

FIRST FINANCIAL BANKSHARES INC

Form 10-Q

November 04, 2014

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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, 2014**

**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, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

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

<b>Class</b>	<b>Outstanding at November 4, 2014</b>
<b>Common Stock, \$0.01 par value per share</b>	<b>64,065,828</b>

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**PART I**

**FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

The consolidated balance sheets of First Financial Bankshares, Inc. (the Company ) at September 30, 2014 and 2013 and December 31, 2013, and the consolidated statements of earnings and comprehensive earnings for the three and nine months ended September 30, 2014 and 2013, and the consolidated statements of shareholders' equity and cash flows for the nine months ended September 30, 2014 and 2013, 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, 2014 2014      2013 (Unaudited)		December 31, 2013
<b>ASSETS</b>			
CASH AND DUE FROM BANKS	\$ 149,957	\$ 164,666	\$ 183,084
FEDERAL FUNDS SOLD	4,785	14,300	3,430
INTEREST-BEARING DEPOSITS IN BANKS	83,994	48,634	25,498
Total cash and cash equivalents	238,736	227,600	212,012
INTEREST-BEARING TIME DEPOSITS IN BANKS	19,234	34,352	31,917
SECURITIES AVAILABLE-FOR-SALE, at fair value	2,253,762	1,975,303	2,057,723
SECURITIES HELD-TO-MATURITY (fair value of \$560, \$810 and \$694 at September 30, 2014 and 2013, and December 31, 2013, respectively)	554	798	684
<b>LOANS</b>			
Held for investment	2,828,430	2,609,085	2,684,285
Less - allowance for loan losses	(36,388)	(34,800)	(33,900)
Net loans held for investment	2,792,042	2,574,285	2,650,385
Held for sale	11,266	5,724	5,163
Net loans	2,803,308	2,580,009	2,655,548
BANK PREMISES AND EQUIPMENT, net	101,437	94,676	95,505
INTANGIBLE ASSETS	97,429	97,429	97,485
OTHER ASSETS	61,351	65,468	71,334
Total assets	\$ 5,575,811	\$ 5,075,635	\$ 5,222,208
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
NONINTEREST-BEARING DEPOSITS	\$ 1,505,847	\$ 1,371,835	\$ 1,362,184
INTEREST-BEARING DEPOSITS	2,958,517	2,628,722	2,772,891
Total deposits	4,464,364	4,000,557	4,135,075
DIVIDENDS PAYABLE	8,969	8,314	8,318
SHORT-TERM BORROWINGS	341,909	466,500	463,888
OTHER LIABILITIES	101,804	32,023	27,280
Total liabilities	4,917,046	4,507,394	4,634,561
<b>COMMITMENTS AND CONTINGENCIES</b>			

**SHAREHOLDERS EQUITY**

Common stock - \$0.01 par value, authorized 80,000,000 shares; 64,065,828, 31,977,670, and 31,992,497 shares issued at September 30, 2014 and 2013, and December 31, 2013, respectively	641	320	320
Capital surplus	304,866	302,320	302,991
Retained earnings	314,363	261,052	273,972
Treasury stock (shares at cost: 532,256, 269,334, and 269,467 at September 30, 2014 and 2013, and December 31, 2013, respectively)	(5,797)	(5,364)	(5,490)
Deferred compensation	5,797	5,364	5,490
Accumulated other comprehensive earnings	38,895	4,549	10,364
<b>Total shareholders equity</b>	<b>658,765</b>	<b>568,241</b>	<b>587,647</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 5,575,811</b>	<b>\$ 5,075,635</b>	<b>\$ 5,222,208</b>

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,	
	2014	2013	2014	2013
<b>INTEREST INCOME:</b>				
Interest and fees on loans	\$ 34,682	\$ 32,936	\$ 101,586	\$ 88,260
Interest on investment securities:				
Taxable	6,858	6,130	21,032	18,818
Exempt from federal income tax	8,335	7,480	24,543	21,122
Interest on federal funds sold and interest-bearing deposits in banks	80	109	257	405
<b>Total interest income</b>	<b>49,955</b>	<b>46,655</b>	<b>147,418</b>	<b>128,605</b>
<b>INTEREST EXPENSE:</b>				
Interest on deposits	999	1,038	2,894	2,758
Other	70	126	249	256
<b>Total interest expense</b>	<b>1,069</b>	<b>1,164</b>	<b>3,143</b>	<b>3,014</b>
Net interest income	48,886	45,491	144,275	125,591
<b>PROVISION FOR LOAN LOSSES</b>	<b>896</b>	<b>1,349</b>	<b>3,710</b>	<b>2,582</b>
Net interest income after provision for loan losses	47,990	44,142	140,565	123,009
<b>NONINTEREST INCOME:</b>				
Trust fees	4,772	4,138	13,897	11,884
Service charges on deposit accounts	4,402	4,798	12,623	13,009
ATM, interchange and credit card fees	5,093	4,404	14,291	12,315
Real estate mortgage operations	1,813	2,008	4,174	5,149
Net gain (loss) on sale of available-for-sale securities (includes \$1 and (\$108) for the three months ended September 30, 2014 and 2013, respectively, and (\$4) and \$147 for the nine months ended September 30, 2014 and 2013, respectively, related to accumulated other comprehensive earnings reclassification)	1	(108)	(4)	147
Net gain (loss) on sale of foreclosed assets	305	36	804	(263)
Other	938	1,799	3,816	4,019
<b>Total noninterest income</b>	<b>17,324</b>	<b>17,075</b>	<b>49,601</b>	<b>46,260</b>
<b>NONINTEREST EXPENSE:</b>				
Salaries and employee benefits	17,950	17,501	52,638	48,831
Net occupancy expense	2,297	2,164	6,804	5,995

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Equipment expense	2,758	2,490	8,045	7,146
FDIC insurance premiums	693	640	2,035	1,781
ATM, interchange and credit card expenses	1,819	1,474	4,995	4,161
Professional and service fees	1,205	1,363	3,249	3,198
Printing, stationery and supplies	632	534	1,960	1,504
Amortization of intangible assets	62	77	210	120
Other	6,624	9,291	21,553	20,181
Total noninterest expense	34,040	35,534	101,489	92,917
<b>EARNINGS BEFORE INCOME TAXES</b>	<b>31,274</b>	<b>25,683</b>	<b>88,677</b>	<b>76,352</b>
<b>INCOME TAX EXPENSE</b> (includes \$0 and (\$38) for the three months ended September 30, 2014 and 2013, respectively, and (\$1) and \$51 for the nine months ended September 30, 2014 and 2013, respectively, related to income tax expense from reclassification items)	7,843	6,121	21,705	18,723
<b>NET EARNINGS</b>	<b>\$ 23,431</b>	<b>\$ 19,562</b>	<b>\$ 66,972</b>	<b>\$ 57,629</b>
<b>EARNINGS PER SHARE, BASIC</b>	<b>\$ 0.37</b>	<b>\$ 0.31</b>	<b>\$ 1.05</b>	<b>\$ 0.91</b>
<b>EARNINGS PER SHARE, ASSUMING DILUTION</b>	<b>\$ 0.36</b>	<b>\$ 0.30</b>	<b>\$ 1.04</b>	<b>\$ 0.90</b>
<b>DIVIDENDS PER SHARE</b>	<b>\$ 0.14</b>	<b>\$ 0.13</b>	<b>\$ 0.41</b>	<b>\$ 0.39</b>

See notes to consolidated financial statements.



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

	Three Months Ended September 30,		Three Months Ended September 30,	
	2014	2013	2014	2013
<b>NET EARNINGS</b>	\$ 23,431	\$ 19,562	\$ 66,972	\$ 57,629
<b>OTHER ITEMS OF COMPREHENSIVE EARNINGS:</b>				
Change in unrealized gain (loss) on investment securities available-for-sale, before income taxes	5,707	(29,688)	43,889	(71,791)
Reclassification adjustment for realized losses (gains) on investment securities included in net earnings, before income tax	(1)	108	4	(147)
Total other items of comprehensive earnings (losses)	5,706	(29,580)	43,893	(71,938)
Income tax benefit (expense) related to other items of comprehensive earnings	(1,997)	10,352	(15,362)	25,178
<b>COMPREHENSIVE EARNINGS:</b>	\$ 27,140	\$ 334	\$ 95,503	\$ 10,869

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	Capital Amount	Retained Surplus	Earnings	Treasury Stock	Deferred Compensation	Accumulated Other Comprehensive Earnings	Total Shareholders' Equity
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