Independent Bank Group, Inc.
Form 10-Q
May 01, 2015

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 March 31, 2015.
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 or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Check One:

Large accelerated filer	¨	Accelerated filer	ý
Non-accelerated filer	¨	Smaller reporting company	¨

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 – 17,119,376 shares as of April 30, 2015.

INDEPENDENT BANK GROUP, INC. AND SUBSIDIARIES
Form 10-Q
March 31, 2015

***

Independent Bank Group, Inc. and Subsidiaries

Consolidated Balance Sheets
March 31, 2015 and December 31, 2014 (unaudited)
(Dollars in thousands, except share information)

Assets	March 31, 2015	December 31, 2014
Cash and due from banks	$136,525	$153,158
Interest-bearing deposits in other banks	222,273	170,889
Cash and cash equivalents	358,798	324,047
Securities available for sale (amortized cost of $193,983 and $203,277, respectively)	198,149	206,062
Loans held for sale	7,034	4,453
Loans, net of allowance for loan losses of $20,227 and $18,552, respectively	3,283,021	3,182,045
Premises and equipment, net	88,163	88,902
Other real estate owned	4,587	4,763
Federal Home Loan Bank (FHLB) of Dallas stock and other restricted stock	12,333	12,321
Bank-owned life insurance (BOLI)	40,054	39,784
Deferred tax asset	2,351	2,235
Goodwill	229,639	229,457
Core deposit intangible, net	12,083	12,455
Other assets	22,152	26,115
Total assets	$4,258,364	$4,132,639
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing	$806,912	$818,022
Interest-bearing	2,579,766	2,431,576
Total deposits	3,386,678	3,249,598
FHLB advances	219,386	229,405
Repurchase agreements	5,783	4,012
Other borrowings	68,785	69,410
Other borrowings, related parties	3,320	3,320
Junior subordinated debentures	18,147	18,147
Other liabilities	5,537	17,896
Total liabilities	3,707,636	3,591,788
Commitments and contingencies		
Stockholders' equity:		
Series A preferred stock (23,938.35 shares issued and outsanding)	23,938	23,938
Common stock (17,119,793 and 17,032,669 shares outstanding, respectively)	171	170
Additional paid-in capital	477,564	476,609
Retained earnings	45,754	37,731
Accumulated other comprehensive income	3,301	2,403
Total stockholders' equity	550,728	540,851
Total liabilities and stockholders' equity	$4,258,364	$4,132,639

See Notes to Consolidated Financial Statements

1

Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Income
Three Months Ended March 31, 2015 and 2014 (unaudited)
(Dollars in thousands, except per share information)

	Three months ended March 31,	
	2015	2014
Interest income:		
Interest and fees on loans	$39,580	$24,123
Interest on taxable securities	609	699
Interest on nontaxable securities	414	257
Interest on federal funds sold and other	133	83
Total interest income	40,736	25,162
Interest expense:		
Interest on deposits	2,709	1,907
Interest on FHLB advances	752	852
Interest on repurchase agreements and other borrowings	1,069	135
Interest on junior subordinated debentures	128	133
Total interest expense	4,658	3,027
Net interest income	36,078	22,135
Provision for loan losses	1,670	1,253
Net interest income after provision for loan losses	34,408	20,882
Noninterest income:		
Service charges on deposit accounts	1,805	1,211
Mortgage fee income	1,300	730
Gain on sale of other real estate	130	39
Increase in cash surrender value of BOLI	270	149
Other	461	205
Total noninterest income	3,966	2,334
Noninterest expense:		
Salaries and employee benefits	14,424	9,134
Occupancy	3,910	2,538
Data processing	688	496
FDIC assessment	519	304
Advertising and public relations	346	234
Communications	539	320
Net other real estate owned expenses (including taxes)	59	79
Operations of IBG Adriatica, net	—	23
Core deposit intangible amortization	372	199
Professional fees	490	368
Acquisition expense, including legal	472	476
Other	2,567	1,905
Total noninterest expense	24,386	16,076
Income before taxes	13,988	7,140
Income tax expense	4,536	2,339
Net income	$9,452	$4,801
Basic earnings per share	$0.55	$0.38

Diluted earnings per share	$0.55	$0.38

See Notes to Consolidated Financial Statements

2

Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income
Three Months Ended March 31, 2015 and 2014 (unaudited)
(Dollars in thousands)

	Three Months Ended March 31,	
	2015	2014
Net income	$9,452	$4,801
Other comprehensive income before tax:		
Change in net unrealized gains on available for sale securities during the year	1,381	2,429
Reclassification adjustment for loss on sale of securities available for sale included in net income	—	—
Other comprehensive income before tax	1,381	2,429
Income tax expense	483	850
Other comprehensive income, net of tax	898	1,579
Comprehensive income	$10,350	$6,380

See Notes to Consolidated Financial Statements

3

Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity
Three Months Ended March 31, 2015 and 2014 (unaudited)
(Dollars in thousands, except for par value, share and per share information)

	Series A Preferred Stock $.01 Par Value 10 million shares authorized	Common Stock $.01 Par Value 100 million shares authorized Shares	Amount	Additional Paid in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2014	$23,938	17,032,669	$170	$476,609	$37,731	$—	$ 2,403	$540,851
Net income	—	—	—	—	9,452	—	—	9,452
Other comprehensive income, net of tax	—	—	—	—	—	—	898	898
Offering costs related to acquired bank	—	—	—	(144)	—	—	—	(144)
Restricted stock granted	—	87,124	1	(1)	—	—	—	—
Stock based compensation expense	—	—	—	1,097	—	—	—	1,097
Excess tax benefit on restricted stock vested	—	—	—	3	—	—	—	3
Preferred stock dividends	—	—	—	—	(60)	—	—	(60)
Cash dividends ($0.08 per share)	—	—	—	—	(1,369)	—	—	(1,369)
Balance, March 31, 2015	$23,938	17,119,793	$171	$477,564	$45,754	$—	$ 3,301	$550,728
Balance, December 31, 2013	$—	12,330,158	$123	$222,116	$12,663	$—	$ (1,130)	$233,772
Net income	—	—	—	—	4,801	—	—	4,801
Other comprehensive (loss), net of tax	—	—	—	—	—	—	1,579	1,579
Common stock issued for acquisition of bank	—	235,594	3	11,697	—	—	—	11,700
Restricted stock granted	—	27,183	—	—	—	—	—	—
Excess tax benefit on restricted stock vested	—	—	—	1,022	—	—	—	1,022
Stock based compensation expense	—	—	—	390	—	—	—	390
Cash dividends ($0.06 per share)	—	—	—	—	(756)	—	—	(756)
Balance, March 31, 2014	$—	12,592,935	$126	$235,225	$16,708	$—	$ 449	$252,508

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Three Months Ended March 31, 2015 and 2014 (unaudited)
(Dollars in thousands)

	Three Months Ended March 31, 2015	2014
Cash flows from operating activities:		
Net income	$9,452	$4,801
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	1,521	1,145
Amortization of core deposit intangibles	372	199
Amortization of premium on securities, net	426	394
Stock based compensation expense	1,097	390
FHLB stock dividends	(12)	(9)
Gain recognized on other real estate transactions	(130)	(39)
Deferred tax (benefit) expense	(599)	173
Provision for loan losses	1,670	1,253
Increase in cash surrender value of life insurance	(270)	(149)
Loans originated for sale	(55,984)	(28,070)
Proceeds from sale of loans	53,403	29,262
Net change in other assets	6,446	1,012
Net change in other liabilities	(13,081)	(3,326)
Net cash provided by operating activities	4,311	7,036
Cash flows from investing activities:		
Proceeds from maturities, calls and pay downs of securities available for sale	8,868	20,941
Purchases of securities available for sale	—	(8,667)
Net purchases of FHLB stock	—	491
Net loans originated	(102,646)	(99,556)
Additions to premises and equipment	(2,782)	(282)
Proceeds from sale of premises and equipment	—	11
Proceeds from sale of other real estate owned	316	552
Capitalized additions to other real estate	(10)	(28)
Cash received from acquired banks	—	32,246
Cash paid in connection with acquisitions	—	(10,000)
Net cash used in investing activities	(96,254)	(64,292)
Cash flows from financing activities:		
Net increase in demand deposits, NOW and savings accounts	98,901	26,181
Net increase in time deposits	38,179	48,712
Net change in FHLB advances	(10,019)	(13,022)
Net change in repurchase agreements	1,771	802
Repayments of other borrowings	(625)	—
Offering costs paid in connection with acquired banks	(144)	—
Dividends paid	(1,369)	(756)
Net cash provided by financing activities	126,694	61,917
Net change in cash and cash equivalents	34,751	4,661
Cash and cash equivalents at beginning of year	324,047	93,054
Cash and cash equivalents at end of period	$358,798	$97,715

See Notes to Consolidated Financial Statements

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 Texas, Central Texas and Houston areas 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 and IBG Adriatica Holdings, Inc. (Adriatica) and the Bank's wholly-owned subsidiaries, IBG Real Estate Holdings, Inc. and IBG Aircraft Acquisition, Inc. Adriatica was formed in 2011 to acquire a mixed use residential and retail real estate development in McKinney, Texas. Adriatica was dissolved during the first quarter of 2014. 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) and Community Group Statutory Trust I (CGI Trust I). 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, 2014. The consolidated statement of condition at December 31, 2014 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 SEC and noted no subsequent events requiring financial statement recognition or disclosure, except as disclosed in Note 12.
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 dilutive effect of participating non vested common stock was not included as it was anti-dilutive. Proceeds from the assumed exercise of dilutive stock warrants are assumed to be used to repurchase common stock at the average market price.

	Three Months Ended March 31,	
	2015	2014
Basic earnings per share:		
Net income	$9,452	$4,801
Less: Preferred stock dividends	(60)	—
Net income after preferred stock dividends	9,392	4,801
Less:		
Undistributed earnings allocated to participating securities	178	58
Dividends paid on participating securities	30	11
Net income available to common shareholders	$9,184	$4,732
Weighted-average basic shares outstanding	16,712,527	12,403,387
Basic earnings per share	$0.55	$0.38
Diluted earnings per share:		
Net income available to common shareholders	$9,184	$4,732
Total weighted-average basic shares outstanding	16,712,527	12,403,387
Add dilutive stock warrants	77,933	101,643
Total weighted-average diluted shares outstanding	16,790,460	12,505,030
Diluted earnings per share	$0.55	$0.38
Anti-dilutive participating securities	19,705	109,040

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:

	Three Months Ended March 31,	
	2015	2014
Cash transactions:		
Interest expense paid	$5,754	$3,045
Income taxes paid	$6,150	$2,700
Noncash transactions:		
Accrued preferred stock dividends	$60	$—
Transfers of loans to other real estate owned	$—	$120
Loans to facilitate the sale of other real estate owned	$—	$48
Securities purchased, not yet settled	$—	$2,000
Excess tax benefit on restricted stock vested	$3	$1,022

The supplemental schedule of noncash investing activities from Company acquisition activity is as follows:

	Three Months Ended March 31,	
	2015	2014
Noncash assets acquired		
Cash and cash equivalents	$—	$32,246
Securities available for sale	—	16,740
Loans	—	71,138
Premises and equipment	—	2,600
Goodwill	—	7,122
Core deposit intangibles	—	882
Other assets	—	230
Total assets	$—	$130,958
Noncash liabilities assumed:		
Deposits	$—	$104,960
Repurchase agreements	—	3,733
Other liabilities	—	565
Total liabilities	$—	$109,258
Cash paid to shareholders of acquired banks	$—	$10,000
Fair value of common stock issued to shareholders of acquired bank	$—	$11,700

In addition, the following measurement-period adjustments were made during the period relating to Company acquisition activity:

	Three Months Ended March 31,	
	2015	2014
Noncash assets acquired:		
Loans	$—	$(328)
Goodwill	182	749
Core deposit intangibles	—	(18)
Deferred tax asset	—	109
Other assets	—	10
Total assets	$182	$522
Noncash liabilities assumed:		
Deposits	$—	$505
Other liabilities	182	17
Total liabilities	$182	$522

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 March 31, 2015 and December 31, 2014, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
March 31, 2015:				
U.S. treasuries	$999	$9	$—	$1,008
Government agency securities	53,964	446	(121)	54,289
Obligations of state and municipal subdivisions	73,587	2,121	(301)	75,407
Corporate bonds	1,066	32	—	1,098
Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC and FHR	64,367	1,981	(1)	66,347
	$193,983	$4,589	$(423)	$198,149
December 31, 2014:				
U.S. treasuries	$999	$7	$—	$1,006
Government agency securities	58,174	199	(350)	58,023
Obligations of state and municipal subdivisions	75,599	1,837	(537)	76,899
Corporate bonds	1,068	13	—	1,081
Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC and FHR	67,437	1,616	—	69,053
	$203,277	$3,672	$(887)	$206,062

Securities with a carrying amount of approximately $141,091 and $174,741 at March 31, 2015 and December 31, 2014, respectively, were pledged to secure public fund deposits and repurchase agreements.

There were no sales of securities during the three months ended March 31, 2015 and 2014.

The amortized cost and estimated fair value of securities available for sale at March 31, 2015, 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.

	March 31, 2015	
	Securities Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$2,801	$2,803
Due from one year to five years	49,616	49,743
Due from five to ten years	36,768	37,433
Thereafter	40,431	41,823
	129,616	131,802
Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC and FHR	64,367	66,347
	$193,983	$198,149

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 March 31, 2015 and December 31, 2014, 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								
March 31, 2015								
Government agency securities	—	$—	$—	12	$20,877	$(121)	$20,877	$(121)
Obligations of state and municipal subdivisions	9	3,597	(11)	25	11,990	(290)	15,587	(301)
Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC and FHR	1	93	(1)	—	—	—	93	(1)
	10	$3,690	$(12)	37	$32,867	$(411)	$36,557	$(423)
December 31, 2014								
Government agency securities	6	$6,396	$(24)	14	$22,671	$(326)	$29,067	$(350)
Obligations of state and municipal subdivisions	44	16,636	(197)	13	8,541	(340)	25,177	(537)
	50	$23,032	$(221)	27	$31,212	$(666)	$54,244	$(887)

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.

Note 4. Loans, Net and Allowance for Loan Losses

Loans, net at March 31, 2015 and December 31, 2014, consisted of the following:

	March 31, 2015	December 31, 2014
Commercial	$697,449	$672,052
Real estate:		
Commercial	1,555,462	1,450,434
Commercial construction, land and land development	301,944	334,964
Residential	515,716	514,025
Single family interim construction	148,202	138,278
Agricultural	37,650	38,822
Consumer	47,387	52,267
Other	139	242
	3,303,949	3,201,084
Deferred loan fees	(701)	(487)
Allowance for loan losses	(20,227)	(18,552)
	$3,283,021	$3,182,045

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 March 31, 2015 and December 31, 2014, there were approximately $239.0 million and $231.7 million of exploration and production (E&P) energy loans outstanding, respectively.

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.

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 2% 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. A large percentage of the Company's portfolio consists of commercial and residential real estate loans. As of March 31, 2015 and December 31, 2014, 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. 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 in which 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; 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 $2.4 million. 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 economy, specifically the Company's lending area of north, central and southeast Texas, has generally performed better than certain other parts of the country. However, the recent drop in oil prices has the potential to have negative impact on the Texas economy. The risk of loss associated with all segments of the portfolio could increase due to this impact.

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 months ended March 31, 2015 and 2014:

	Commercial	Commercial Real Estate, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Unallocated	Total
Three months ended March 31, 2015									
Balance at the beginning of period	$ 5,051	$ 10,110	$ 2,205	$ 669	$ 246	$ 146	$ —	$ 125	$ 18,552
Provision for loan losses	1,023	526	(13)	65	(8)	29	—	48	1,670
Charge-offs	—	—	—	—	—	(36)	—	—	(36)
Recoveries	4	18	2	—	—	17	—	—	41
Balance at end of period	$ 6,078	$ 10,654	$ 2,194	$ 734	$ 238	$ 156	$ —	$ 173	$ 20,227
Three months ended March 31, 2014									
Balance at the beginning of period	$ 2,401	$ 7,872	$ 2,440	$ 577	$ 238	$ 363	$ —	$ 69	$ 13,960
Provision for loan losses	578	256	(163)	(42)	6	(6)	—	624	1,253
Charge-offs	(363)	(21)	(1)	—	—	(14)	—	—	(399)
Recoveries	4	10	2	1	—	10	—	—	27
Balance at end of period	$ 2,620	$ 8,117	$ 2,278	$ 536	$ 244	$ 353	$ —	$ 693	$ 14,841

13

The following table details the amount of the allowance for loan losses and recorded investment in loans by class as of March 31, 2015 and December 31, 2014:

	Commercial	Commercial Real Estate, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Unallocated	Total
March 31, 2015									
Allowance for losses:									
Individually evaluated for impairment	$ 1,120	$ 64	$—	$ —	$ —	$—	$—	$ —	$ 1,184
Collectively evaluated for impairment	4,958	10,590	2,194	734	238	156	—	173	19,043
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—
Ending balance	$ 6,078	$ 10,654	$ 2,194	$ 734	$ 238	$ 156	$—	$ 173	$ 20,227
Loans:									
Individually evaluated for impairment	$ 5,899	$ 6,486	$ 3,216	$ —	$ —	$ 76	$—	$ —	$ 15,677
Collectively evaluated for impairment	688,120	1,801,261	510,777	148,202	37,650	47,286	139	—	3,233,435
Acquired with deteriorated credit quality	3,430	49,659	1,723	—	—	25	—	—	54,837
Ending balance	$ 697,449	$ 1,857,406	$ 515,716	$ 148,202	$ 37,650	$ 47,387	$ 139	$ —	$ 3,303,949
December 31, 2014									
Allowance for losses:									
Individually evaluated for impairment	$ 339	$ 124	$ 8	$ —	$ —	$ 4	$—	$ —	$ 475
Collectively evaluated for impairment	4,712	9,986	2,197	669	246	142	—	125	18,077
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—
Ending balance	$ 5,051	$ 10,110	$ 2,205	$ 669	$ 246	$ 146	$—	$ 125	$ 18,552
Loans:									
	$ 1,479	$ 6,768	$ 3,387	$ —	$ —	$ 75	$—	$ —	$ 11,709

Individually evaluated for impairment									
Collectively evaluated for impairment	666,830	1,724,514	508,833	138,278	38,822	52,159	242	—	3,129,678
Acquired with deteriorated credit quality	3,743	54,116	1,805	—	—	33	—	—	59,697
Ending balance	$ 672,052	$ 1,785,398	$ 514,025	$ 138,278	$ 38,822	$ 52,267	$ 242	$ —	$ 3,201,084

Nonperforming loans by loan class at March 31, 2015 and December 31, 2014, are summarized as follows:

	Commercial	Commercial Real Estate, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Total
March 31, 2015								
Nonaccrual loans	$ 5,873	$ 57	$ 631	$ —	$ —	$ 71	$—	$ 6,632
Loans past due 90 days and still accruing	—	—	—	—	—	—	—	—
Troubled debt restructurings (not included in nonaccrual or loans past due and still accruing)	27	4,426	2,571	—	—	5	—	7,029
	$ 5,900	$ 4,483	$ 3,202	$ —	$ —	$ 76	$—	$ 13,661
December 31, 2014								
Nonaccrual loans	$ 1,449	$ 70	$ 2,117	$ —	$ —	$ 67	$—	$ 3,703
Loans past due 90 days and still accruing	157	288	—	—	—	6	—	451
Troubled debt restructurings (not included in nonaccrual or loans past due and still accruing)	30	4,668	1,254	—	—	8	—	5,960
	$ 1,636	$ 5,026	$ 3,371	$ —	$ —	$ 81	$—	$ 10,114

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.

Impaired loans by loan class at March 31, 2015 and December 31, 2014, are summarized as follows:

	Commercial	Commercial Real Estate, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Total
March 31, 2015								
Recorded investment in impaired loans:								
Impaired loans with an allowance for loan losses	$ 5,865	$ 1,441	$ —	$ —	$ —	$ —	$—	$7,306
Impaired loans with no allowance for loan losses	35	5,044	3,216	—	—	76	—	8,371
Total	$ 5,900	$ 6,485	$ 3,216	$ —	$ —	$ 76	$—	$15,677
Unpaid principal balance of impaired loans	$ 5,904	$ 6,990	$ 3,375	$ —	$ —	$ 95	$—	$16,364
Allowance for loan losses on impaired loans	$ 1,120	$ 64	$ —	$ —	$ —	$ —	$—	$1,184
December 31, 2014								
Recorded investment in impaired loans:								
Impaired loans with an allowance for loan losses	$ 1,475	$ 2,056	$ 13	$ —	$ —	$ 7	$—	$3,551
Impaired loans with no allowance for loan losses	4	4,712	3,374	—	—	68	—	8,158
Total	$ 1,479	$ 6,768	$ 3,387	$ —	$ —	$ 75	$—	$11,709
Unpaid principal balance of impaired loans	$ 1,482	$ 7,274	$ 3,605	$ —	$ —	$ 93	$—	$12,454
Allowance for loan losses on impaired loans	$ 339	$ 124	$ 8	$ —	$ —	$ 4	$—	$475
For the three months ended March 31, 2015								
Average recorded investment in impaired loans	$ 3,689	$ 6,627	$ 3,302	$ —	$ —	$ 76	$—	$13,694
Interest income recognized on impaired loans	$ 21	$ 93	$ 29	$ —	$ —	$ —	$—	$143
For the three months ended March 31, 2014								
Average recorded investment in impaired loans	$ 376	$ 7,788	$ 3,207	$ 85	$ —	$ 63	$—	$11,519
Interest income recognized on impaired loans	$ 3	$ 107	$ 28	$ —	$ —	$ —	$—	$138

Certain impaired loans have adequate collateral and do not require a related allowance for loan loss.

The Company will charge off that portion of any loan which management considers a loss. Commercial and real estate loans are generally considered for charge-off when exposure beyond collateral coverage is apparent and when no further collection of the loss portion is anticipated based on the borrower's financial condition.

The restructuring of a loan is considered a "troubled debt restructuring" if both 1) the borrower is experiencing financial difficulties and 2) the creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, extending amortization and other actions intended to minimize potential losses.

A “troubled debt restructured” loan is identified as impaired and measured for credit impairment as of each reporting period in accordance with the guidance in Accounting Standards Codification (ASC) 310-10-35. The recorded investment in troubled debt restructurings, including those on nonaccrual, was $7,045 and $7,302 as of March 31, 2015 and December 31, 2014.

Following is a summary of loans modified under troubled debt restructurings during the three months ended March 31, 2015 and 2014:

.

	Commercial	Commercial Real Estate, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Total
Troubled debt restructurings during the three months ended March 31, 2015								
Number of contracts	—	—	—	—	—	—	—	—
Pre-restructuring outstanding recorded investment	$—	$—	$—	$ —	$—	$—	$—	$—
Post-restructuring outstanding recorded investment	$—	$—	$—	$ —	$—	$—	$—	$—
Troubled debt restructurings during the three months ended March 31, 2014								
Number of contracts	—	1	—	—	—	—	—	1
Pre-restructuring outstanding recorded investment	$—	$700	$—	$ —	$—	$—	$—	$700
Post-restructuring outstanding recorded investment	$—	$700	$—	$ —	$—	$—	$—	$700

At March 31, 2015 and 2014, there were no loans modified under troubled debt restructurings during the previous twelve month period that subsequently defaulted during the three months ended March 31, 2015 and 2014, respectively. At March 31, 2015 and 2014, the Company had no commitments to lend additional funds to any borrowers with loans whose terms have been modified under troubled debt restructurings.

Modifications primarily relate to extending the amortization periods of the loans and interest rate concessions. The majority of these loans were identified as impaired prior to restructuring; therefore, the modifications did not materially impact the Company’s determination of the allowance for loan losses.

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. The following table presents information regarding the aging of past due loans by loan class as of March 31, 2015 and December 31, 2014:

	Loans 30-89 Days Past Due	Loans 90 or More Past Due	Total Past Due Loans	Current Loans	Total Loans
March 31, 2015					
Commercial	$244	$5,838	$6,082	$691,367	$697,449
Commercial real estate, land and land development	86	—	86	1,857,320	1,857,406
Residential real estate	1,087	404	1,491	514,225	515,716
Single-family interim construction	—	—	—	148,202	148,202
Agricultural	—	—	—	37,650	37,650
Consumer	1,363	11	1,374	46,013	47,387
Other	—	—	—	139	139
	$2,780	$6,253	$9,033	$3,294,916	$3,303,949
December 31, 2014					
Commercial	$6,006	$157	$6,163	$665,889	$672,052
Commercial real estate, land and land development	973				