Independent Bank Group, Inc.
Form 10-Q
July 26, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)
ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the quarterly period ended June 30, 2018.
or
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the transition period from to .
Commission file number 001-35854
Independent Bank Group, Inc.
(Exact name of registrant as specified in its charter)

Texas	13-4219346
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1600 Redbud Boulevard, Suite 400 McKinney, Texas	75069-3257
(Address of principal executive offices)	(Zip Code)

(972) 562-9004
(Registrant’s telephone number, including area code)
Not applicable
(Former name, former address and former fiscal year, if changed since last report)

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 such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See 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	ý	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)		
		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 pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
Applicable Only to Corporate Issuers

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practical date.

Common Stock, Par Value $0.01 Per Share – 30,468,713 shares as of July 24, 2018.

INDEPENDENT BANK GROUP, INC. AND SUBSIDIARIES
Form 10-Q
June 30, 2018

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Independent Bank Group, Inc. and Subsidiaries
Consolidated Balance Sheets
June 30, 2018 (unaudited) and December 31, 2017
(Dollars in thousands, except share information)

	June 30,	December 31,
Assets	2018	2017
Cash and due from banks	$321,241	$187,574
Interest-bearing deposits in other banks	125,808	243,528
Cash and cash equivalents	447,049	431,102
Certificates of deposit held in other banks	1,225	12,985
Securities available for sale, at fair value	791,065	763,002
Loans held for sale	30,056	39,202
Loans, net	7,598,644	6,432,273
Premises and equipment, net	155,187	147,835
Other real estate owned	4,200	7,126
Federal Home Loan Bank (FHLB) of Dallas stock and other restricted stock	39,003	29,184
Bank-owned life insurance (BOLI)	127,848	113,170
Deferred tax asset	14,790	9,763
Goodwill	721,578	621,458
Core deposit intangible, net	48,052	43,244
Other assets	38,340	34,119
Total assets	$10,017,037	$8,684,463
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing	$2,170,639	$1,907,770
Interest-bearing	5,362,766	4,725,052
Total deposits	7,533,405	6,632,822
FHLB advances	750,626	530,667
Other borrowings	137,098	136,911
Junior subordinated debentures	27,753	27,654
Other liabilities	29,886	20,391
Total liabilities	8,478,768	7,348,445
Commitments and contingencies		
Stockholders' equity:		
Preferred stock (0 and 0 shares outstanding, respectively)	—	—
Common stock (30,468,413 and 28,254,893 shares outstanding, respectively)	305	283
Additional paid-in capital	1,312,432	1,151,990
Retained earnings	235,689	184,232
Accumulated other comprehensive loss	(10,157)	(487)
Total stockholders' equity	1,538,269	1,336,018
Total liabilities and stockholders' equity	$10,017,037	$8,684,463

See Notes to Consolidated Financial Statements

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Independent Bank Group, Inc. and Subsidiaries
Consolidated Statements of Income
Three and Six Months Ended June 30, 2018 and 2017 (unaudited)
(Dollars in thousands, except per share information)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Interest income:				
Interest and fees on loans	$91,614	$75,194	$174,889	$128,938
Interest on taxable securities	3,501	2,303	6,404	3,067
Interest on nontaxable securities	1,179	992	2,372	1,533
Interest on interest-bearing deposits and other	788	1,394	1,531	2,284
Total interest income	97,082	79,883	185,196	135,822
Interest expense:				
Interest on deposits	12,827	6,981	22,626	12,010
Interest on FHLB advances	2,847	1,351	4,733	2,522
Interest on repurchase agreements and other borrowings	2,097	1,716	4,199	3,421
Interest on junior subordinated debentures	402	335	762	502
Total interest expense	18,173	10,383	32,320	18,455
Net interest income	78,909	69,500	152,876	117,367
Provision for loan losses	2,730	2,472	5,425	4,495
Net interest income after provision for loan losses	76,179	67,028	147,451	112,872
Noninterest income:				
Service charges on deposit accounts	3,533	3,760	7,018	5,687
Mortgage banking revenue	3,609	5,019	7,023	6,286
Gain (loss) on sale of other real estate	58	(36)	118	(36)
(Loss) gain on sale of securities available for sale	(10)	52	(234)	52
(Loss) gain on sale of premises and equipment	(89)	1	(97)	6
Increase in cash surrender value of BOLI	758	782	1,497	1,181
Other	2,274	1,417	4,263	2,402
Total noninterest income	10,133	10,995	19,588	15,578
Noninterest expense:				
Salaries and employee benefits	26,790	27,089	51,958	43,926
Occupancy	6,018	6,147	11,682	10,019
Data processing	2,467	2,615	4,872	3,903
FDIC assessment	712	1,201	1,453	2,079
Advertising and public relations	332	317	717	614
Communications	793	852	1,734	1,327
Other real estate owned expenses, net	119	125	209	162
Impairment of other real estate	—	120	85	120
Core deposit intangible amortization	1,393	1,410	2,724	1,902
Professional fees	1,133	1,166	2,252	1,939
Acquisition expense, including legal	3,444	5,673	3,989	5,819
Other	5,957	4,613	12,441	7,546
Total noninterest expense	49,158	51,328	94,116	79,356
Income before taxes	37,154	26,695	72,923	49,094
Income tax expense	7,519	8,561	14,324	15,289

Net income	$29,635	$18,134	$58,599	$33,805
Basic earnings per share	$1.02	$0.65	$2.04	$1.45
Diluted earnings per share	$1.02	$0.65	$2.04	$1.44

See Notes to Consolidated Financial Statements

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Independent Bank Group, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
Three and Six Months Ended June 30, 2018 and 2017 (unaudited)
(Dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$29,635	$18,134	$58,599	$33,805
Other comprehensive income (loss) before tax:				
Change in net unrealized gains (losses) on available for sale securities during the year	(1,264)	5,314	(12,179)	7,314
Reclassification for amount realized through sales of securities available for sale included in net income	10	(52)	234	(52)
Other comprehensive income (loss) before tax	(1,254)	5,262	(11,945)	7,262
Income tax expense (benefit)	(263)	1,842	(2,508)	2,542
Other comprehensive income (loss), net of tax	(991)	3,420	(9,437)	4,720
Comprehensive income	$28,644	$21,554	$49,162	$38,525

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Independent Bank Group, Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
Six Months Ended June 30, 2018 and 2017 (unaudited)
(Dollars in thousands, except for par value, share and per share information)

	Preferred Stock $.01 Par Value 10 million shares authorized	Common Stock $.01 Par Value 100 million shares authorized		Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
		Shares	Amount				
Balance, December 31, 2017	$ —	28,254,893	$ 283	$ 1,151,990	$ 184,232	$ (487)	$ 1,336,018
Cumulative effect of accounting change	—	—	—	—	233	(233)	—
Net income	—	—	—	—	58,599	—	58,599
Other comprehensive loss, net of tax	—	—	—	—	—	(9,437)	(9,437)
Stock issued for acquisition of bank, net of offering costs of $209	—	2,071,981	21	157,033	—	—	157,054
Restricted stock forfeited	—	(3,845)	—	—	—	—	—
Restricted stock granted	—	118,912	1	(1)	—	—	—
Stock based compensation expense	—	—	—	2,955	—	—	2,955
Exercise of warrants	—	26,472	—	455	—	—	455
Cash dividends ($0.26 per share)	—	—	—	—	(7,375)	—	(7,375)
Balance, June 30, 2018	$ —	30,468,413	$ 305	$ 1,312,432	$ 235,689	$ (10,157)	$ 1,538,269
Balance, December 31, 2016	$ —	18,870,312	$ 189	$ 555,325	$ 117,951	$ (1,100)	$ 672,365
Net income	—	—	—	—	33,805	—	33,805
Other comprehensive income, net of tax	—	—	—	—	—	4,720	4,720
Stock issued for acquisition of bank, net of offering costs of $942		8,804,699	88	565,112	—	—	565,200
Restricted stock granted	—	111,930	1	(1)	—	—	—
Stock based compensation expense	—	—	—	2,166	—	—	2,166
Exercise of warrants	—	3,203	—	55	—	—	55
Cash dividends ($0.20 per share)	—	—	—	—	(4,670)	—	(4,670)
Balance, June 30, 2017	$ —	27,790,144	$ 278	$ 1,122,657	$ 147,086	$ 3,620	$ 1,273,641

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Independent Bank Group, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Six Months Ended June 30, 2018 and 2017 (unaudited)
(Dollars in thousands)

	Six Months Ended June 30, 2018			2017		
Cash flows from operating activities:						
Net income	$	58,599		$	33,805	
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation expense	4,129			4,036		
Accretion of income recognized on acquired loans	(6,177		)	(2,066		)
Amortization of core deposit intangibles	2,724			1,902		
Amortization of premium on securities, net	2,037			1,635		
Amortization of discount and origination costs on borrowings	315			228		
Stock based compensation expense	2,955			2,166		
Excess tax benefit on restricted stock vested	(613		)	(1,244		)
FHLB stock dividends	(318		)	(189		)
Loss (gain) on sale of securities available for sale	234			(52		)
Loss (gain) on sale of premises and equipment	97			(6		)
(Gain) loss on sale of other real estate owned	(118		)	36		
Impairment of other real estate	85			120		
Deferred tax expense	770			2,036		
Provision for loan losses	5,425			4,495		

Increase in cash surrender value of BOLI	(1,497)	(1,181)
Originations of loans held for sale	(206,814)	(191,220)
Proceeds from sale of loans held for sale	215,960	188,579
Net change in other assets	(1,074)	(6,229)
Net change in other liabilities	(141)	(5,672)
Net cash provided by operating activities	76,578	31,179
Cash flows from investing activities:		
Proceeds from maturities, calls and pay downs of securities available for sale	1,060,297	699,005
Proceeds from sale of securities available for sale	27,473	16,810
Purchases of securities available for sale	(1,105,323)	(778,030)
Purchases of certificates of deposits held in other banks	—	(1,960)
Proceeds from maturities of certificates of deposits held in other banks	11,760	—
Purchase of bank owned life insurance contracts	(5,000)	—
Net (purchases) redemptions of FHLB stock	(6,144)	8,907
Net loans originated held for investment	(513,801)	(273,256)
Net originations of mortgage warehouse purchase loans	(96)	(19,895)
Additions to premises and equipment	(9,937)	(1,756)
Proceeds from sale of premises and equipment	3,139	10

Proceeds from sale of other real estate owned	2,959			1,235		
Capitalized additions to other real estate	—			(853		)
Cash received from acquired bank	44,723			148,444		
Cash paid in connection with acquisition	(31,016		)	(17,773		)
Net cash used in investing activities	(520,966		)	(219,112		)
Cash flows from financing activities:						
Net increase in demand deposits, money market and savings accounts	240,738			316,272		
Net increase (decrease) in time deposits	66,767			(46,031		)
Proceeds from FHLB advances	960,000			—		
Repayments of FHLB advances	(800,041		)	(39		)
Net change in repurchase agreements	—			(1,839		)
Proceeds from exercise of common stock warrants	455			55		
Offering costs paid in connection with acquired bank	(209		)	(942		)
Dividends paid	(7,375		)	(4,670		)
Net cash provided by financing activities	460,335			262,806		
Net change in cash and cash equivalents	15,947			74,873		
Cash and cash equivalents at beginning of year	431,102			505,027		
Cash and cash equivalents at end of period	$	447,049		$	579,900	

See Notes to Consolidated Financial Statements

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

Note 1. Summary of Significant Accounting Policies
Nature of Operations: Independent Bank Group, Inc. (IBG) through its subsidiary, Independent Bank, a Texas state banking corporation (Bank) (collectively known as the Company), provides a full range of banking services to individual and corporate customers in the North, Central and Southeast, Texas areas and along the Colorado Front Range, through its various branch locations in those areas. The Company is engaged in traditional community banking activities, which include commercial and retail lending, deposit gathering, investment and liquidity management activities. The Company’s primary deposit products are demand deposits, money market accounts and certificates of deposit, and its primary lending products are commercial business and real estate, real estate mortgage and consumer loans.
Basis of Presentation: The accompanying consolidated financial statements include the accounts of IBG, its wholly-owned subsidiaries, the Bank, IBG Adriatica Holdings, Inc. (Adriatica) and Carlile Capital, LLC and the Bank’s wholly-owned subsidiaries, IBG Real Estate Holdings, Inc., IBG Real Estate Holdings II, Inc., IBG Aircraft Company III, Preston Grand, Inc., CFRH II, LLC, McKinney Avenue Holdings, Inc. and its wholly owned subsidiary, McKinney Avenue Holdings SPE 1, Inc. Adriatica, CFRH II, LLC, McKinney Avenue Holdings, Inc. and its subsidiary are currently not active entities. On June 1, 2018, the Company acquired Integrity Bancshares, Inc. (Integrity) and its wholly owned subsidiary, Integrity Bank, SSB, Houston, Texas. Integrity has been merged into the Company and dissolved and Integrity Bank has been merged with the Bank as of acquisition date. See Note 10, Business Combinations for more details of the Integrity acquisition.
All material intercompany transactions and balances have been eliminated in consolidation. In addition, the Company wholly-owns IB Trust I (Trust I), IB Trust II (Trust II), IB Trust III (Trust III), IB Centex Trust I (Centex Trust I), Community Group Statutory Trust I (CGI Trust I), Northstar Statutory Trust II (Northstar Trust II) and Northstar Statutory Trust III (Northstar Trust III). The Trusts were formed to issue trust preferred securities and do not meet the criteria for consolidation.
The consolidated interim financial statements are unaudited, but include all adjustments, which, in the opinion of management, are necessary for a fair presentation of the results of the periods presented. All such adjustments were of a normal and recurring nature. These financial statements should be read in conjunction with the financial statements and the notes thereto in the Company's Annual Report of Form10-K for the year ended December 31, 2017. The consolidated statement of condition at December 31, 2017 had been derived from the audited financial statements as of that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.
Segment Reporting: The Company has one reportable segment. The Company’s chief operating decision-maker uses consolidated results to make operating and strategic decisions.
Subsequent events: Companies are required to evaluate events and transactions that occur after the balance sheet date but before the date the financial statements are issued. They must recognize in the financial statements the effect of all events or transactions that provide additional evidence of conditions that existed at the balance sheet date, including the estimates inherent in the financial statement preparation process. Entities shall not recognize the impact of events or transactions that provide evidence about conditions that did not exist at the balance sheet date but arose after that date. The Company has evaluated subsequent events through the date of filing these financial statements with the Securities and Exchange Commission (SEC) and noted no subsequent events requiring financial statement recognition or disclosure, except as disclosed in Note 11.
Earnings per share: Basic earnings per common share are net income available to common shareholders divided by the weighted average number of common shares outstanding during the period. The unvested share-based payment

awards that contain rights to non forfeitable dividends are considered participating securities for this calculation. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under stock warrants. The participating nonvested common stock was not included in dilutive shares as it was anti-dilutive for the three and six months ended June 30, 2018 and 2017. Proceeds from the assumed exercise of dilutive stock warrants are assumed to be used to repurchase common stock at the average market price.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Basic earnings per share:				
Net income	$29,635	$ 18,134	$58,599	$ 33,805
Less:				
Undistributed earnings allocated to participating securities	221	134	465	301
Dividends paid on participating securities	35	24	68	48
Net income available to common shareholders	$29,379	$ 17,976	$58,066	$ 33,456
Weighted-average basic shares outstanding	28,814,759	27,541,007	28,434,002	23,128,653
Basic earnings per share	$1.02	$ 0.65	$2.04	$ 1.45
Diluted earnings per share:				
Net income available to common shareholders	$29,379	$ 17,976	$58,066	$ 33,456
Total weighted-average basic shares outstanding	28,814,759	27,541,007	28,434,002	23,128,653
Add dilutive stock warrants	92,392	104,901	92,187	106,050
Total weighted-average diluted shares outstanding	28,907,151	27,645,908	28,526,189	23,234,703
Diluted earnings per share	$1.02	$ 0.65	$2.04	$ 1.44
Anti-dilutive participating securities	63,003	92,658	111,538	109,465

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

Note 2. Statement of Cash Flows
As allowed by the accounting standards, the Company has chosen to report on a net basis its cash receipts and cash payments for time deposits accepted and repayments of those deposits, and loans made to customers and principal collections on those loans. The Company uses the indirect method to present cash flows from operating activities.
Other supplemental cash flow information is presented below:

	Six Months Ended June 30,	
	2018	2017
Cash transactions:		
Interest expense paid	$31,410	$17,891
Income taxes paid	$9,009	$14,511
Noncash transactions:		
Transfers of loans to other real estate owned	$—	$750
Securities purchased, not yet settled	$—	$33,270

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

	Six Months Ended June 30,	
	2018	2017
Noncash assets acquired		
Certificates of deposit held in other banks	$—	$11,025
Securities available for sale	24,726	336,540
Restricted stock	3,357	11,110
Loans	651,722	1,384,041
Premises and equipment	4,800	63,561
Other real estate owned	—	9,976
Goodwill	100,120	362,993
Core deposit intangibles	7,532	36,717
Bank owned life insurance	8,181	53,213
Other assets	6,416	25,301
Total assets	$806,854	$2,294,477
Noncash liabilities assumed:		
Deposits	$593,078	$1,825,181
Repurchase agreements	—	18,003
FHLB advances	60,000	—
Junior subordinated debt	—	9,359
Other liabilities	10,220	6,463
Total liabilities	$663,298	$1,859,006
Cash and cash equivalents acquired from acquisitions	$44,723	$148,444
Cash paid to shareholders of acquired banks	$31,016	$17,773
Fair value of common stock issued to shareholders of acquired bank	$157,263	$566,142

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

Note 3. Securities Available for Sale

Securities available for sale have been classified in the consolidated balance sheets according to management's intent. The amortized cost of securities and their approximate fair values at June 30, 2018 and December 31, 2017, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
June 30, 2018				
U.S. treasuries	$ 20,420	$ —	$ (601)	$ 19,819
Government agency securities	207,403	41	(3,969)	203,475
Obligations of state and municipal subdivisions	212,279	925	(3,481)	209,723
Residential pass-through securities guaranteed by FNMA, GNMA, and FHLMC	364,570	296	(6,818)	358,048
	$ 804,672	$ 1,262	$ (14,869)	$ 791,065
December 31, 2017				
U.S. treasuries	$ 37,480	$ —	$ (326)	$ 37,154
Government agency securities	213,649	83	(2,223)	211,509
Obligations of state and municipal subdivisions	228,782	2,118	(1,287)	229,613
Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC, FHR and GNR	274,356	1,229	(1,208)	274,377
Other securities	10,397	—	(48)	10,349
	$ 764,664	$ 3,430	$ (5,092)	$ 763,002

Securities with a carrying amount of approximately $262,040 and $238,344 at June 30, 2018 and December 31, 2017, respectively, were pledged to secure public fund deposits and repurchase agreements.

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

Proceeds from sale of securities available for sale and gross gains and gross losses for the three and six months ended June 30, 2018 and 2017 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Proceeds from sale	$12,672	$16,810	$27,473	$16,810
Gross gains	$88	$104	$103	$104
Gross losses	$98	$52	$337	$52

The amortized cost and estimated fair value of securities available for sale at June 30, 2018, by contractual maturity, are shown below. Maturities of pass-through certificates will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	June 30, 2018 Securities Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$69,055	$68,798
Due from one year to five years	173,021	169,719
Due from five to ten years	98,665	96,477
Thereafter	99,361	98,023
	440,102	433,017
Residential pass-through securities guaranteed by FNMA, GNMA, and FHLMC	364,570	358,048
	$804,672	$791,065

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

The number of securities, unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of June 30, 2018 and December 31, 2017, are summarized as follows:

	Less Than 12 Months			Greater Than 12 Months			Total	
Description of Securities	Number of Securities	Estimated Fair Value	Unrealized Losses	Number of Securities	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Securities Available for Sale								
June 30, 2018								
U.S. treasuries	4	$16,779	$(504)	1	$3,040	$(97)	$19,819	$(601)
Government agency securities	36	100,388	(1,947)	34	85,429	(2,022)	185,817	(3,969)
Obligations of state and municipal subdivisions	258	122,652	(2,183)	73	30,519	(1,298)	153,171	(3,481)
Residential pass-through securities guaranteed by FNMA, GNMA and FHLMC	181	309,333	(5,841)	13	27,394	(977)	336,727	(6,818)
	479	$549,152	$(10,475)	121	$146,382	$(4,394)	$695,534	$(14,869)
December 31, 2017								
U.S. treasuries	7	$34,053	$(267)	1	$3,101	$(59)	$37,154	$(326)
Government agency securities	51	142,991	(1,155)	27	60,030	(1,068)	203,021	(2,223)
Obligations of state and municipal subdivisions	202	87,625	(564)	54	26,883	(723)	114,508	(1,287)
Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC, FHR and GNR	55	125,970	(834)	10	25,398	(374)	151,368	(1,208)
Other securities	1	10,349	(48)	—	—	—	10,349	(48)
	316	$400,988	$(2,868)	92	$115,412	$(2,224)	$516,400	$(5,092)

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

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Note 4. Loans, Net and Allowance for Loan Losses
Loans, net, at June 30, 2018 and December 31, 2017, consisted of the following:

	June 30, 2018	December 31, 2017
Commercial	$1,316,420	$1,059,984
Real estate:		
Commercial	3,944,306	3,369,892
Commercial construction, land and land development	919,564	744,868
Residential	998,709	892,293
Single family interim construction	347,801	289,680
Agricultural	81,866	82,583
Consumer	35,818	34,639
Other	283	304
	7,644,767	6,474,243
Deferred loan fees	(2,815)	(2,568)
Allowance for loan losses	(43,308)	(39,402)
	$7,598,644	$6,432,273

The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans.
Commercial loans are underwritten after evaluating and understanding the borrower’s ability to operate profitably and prudently expand its business. The Company’s management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. These cash flows, however, may not be as expected and the value of collateral securing the loans may fluctuate. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short term loans may be made on an unsecured basis. Additionally, our commercial loan portfolio includes loans made to customers in the energy industry, which is a complex, technical and cyclical industry. Experienced bankers with specialized energy lending experience originate our energy loans. Companies in this industry produce, extract, develop, exploit and explore for oil and natural gas. Loans are primarily collateralized with proven producing oil and gas reserves based on a technical evaluation of these reserves. At June 30, 2018 and December 31, 2017, there were approximately $120,534 and $106,060 of energy related loans outstanding, respectively. With the acquisition of Carlile in second quarter of 2017, the Company acquired a mortgage warehouse purchase program, which provides a mortgage warehouse lending vehicle to third party mortgage bankers across a broad geographic scale. The mortgage loans are underwritten, in part, on approved investor takeout commitments. These loans have a very short duration ranging between 10 days and 15 days. In some cases, loans to larger mortgage originators may be financed for up to 60 days. These loans are reported as commercial loans since the loans are secured by notes receivable, not real estate. As of June 30, 2018 and December 31, 2017, mortgage warehouse purchase loans outstanding totaled $164,790 and $164,694, respectively.

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Commercial real estate loans are subject to underwriting standards and processes similar to commercial loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts, and the repayment of these loans is generally largely dependent on the successful operation of the property or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's commercial real estate portfolio are diverse in terms of type and geographic location. Management monitors the diversification of the portfolio on a quarterly basis by type and geographic location. Management also tracks the level of owner occupied property versus non owner occupied property. At June 30, 2018, the portfolio consisted of approximately 33% of owner occupied property.

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

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

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

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

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

Most of the Company's lending activity occurs within the State of Texas, primarily in the north, central and southeast Texas regions. With the acquisition of Carlile, the Company expanded into the State of Colorado, specifically along the Front Range area. As of June 30, 2018, loans in the Colorado region represented about 5% of the total portfolio. A large percentage of the Company's portfolio consists of commercial and residential real estate loans. As of June 30, 2018 and December 31, 2017, there were no concentrations of loans related to a single industry in excess of 10% of total loans.

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

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

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

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

Loans requiring an allocated loan loss provision are generally identified at the servicing officer level based on review of weekly past due reports and/or the loan officer's communication with borrowers. In addition, past due loans are discussed at weekly officer loan committee meetings to determine if classification is warranted. The Company's credit department has implemented an internal risk based loan review process to identity potential internally classified loans that supplements the annual independent external loan review. The external review generally covers all loans greater than $4,125 annually. These reviews include analysis of borrower's financial condition, payment histories and collateral values to determine if a loan should be internally classified. Generally, once classified, an impaired loan analysis is completed by the credit department to determine if the loan is impaired and the amount of allocated allowance required.

The Texas and Colorado economies, specifically the Company's lending area of north, central and southeast Texas and the Colorado Front Range area, continued to be strong in the second quarter of 2018. The Texas economy is the second largest in the nation, out-pacing the U.S. economy in job creation and employment growth. Overall, the forecast is strong with continued growth in the manufacturing and service sectors and rising activity in the energy sector. While the current economic outlook remains optimistic, future and long-term concerns continue to include the tightening labor markets, decreased housing affordability, energy price volatility and trade uncertainty. The risk of loss associated with all segments of the portfolio could increase due to these factors.

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The economy and other risk factors are minimized by the Company's underwriting standards, which include the following principles: 1) financial strength of the borrower including strong earnings, high net worth, significant liquidity and acceptable debt to worth ratio, 2) managerial business competence, 3) ability to repay, 4) loan to value, 5) projected cash flow and 6) guarantor financial statements as applicable. The following is a summary of the activity in the allowance for loan losses by loan class for the three and six months ended June 30, 2018 and 2017:

	Commercial	Commercial Real Estate, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Unallocated	Total
Three Months Ended June 30, 2018									
Balance at the beginning of period	$ 12,261	$ 24,219	$ 3,589	$ 1,636	$ 248	$ 180	$ 4	$ (177)	$ 41,960
Provision for loan losses	556	2,310	(268)	7	(24)	8	29	112	2,730
Charge-offs	(1,013)	(342)	(2)	—	—	(3)	(47)	—	(1,407)
Recoveries	1	5	—	—	—	2	17	—	25
Balance at end of period	$ 11,805	$ 26,192	$ 3,319	$ 1,643	$ 224	$ 187	$ 3	$ (65)	$ 43,308
Six Months Ended June 30, 2018									
Balance at the beginning of period	$ 10,599	$ 23,301	$ 3,447	$ 1,583	$ 250	$ 205	$ (32)	$ 49	$ 39,402
Provision for loan losses	2,296	3,236	(125)	60	(26)	(2)	100	(114)	5,425
Charge-offs	(1,095)	(353)	(5)	—	—	(19)	(95)	—	(1,567)
Recoveries	5	8	2	—	—	3	30	—	48
Balance at end of period	$ 11,805	$ 26,192	$ 3,319	$ 1,643	$ 224	$ 187	$ 3	$ (65)	$ 43,308
Three months ended June 30, 2017									
Balance at the beginning of period	$ 8,005	$ 20,467	$ 2,828	$ 1,402	$ 201	$ 252	$ 34	$ 242	$ 33,431
Provision for loan losses	675	1,029	463	(15)	71	35	23	191	2,472
Charge-offs	—	—	—	—	—	(11)	(55)	—	(66)
Recoveries	20	1	1	—	—	12	10	—	44
Balance at end of period	$ 8,700	$ 21,497	$ 3,292	$ 1,387	$ 272	$ 288	$ 12	$ 433	$ 35,881
Six months ended June 30, 2017									
Balance at the beginning of period	$ 8,593	$ 18,399	$ 2,760	$ 1,301	$ 207	$ 242	$ 29	$ 60	$ 31,591
Provision for loan losses	85	3,077	530	220	65	99	46	373	4,495
Charge-offs	—	—	—	(134)	—	(67)	(77)	—	(278)
Recoveries	22	21	2	—	—	14	14	—	73
Balance at end of period	$ 8,700	$ 21,497	$ 3,292	$ 1,387	$ 272	$ 288	$ 12	$ 433	$ 35,881

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The following table details the amount of the allowance for loan losses and recorded investment in loans by class as of June 30, 2018 and December 31, 2017:

	Commercial	Commercial Real Estate, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Unallocated	Total
June 30, 2018									
Allowance for losses:									
Individually evaluated for impairment	$5,020	$—	$—	$—	$—	$3	$—	$—	$5,023
Collectively evaluated for impairment	6,785	26,192	3,319	1,643	224	184	3	(65)	38,285
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—
Ending balance	$11,805	$26,192	$3,319	$1,643	$224	$187	$3	$(65)	$43,308
Loans:									
Individually evaluated for impairment	$9,719	$2,694	$2,285	$—	$—	$37	$—	$—	$14,735
Collectively evaluated for impairment	1,282,319	4,774,305	994,174	347,801	78,778	35,749	283	—	7,513,409
Acquired with deteriorated credit quality	24,382	86,871	2,250	—	3,088	32	—	—	116,623
Ending balance	$1,316,420	$4,863,870	$998,709	$347,801	$81,866	$35,818	$283	$—	$7,644,767
December 31, 2017									
Allowance for losses:									
Individually evaluated for impairment	$3,500	$311	$—	$—	$—	$2	$—	$—	$3,813
Collectively evaluated for impairment	7,099	22,990	3,447	1,583	250	203	(32)	49	35,589
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—
Ending balance	$10,599	$23,301	$3,447	$1,583	$250	$205	$(32)	$49	$39,402
Loans:									
Individually evaluated for impairment	$10,297	$3,054	$1,727	$—	$—	$74	$—	$—	$15,152
	1,037,401	4,039,332	887,292	289,680	78,646	34,544	304	—	6,367,199

Collectively evaluated for impairment									
Acquired with deteriorated credit quality	12,286	72,374	3,274	—	3,937	21	—	—	91,892
Ending balance	$ 1,059,984	$ 4,114,760	$ 892,293	$ 289,680	$ 82,583	$ 34,639	$ 304	$ —	$ 6,474,243

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Nonperforming loans by loan class (excluding loans acquired with deteriorated credit quality) at June 30, 2018 and December 31, 2017, are summarized as follows:

	Commercial	Commercial Real Estate, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Total
June 30, 2018								
Nonaccrual loans	$ 7,469	$ 2,271	$ 2,113	$ —	$ —	$ 37	$ —	$ 11,890
Loans past due 90 days and still accruing	69	5	3	—	—	2	—	79
Troubled debt restructurings (not included in nonaccrual or loans past due and still accruing)	—	423	172	—	—	—	—	595
	$ 7,538	$ 2,699	$ 2,288	$ —	$ —	$ 39	$ —	$ 12,564
December 31, 2017								
Nonaccrual loans	$ 10,304	$ 2,716	$ 998	$ —	$ —	$ 55	$ —	$ 14,073
Loans past due 90 days and still accruing	8	120	8	—	—	—	—	136
Troubled debt restructurings (not included in nonaccrual or loans past due and still accruing)	—	455	730	—	—	20	—	1,205
	$ 10,312	$ 3,291	$ 1,736	$ —	$ —	$ 75	$ —	$ 15,414

The accrual of interest is discontinued on a loan when management believes after considering collection efforts and other factors that the borrower's financial condition is such that collection of interest is doubtful. All interest accrued but not collected for loans that are placed on nonaccrual status or charged-off is reversed against interest income. Cash collections on nonaccrual loans are generally credited to the loan receivable balance, and no interest income is recognized on those loans until the principal balance has been collected. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.
Impaired loans are those loans where it is probable that all amounts due according to contractual terms of the loan agreement will not be collected. The Company has identified these loans through its normal loan review procedures. Impaired loans are measured based on 1) the present value of expected future cash flows discounted at the loans effective interest rate; 2) the loan's observable market price; or 3) the fair value of collateral if the loan is collateral dependent. Substantially all of the Company’s impaired loans are measured at the fair value of the collateral. In limited cases, the Company may use the other methods to determine the level of impairment of a loan if such loan is not collateral dependent.
All commercial, real estate, agricultural loans and troubled debt restructurings are considered for individual impairment analysis. Smaller balance consumer loans are collectively evaluated for impairment.

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Impaired loans by loan class (excluding loans acquired with deteriorated credit quality) at June 30, 2018 and December 31, 2017, are summarized as follows:

	Commercial	Commercial Real Estate, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Total
June 30, 2018								
Recorded investment in impaired loans:								
Impaired loans with an allowance for loan losses	$ 8,790	$ —	$ —	$ —	$ —	$ 3	$ —	$ 8,793
Impaired loans with no allowance for loan losses	929	2,694	2,285	—	—	34	—	5,942
Total	$ 9,719	$ 2,694	$ 2,285	$ —	$ —	$ 37	$ —	$ 14,735
Unpaid principal balance of impaired loans	$ 9,748	$ 2,782	$ 2,373	$ —	$ —	$ 46	$ —	$ 14,949
Allowance for loan losses on impaired loans	$ 5,020	$ —						