and 66,140,518 shares, respectively. The weighted average common shares outstanding used in computing basic earnings per common share for the nine months ended September 30, 2018 and 2017 were 67,586,843 and 66,104,914 shares, respectively. The weighted average common shares outstanding used in computing fully diluted earnings per common share for the three months ended September 30, 2018 and 2017 were 68,053,724 and 66,417,281 shares, respectively. The weighted average common shares outstanding used in computing fully diluted earnings per common share for the nine months ended September 30, 2018 and 2017 were 67,948,420 and 66,392,210 shares, respectively. For the three and nine months ended September 30, 2018 and 2017, there were no weighted average outstanding stock options that were anti-dilutive that have been excluded from the earnings per share calculation.

Note 4 - Interest-bearing Time Deposits in Banks and Securities

Interest-bearing time deposits in banks totaled \$1,458,000 at September 30, 2018 and 2017 and December 31, 2017, respectively, and have original maturities within twelve months.

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 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 fair value with unrealized gains and losses included in earnings.

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The Company records its available-for-sale and trading securities portfolio at fair value. 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 amortized cost, 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 U.S. Treasury securities, obligations of U.S. government sponsored enterprises and agencies, obligations of states and political subdivisions, 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 value its investment securities, which the Company reviews as well as the underlying pricing methodologies for reasonableness and to ensure such prices are aligned with 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 the Company's available-for-sale securities follows (in thousands):

		September 30, 2018		
	Amortized	Gross	Gross	Estimated
	Cost Basis	Unrealized	Unrealized	Fair Value
		Holding Gains	Holding Losses	
U.S. Treasury Securities	\$ 9,964	\$	\$ (35)	\$ 9,929
Obligations of U.S. government sponsored enterprises and agencies	303		(1)	302
Obligations of states and political subdivisions	1,174,320	21,664	(4,097)	1,191,887
Corporate bonds and other	4,860		(121)	4,739
Residential mortgage-backed securities	1,533,302	912	(39,908)	1,494,306
Commercial mortgage-backed securities	453,495	8	(10,299)	443,204
Total securities available-for-sale	\$ 3,176,244	\$ 22,584	\$ (54,461)	\$ 3,144,367

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	September 30, 2017			
	Amortized Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Obligations of U.S. government sponsored enterprises and agencies	\$ 73,583	\$ 35	\$ (30)	\$ 73,588
Obligations of states and political subdivisions	1,379,117	56,671	(1,594)	1,434,194
Corporate bonds and other	19,439	118	(2)	19,555
Residential mortgage-backed securities	1,024,615	8,466	(3,797)	1,029,284
Commercial mortgage-backed securities	328,806	945	(889)	328,862
Total securities available-for-sale	\$ 2,825,560	\$ 66,235	\$ (6,312)	\$ 2,885,483

	December 31, 2017			
	Amortized Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Obligations of U.S. government sponsored enterprises and agencies	\$ 60,516	\$	\$ (186)	\$ 60,330
Obligations of states and political subdivisions	1,369,295	52,491	(936)	1,420,850
Corporate bonds and other	11,421	43	(5)	11,459
Residential mortgage-backed securities	1,223,452	4,561	(8,916)	1,219,097
Commercial mortgage-backed securities	377,934	263	(2,460)	375,737
Total securities available-for-sale	\$ 3,042,618	\$ 57,358	\$ (12,503)	\$ 3,087,473

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 September 30, 2018 were computed by using scheduled amortization of balances and historical prepayment rates. At September 30, 2018 and 2017, and December 31, 2017, the Company did not hold CMOs that entail higher risks than standard mortgage-backed securities.

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The amortized cost and estimated fair value of available-for-sale securities at September 30, 2018, by contractual and expected maturity, are shown below (in thousands):

	Amortized Cost Basis	Estimated Fair Value
Due within one year	\$ 187,577	\$ 189,177
Due after one year through five years	552,075	565,059
Due after five years through ten years	448,087	450,670
Due after ten years	1,708	1,951
Mortgage-backed securities	1,986,797	1,937,510
Total	\$ 3,176,244	\$ 3,144,367

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

	Less than 12 Months Unrealized		12 Months or Longer Unrealized		Total Unrealized	
	Fair Value	Loss	Fair Value	Loss	Fair Value	Loss
September 30, 2018						
U.S. Treasury Securities	\$ 9,929	\$ 35	\$	\$	\$ 9,929	\$ 35
Obligations of U.S. government sponsored enterprises and agencies	302	1			302	1
Obligations of states and political subdivisions	184,265	2,165	44,750	1,932	229,015	4,097
Corporate bonds and other	4,399	110	449	11	4,848	121
Residential mortgage-backed securities	962,320	20,850	461,227	19,058	1,423,547	39,908
Commercial mortgage-backed securities	270,375	5,908	167,368	4,391	437,743	10,299
Total	\$ 1,431,590	\$ 29,069	\$ 673,794	\$ 25,392	\$ 2,105,384	\$ 54,461

	Less than 12 Months Unrealized		12 Months or Longer Unrealized		Total Unrealized	
	Fair Value	Loss	Fair Value	Loss	Fair Value	Loss
September 30, 2017						
Obligations of U.S. government sponsored enterprises and agencies	\$ 45,050	\$ 30	\$	\$	\$ 45,050	\$ 30
Obligations of states and political subdivisions	54,983	309	45,217	1,285	100,200	1,594
Corporate bonds and other			240	2	240	2
Residential mortgage-backed securities	225,369	1,531	131,849	2,266	357,218	3,797
Commercial mortgage-backed securities	170,146	751	21,001	138	191,147	889

Total	\$ 495,548	\$ 2,621	\$ 198,307	\$ 3,691	\$ 693,855	\$ 6,312
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	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2017						
Obligations of U.S. government sponsored enterprises and agencies	\$ 60,329	\$ 186	\$	\$	\$ 60,329	\$ 186
Obligations of state and political subdivisions	66,361	219	44,938	717	111,299	936
Corporate bonds and other	224	2	237	3	461	5
Residential mortgage-backed securities	701,252	3,988	239,641	4,928	940,893	8,916
Commercial mortgage-backed securities	239,548	1,500	92,549	960	332,097	2,460
Total	\$ 1,067,714	\$ 5,895	\$ 377,365	\$ 6,608	\$ 1,445,079	\$ 12,503

The number of investments in an unrealized loss position totaled 484 at September 30, 2018. 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 this 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 September 30, 2018 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. At September 30, 2018, 83.26% of our available-for-sale securities that are obligations of states and political subdivisions were issued within the State of Texas, of which 31.30% are guaranteed by the Texas Permanent School Fund.

At September 30, 2018, \$1,820,197,000 of the Company's securities were pledged as collateral for public or trust fund deposits, repurchase agreements and for other purposes required or permitted by law.

During the quarters ended September 30, 2018 and 2017, sales of investment securities that were classified as available-for-sale totaled \$71,134,000 and \$83,605,000, respectively. Gross realized gains from security sales during the third quarter of 2018 and 2017 totaled \$348,000 and \$1,750,000, respectively. Gross realized losses from security sales during the third quarter of 2018 and 2017 totaled \$290,000 and \$675,000, respectively. During the nine months ended September 30, 2018 and 2017, sale of investment securities were classified as available-for-sale totaled \$220,259,000 and \$120,576,000, respectively. Gross realized gains from security sales during the nine-month period ended September 30, 2018 and 2017 totaled \$1,877,000 and totaled \$2,550,000, respectively. Gross realized losses from security sales during the nine-month periods ended September 30, 2018 and 2017 totaled \$531,000 and \$725,000, respectively.

The specific identification method was used to determine cost in order to compute the realized gains and losses.

Note 5 Loans Held for Investment 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.

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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 an annual basis and makes changes as appropriate. Management receives and reviews monthly reports related to loan originations, quality, concentrations, delinquencies, nonperforming 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 within Texas. 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 for loan losses is an amount which represents management's best estimate of probable losses that are inherent in the Company's loan portfolio as of the balance sheet date. The allowance for loan losses is comprised of three elements: (i) specific reserves determined based on probable losses on specific classified loans; (ii) a historical valuation reserve component that considers historical loss rates; and (iii) qualitative reserves 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 historical valuation reserve, the loan portfolio, less cash secured loans, government guaranteed loans and classified loans, is multiplied by the Company's historical loss rate. Specific allocations are increased or decreased in accordance with deterioration or improvement in credit quality and a corresponding increase or decrease 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, oil and gas prices, flood and drought conditions, 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 qualitative reserve serves to estimate for additional areas of losses inherent in our portfolio that are not reflected in our historic loss factors.

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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 decline in the economy and employment rates 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 methodology and could require, in accordance with generally accepted accounting principles, additional provisions to the allowance for loan losses based on their judgment of information available to them at the time of their examination as well as changes to our methodology.

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 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 for non-collateral dependent loans are measured based on the present value of expected future cash flows or the loan's observable market price. At September 30, 2018 and 2017, and December 31, 2017, 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 less costs to sell.

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. For all impaired loans, including the Company's troubled debt restructurings, the Company performs a periodic, well-documented credit evaluation of the borrower's financial condition and prospects for repayment to assess the likelihood that all principal and interest payments required under the terms of the agreement will be collected in full. When doubt exists about the ultimate collectability of principal and interest, the troubled debt restructuring remains on non-accrual status and payments received are applied to reduce principal to the extent necessary to eliminate such doubt. This determination of accrual status is judgmental and is based on facts and circumstances related to each troubled debt restructuring. Each of these loans is individually evaluated for impairment and a specific reserve is recorded based on probable losses, taking into consideration the related collateral, modified loan terms and cash flow. As of September 30, 2018 and 2017, and December 31, 2017, substantially all of the Company's troubled debt restructured loans are included in the non-accrual totals.

Loans acquired, including loans acquired in a business combination, are initially recorded at fair value with no valuation allowance. Acquired loans are segregated between those considered to be credit impaired and those deemed performing. To make this determination, management considers such factors as past due status, non-accrual status and

credit risk ratings. The fair value of acquired performing loans

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is determined by discounting expected cash flows, both principal and interest, at prevailing market interest rates. The difference between the fair value and principal balances at acquisition date, the fair value discount, is accreted into interest income over the estimated life of the acquired performing loan portfolio.

Purchased credit impaired loans are those loans that showed evidence of deterioration of credit quality since origination and for which it is probable, at acquisition, that the Company will be unable to collect all amounts contractually owed. Their acquisition fair value, which includes a credit component at the acquisition date, was based on the estimate of cash flows, both principal and interest, expected to be collected or estimated collateral values if cash flows are not estimable, discounted at prevailing market rates of interest. The difference between the discounted cash flows expected at acquisition and the investment in the loan is recognized as interest income on a level-yield method over the life of the loan, unless management was unable to reasonably forecast cash flows in which case the loans were placed on nonaccrual. Contractually required payments for interest and principal that exceed the cash flows expected at acquisition are not recognized as a yield adjustment. Increases in expected cash flows subsequent to the initial investment are recognized prospectively through adjustment of the yield on the loan over its remaining life. Decreases in expected cash flows subsequent to acquisition are recognized as impairment. Valuation allowances on these impaired loans reflect only losses incurred after the acquisition. The carrying amount of purchased credit impaired loans at September 30, 2018 and 2017, and December 31, 2017, was \$2,947,000, \$736,000 and \$618,000, respectively, compared to a contractual balance of \$3,898,000, \$932,000, and \$755,000, respectively. Other purchased credit impaired loan disclosures were omitted due to immateriality.

Loans held-for-investment by class of financing receivables are as follows (in thousands):

	September 30,		December 31,
	2018	2017	2017
Commercial	\$ 773,924	\$ 674,947	\$ 684,099
Agricultural	93,953	83,005	94,543
Real estate	2,614,929	2,297,556	2,302,998
Consumer	384,234	416,719	403,929
Total loans held-for-investment	\$ 3,867,040	\$ 3,472,227	\$ 3,485,569

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

	September 30,		December 31,
	2018	2017	2017
Non-accrual loans*	\$ 25,587	\$ 18,750	\$ 17,670
Loans still accruing and past due 90 days or more	88	257	288
Troubled debt restructured loans**	513	668	627
Total	\$ 26,188	\$ 19,675	\$ 18,585

* Includes \$2,947,000, \$736,000 and \$618,000 of purchased credit impaired loans as of September 30, 2018 and 2017, and December 31, 2017, respectively.

** Troubled debt restructured loans of \$4,577,000, \$5,277,000 and \$4,629,000, whose interest collection, after considering economic and business conditions and collection efforts, is doubtful are included in non-accrual loans at September 30, 2018 and 2017, and December 31, 2017, respectively.

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

	September 30, 2018		September 30, 2017		December 31, 2017	
	Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance
	\$ 25,587	\$ 4,988	\$ 18,750	\$ 4,177	\$ 17,670	\$ 3,996

The Company had \$26,859,000, \$22,076,000 and \$20,117,000 in non-accrual, past due 90 days or more and still accruing, restructured loans and foreclosed assets at September 30, 2018 and 2017, and December 31, 2017, respectively. Non-accrual loans at September 30, 2018 and 2017, and December 31, 2017, consisted of the following by class of financing receivables (in thousands):

	September 30,		December 31,
	2018	2017	2017
Commercial	\$ 6,961	\$ 4,133	\$ 3,612
Agricultural	1,046	60	134
Real estate	16,682	13,386	12,838
Consumer	898	1,171	1,086
Total	\$ 25,587	\$ 18,750	\$ 17,670

No significant additional funds are committed to be advanced in connection with impaired loans as of September 30, 2018.

The Company's impaired loans and related allowance are summarized in the following tables by class of financing receivables (in thousands). No interest income was recognized on impaired loans subsequent to their classification as impaired.

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September 30, 2018	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance*	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Year to-Date Average Recorded Investment	Three- Month Average Recorded Investment
Commercial	\$ 9,276	\$ 3,467	\$ 3,494	\$ 6,961	\$ 1,412	\$ 8,339	\$ 7,669
Agricultural	1,062		1,046	1,046	528	1,506	1,101
Real Estate	22,513	4,215	12,467	16,682	2,652	18,688	17,762
Consumer	1,088	50	848	898	396	1,012	942
Total	\$ 33,939	\$ 7,732	\$ 17,855	\$ 25,587	\$ 4,988	\$ 29,545	\$ 27,474

* Includes \$2,947,000 of purchased credit impaired loans.

September 30, 2017	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance*	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Year to- Date Average Recorded Investment	Three- Month Average Recorded Investment
Commercial	\$ 10,989	\$ 617	\$ 3,516	\$ 4,133	\$ 1,671	\$ 7,313	\$ 5,866
Agricultural	66		60	60	17	66	60
Real Estate	17,306	3,742	9,644	13,386	1,984	14,279	13,829
Consumer	1,388	262	909	1,171	505	1,341	1,238
Total	\$ 29,749	\$ 4,621	\$ 14,129	\$ 18,750	\$ 4,177	\$ 22,999	\$ 20,993

* Includes \$736,000 of purchased credit impaired loans.

December 31, 2017	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance*	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	12 Month Average Recorded Investment
Commercial	\$ 5,597	\$ 518	\$ 3,094	\$ 3,612	\$ 1,194	\$ 4,849
Agricultural	147		134	134	31	120
Real Estate	16,823	2,348	10,490	12,838	2,316	13,835
Consumer	1,284	143	943	1,086	455	1,258
Total	\$ 23,851	\$ 3,009	\$ 14,661	\$ 17,670	\$ 3,996	\$ 20,062

* Includes \$618,000 of purchased credit impaired loans.

The Company recognized interest income on impaired loans prior to being recognized as impaired of approximately \$624,000 during the year ended December 31, 2017. Such amounts for the three-month and nine-month periods ended September 30, 2018 and 2017 were not significant.

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

The ratings 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 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.

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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.

The following summarizes the Company's internal ratings of its loans held-for-investment by class of financing receivables and portfolio segments, which are the same (in thousands):

September 30, 2018	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	\$ 747,758	\$ 8,817	\$ 17,349	\$	\$ 773,924
Agricultural	89,314	68	4,571		93,953
Real Estate	2,530,673	27,241	57,015		2,614,929
Consumer	381,772	324	2,138		384,234
Total	\$ 3,749,517	\$ 36,450	\$ 81,073	\$	\$ 3,867,040

September 30, 2017	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	\$ 632,693	\$ 7,997	\$ 34,257	\$	\$ 674,947
Agricultural	79,227	841	2,937		83,005
Real Estate	2,224,970	26,231	46,355		2,297,556
Consumer	414,043	168	2,508		416,719
Total	\$ 3,350,933	\$ 35,237	\$ 86,057	\$	\$ 3,472,227

December 31, 2017	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	\$ 649,166	\$ 6,282	\$ 28,651	\$	\$ 684,099
Agricultural	90,457	1,527	2,559		94,543
Real Estate	2,227,302	29,089	46,607		2,302,998
Consumer	401,434	181	2,314		403,929
Total	\$ 3,368,359	\$ 37,079	\$ 80,131	\$	\$ 3,485,569

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The Company's past due loans are as follows (in thousands):

September 30, 2018	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	\$ 3,850	\$ 420	\$ 3,331	\$ 7,601	\$ 766,323	\$ 773,924	\$
Agricultural	442		287	729	93,224	93,953	
Real Estate	15,542	2,583	661	18,786	2,596,143	2,614,929	
Consumer	749	173	145	1,067	383,167	384,234	88
Total	\$ 20,583	\$ 3,176	\$ 4,424	\$ 28,183	\$ 3,838,857	\$ 3,867,040	\$ 88

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September 30, 2017	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	\$ 3,288	\$ 585	\$ 1,495	\$ 5,368	\$ 669,579	\$ 674,947	\$ 212
Agricultural	322			322	82,683	83,005	
Real Estate	12,636	984	2,293	15,913	2,281,643	2,297,556	
Consumer	1,211	457	176	1,844	414,875	416,719	45
Total	\$ 17,457	\$ 2,026	\$ 3,964	\$ 23,447	\$ 3,448,780	\$ 3,472,227	\$ 257

December 31, 2017	15-59 Days Past Due*	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Total Current	Total Loans	Total 90 Days Past Due Still Accruing
Commercial	\$ 2,039	\$ 1,104	\$ 1,081	\$ 4,224	\$ 679,875	\$ 684,099	\$ 7
Agricultural	640			640	93,903	94,543	
Real Estate	12,308	511	1,198	14,017	2,288,981	2,302,998	216
Consumer	1,360	361	135	1,856	402,073	403,929	65
Total	\$ 16,347	\$ 1,976	\$ 2,414	\$ 20,737	\$ 3,464,832	\$ 3,485,569	\$ 288

* 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 following table details the allowance for loan losses by portfolio segment (in thousands). There were no allowances for purchased credit impaired loans at September 30, 2018 and 2017, and December 31, 2017. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

September 30, 2018	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	\$ 1,412	\$ 528	\$ 2,652	\$ 396	\$ 4,988
Loans collectively evaluated for impairment	7,549	1,106	31,713	5,515	45,883
Total	\$ 8,961	\$ 1,634	\$ 34,365	\$ 5,911	\$ 50,871

September 30, 2017	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	\$ 1,671	\$ 17	\$ 1,984	\$ 505	\$ 4,177
Loans collectively evaluated for impairment	10,201	1,284	26,484	5,776	43,745
Total	\$ 11,872	\$ 1,301	\$ 28,468	\$ 6,281	\$ 47,922

December 31, 2017	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	\$ 1,194	\$ 31	\$ 2,316	\$ 455	\$ 3,996
Loans collectively evaluated for impairment	9,671	1,274	27,580	5,635	44,160
Total	\$ 10,865	\$ 1,305	\$ 29,896	\$ 6,090	\$ 48,156

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Changes in the allowance for loan losses are summarized as follows by portfolio segment (in thousands):

Three months ended

September 30, 2018	Commercial	Agricultural	Real Estate	Consumer	Total
Beginning balance	\$ 9,218	\$ 1,402	\$ 33,243	\$ 6,088	\$ 49,951
Provision for loan losses	(24)	229	1,091	154	1,450
Recoveries	192	3	85	135	415
Charge-offs	(425)		(54)	(466)	(945)
Ending balance	\$ 8,961	\$ 1,634	\$ 34,365	\$ 5,911	\$ 50,871

Three months ended

September 30, 2017	Commercial	Agricultural	Real Estate	Consumer	Total
Beginning balance	\$ 11,935	\$ 1,127	\$ 28,023	\$ 6,325	\$ 47,410
Provision for loan losses	557	157	424	277	1,415
Recoveries	119	17	50	91	277
Charge-offs	(739)		(29)	(412)	(1,180)
Ending balance	\$ 11,872	\$ 1,301	\$ 28,468	\$ 6,281	\$ 47,922

Nine months ended

September 30, 2018	Commercial	Agricultural	Real Estate	Consumer	Total
Beginning balance	\$ 10,865	\$ 1,305	\$ 29,896	\$ 6,090	\$ 48,156
Provision for loan losses	(1,316)	317	4,325	539	3,865
Recoveries	476	12	345	382	1,215
Charge-offs	(1,064)		(201)	(1,100)	(2,365)
Ending balance	\$ 8,961	\$ 1,634	\$ 34,365	\$ 5,911	\$ 50,871

Nine months ended

September 30, 2017	Commercial	Agricultural	Real Estate	Consumer	Total
Beginning balance	\$ 11,707	\$ 1,101	\$ 26,864	\$ 6,107	\$ 45,779
Provision for loan losses	1,485	211	2,556	838	5,090
Recoveries	868	25	141	400	1,434
Charge-offs	(2,188)	(36)	(1,093)	(1,064)	(4,381)
Ending balance	\$ 11,872	\$ 1,301	\$ 28,468	\$ 6,281	\$ 47,922

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The Company's recorded investment in loans related to the balance in the allowance for loan losses on the basis of the Company's impairment methodology is as follows (in thousands). Purchased credit impaired loans of \$2,947,000, \$736,000 and \$618,000 at September 30, 2018 and 2017, and December 31, 2017, respectively, are included in loans individually evaluated for impairment.

September 30, 2018	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	\$ 6,961	\$ 1,046	\$ 16,682	\$ 898	\$ 25,587
Loans collectively evaluated for impairment	766,963	92,907	2,598,247	383,336	3,841,453
Total	\$ 773,924	\$ 93,953	\$ 2,614,929	\$ 384,234	\$ 3,867,040

September 30, 2017	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	\$ 4,133	\$ 60	\$ 13,386	\$ 1,171	\$ 18,750
Loans collectively evaluated for impairment	670,814	82,945	2,284,170	415,548	3,453,477
Total	\$ 674,947	\$ 83,005	\$ 2,297,556	\$ 416,719	\$ 3,472,227

December 31, 2017	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	\$ 3,612	\$ 134	\$ 12,838	\$ 1,086	\$ 17,670
Loan collectively evaluated for impairment	680,487	94,409	2,290,160	402,843	3,467,899
Total	\$ 684,099	\$ 94,543	\$ 2,302,998	\$ 403,929	\$ 3,485,569

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The Company's loans that were modified and considered troubled debt restructurings are as follows (in thousands):

	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
	Pre-	Post-		Pre-	Post-	
	Modification Recorded Number	Investment	Modification Recorded Investment	Modification Recorded Number	Investment	Modification Recorded Investment
Commercial	2	\$ 547	\$ 547	3	\$ 826	\$ 826
Agricultural				1	4	4
Real Estate	1	117	117	5	642	642
Consumer				6	113	113
Total	3	\$ 664	\$ 664	15	\$ 1,585	\$ 1,585

	Three Months Ended September 30, 2017			Nine Months Ended September 30, 2017		
	Pre-	Post-		Pre-	Post-	
	Modification Recorded Number	Investment	Modification Recorded Investment	Modification Recorded Number	Investment	Modification Recorded Investment
Commercial	3	\$ 514	\$ 514	9	\$ 838	\$ 838
Agricultural						
Real Estate	1	256	256	3	473	473
Consumer				1	25	25
Total	4	\$ 770	\$ 770	13	\$ 1,336	\$ 1,336

The balances below provide information as to how the loans were modified as troubled debt restructured loans (in thousands):

	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
	Adjusted Interest Rate	Extended Maturity	Combined Rate and Maturity	Adjusted Interest Rate	Extended Maturity	Combined Rate and Maturity
	Commercial	\$	\$ 491	\$ 56	\$	\$ 491
Agricultural						4
Real Estate		117			279	363
Consumer						113
Total	\$	\$ 608	\$ 56	\$	\$ 770	\$ 815

Three Months Ended September 30, 2017 Nine Months Ended September 30, 2017

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	Adjusted Interest Rate	Extended Maturity	Combined Rate and Maturity	Adjusted Interest Rate	Extended Maturity	Combined Rate and Maturity
Commercial	\$	\$	\$ 514		\$ 181	\$ 657
Agricultural						
Real Estate		256			312	161
Consumer					25	
Total	\$	\$ 256	\$ 514		\$ 518	\$ 818

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During the three and nine months ended September 30, 2018, no loans were modified as a troubled debt restructured loan within the previous 12 months and for which there was a payment default. During the three and nine months ended September 30, 2017, two loans and four loans, respectively, were modified as a troubled debt restructured loan within the previous 12 months and for which there was a payment default. A default for purposes of this disclosure is a troubled debt restructured loan in which the borrower is 90 days past due or more or results in the foreclosure and repossession of the applicable collateral. The loans with payment default are as follows (dollars in thousands):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	Number	Balance	Number	Balance
Commercial		\$		\$
Agriculture				
Real Estate				
Consumer				
Total		\$		\$

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
	Number	Balance	Number	Balance
Commercial	2	\$ 88	3	\$ 141
Agriculture				
Real Estate			1	62
Consumer				
Total	2	\$ 88	4	\$ 203

As of September 30, 2018, 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 (FHLB) to provide liquidity and meet pledging requirements for those customers eligible to have securities pledged to secure certain uninsured deposits. At September 30, 2018, \$2,450,523,000 in loans held by our bank subsidiary were subject to blanket liens as security for this line of credit. At September 30, 2018, there were no advances or letters of credit outstanding under this line of credit.

Note 6 - Loans Held for Sale

The Company originates certain mortgage loans for sale in the secondary market. The mortgage loan sales contracts contain indemnification clauses should the loans default, generally in the first three to nine months, or if documentation is determined not to be in compliance with regulations. The Company's historic losses as a result of