

FIRST FINANCIAL BANKSHARES INC
Form 10-Q
October 28, 2015
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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, 2015

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:

Class	Outstanding at October 28, 2015
Common Stock, \$0.01 par value per share	65,974,908

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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, 2015 and 2014 and December 31, 2014, the consolidated statements of earnings and comprehensive earnings for the three and nine months ended September 30, 2015 and 2014, and the consolidated statements of shareholders' equity and cash flows for the nine months ended September 30, 2015 and 2014, 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, 2015	September 30, 2014	December 31, 2014
	(Unaudited)		
<u>ASSETS</u>			
CASH AND DUE FROM BANKS	\$ 133,340	\$ 149,957	\$ 190,387
FEDERAL FUNDS SOLD	2,790	4,785	8,760
INTEREST-BEARING DEPOSITS IN BANKS	4,268	83,994	54,324
Total cash and cash equivalents	140,398	238,736	253,471
INTEREST-BEARING TIME DEPOSITS IN BANKS	4,491	19,234	17,002
SECURITIES AVAILABLE-FOR-SALE, at fair value	2,737,353	2,253,762	2,415,856
SECURITIES HELD-TO-MATURITY (fair value of \$291, \$560 and \$447 at September 30, 2015 and 2014, and December 31, 2014, respectively)	286	554	441
LOANS:			
Held for investment	3,266,817	2,828,430	2,929,188
Less - allowance for loan losses	(40,420)	(36,388)	(36,824)
Net loans held for investment	3,226,397	2,792,042	2,892,364
Held for sale	21,605	11,266	8,803
Net loans	3,248,002	2,803,308	2,901,167
BANK PREMISES AND EQUIPMENT, net	116,803	101,437	103,000
INTANGIBLE ASSETS	144,296	97,429	97,359
OTHER ASSETS	76,016	61,351	59,906
Total assets	\$ 6,467,645	\$ 5,575,811	\$ 5,848,202
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
NONINTEREST-BEARING DEPOSITS	\$ 1,720,383	\$ 1,505,847	\$ 1,570,330
INTEREST-BEARING DEPOSITS	3,376,900	2,958,517	3,179,925
Total deposits	5,097,283	4,464,364	4,750,255
DIVIDENDS PAYABLE	10,551	8,969	8,972
SHORT-TERM BORROWINGS	500,903	341,909	367,110
OTHER LIABILITIES	66,874	101,804	40,328
Total liabilities	5,675,611	4,917,046	5,166,665
COMMITMENTS AND CONTINGENCIES			

SHAREHOLDERS EQUITY:

Common stock - (\$0.01 par value, authorized 120,000,000 shares; 65,942,155, 64,065,828 and 64,089,921 shares issued at September 30, 2015 and 2014, and December 31, 2014, respectively)	659	641	641
Capital surplus	367,444	304,866	305,429
Retained earnings	373,372	314,363	327,978
Treasury stock (shares at cost: 524,163, 532,256 and 529,563 at September 30, 2015 and 2014, and December 31, 2014, respectively)	(6,207)	(5,797)	(5,878)
Deferred compensation	6,207	5,797	5,878
Accumulated other comprehensive earnings	50,559	38,895	47,489
Total shareholders equity	792,034	658,765	681,537
Total liabilities and shareholders equity	\$ 6,467,645	\$ 5,575,811	\$ 5,848,202

See notes to consolidated financial statements.

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FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF EARNINGS - (UNAUDITED)

(Dollars in thousands, except for share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
INTEREST INCOME:				
Interest and fees on loans	\$ 39,368	\$ 34,682	\$ 110,464	\$ 101,586
Interest on investment securities:				
Taxable	7,298	6,858	22,502	21,032
Exempt from federal income tax	10,457	8,335	29,439	24,543
Interest on federal funds sold and interest-bearing deposits in banks	40	80	171	257
Total interest income	57,163	49,955	162,576	147,418
INTEREST EXPENSE:				
Interest on deposits	932	999	2,761	2,894
Other	133	70	281	249
Total interest expense	1,065	1,069	3,042	3,143
Net interest income	56,098	48,886	159,534	144,275
PROVISION FOR LOAN LOSSES	2,664	896	5,508	3,710
Net interest income after provision for loan losses	53,434	47,990	154,026	140,565
NONINTEREST INCOME:				
Trust fees	4,818	4,772	14,289	13,897
Service charges on deposit accounts	4,653	4,402	12,442	12,623
ATM, interchange and credit card fees	5,794	5,093	16,209	14,291
Real estate mortgage operations	3,742	2,079	7,321	4,835
Net gain (loss) on sale of available-for-sale securities (includes \$136 and \$1 for the three months ended September 30, 2015 and 2014, respectively, and \$380 and (\$4) for the nine months ended September 30, 2015 and 2014, respectively, related to accumulated other comprehensive earnings reclassification)	136	1	380	(4)
Net gain (loss) on sale of foreclosed assets	28	305	10	804
Other	1,275	672	3,501	3,155
Total noninterest income	20,446	17,324	54,152	49,601
NONINTEREST EXPENSE:				
Salaries and employee benefits	21,648	17,950	59,086	52,638

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Net occupancy expense	3,050	2,297	7,640	6,804
Equipment expense	3,114	2,758	9,005	8,045
FDIC insurance premiums	819	693	2,316	2,035
ATM, interchange and credit card expenses	1,509	1,819	4,844	4,995
Professional and service fees	1,148	1,205	3,370	3,249
Printing, stationery and supplies	594	632	1,662	1,960
Amortization of intangible assets	200	62	362	210
Other	7,891	6,624	20,837	21,553
Total noninterest expense	39,973	34,040	109,122	101,489
EARNINGS BEFORE INCOME TAXES	33,907	31,274	99,056	88,677
INCOME TAX EXPENSE (includes \$48 and \$0 for the three months ended September 30, 2015 and 2014, respectively, and \$133 and (\$1) for the nine months ended September 30, 2015 and 2014, respectively, related to income tax expense from reclassification items)	8,021	7,843	23,867	21,705
NET EARNINGS	\$ 25,886	\$ 23,431	\$ 75,189	\$ 66,972
EARNINGS PER SHARE, BASIC	\$ 0.40	\$ 0.37	\$ 1.16	\$ 1.05
EARNINGS PER SHARE, ASSUMING DILUTION	\$ 0.40	\$ 0.36	\$ 1.16	\$ 1.04
DIVIDENDS PER SHARE	\$ 0.16	\$ 0.14	\$ 0.46	\$ 0.41

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,		Nine Months Ended September 30,	
	2015	2014	2015	2014
NET EARNINGS	\$ 25,886	\$ 23,431	\$ 75,189	\$ 66,972
OTHER ITEMS OF COMPREHENSIVE EARNINGS (LOSS):				
Change in unrealized gain on investment securities available-for-sale, before income taxes	23,025	5,707	5,318	43,889
Reclassification adjustment for realized losses (gains) on investment securities included in net earnings, before income tax	(136)	(1)	(380)	4
Minimum liability pension adjustment, before income taxes	(108)		(216)	
Total other items of comprehensive earnings (losses)	22,781	5,706	4,722	43,893
Income tax benefit (expense) related to:				
Investment securities	(8,011)	(1,997)	(1,728)	(15,362)
Minimum liability pension adjustment	38		76	
Total income tax benefit (expense)	(7,973)	(1,997)	(1,652)	(15,362)
COMPREHENSIVE EARNINGS	\$ 40,694	\$ 27,140	\$ 78,259	\$ 95,503

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		Capital Surplus	Retained Earnings	Treasury Stock		Accumulated Deferred Compensation	Accumulated Other Comprehensive Earnings	Total Shareholders Equity
	Shares	Amount			Shares	Amount			
Balances at December 31, 2013	31,992,497	\$ 320	\$ 302,991	\$ 273,972	(269,467)	\$ (5,490)	\$ 5,490	\$ 10,364	\$ 587,647
Net earnings (unaudited)				66,972					66,972
Stock option exercises (unaudited)	50,571	1	1,076						1,077
Cash dividends declared, \$0.41 per share (unaudited)				(26,261)					(26,261)
Change in unrealized gain in investment securities available-for-sale, net of related income taxes (unaudited)								28,531	28,531
Additional tax benefit related to directors deferred compensation plan (unaudited)			267						267
Shares redeemed in connection with directors deferred compensation plan, net (unaudited)					5,345	(307)	307		
Stock option expense (unaudited)			532						532
Two-for-one stock split in the form of	32,022,760	320		(320)	(268,134)				

a 100% stock
dividend
(unaudited)

Balances at September 30, 2014 (unaudited)	64,065,828	\$ 641	\$ 304,866	\$ 314,363	(532,256)	\$ (5,797)	\$ 5,797	\$ 38,895	\$ 658,765
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Balances at December 31, 2014	64,089,921	\$ 641	\$ 305,429	\$ 327,978	(529,563)	\$ (5,878)	\$ 5,878	\$ 47,489	\$ 681,537
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Net earnings (unaudited)				75,189					75,189
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Stock option exercises (unaudited)	89,790		1,290						1,290
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Restricted stock grant (unaudited)	7,070		250						250
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Stock issued in acquisition of FBC Bancshares, Inc. (unaudited)	1,755,374	18	59,630						59,648
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Cash dividends declared, \$0.46 per share (unaudited)				(29,795)					(29,795)
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Minimum liability pension adjustment, net of related income taxes (unaudited)								(140)	(140)
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Change in unrealized gain in investment securities available-for-sale, net of related income taxes (unaudited)								3,210	3,210
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Additional tax benefit related to directors deferred compensation plan (unaudited)			303						303
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Shares redeemed in connection with directors deferred compensation plan, net (unaudited)			542		5,400	(329)	329		542
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Stock option
expense
(unaudited)

Balances at
September 30,

2015 (unaudited)	65,942,155	\$ 659	\$ 367,444	\$ 373,372	(524,163)	\$ (6,207)	\$ 6,207	\$ 50,559	\$ 792,034
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See notes to consolidated financial statements.

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FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS - (UNAUDITED)

(Dollars in thousands)

	Nine Months Ended September 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 75,189	\$ 66,972
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	8,069	6,244
Provision for loan losses	5,508	3,710
Securities premium amortization (discount accretion), net	20,493	14,739
Gain on sale of assets, net	(379)	(815)
Deferred federal income tax benefit	(1,487)	(844)
Change in loans held for sale, net	(12,801)	(6,103)
Change in other assets	(9,655)	8,936
Change in other liabilities	8,982	6,721
Total adjustments	18,730	32,588
Net cash provided by operating activities	93,919	99,560
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash paid for asset acquisition of 4Trust Mortgage, Inc.	(1,931)	
Cash received in acquisition of FBC Bancshares, Inc.	65,197	
Net decrease in interest-bearing time deposits in banks	12,511	12,683
Activity in available-for-sale securities:		
Sales	34,541	3,590
Maturities	2,189,905	1,677,839
Purchases	(2,501,587)	(1,794,233)
Activity in held-to-maturity securities - maturities	155	130
Net increase in loans	(91,259)	(146,452)
Purchases of bank premises and equipment and other assets	(12,437)	(12,993)
Proceeds from sale of other assets	727	3,823
Net cash used in investing activities	(304,178)	(255,613)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in noninterest-bearing deposits	(2,096)	143,663
Net increase in interest-bearing deposits	5,540	185,626
Net increase (decrease) in short-term borrowings	120,668	(121,979)
Common stock transactions:		
Proceeds from stock issuances	1,291	1,076

Dividends paid	(28,217)	(25,609)
Net cash provided by financing activities	97,186	182,777
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(113,073)	26,724
CASH AND CASH EQUIVALENTS, beginning of period	253,471	212,012
CASH AND CASH EQUIVALENTS, end of period	\$ 140,398	\$ 238,736

SUPPLEMENTAL INFORMATION AND NONCASH TRANSACTIONS:

Interest paid	\$ 3,066	\$ 3,155
Federal income tax paid	22,179	21,281
Transfer of loans to foreclosed assets	97	1,085
Investment securities purchased but not settled	17,869	61,332
See notes to consolidated financial statements.		

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FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 - Basis of Presentation

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

Through our subsidiary bank, we conduct a full-service commercial banking business. Our banking centers are located primarily in Central, North Central, Southeast and West Texas. As of September 30, 2015, we had 70 financial centers across Texas, with eleven locations in Abilene, three locations in San Angelo and Weatherford, two locations in Cleburne, Conroe, Huntsville, Stephenville and Granbury, and one location each in Acton, Albany, Aledo, Alvarado, Beaumont, Boyd, Bridgeport, Brock, Burleson, Cut and Shoot, Cisco, Clyde, Decatur, Eastland, Fort Worth, Glen Rose, Grapevine, Hereford, Keller, Magnolia, Mauriceville, Merkel, Midlothian, Mineral Wells, Montgomery, Moran, New Waverly, Newton, Odessa, Orange, Port Arthur, Ranger, Rising Star, Roby, Southlake, Sweetwater Tomball, Trent, Trophy Club, Vidor, Waxahachie, Willis and Willow Park and three mortgage origination offices in Dallas, Ft. Worth and Southlake, Texas. Our trust subsidiary has nine locations which are located in Abilene, Fort Worth, Lubbock, Odessa, Beaumont, Hereford, San Angelo, Stephenville and Sweetwater, all in Texas.

In the opinion of management, the unaudited interim consolidated financial statements reflect all adjustments necessary for a fair presentation of the Company's financial position and unaudited results of operations and should be read in conjunction with the Company's audited consolidated financial statements, and notes thereto in the Company's Annual Report on Form 10-K, for the year ended December 31, 2014. All adjustments were of a normal recurring nature. However, the results of operations for the three months and nine months ended September 30, 2015, are not necessarily indicative of the results to be expected for the year ending December 31, 2015, due to seasonality, changes in economic conditions and loan credit quality, interest rate fluctuations, regulatory and legislative changes and other factors. The preparation of financial statements in conformity with United States generally accepted accounting principles (GAAP) require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the financial statement date. Actual results could vary. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted under U. S. Securities and Exchange Commission (SEC) rules and regulations. The Company evaluated subsequent events for potential recognition and/or disclosure through the date the consolidated financial statements were issued.

On April 28, 2015, the Company's shareholders approved an amendment to the Company's Amended and Restated Certificate of Formation to increase the number of authorized common shares to 120,000,000.

On October 28, 2014, the Company's Board of Directors authorized the repurchase of up to 1,500,000 common shares through September 30, 2017. The stock buyback plan authorizes management to repurchase the stock at such time as repurchases are considered beneficial to shareholders. Any repurchase of stock will be made through the open market, block trades or in privately negotiated transactions in accordance with applicable laws and regulations. Under the repurchase plan, there is no minimum number of shares that the Company is required to repurchase. Through September 30, 2015, no shares were repurchased under this authorization.

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

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On April 22, 2014, the Company's Board of Directors declared a two-for-one stock split in the form of a 100% stock dividend effective for shareholders of record on May 15, 2014 that was distributed on June 2, 2014. All per share amounts in this report have been restated to reflect this stock split. An amount equal to the par value of the additional common shares issued pursuant to the stock split was reflected as a transfer from retained earnings to common stock on the consolidated financial statements as of and for the nine months ended September 30, 2014.

Note 3 - Earnings Per Share

Basic earnings per common share is computed by dividing net income available to common shareholders by the weighted average number of shares outstanding during the periods presented. In computing diluted earnings per common share for the three and nine months ended September 30, 2015 and 2014, the Company assumes that all dilutive outstanding options to purchase common stock have been exercised at the beginning of the period (or the time of issuance, if later). The dilutive effect of the restricted stock and the outstanding options is reflected by application of the treasury stock method, whereby the proceeds from the restricted stock and the exercised options are assumed to be used to purchase common stock at the average market price during the respective periods. The weighted average common shares outstanding used in computing basic earnings per common share for the three months ended September 30, 2015 and 2014 were 65,335,457 and 64,059,675 shares, respectively. The weighted average common shares outstanding used in computing basic earnings per common share for the nine months ended September 30, 2015 and 2014 were 64,540,034 and 64,038,526 shares, respectively. The weighted average common shares outstanding used in computing fully diluted earnings per common share for the three months ended September 30, 2015 and 2014 were 65,501,697 and 64,304,985 shares, respectively. The weighted average common shares outstanding used in computing fully diluted earnings per common share for the nine months ended September 30, 2015 and 2014 were 64,736,155 and 64,302,615 shares, respectively.

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

Interest-bearing time deposits in banks totaled \$4,491,000, \$19,234,000 and \$17,002,000 at September 30, 2015 and 2014 and December 31, 2014, respectively, and have original maturities generally ranging from one to four years. Of these amounts, \$489,000, \$3,693,000 and \$3,195,000 are time deposits with balances greater than \$250,000, the FDIC insured limit, at September 30, 2015 and 2014 and December 31, 2014, respectively.

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

The Company records its available-for-sale and trading securities portfolio at fair value. Fair values of these securities are determined based on methodologies in accordance with current authoritative accounting guidance. Fair values are volatile and may be influenced by a number of factors, including market interest rates, prepayment speeds, discount rates, credit ratings and yield curves. Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on the quoted prices of similar instruments or

an estimate of fair value by using a range of fair value estimates in the market place as a result of the illiquid market specific to the type of security.

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

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

A summary of the Company's available-for-sale securities follows (in thousands):

	Amortized Cost Basis	September 30, 2015		Estimated Fair Value
		Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	
U.S. Treasury securities	\$ 10,828	\$ 89	\$	\$ 10,917
Obligations of U.S. government sponsored enterprises and agencies	153,960	1,237		155,197
Obligations of states and political subdivisions	1,375,958	62,005	(812)	1,437,151
Corporate bonds and other	88,927	2,382		91,309
Residential mortgage-backed securities	817,791	16,566	(1,498)	832,859
Commercial mortgage-backed securities	207,778	2,175	(33)	209,920
Total securities available-for-sale	\$ 2,655,242	\$ 84,454	\$ (2,343)	\$ 2,737,353

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	September 30, 2014			
	Amortized Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
U.S. Treasury securities	\$ 520	\$	\$	\$ 520
Obligations of U.S. government sponsored enterprises and agencies	106,339	964	(2)	107,301
Obligations of states and political subdivisions	1,046,148	56,398	(577)	1,101,969
Corporate bonds and other	96,424	3,269		99,693
Residential mortgage-backed securities	803,072	14,395	(5,600)	811,867
Commercial mortgage-backed securities	134,769	31	(2,388)	132,412
Total securities available-for-sale	\$ 2,187,272	\$ 75,057	\$ (8,567)	\$ 2,253,762

	December 31, 2014			
	Amortized Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
U.S. Treasury securities	\$ 518	\$ 2	\$	\$ 520
Obligations of U.S. government sponsored enterprises and agencies	128,919	864	(28)	129,755
Obligations of states and political subdivisions	1,107,795	60,083	(250)	1,167,628
Corporate bonds and other	95,864	2,894		98,758
Residential mortgage-backed securities	871,265	16,804	(2,858)	885,211
Commercial mortgage-backed securities	134,322	555	(893)	133,984
Total securities available-for-sale	\$ 2,338,683	\$ 81,202	\$ (4,029)	\$ 2,415,856

Disclosures related to the Company's held-to-maturity securities, which totaled \$286,000, \$554,000 and \$441,000 at September 30, 2015 and 2014, and December 31, 2014, respectively, have not been presented due to insignificance.

The Company invests in mortgage-backed securities that have expected maturities that differ from their contractual maturities. These differences arise because borrowers may have the right to call or prepay obligations with or without a prepayment penalty. These securities include collateralized mortgage obligations (CMOs) and other asset backed securities. The expected maturities of these securities at September 30, 2015 were computed by using scheduled amortization of balances and historical prepayment rates. At September 30, 2015 and 2014 and December 31, 2014, the Company did not hold CMOs that entail higher risks than standard mortgage-backed securities.

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The amortized cost and estimated fair value of available-for-sale securities at September 30, 2015, by contractual and expected maturity, are shown below (in thousands):

	Amortized Cost Basis	Estimated Fair Value
Due within one year	\$ 134,596	\$ 135,906
Due after one year through five years	751,592	786,916
Due after five years through ten years	739,704	767,254
Due after ten years	3,781	4,498
Mortgage-backed securities	1,025,569	1,042,779
Total	\$ 2,655,242	\$ 2,737,353

The following tables disclose, as of September 30, 2015 and 2014, and December 31, 2014, the Company's investment securities that have been in a continuous unrealized-loss position for less than 12 months and for 12 or more months (in thousands):

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
September 30, 2015						
Obligations of states and political subdivisions	\$ 97,670	\$ 792	\$ 2,233	\$ 20	\$ 99,903	\$ 812
Residential mortgage-backed securities	62,765	396	65,614	1,102	128,379	1,498
Commercial mortgage-backed securities	5,878	9	9,466	24	15,344	33
Total	\$ 166,313	\$ 1,197	\$ 77,313	\$ 1,146	\$ 243,626	\$ 2,343

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
September 30, 2014						
Obligations of U.S. Government sponsored enterprises and agencies	\$ 876	\$ 2	\$	\$	\$ 876	\$ 2
Obligations of states and political subdivisions	17,871	38	50,158	539	68,029	577
Residential mortgage-backed securities	82,382	450	134,271	5,150	216,653	5,600
Commercial mortgage-backed securities	6,435	15	102,353	2,373	108,788	2,388
Total	\$ 107,564	\$ 505	\$ 286,782	\$ 8,062	\$ 394,346	\$ 8,567

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	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2014						
Obligations of U.S. government sponsored enterprises and agencies	\$ 25,480	\$ 28	\$	\$	\$ 25,480	\$ 28
Obligations of states and political subdivisions	15,128	60	21,249	190	36,377	250
Residential mortgage-backed securities	76,350	148	128,368	2,710	204,718	2,858
Commercial mortgage-backed securities	48,399	273	55,065	620	103,464	893
Total	\$ 165,357	\$ 509	\$ 204,682	\$ 3,520	\$ 370,039	\$ 4,029

The number of investments in an unrealized loss position totaled 80 at September 30, 2015. We do not believe these unrealized losses are other-than-temporary as (i) we do not have the intent to sell our securities prior to recovery and/or maturity and (ii) it is more likely than not that we will not have to sell our securities prior to recovery and/or maturity. In making this determination, we also consider the length of time and extent to which fair value has been less than cost and the financial condition of the issuer. The unrealized losses noted are interest rate related due to the level of interest rates at September 30, 2015 compared to the time of purchase. We have reviewed the ratings of the issuers and have not identified any issues related to the ultimate repayment of principal as a result of credit concerns on these securities. Our mortgage related securities are backed by GNMA, FNMA and FHLMC or are collateralized by securities backed by these agencies.

At September 30, 2015, \$1,667,548,000 of the Company's securities were pledged as collateral for public or trust fund deposits, repurchase agreements and for other purposes required or permitted by law.

During the quarters ended September 30, 2015 and 2014, sales of investment securities that were classified as available-for-sale totaled \$27,910,000 and \$1,839,000, respectively. Gross realized gains from security sales in the third quarter of 2015 and 2014 totaled \$142,000 and \$1,000, respectively. Gross realized losses from security sales during the third quarter of 2015 totaled \$6,000. There were no gross realized losses from security sales or calls in the third quarter of 2014. During the nine months ended September 30, 2015 and 2014, sales of investment securities that were classified as available-for-sale totaled \$34,541,000 and \$3,590,000, respectively. Gross realized gains from security sales during the nine-month periods ended September 30, 2015 and 2014 totaled \$390,000 and \$1,000, respectively. Gross realized losses from security sales during the nine-month periods ended September 30, 2015 and 2014 totaled \$10,000 and \$5,000, respectively. The specific identification method was used to determine cost in order to compute the realized gains and losses.

Note 5 - Loans and Allowance for Loan Losses

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

The Company has certain lending policies and procedures in place that are designed to maximize loan income with an acceptable level of risk. Management reviews and approves these policies and procedures on an annual basis and makes changes as appropriate. Management receives and reviews monthly reports related to loan originations, quality,

concentrations, delinquencies, nonperforming and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions, both by type of loan and geographic location.

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Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and effectively. Underwriting standards are designed to determine whether the borrower possesses sound business ethics and practices and to evaluate current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and, secondarily, on the underlying collateral provided by the borrower. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and include personal guarantees.

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

Real estate loans are also subject to underwriting standards and processes similar to commercial and agricultural loans. These loans are underwritten primarily based on projected cash flows and, secondarily, as loans secured by real estate. The repayment of real estate loans is generally largely dependent on the successful operation of the property securing the loans or the business conducted on the property securing the loan. Real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's real estate portfolio are generally diverse in terms of type and geographic location within Texas. This diversity helps reduce the exposure to adverse economic events that affect any single market or industry. Generally, real estate loans are owner occupied which further reduces the Company's risk.

Consumer loan underwriting utilizes methodical credit standards and analysis to supplement the Company's underwriting policies and procedures. The Company's loan policy addresses types of consumer loans that may be originated and the collateral, if secured, which must be perfected. The relatively smaller individual dollar amounts of consumer loans that are spread over numerous individual borrowers also minimize the Company's risk.

The allowance for loan losses is an amount which represents management's best estimate of probable losses that are inherent in the Company's loan portfolio as of the balance sheet date. The allowance for loan losses is comprised of three elements: (i) specific reserves determined based on probable losses on specific classified loans; (ii) a historical valuation reserve component that considers historical loss rates; and (iii) qualitative reserves based upon general economic conditions and other qualitative risk factors both internal and external to the Company. The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries). Management's periodic evaluation of the appropriateness of the allowance is based on general economic conditions, the financial condition of borrowers, the value and liquidity of collateral, delinquency, prior loan loss experience, and the results of periodic reviews of the portfolio. For purposes of determining our historical valuation reserve, the loan portfolio, less cash secured loans, government guaranteed loans and classified loans, is multiplied by the Company's historical loss rate. Specific allocations are increased or decreased in accordance with deterioration or improvement in credit quality and a corresponding increase or decrease in risk of loss on a particular loan. In addition, we adjust our allowance for qualitative factors such as current local economic conditions and trends, including, without limitations, unemployment, oil and gas prices, drought conditions, changes in lending staff, policies and procedures, changes in credit concentrations, changes in the trends and severity of problem loans and changes in trends in volume and terms of loans. This qualitative reserve serves to estimate for additional areas of losses inherent in our portfolio that are not reflected in our historic loss factors.

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

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

Loans are considered impaired when, based on current information and events, management determines that it is probable we will be unable to collect all amounts due in accordance with the loan agreement, including scheduled principal and interest payments. If a loan is impaired, a specific valuation allowance is allocated, if necessary. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectable.

The Company's policy requires measurement of the allowance for an impaired, collateral dependent loan based on the fair value of the collateral. Other loan impairments for non-collateral dependent loans are measured based on the present value of expected future cash flows or the loan's observable market price. At September 30, 2015 and 2014, and December 31, 2014, all significant impaired loans have been determined to be collateral dependent and the allowance for loss has been measured utilizing the estimated fair value of the collateral.

From time to time, the Company modifies its loan agreement with a borrower. A modified loan is considered a troubled debt restructuring when two conditions are met: (i) the borrower is experiencing financial difficulty and (ii) concessions are made by the Company that would not otherwise be considered for a borrower with similar credit risk characteristics. Modifications to loan terms may include a lower interest rate, a reduction of principal, or a longer term to maturity. For all impaired loans, including the Company's troubled debt restructurings, the Company performs a periodic, well-documented credit evaluation of the borrower's financial condition and prospects for repayment to assess the likelihood that all principal and interest payments required under the terms of the agreement will be collected in full. When doubt exists about the ultimate collectability of principal and interest, the troubled debt restructuring remains on non-accrual status and payments received are applied to reduce principal to the extent necessary to eliminate such doubt. This determination of accrual status is judgmental and is based on facts and circumstances related to each troubled debt restructuring. Each of these loans is individually evaluated for impairment and a specific reserve is recorded based on probable losses, taking into consideration the related collateral, modified loan terms and cash flow. As of September 30, 2015 and 2014, and December 31, 2014, substantially all of the Company's troubled debt restructured loans are included in the non-accrual totals.

The Company originates certain mortgage loans for sale in the secondary market. Accordingly, these loans are classified as held-for-sale and are carried at the lower of cost or fair value on an aggregate basis. The mortgage loan sales contracts contain indemnification clauses should the loans default, generally in the first three to six months, or if

documentation is determined not to be in compliance with regulations. The Company's historic losses as a result of these indemnities have been insignificant.

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Loans acquired, including loans acquired in a business combination, are initially recorded at fair value with no valuation allowance. Acquired loans are segregated between those considered to be credit impaired and those deemed performing. To make this determination, management considers such factors as past due status, non-accrual status and credit risk ratings. The fair value of acquired performing loans is determined by discounting expected cash flows, both principal and interest, at prevailing market interest rates. The difference between the fair value and principal balances at acquisition date, the fair value discount, is accreted into interest income over the estimated life of each loan.

Purchased credit impaired loans are those loans that showed evidence of deterioration of credit quality since origination and for which it is probable, at acquisition, that the Company will be unable to collect all amounts contractually owed. Their acquisition fair value, which includes a credit component at the acquisition date, was based on the estimate of cash flows, both principal and interest, expected to be collected or estimated collateral values if cash flows are not estimable, discounted at prevailing market rates of interest. The difference between the discounted cash flows expected at acquisition and the investment in the loan is recognized as interest income on a level-yield method over the life of the loan, unless management was unable to reasonably forecast cash flows in which case the loans were placed on nonaccrual. Contractually required payments for interest and principal that exceed the cash flows expected at acquisition are not recognized as a yield adjustment. Increases in expected cash flows subsequent to the initial investment are recognized prospectively through adjustment of the yield on the loan over its remaining life. Decreases in expected cash flows subsequent to acquisition are recognized as impairment. Valuation allowances on these impaired loans reflect only losses incurred after the acquisition. The carrying amount of purchased credit impaired loans at September 30, 2015 and 2014, and December 31, 2014 was \$2,422,000, \$2,383,000 and \$2,151,000, respectively, compared to a contractual balance of \$3,213,000, \$3,525,000, and \$3,275,000, respectively. Other purchased credit impaired loan disclosures were omitted due to immateriality.

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

	September 30,		December 31,
	2015	2014	2014
Commercial	\$ 698,406	\$ 612,092	\$ 639,954
Agricultural	99,232	86,718	105,694
Real estate	2,088,002	1,774,639	1,822,854
Consumer	381,177	354,981	360,686
Total loans held-for-investment	\$ 3,266,817	\$ 2,828,430	\$ 2,929,188

Loans held for sale totaled \$21,605,000, \$11,266,000 and \$8,803,000 at September 30, 2015 and 2014, and December 31, 2014, respectively, which were recorded at cost as fair value approximated cost.

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

	September 30,		December 31,
	2015	2014	2014
Non-accrual loans*	\$ 21,788	\$ 22,093	\$ 20,194
Loans still accruing and past due 90 days or more	49	263	261

Troubled debt restructured loans**	204			226
Total	\$ 22,041	\$ 22,356	\$	20,681

* Includes \$2,422,000, \$2,383,000 and \$2,151,000 of purchased credit impaired loans as of September 30, 2015 and 2014, and December 31, 2014, respectively.

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** Troubled debt restructured loans of \$6,462,000, \$10,114,000 and \$9,073,000, whose interest collection, after considering economic and business conditions and collection efforts, is doubtful are included in non-accrual loans at September 30, 2015 and 2014, and December 31, 2014, respectively.

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

September 30, 2015		September 30, 2014		December 31, 2014	
Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance
\$ 21,788	\$4,645	\$22,093	\$4,634	\$20,194	\$4,213

The average recorded investment in impaired loans for the three and nine months ended September 30, 2015 and the year ended December 31, 2014 was approximately \$20,026,000, \$19,755,000 and \$24,497,000, respectively. The Company had \$22,742,000, \$23,629,000 and \$21,716,000 in non-accrual, past due 90 days or more and still accruing and restructured loans and foreclosed assets at September 30, 2015 and 2014, and December 31, 2014, respectively. Non-accrual loans at September 30, 2015 and 2014, and December 31, 2014, consisted of the following by class of financing receivables (in thousands):

	September 30,		December 31,
	2015	2014	2014
Commercial	\$ 5,077	\$ 3,481	\$ 3,193
Agricultural	75	102	165
Real estate	16,124	17,712	16,218
Consumer	512	798	618
Total	\$ 21,788	\$ 22,093	\$ 20,194

No significant additional funds are committed to be advanced in connection with impaired loans as of September 30, 2015.

The Company's impaired loans and related allowance as of September 30, 2015 and 2014, and December 31, 2014, are summarized in the following tables by class of financing receivables (in thousands). No interest income was recognized on impaired loans subsequent to their classification as impaired.

	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance*	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Year-to-Date	Three-month
						Average Recorded Investment	Average Recorded Investment
September 30, 2015							
Commercial	\$ 6,351	\$ 413	\$ 4,664	\$ 5,077	\$ 1,666	\$ 4,037	\$ 4,316
Agricultural	121		75	75	47	55	85
Real Estate	22,796	4,341	11,783	16,124	2,844	15,222	15,114
Consumer	698	343	169	512	88	441	511

Total	\$ 29,966	\$ 5,097	\$ 16,691	\$ 21,788	\$ 4,645	\$ 19,755	\$ 20,026
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* Includes \$2,422,000 of purchased credit impaired loans.

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	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance*	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Year-to-Date Average Recorded Investment	Three-month Average Recorded Investment
September 30, 2014							
Commercial	\$ 3,928	\$ 278	\$ 3,203	\$ 3,481	\$ 1,160	\$ 3,990	\$ 3,713
Agricultural	113		102	102	37	113	104
Real Estate	23,559	5,546	12,166	17,712	3,256	21,510	20,212
Consumer	977	467	331	798	181	911	864
Total	\$ 28,577	\$ 6,291	\$ 15,802	\$ 22,093	\$ 4,634	\$ 26,524	\$ 24,893

* Includes \$2,383,000 of purchased credit impaired loans.

	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance*	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
December 31, 2014						
Commercial	\$ 3,749	\$ 287	\$ 2,906	\$ 3,193	\$ 1,171	\$ 3,698
Agricultural	177		165	165	57	179
Real Estate	22,177	4,859	11,359	16,218	2,867	19,837
Consumer	838	420	198	618	118	783
Total	\$ 26,941	\$ 5,566	\$ 14,628	\$ 20,194	\$ 4,213	\$ 24,497

* Includes \$2,151,000 of purchased credit impaired loans.

The Company recognized interest income on impaired loans prior to being classified as impaired of approximately \$162,000 during the year ended December 31, 2014. Such amounts for the three-month and nine-month periods ended September 30, 2015 and 2014 were not significant.

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

The ratings of loans reflect a judgment about the risks of default and loss associated with the loan. The Company reviews the ratings on our credits as part of our on-going monitoring of the credit quality of our loan portfolio. Ratings are adjusted to reflect the degree of risk and loss that are felt to be inherent in each credit as of each reporting period. Our methodology is structured so that specific allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss).

Credits rated special mention show clear signs of financial weakness or deterioration in credit worthiness, however, such concerns are not so pronounced that the Company generally expects to experience significant loss within the short-term. Such credits typically maintain the ability to perform within standard credit terms and credit exposure is not as prominent as credits rated more harshly.

Credits rated substandard are those in which the normal repayment of principal and interest may be, or has been, jeopardized by reason of adverse trends or developments of a financial, managerial, economic or political nature, or important weaknesses exist in collateral. A protracted workout on these credits is a distinct possibility. Prompt corrective action is therefore required to strengthen the Company's position, and/or to reduce exposure and to assure that adequate remedial measures are taken by the borrower. Credit exposure becomes more likely in such credits and a serious evaluation of the secondary support to the credit is performed.

Credits rated doubtful are those in which full collection of principal appears highly questionable, and which some degree of loss is anticipated, even though the ultimate amount of loss may not yet be certain and/or other factors exist which could affect collection of debt. Based upon available information, positive action by the Company is required to avert or minimize loss. Credits rated doubtful are generally also placed on non-accrual.

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The following summarizes the Company's internal ratings of its loans held-for-investment by class of financing receivables and portfolio segments, which are the same, at September 30, 2015 and 2014, and December 31, 2014 (in thousands):

September 30, 2015	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	\$ 656,566	\$ 19,242	\$ 22,598	\$	\$ 698,406
Agricultural	98,180	148	904		99,232
Real Estate	2,020,556	23,542	43,846	58	2,088,002
Consumer	379,397	352	1,424	4	381,177
Total	\$ 3,154,699	\$ 43,284	\$ 68,772	\$ 62	\$ 3,266,817

September 30, 2014	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	\$ 597,717	\$ 3,649	\$ 10,726	\$	\$ 612,092
Agricultural	86,272	93	353		86,718
Real Estate	1,710,201	18,741	45,613	84	1,774,639
Consumer	352,850	601	1,527	3	354,981
Total	\$ 2,747,040	\$ 23,084	\$ 58,219	\$ 87	\$ 2,828,430

December 31, 2014	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	\$ 626,266	\$ 3,853	\$ 9,835	\$	\$ 639,954
Agricultural	105,101	91	502		105,694
Real Estate	1,765,886	15,106	41,722	140	1,822,854
Consumer	358,953	403	1,329	1	360,686
Total	\$ 2,856,206	\$ 19,453	\$ 53,388	\$ 141	\$ 2,929,188

At September 30, 2015 and 2014, and December 31, 2014, the Company's past due loans are as follows (in thousands):

	15-59 Days Past Due*	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	90 Days Past Due Still Accruing
September 30, 2015							
Commercial	\$ 11,554	\$ 1,043	\$ 202	\$ 12,799	\$ 685,607	\$ 698,406	\$
Agricultural	169	28	33	230	99,002	99,232	
Real Estate	19,392	1,267	2,328	22,987	2,065,015	2,088,002	21

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Consumer	1,657	467	53	2,177	379,000	381,177	28
Total	\$ 32,772	\$ 2,805	\$ 2,616	\$ 38,193	\$ 3,228,624	\$ 3,266,817	\$ 49

September 30, 2014	15-59 Days Past Due*	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	90 Days Past Due Still Accruing
Commercial	\$ 2,726	\$ 110	\$ 316	\$ 3,152	\$ 608,940	\$ 612,092	\$ 111
Agricultural	294	59		353	86,365	86,718	
Real Estate	15,404	930	2,216	18,550	1,756,089	1,774,639	102
Consumer	1,742	292	297	2,331	352,650	354,981	50
Total	\$ 20,166	\$ 1,391	\$ 2,829	\$ 24,386	\$ 2,804,044	\$ 2,828,430	\$ 263

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	15-59 Days Past Due*	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	90 Days Past Due Still Accruing
December 31, 2014							
Commercial	\$ 4,611	\$ 94	\$ 175	\$ 4,880	\$ 635,074	\$ 639,954	\$ 24
Agricultural	437	42		479	105,215	105,694	
Real Estate	12,002	707	1,868	14,577	1,808,277	1,822,854	207
Consumer	2,322	496	134	2,952	357,734	360,686	30
Total	\$ 19,372	\$ 1,339	\$ 2,177	\$ 22,888	\$ 2,906,300	\$ 2,929,188	\$ 261

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

Consumer loans are monitored after such loans are 30 days past due.

The following table details the allowance for loan losses at September 30, 2015 and 2014, and December 31, 2014 by portfolio segment (in thousands). There were no allowances for purchased credit impaired loans at September 30, 2015 and 2014, or December 31, 2014. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

September 30, 2015	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	\$ 1,666	\$ 47	\$ 2,844	\$ 88	\$ 4,645
Loans collectively evaluated for impairment	10,195	867	20,954	3,759	35,775
Total	\$ 11,861	\$ 914	\$ 23,798	\$ 3,847	\$ 40,420

September 30, 2014	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	\$ 1,160	\$ 37	\$ 3,256	\$ 181	\$ 4,634
Loans collectively evaluated for impairment	6,326	348	23,043	2,037	31,754
Total	\$ 7,486	\$ 385	\$ 26,299	\$ 2,218	\$ 36,388

December 31, 2014	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	\$ 1,171	\$ 57	\$ 2,867	\$ 118	\$ 4,213
Loans collectively evaluated for impairment	6,819	470	23,790	1,532	32,611
Total	\$ 7,990	\$ 527	\$ 26,657	\$ 1,650	\$ 36,824

The tables above for 2014 have been changed to conform to the 2015 presentation.

Changes in the allowance for loan losses for the three and nine months ended September 30, 2015 and 2014 are summarized as follows by portfolio segment (in thousands):

Three months ended September 30, 2015	Commercial	Agricultural	Real Estate	Consumer	Total
Beginning balance	\$ 11,456	\$ 392	\$ 24,342	\$ 2,809	\$ 38,999
Provision for loan losses	1,283	544	(369)	1,206	2,664
Recoveries	52		65	117	234
Charge-offs	(930)	(22)	(240)	(285)	(1,477)
Ending balance	\$ 11,861	\$ 914	\$ 23,798	\$ 3,847	\$ 40,420

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Three months ended September 30, 2014	Commercial	Agricultural	Real Estate	Consumer	Total
Beginning balance	\$ 6,861	\$ 364	\$ 26,561	\$ 2,106	\$ 35,892
Provision for loan losses	635	7	(80)	334	896
Recoveries	72	14	42	86	214
Charge-offs	(82)		(224)	(308)	(614)
Ending balance	\$ 7,486	\$ 385	\$ 26,299	\$ 2,218	\$ 36,388

Nine months ended September 30, 2015	Commercial	Agricultural	Real Estate	Consumer	Total
Beginning balance	\$ 7,990	\$ 527	\$ 26,657	\$ 1,650	\$ 36,824
Provision for loan losses	5,072	486	(2,884)	2,834	5,508
Recoveries	249	2	438	329	1,018
Charge-offs	(1,450)	(101)	(413)	(966)	(2,930)
Ending balance	\$ 11,861	\$ 914	\$ 23,798	\$ 3,847	\$ 40,420

Nine months ended September 30, 2014	Commercial	Agricultural	Real Estate	Consumer	Total
Beginning balance	\$ 6,440	\$ 383	\$ 24,940	\$ 2,137	\$ 33,900
Provision for loan losses	1,189	(14)	1,988	547	3,710
Recoveries	225	17	361	386	989
Charge-offs	(368)	(1)	(990)	(852)	(2,211)
Ending balance	\$ 7,486	\$ 385	\$ 26,299	\$ 2,218	\$ 36,388

The Company's recorded investment in loans as of September 30, 2015 and 2014, and December 31, 2014 related to the balance in the allowance for loan losses on the basis of the Company's impairment methodology was as follows (in thousands). Purchased credit impaired loans of \$2,422,000, \$2,383,000 and \$2,151,000 at September 30, 2015 and 2014, and December 31, 2014, respectively, are included in loans individually evaluated for impairment.

September 30, 2015	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	\$ 5,077	\$ 75	\$ 16,124	\$ 512	\$ 21,788
Loans collectively evaluated for impairment	693,329	99,157	2,071,878	380,665	3,245,029
Total	\$ 698,406	\$ 99,232	\$ 2,088,002	\$ 381,177	\$ 3,266,817

September 30, 2014	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	\$ 3,481	\$ 102	\$ 17,712	\$ 798	\$ 22,093
Loans collectively evaluated for impairment	608,611	86,616	1,756,927	354,183	2,806,337
Total	\$ 612,092	\$ 86,718	\$ 1,774,639	\$ 354,981	\$ 2,828,430

December 31, 2014	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	\$ 3,193	\$ 165	\$ 16,218	\$ 618	\$ 20,194
Loans collectively evaluated for impairment	636,761	105,529	1,806,636	360,068	2,908,994
Total	\$ 639,954	\$ 105,694	\$ 1,822,854	\$ 360,686	\$ 2,929,188

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The tables above for 2014 have been changed to conform to the 2015 presentation.

The Company's loans that were modified in the three and nine months ended September 30, 2015 and 2014 and considered troubled debt restructurings are as follows (in thousands):

	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
	Number	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Number	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial	1	\$ 66	\$ 66	3	\$ 139	\$ 139
Agricultural				3	129	129
Real Estate	1	149	149	2	228	228
Consumer	2	32	32	5	60	60
Total	4	\$ 247	\$ 247	13	\$ 556	\$ 556

	Three Months Ended September 30, 2014			Nine Months Ended September 30, 2014		
	Number	Pre-Modification Recorded Investment	Combined Rate and Maturity	Number	Pre-Modification Recorded Investment	Combined Rate and Maturity
Commercial	1	\$ 158	\$ 158	6	\$ 557	\$ 557
Agricultural				1	39	39
Real Estate	1	40	40	5	630	630
Consumer				3	11	11
Total	2	\$ 198	\$ 198	15	\$ 1,237	\$ 1,237

The balances below provide information as to how the loans were modified as troubled debt restructured loans during the three and nine months ended September 30, 2015 and 2014 (in thousands):

	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
	Adjusted Interest Rate	Extended Maturity	Combined Rate and Maturity	Adjusted Interest Rate	Extended Maturity	Combined Rate and Maturity
Commercial	\$	\$ 66	\$	\$	\$ 139	\$
Agricultural					129	
Real Estate		149			149	79
Consumer		32			36	24

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Total	\$	\$ 247	\$	\$	\$ 453	\$ 103
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	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2014		
	Adjusted Interest Rate	Extended Maturity	Combined Rate and Maturity	Adjusted Interest Rate	Extended Maturity	Combined Rate and Maturity
Commercial	\$	\$ 158	\$	\$	\$ 255	\$ 302
Agricultural						39
Real Estate			40		118	512
Consumer					8	3
Total	\$	\$ 158	\$ 40	\$	\$ 381	\$ 856

During the three months ended September 30, 2015 and 2014, no loans were modified as troubled debt restructured loans within the previous 12 months and for which there was a payment default. During the

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nine months ended September 30, 2015 and 2014, one loan was modified in each nine-month period as a troubled debt restructured loan within the previous 12 months and for which there was a payment default. A default for purposes of this disclosure is a troubled debt restructured loan in which the borrower is 90 days past due or more or results in the foreclosure and repossession of the applicable collateral. The loans with payment default are as follows (dollars in thousands):

	Nine Months Ended September 30, 2015	
	Number	Balance
Commercial	1	\$ 111
Agriculture		
Real Estate		
Consumer		
Total	1	\$ 111

	Nine Months Ended September 30, 2014	
	Number	Balance
Commercial		\$
Agriculture		
Real Estate		
Consumer	1	32
Total	1	\$ 32

As of September 30, 2015, the Company has no commitments to lend additional funds to loan customers whose terms have been modified in troubled debt restructurings.

Our subsidiary bank has established a line of credit with the Federal Home Loan Bank of Dallas (FHLB) to provide liquidity and meet pledging requirements for those customers eligible to have securities pledged to secure certain uninsured deposits. At September 30, 2015, \$1,752,727,000 in loans held by our bank subsidiary were subject to blanket liens as security for this line of credit. At September 30, 2015, \$170,028,000 in advances and \$5,000,000 in letters of credit were outstanding under this line of credit. The letters of credit were pledged as collateral for public funds held by our bank subsidiary.

Note 6 Short-Term Borrowings

Short-term borrowings at September 30, 2015 and 2014, and December 31, 2014 consisted of the following (dollars in thousands):

	September 30,		December 31,
	2015	2014	2014
	\$ 324,150	\$ 330,846	\$ 357,400

Securities sold under agreements with customers to repurchase			
Federal funds purchased	6,725	10,025	8,700
Advances from Federal Home Loan Bank of Dallas	170,028	1,038	1,010
Total	\$ 500,903	\$ 341,909	\$ 367,110

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Securities sold under repurchase agreements are generally with significant customers of the Company that require short-term liquidity for their funds for which the Company pledges certain securities that have a fair value equal to at least the amount of the short-term borrowings. The agreements mature daily and therefore the risk arising from a decline in the fair value of the collateral pledged is minimal. The securities pledged are mortgage-backed securities. These agreements do not include right of set-off provisions and therefore the Company does not offset such agreements for financial reporting purposes.

Note 7 - Income Taxes

Income tax expense was \$8,021,000 for the third quarter of 2015 as compared to \$7,843,000 for the same period in 2014. The Company's effective tax rates on pretax income were 23.66% and 25.08% for the third quarters of 2015 and 2014, respectively. Income tax expense was \$23,867,000 for the nine months ended September 30, 2015 as compared to \$21,705,000 for the same period in 2014. The Company's effective tax rates on pretax income were 24.09% and 24.48% for the nine months ended September 30, 2015 and 2014, respectively. The effective tax rates differ from the statutory federal tax rate of 35% primarily due to tax exempt interest income earned on certain investment securities and loans and the deductibility of dividends paid to our employee stock ownership plan.

Note 8 - Stock Based Compensation

The Company grants incentive stock options for a fixed number of shares with an exercise price equal to the fair value of the shares at the date of grant to employees. Through September 30, 2015, no options have been granted in 2015 and no options were granted in 2014. The Company recorded stock option expense totaling \$182,000 and \$174,000 for the three months ended September 30, 2015 and 2014, respectively. The Company recorded stock option expense totaling \$543,000 and \$532,000 for the nine months ended September 30, 2015 and 2014, respectively. Subsequent to third quarter end, on October 27, 2015, the Company granted 458,000 shares in incentive stock options to certain officers. The additional disclosure requirements under authoritative accounting guidance have been omitted due to immateriality.

On April 28, 2015, shareholders of the Company approved a restricted stock plan for selected employees, officers, non-employee directors and consultants. On July 21, 2015, 7,070 shares were granted to the ten non-employee directors. Total value of these shares totaled \$250,000 and will be expensed over the period from grant date to April 26, 2016, the next scheduled annual shareholders' meeting at which the directors' current term will expire. Subsequent to third quarter end, on October 27, 2015, the Company granted 33,000 shares with a total value of \$1,110,000 to certain officers that will vest over three years.

Note 9 - Pension Plan

The Company's defined benefit pension plan was frozen effective January 1, 2004, whereby no new participants will be added to the plan and no additional years of service will accrue to participants, unless the pension plan is reinstated at a future date. The pension plan covered substantially all of the Company's employees at the time. The benefits for each employee were based on years of service and a percentage of the employee's qualifying compensation during the final years of employment. The Company's funding policy was and is to contribute annually the amount necessary to satisfy the Internal Revenue Service's funding standards. Contributions to the pension plan, prior to freezing the plan, were intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. As a result of the Pension Protection Act of 2006 (the "Protection Act"), the Company will be required to contribute amounts in future years to fund any shortfalls. The Company has evaluated the provisions of the Protection Act as well as the Internal Revenue Service's funding standards to develop a plan for funding in future years. The Company made contributions to the plan totaling \$500,000 in 2015 and \$250,000 in 2014.

During the fourth quarter of 2014, as permitted by the Internal Revenue Service, the Company offered settlement of a portion of its pension obligations to those plan participants who no longer were employed

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by the Company. As a result of the partial settlement of the plan, the Company recognized in the fourth quarter of 2014 \$2,909,000 in pension expense, before income tax. The effect of this transaction was relatively neutral to shareholders' equity since the recorded pension obligation associated with the plan participants who accepted the settlement closely approximated the amount offered to such plan participants and the amount recognized in pension expense had been previously recognized as unrealized losses in other comprehensive earnings. As a result, the Company paid \$10,626,000 out of pension plan assets, or approximately 43% of the total outstanding obligation balance, to plan participants and the number of participants was reduced by 335, or 44%. The Company's investment risk and administrative expense associated with the Company's pension plan should be significantly reduced going forward.

Net periodic benefit costs totaling \$83,000 and \$107,000 were recorded for the three months ended September 30, 2015 and 2014, respectively. Net periodic benefit costs totaling \$232,000 and \$321,000 were recorded for the nine months ended September 30, 2015 and 2014, respectively.

Note 10 - Fair Value Disclosures

The authoritative accounting guidance for fair value measurements defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact, and (iv) willing to transact.

The authoritative accounting guidance requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement costs). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the authoritative guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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Level 3 Inputs Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Securities classified as available-for-sale and trading are reported at fair value utilizing Level 1 and Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include market spreads, cash flows, the United States Treasury yield curve, live trading levels, trade execution data, dealer quotes, market consensus prepayments speeds, credit information and the security's terms and conditions, among other items.

There were no transfers between Level 2 and Level 3 during the three and nine months ended September 30, 2015 or 2014.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of September 30, 2015 and 2014, and December 31, 2014, respectively, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (dollars in thousands):

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
September 30, 2015				
Available-for-sale investment securities:				
U.S. Treasury securities	\$ 10,917	\$	\$	\$ 10,917
Obligations of U. S. government sponsored enterprises and agencies		155,197		155,197
Obligations of states and political subdivisions		1,437,151		1,437,151
Corporate bonds		86,342		86,342
Residential mortgage-backed securities		832,859		832,859
Commercial mortgage-backed securities		209,920		209,920
Other securities	4,967			4,967
Total	\$ 15,884	\$ 2,721,469	\$	\$ 2,737,353

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September 30, 2014	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Available-for-sale investment securities:				
U.S. Treasury securities	\$ 520	\$	\$	\$ 520
Obligations of U. S. government sponsored enterprises and agencies		107,301		107,301
Obligations of states and political subdivisions		1,101,969		1,101,969
Corporate bonds		95,038		95,038
Residential mortgage-backed securities		811,867		811,867
Commercial mortgage-backed securities		132,412		132,412
Other securities	4,655			4,655
Total	\$ 5,175	\$ 2,248,587	\$	\$ 2,253,762

December 31, 2014	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Available-for-sale investment securities:				
U.S. Treasury securities	\$ 520	\$	\$	\$ 520
Obligations of U. S. government sponsored enterprises and agencies		129,755		129,755
Obligations of states and political subdivisions		1,167,628		1,167,628
Corporate bonds		94,065		94,065
Residential mortgage-backed securities		885,211		885,211
Commercial mortgage-backed securities		133,984		133,984
Other securities	4,693			4,693
Total	\$ 5,213	\$ 2,410,643	\$	\$ 2,415,856

The tables above for 2014 have been changed to conform to the 2015 presentation.

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis, that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets and financial liabilities measured at fair value on a non-recurring basis include the following at September 30, 2015:

Impaired Loans Impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based on observable market data. At September 30, 2015, impaired loans with a carrying value of \$21,788,000 were reduced by specific valuation reserves totaling \$4,645,000 resulting in a net fair value of \$17,143,000.

Loans Held-for-Sale Loans held-for-sale are reported at the lower of cost or fair value. In determining whether the fair value of loans held-for-sale is less than cost when quoted market prices are not available, the Company considers investor commitments/contracts. These loans are considered Level 2 of the fair value hierarchy. At September 30, 2015, the Company's mortgage loans held-for-sale were recorded at cost as fair value exceeded cost.

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Certain non-financial assets and non-financial liabilities measured at fair value on a non-recurring basis include other real estate owned, goodwill and other intangible assets and other non-financial long-lived assets. Non-financial assets measured at fair value on a non-recurring basis during the three and nine months ended September 30, 2015 and 2014 include other real estate owned which, subsequent to their initial transfer to other real estate owned from loans, were re-measured at fair value through a write-down included in gain (loss) on sale of foreclosed assets. During the reported periods, all fair value measurements for foreclosed assets utilized Level 2 inputs based on observable market data, generally third-party appraisals, or Level 3 inputs based on customized discounting criteria. These appraisals are evaluated individually and discounted as necessary due to the age of the appraisal, lack of comparable sales, expected holding periods of property or special use type of the property. Such discounts vary by appraisal based on the above factors but generally range from 5% to 25% of the appraised value. Reevaluation of other real estate owned is performed at least annually as required by regulatory guidelines or more often if particular circumstances arise. The following table presents other real estate owned that were re-measured subsequent to their initial transfer to other real estate owned (dollars in thousands):

	Three Months Ended September 30,	
	2015	2014
Carrying value of other real estate owned prior to re-measurement	\$	\$ 173
Write-downs included in gain (loss) on sale of other real estate owned		(46)
Fair value	\$	\$ 127

	Nine Months Ended September 30,	
	2015	2014
Carrying value of other real estate owned prior to re-measurement	\$ 351	\$ 881
Write-downs included in gain (loss) on sale of other real estate owned	(95)	(135)
Fair value	\$ 256	\$ 746

At September 30, 2015 and 2014, and December 31, 2014, other real estate owned totaled \$360,000, \$1,185,000 and \$943,000, respectively.

The Company is required under current authoritative accounting guidance to disclose the estimated fair value of their financial instrument assets and liabilities including those subject to the requirements discussed above. For the Company, as for most financial institutions, substantially all of its assets and liabilities are considered financial instruments. Many of the Company's financial instruments, however, lack an available trading market as characterized by a willing buyer and willing seller engaging in an exchange transaction.

The estimated fair value amounts of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

In addition, reasonable comparability between financial institutions may not be likely due to the wide range of permitted valuation techniques and numerous estimates that must be made given the absence of active secondary markets for many of the financial instruments. This lack of uniform valuation methodologies also introduces a greater degree of subjectivity to these estimated fair values.

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Cash and due from banks, federal funds sold, interest-bearing deposits and time deposits in banks and accrued interest receivable and payable are liquid in nature and considered Levels 1 or 2 of the fair value hierarchy.

Financial instruments with stated maturities have been valued using a present value discounted cash flow with a discount rate approximating current market for similar assets and liabilities and are considered Levels 2 and 3 of the fair value hierarchy. Financial instrument liabilities with no stated maturities have an estimated fair value equal to both the amount payable on demand and the carrying value and are considered Level 1 of the fair value hierarchy.

The carrying value and the estimated fair value of the Company's contractual off-balance-sheet unfunded lines of credit, loan commitments and letters of credit, which are generally priced at market at the time of funding, are not material.

The estimated fair values and carrying values of all financial instruments under current authoritative guidance at September 30, 2015 and 2014, and December 31, 2014, were as follows (in thousands):

	September 30, 2015		September 30, 2014		December 31, 2014		Fair Value Hierarchy
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	
Cash and due from banks	\$ 133,340	\$ 133,340	\$ 149,957	\$ 149,957	\$ 190,387	\$ 190,387	Level 1
Federal funds sold	2,790	2,790	4,785	4,785	8,760	8,760	Level 1
Interest-bearing deposits in banks	4,268	4,268	83,994	83,994	54,324	54,324	Level 1
Interest-bearing time deposits in banks	4,491	4,498	19,234	19,285	17,002	17,032	Level 2
Available-for-sale Securities	2,737,353	2,737,353	2,253,762	2,253,762	2,415,856	2,415,856	Levels 1 and 2
Held-to-maturity securities	286	291	554	560	441	447	Level 2
Loans	3,248,002	3,249,558	2,803,308	2,815,509	2,901,167	2,906,399	Level 3
Accrued interest receivable	26,888	26,888	23,420	23,420	28,998	28,998	Level 2
Deposits with stated maturities	652,919	654,705	664,221	666,123	648,992	650,893	Level 2
Deposits with no stated maturities	4,444,364	4,444,364	3,800,143	3,800,143	4,101,263	4,101,263	Level 1
Short-term borrowings	500,903	500,903	341,909	341,909	367,110	367,110	Level 2
Accrued interest payable	261	261	275	275	237	237	Level 2

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In 2014, the Financial Accounting Standards Board (the FASB) amended its authoritative guidance related to residential real estate to clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendment requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The new guidance was effective for the Company on January 1, 2015 and did not have a significant impact to the Company's financial statements.

In 2014, the FASB issued a comprehensive new revenue recognition standard that will supersede substantially all existing revenue recognition guidance. The new standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under existing guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The new standard will be effective in the first quarter of 2018. The Company is continuing to evaluate the potential impact to the Company's financial statements.

In 2014, the FASB amended its authoritative guidance related to repurchase-to-maturity transactions to require that repurchase-to-maturity transactions be accounted for as secured borrowings consistent with the accounting for other repurchase agreements. In addition, the amendment requires separate accounting for repurchase financings, which entails the transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty. The amendment requires entities to disclose certain information about transfers accounted for as sales in transactions that are economically similar to repurchase agreements. In addition, the amendment requires disclosures related to collateral, remaining contractual term and of the potential risks associated with repurchase agreements, securities lending transactions and repurchase-to-maturity transactions. The amendment was effective for the Company on January 1, 2015 and did not have a significant impact on the Company's financial statements.

In 2015, the FASB eliminated from U.S. GAAP the concept of extraordinary items, which, among other things, required an entity to show the item separately in the income statement, net of tax, after income from continuing operations. The new guidance is effective for the Company beginning January 1, 2016, though early adoption is permitted, and is not expected to have a significant impact on the Company's financial statements.

Note 12 Acquisition and Asset Purchase

On April 1, 2015, we entered into an agreement and plan of merger to acquire FBC Bancshares, Inc. and its wholly owned bank subsidiary, First Bank, N.A., Conroe, Texas. On July 31, 2015, the transaction was completed. Pursuant to the agreement, we issued 1,755,374 shares of the Company's common stock in exchange for all of the outstanding shares of FBC Bancshares, Inc. At closing, FBC Bancshares, Inc. was merged into the Company and First Bank, N.A., Conroe, Texas, was merged into First Financial Bank, N.A., Abilene, Texas, a wholly owned subsidiary of the Company. The primary purpose of the acquisition was to expand the Company's market share along Interstate Highway 45 in southern Texas, north of Houston. Factors that contributed to a purchase price resulting in goodwill include First Bank, N.A.'s historic record of earnings, strong local economic environment and opportunity for growth.

The results of operations from this acquisition are included in the consolidated earnings of the Company commencing August 1, 2015.

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The assets acquired and liabilities assumed were recorded on the consolidated balance sheet at estimated fair value on the acquisition date. The acquisition was not considered to be a significant business combination. The following table presents the amounts recorded on the consolidated balance sheet on the acquisition date (dollars in thousands):

Fair value of consideration paid:	
Common stock issued (1,755,374 shares)	\$ 59,648
Fair value of identifiable assets acquired:	
Cash and cash equivalents	65,197
Securities available-for-sale	42,903
Loans	248,380
Identifiable intangible assets	2,343
Other assets	15,578
Total identifiable assets acquired	374,401
Fair value of liabilities assumed:	
Deposits	343,583
Subordinated debt	13,125
Other liabilities	1,651
Total liabilities assumed	358,359
Fair value of net identifiable assets acquired	16,042
Goodwill resulting from acquisition	\$ 43,606

Goodwill recorded in the acquisition was accounted for in accordance with the authoritative business combination guidance. Accordingly, goodwill will not be amortized, but will be tested for impairment annually. The goodwill recorded is not deductible for federal income tax purposes.

The subordinated debt of \$13,125,000 was paid off August 3, 2015, subsequent to closing.

The fair value of total loans acquired was \$248,380,000 at acquisition compared to contractual amounts of \$252,458,000. The fair value of purchased credit impaired loans at acquisition was \$1,398,000 compared to contractual amounts of \$1,704,000. Additional purchased credit impaired loan disclosures were omitted due to immateriality. All other acquired loans were considered performing loans.

First Bank, N.A. had branches in Conroe, Magnolia, Montgomery, Tomball, Cut and Shoot and Huntsville, all located north of Houston, Texas.

On April 8, 2015, the Company announced that it had entered into an asset purchase agreement with 4Trust Mortgage, Inc. for a cash purchase price of \$1,900,000. The acquisition was finalized on May 31, 2015.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Forward-Looking Statements

This Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. When used in this Form 10-Q, words such as anticipate, believe, estimate, expect, intend, predict, project, and similar expressions, as they relate to us or our management, identify forward-looking statements. These forward-looking statements are based on information currently available to our management. Actual results could differ materially from those contemplated by the forward-looking statements as a result of certain factors, including, but not limited, to those listed in Item 1A- Risk Factors in our Annual Report on Form 10-K and the following:

general economic conditions, including our local, state and national real estate markets and employment trends;

volatility and disruption in national and international financial markets;

government intervention in the U.S. financial system including the effects of recent legislative, tax, accounting and regulatory actions and reforms, including the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), the Jumpstart Our Business Startups Act, the Consumer Financial Protection Bureau and the capital ratios of Basel III as adopted by the federal banking authorities;

political instability;

the ability of the Federal government to address the national economy and the fiscal cliff;

competition from other financial institutions and financial holding companies;

the effects of and changes in trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System (the Federal Reserve Board);

changes in the demand for loans;

fluctuations in the value of collateral securing our loan portfolio and in the level of the allowance for loan losses;

the accuracy of our estimates of future loan losses;

the accuracy of our estimates and assumptions regarding the performance of our securities portfolio;

soundness of other financial institutions with which we have transactions;

inflation, interest rate, market and monetary fluctuations;

changes in consumer spending, borrowing and savings habits;

changes in commodity prices (e.g., oil and gas, cattle and wind energy);

our ability to attract deposits;

changes in our liquidity position;

changes in the reliability of our vendors, internal control system or information systems;

our ability to attract and retain qualified employees;

acquisitions and integration of acquired businesses;

the possible impairment of goodwill associated with our acquisitions;

consequences of continued bank mergers and acquisitions in our market area, resulting in fewer but much larger and stronger competitors;

expansion of operations, including branch openings, new product offerings and expansion into new markets;

changes in compensation and benefit plans; and

acts of God or of war or terrorism.

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Such forward-looking statements reflect the current views of our management with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this paragraph. We undertake no obligation to publicly update or otherwise revise any forward-looking statements, whether as a result of new information, future events or otherwise (except as required by law).

Introduction

As a financial holding company, we generate most of our revenue from interest on loans and investments, trust fees, and service charges. Our primary source of funding for our loans and investments are deposits held by our subsidiary, First Financial Bank, National Association, Abilene, Texas. Our largest expense is salaries and related employee benefits. We usually measure our performance by calculating our return on average assets, return on average equity, our regulatory leverage and risk based capital ratios and our efficiency ratio, which is calculated by dividing noninterest expense by the sum of net interest income on a tax equivalent basis and noninterest income.

The following discussion and analysis of operations and financial condition should be read in conjunction with the financial statements and accompanying footnotes included in Item 1 of this Form 10-Q as well as those included in the Company's 2014 Annual Report on Form 10-K.

Critical Accounting Policies

We prepare consolidated financial statements based on generally accepted accounting principles and customary practices in the banking industry. These policies, in certain areas, require us to make significant estimates and assumptions.

We deem a policy critical if (1) the accounting estimate required us to make assumptions about matters that are highly uncertain at the time we make the accounting estimate; and (2) different estimates that reasonably could have been used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, would have a material impact on the financial statements.

We deem our most critical accounting policies to be (1) our allowance for loan losses and our provision for loan losses and (2) our valuation of securities. We have other significant accounting policies and continue to evaluate the materiality of their impact on our consolidated financial statements, but we believe these other policies either do not generally require us to make estimates and judgments that are difficult or subjective, or it is less likely they would have a material impact on our reported results for a given period. A discussion of (1) our allowance for loan losses and our provision for loan losses and (2) our valuation of securities is included in note 5 and note 4, respectively, to our notes to consolidated financial statements (unaudited) which begins on page 9.

Stock Split

On April 22, 2014, the Company's Board of Directors declared a two-for-one stock split in the form of a 100% stock dividend effective for shareholders of record on May 15, 2014 that was distributed on June 2, 2014. All share and per share amounts in this report have been restated to reflect this stock split. An amount equal to the par value of the additional common shares issued pursuant to the stock split was reflected as a transfer from retained earnings to common stock on the consolidated financial statements as of and for the nine months ended September 30, 2014.

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Results of Operations

Performance Summary. Net earnings for the third quarter of 2015 were \$25.89 million compared to \$23.43 million for the same quarter in 2014, or a 10.48% increase.

Basic earnings per share for the third quarter of 2015 were \$0.40 compared to \$0.37 for the same quarter last year. The return on average assets was 1.61% for the third quarter of 2015, as compared to 1.71% for the same quarter of 2014. The return on average equity was 13.63% for the third quarter of 2015 as compared to 14.27% for the same quarter a year ago.

Net earnings for the nine-month period ended September 30, 2015 were \$75.19 million compared to \$66.97 million for the same period in 2014, or a 12.27% increase.

Basic earnings per share for the nine-month period ended September 30, 2015 were \$1.16 compared to \$1.05 for the same period in 2014. The return on average assets was 1.64% for the first nine months of 2015, as compared to 1.68% for the same period in 2014. The return on average equity was 13.99% for the first nine months of 2015, as compared to 14.24% a year ago.

Net Interest Income. Net interest income is the difference between interest income on earning assets and interest expense on liabilities incurred to fund those assets. Our earning assets consist primarily of loans and investment securities. Our liabilities to fund those assets consist primarily of noninterest-bearing and interest-bearing deposits.

Tax-equivalent net interest income was \$62.08 million for the third quarter of 2015, as compared to \$53.70 million for the same period last year. The increase in 2015 compared to 2014 was largely attributable to the increase in volume of interest earning assets. Average earning assets increased \$861.72 million for the third quarter of 2015 over the same period in 2014. Average loans, taxable securities and tax exempt securities increased \$347.15 million, \$206.59 million and \$318.40 million, respectively, for the third quarter of 2015 over the third quarter of 2014. Average interest bearing liabilities increased \$591.01 million for the third quarter of 2015, as compared to the same period in 2014. The yield on earning assets decreased 6 basis points during the third quarter of 2015, whereas the rate paid on interest-bearing liabilities decreased 2 basis points in the third quarter of 2015, primarily due to the effects of lower interest rates.

Tax-equivalent net interest income was \$176.37 million for the first nine months of 2015, as compared to \$158.47 million for the same period last year. The increase in 2015 compared to 2014 was largely attributable to the increase in volume of interest earning assets. Average earning assets increased \$757.79 million for the first nine months of 2015 over the same period in 2014. Average loans, taxable securities and tax exempt securities increased \$265.70 million, \$228.21 million and \$258.58 million, respectively, for the first nine months of 2015 over the same period in 2014. Average interest bearing liabilities increased \$473.86 million for the first nine month period of 2015, as compared to the same period in 2014. The yield of earning assets decreased 16 basis points during the first nine months of 2015, whereas the rate paid on interest-bearing liabilities decreased 2 basis points in the first nine months of 2015, primarily due to the effects of lower interest rates.

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Table 1 allocates the change in tax-equivalent net interest income between the amount of change attributable to volume and to rate.

Table 1 - Changes in Interest Income and Interest Expense (in thousands):

	Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014			Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014		
	Change Attributable to Volume	Rate	Total Change	Change Attributable to Volume	Rate	Total Change
Short-term investments	\$ (14)	\$ (25)	\$ (39)	\$ 25	\$ (111)	\$ (86)
Taxable investment securities	1,216	(776)	440	4,177	(2,707)	1,470
Tax-exempt investment securities (1)	3,842	(584)	3,258	9,438	(1,915)	7,523
Loans (1) (2)	4,323	396	4,719	9,924	(1,039)	8,885
Interest income	9,367	(989)	8,378	23,564	(5,772)	17,792
Interest-bearing deposits	139	(206)	(67)	377	(510)	(133)
Short-term borrowings	35	28	63	62	(30)	32
Interest expense	174	(178)	(4)	439	(540)	(101)
Net interest income	\$ 9,193	\$ (811)	\$ 8,382	\$ 23,125	\$ (5,232)	\$ 17,893

(1) Computed on a tax-equivalent basis assuming a marginal tax rate of 35%.

(2) Non-accrual loans are included in loans.

The net interest margin for the third quarter of 2015 was 4.13%, a decrease of 5 basis points from the same period in 2014. The net interest margin for the nine months ended September 30, 2015 was 4.10%, a decrease of 15 basis points from the same period in 2014. Although interest rates may increase later in 2015 or in 2016 and future years, we expect interest rates to remain at lower levels based on comments made by the Federal Reserve, which will continue the downward pressure on our interest margin.

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The net interest margin, which measures tax-equivalent net interest income as a percentage of average earning assets, is illustrated in Table 2.

Table 2 - Average Balances and Average Yields and Rates (in thousands, except percentages):

	Three Months Ended September 30,					
	Average Balance	2015 Income/ Expense	Yield/ Rate	Average Balance	2014 Income/ Expense	Yield/ Rate
Assets						
Short-term investments (1)	\$ 50,417	\$ 41	0.32%	\$ 60,832	\$ 80	0.52%
Taxable investment securities (2)	1,372,834	7,296	2.13	1,166,248	6,856	2.35
Tax-exempt investment securities (2)(3)	1,376,119	16,021	4.66	1,057,715	12,763	4.83
Loans (3)(4)	3,161,229	39,789	4.99	2,814,083	35,070	4.94
Total earning assets	5,960,599	\$ 63,147	4.20%	5,098,878	\$ 54,769	4.26%
Cash and due from banks	146,921			143,102		
Bank premises and equipment, net	113,662			100,266		
Other assets	51,208			43,670		
Goodwill and other intangible assets, net	129,962			97,424		
Allowance for loan losses	(39,579)			(36,093)		
Total assets	\$ 6,362,773			\$ 5,447,247		
Liabilities and Shareholders Equity						
Interest-bearing deposits	\$ 3,295,411	\$ 932	0.11%	\$ 2,892,065	\$ 999	0.14%
Short-term borrowings	572,431	133	0.09	384,768	70	0.07
Total interest-bearing liabilities	3,867,842	\$ 1,065	0.11%	3,276,833	\$ 1,069	0.13%
Noninterest-bearing deposits	1,687,285			1,470,682		
Other liabilities	54,034			48,225		
Total liabilities	5,609,161			4,795,740		
Shareholders equity	753,612			651,507		
Total liabilities and shareholders equity	\$ 6,362,773			\$ 5,447,247		
Net interest income		\$ 62,082			\$ 53,700	
Rate Analysis:						
Interest income/earning assets			4.20%			4.26%
Interest expense/earning assets			0.07			0.08
Net yield on earning assets			4.13%			4.18%

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	Nine Months Ended September 30,					
	Average Balance	2015 Income/ Expense	Yield/ Rate	Average Balance	2014 Income/ Expense	Yield/ Rate
Assets						
Short-term investments (1)	\$ 63,833	\$ 171	0.36%	\$ 58,538	\$ 257	0.59%
Taxable investment securities (2)	1,377,363	22,502	2.18	1,149,156	21,032	2.44
Tax-exempt investment securities (2)(3)	1,288,242	45,102	4.67	1,029,661	37,579	4.87
Loans (3)(4)	3,016,686	111,632	4.95	2,750,983	102,747	4.99
Total earning assets	5,746,124	\$ 179,407	4.17%	4,988,338	\$ 161,615	4.33%
Cash and due from banks	146,676			142,023		
Bank premises and equipment, net	107,394			97,436		
Other assets	48,244			43,457		
Goodwill and other intangible assets, net	108,478			97,458		
Allowance for loan losses	(38,447)			(35,276)		
Total assets	\$ 6,118,469			\$ 5,333,436		
Liabilities and Shareholders Equity						
Interest-bearing deposits	\$ 3,231,925	\$ 2,761	0.11%	\$ 2,859,269	\$ 2,894	0.14%
Short-term borrowings	507,011	281	0.07	405,811	249	0.08
Total interest-bearing liabilities	3,738,936	\$ 3,042	0.11%	3,265,080	\$ 3,143	0.13%
Noninterest-bearing deposits	1,607,931			1,397,909		
Other liabilities	53,077			41,473		
Total liabilities	5,399,944			4,704,462		
Shareholders equity	718,525			628,974		
Total liabilities and shareholders equity	\$ 6,118,469			\$ 5,333,436		
Net interest income		\$ 176,365			\$ 158,472	
Rate Analysis:						
Interest income/earning assets			4.17%			4.33%
Interest expense/earning assets			0.07			0.08
Net yield on earning assets			4.10%			4.25%

(1) Short-term investments are comprised of Fed Funds sold, interest-bearing deposits in banks and interest-bearing time deposits in banks.

(2) Average balances include unrealized gains and losses on available-for-sale securities.

(3) Computed on a tax-equivalent basis assuming a marginal tax rate of 35%.

(4) Non-accrual loans are included in loans.

Noninterest Income. Noninterest income for the third quarter of 2015 was \$20.45 million, an increase of \$3.12 million compared to the same quarter in 2014. Real estate mortgage fees increased \$1.66 million, ATM, interchange and credit card fees increased \$701 thousand, service charges on deposit accounts increased \$251 thousand and trust fees increased \$46 thousand in the third quarter of 2015 compared to the same period in 2014. The increase in real estate mortgage fees primarily resulted from a stronger mortgage market and the Company's asset purchase of 4Trust Mortgage, Inc. on May 31, 2015. The increases in ATM, interchange and credit card fees are primarily a result of increases in the number of net new accounts and debit cards boosted by the acquisition of First Bank, N.A., Conroe on July 31, 2015. The increase in service charges was also related to the increase in the number of net new accounts. The increase in trust fees resulted from an increase in assets under management over the prior year offsetting the effect of the decline in oil and gas prices that reduced related trust fees by \$248 thousand compared to the same quarter in 2014. The fair value of our trust assets managed, which are not reflected in our consolidated balance sheets, totaled \$3.83 billion at September 30, 2015 as compared to \$3.66 billion a year ago.

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Noninterest income for the nine-month period ended September 30, 2015 was \$54.15 million, an increase of \$4.55 million over the same period in 2014. Real estate mortgage fees increased \$2.49 million, ATM, interchange and credit card fees increased \$1.92 million, and trust fees increased \$392 thousand in the first nine months of 2015 compared to the same period in 2014. The increase in real estate mortgage fees primarily resulted from a stronger mortgage market and the Company's asset purchase of 4Trust Mortgage, Inc. on May 31, 2015. The increases in ATM, interchange and credit card fees are primarily a result of increases in the number of net new accounts and debit cards. The increase in trust fees resulted from an increase in assets under management over the prior year offsetting the effect of the decline in oil and gas prices that reduced related trust fees by \$754 thousand compared to the same period in 2014. The fair value of our trust assets managed, which are not reflected in our consolidated balance sheets, totaled \$3.83 billion at September 30, 2015 as compared to \$3.66 billion a year ago.

Offsetting these increases was a decrease in net gains on sales of foreclosed assets from 2014 to 2015 of \$794 thousand. Also included in the noninterest income in the first nine months of 2014 was a \$605 thousand gain on the settlement of a bank owned life insurance contract.

Table 3 - Noninterest Income (in thousands):

	Three Months Ended September 30, Increase			Nine Months Ended September 30, Increase		
	2015	(Decrease)	2014	2015	(Decrease)	2014
Trust fees	\$ 4,818	\$ 46	\$ 4,772	\$ 14,289	\$ 392	\$ 13,897
Service charges on deposit accounts	4,653	251	4,402	12,442	(181)	12,623
ATM, interchange and credit card fees	5,794	701	5,093	16,209	1,918	14,291
Real estate mortgage operations	3,742	1,663	2,079	7,321	2,486	4,835
Net gain (loss) on sale of available-for-sale securities	136	135	1	380	384	(4)
Net gain (loss) on sale of foreclosed assets	28	(277)	305	10	(794)	804
Other:						
Check printing fees	59	4	55	169	11	158
Safe deposit rental fees	112	(3)	115	416	(7)	423
Credit life and debt protection fees	177	128	49	534	419	115
Brokerage commissions	210	(2)	212	577	(93)	670
Interest on loan recoveries	323	273	50	834	397	437
Gain on sale of assets	(11)	20	(31)	(11)	(26)	15
Miscellaneous income	405	183	222	982	(355)	1,337
Total other	1,275	603	672	3,501	346	3,155
Total Noninterest Income	\$ 20,446	\$ 3,122	\$ 17,324	\$ 54,152	\$ 4,551	\$ 49,601

Noninterest Expense. Total noninterest expense for the third quarter of 2015 was \$39.97 million, an increase of \$5.93 million as compared to the same quarter in 2014. An important measure in determining whether a financial institution effectively manages noninterest expense is the efficiency ratio, which is calculated by dividing noninterest expense by the sum of net interest income on a tax-equivalent basis and noninterest income. Lower ratios indicate better

efficiency since more income is generated with a lower noninterest expense total. Our efficiency ratio for the third quarter of 2015 was 48.44%, compared to 47.93% in the same quarter last year.

Salaries and employee benefits for the third quarter of 2015 totaled \$21.65 million, an increase of \$3.70 million compared to the same quarter in 2014. The increase was largely the result of the addition of employees in compliance-related areas, the addition of 4Trust Mortgage and First Bank employees and annual pay increases.

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All other categories of noninterest expense for the third quarter of 2015 totaled \$18.33 million, an increase of approximately \$2.24 million as compared to the same quarter in 2014. Included in noninterest expense in the third quarter of 2015 were technology contract termination and conversion related costs totaling \$1.14 million related to the First Bank acquisition. Also contributing to the increase in noninterest expense in the third quarter of 2015 when compared to the same quarter in 2014 were increases in net occupancy and equipment expenses of \$753 thousand and \$356 thousand, respectively. These increases primarily resulted from the addition of several new branches and the 4Trust Mortgage and First Bank acquisitions.

Total noninterest expense for the nine months ended September 30, 2015 was \$109.12 million compared to \$101.49 million in the same period of 2014. Our efficiency ratio for the first nine months of 2015 was 47.34%, compared to 48.78% from the same period in 2014.

Salaries and employee benefits for the first nine months of 2015 totaled \$59.09 million, an increase of \$6.45 million compared to the same period in 2014. The increase was largely the result of the addition of employees in compliance-related areas, the addition of 4Trust Mortgage and First Bank employees and annual pay increases.

All other categories of noninterest expense for the first nine months of 2015 totaled \$50.04 million, an increase of approximately \$1.19 million as compared to the same period in 2014. Included in noninterest expense for the nine-months ended September 30, 2015 were technology contract termination and conversion related costs totaling \$1.14 million related to the First Bank acquisition. Also contributing to the increase in noninterest expense in the first nine months of 2015 when compared to the same period in 2014 were increases in legal, net occupancy and equipment expenses of \$841 thousand, \$836 thousand and \$960 thousand, respectively. The increase in legal fees was primarily associated with the Company's acquisition activities. The increases in net occupancy and equipment expenses largely resulted from the addition of several new branches and the 4Trust Mortgage and First Bank acquisitions.

Table of Contents**Table 4 - Noninterest Expense (in thousands):**

	Three Months Ended September 30, Increase			Nine Months Ended September 30, Increase		
	2015	(Decrease)	2014	2015	(Decrease)	2014
Salaries	\$ 16,627	\$ 3,047	\$ 13,580	\$ 45,378	\$ 5,755	\$ 39,623
Medical	1,455	310	1,145	3,882	(164)	4,046
Profit sharing	1,641	45	1,596	4,190	382	3,808
Pension	83	(24)	107	232	(89)	321
401(k) match expense	542	112	430	1,513	224	1,289
Payroll taxes	1,118	200	918	3,348	329	3,019
Stock option expense	182	8	174	543	11	532
Total salaries and employee benefits	21,648	3,698	17,950	59,086	6,448	52,638
Net occupancy expense	3,050	753	2,297	7,640	836	6,804
Equipment expense	3,114	356	2,758	9,005	960	8,045
FDIC assessment fees	819	126	693	2,316	281	2,035
ATM, interchange and credit card expense	1,509	(310)	1,819	4,844	(151)	4,995
Professional and service fees	1,148	(57)	1,205	3,370	121	3,249
Printing, stationery and supplies	594	(38)	632	1,662	(298)	1,960
Amortization of intangible assets	200	138	62	362	152	210
Other:						
Data processing fees	823	747	76	1,019	800	219
Postage	433	13	420	1,262	10	1,252
Advertising	919	1	918	2,509	(212)	2,721
Correspondent bank service charges	238	16	222	686	20	666
Telephone	603	88	515	1,577	(39)	1,616
Public relations and business development	645	(28)	673	1,893	183	1,710
Directors fees	295	102	193	777	116	661
Audit and accounting fees	468	29	439	1,289	46	1,243
Legal fees	325	104	221	1,432	841	591
Regulatory exam fees	265	33	232	776	85	691
Travel	384	130	254	908	216	692
Courier expense	194	(41)	235	619	19	600
Operational and other losses	397	4	393	907	(2,563)	3,470
Other real estate	36	(92)	128	108	(289)	397
Other miscellaneous expense	1,866	161	1,705	5,075	51	5,024
Total other	7,891	1,267	6,624	20,837	(716)	21,553
Total Noninterest Expense	\$ 39,973	\$ 5,933	\$ 34,040	\$ 109,122	\$ 7,633	\$ 101,489

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Loans. Our portfolio is comprised of loans made to businesses, professionals, individuals, and farm and ranch operations located in the primary trade areas served by our subsidiary bank. Real estate loans represent loans primarily for 1-4 family residences and owner-occupied commercial real estate. The structure of loans in the real estate mortgage area generally provides re-pricing intervals to minimize the interest rate risk inherent in long-term fixed rate loans. As of September 30, 2015, total loans held for investment were \$3.27 billion, an increase of \$337.63 million, as compared to December 31, 2014. As compared to December 31, 2014, commercial loans increased \$58.45 million, agricultural loans decreased \$6.46 million, real estate loans increased \$265.15 million, and consumer loans increased \$20.49 million. The acquisition of First Bank accounted for \$248.38 million of the increase in loans. Loans averaged \$3.16 billion during the third quarter of 2015, an increase of \$347.15 million from the prior year third quarter average balances. Loans averaged \$3.02 billion during the nine-month period ended September 30, 2015, an increase of \$265.70 million from the prior year nine-month average balances.

Table 5 - Composition of Loans (in thousands):

	September 30,		December 31,
	2015	2014	2014
Commercial	\$ 698,406	\$ 612,092	\$ 639,954
Agricultural	99,232	86,718	105,694
Real estate	2,088,002	1,774,639	1,822,854
Consumer	381,177	354,981	360,686
Total loans held-for-investment	\$ 3,266,817	\$ 2,828,430	\$ 2,929,188

At September 30, 2015, our real estate loans represent approximately 63.92% of our loan portfolio and are comprised of (i) 1-4 family residence loans of 44.90%, (ii) commercial real estate loans of 26.04%, generally owner occupied, (iii) other loans, which includes ranches, hospitals and universities, of 14.96%, (iv) residential development and construction loans of 9.36%, which includes our custom and speculation home construction loans and (v) commercial development and construction loans of 4.74%.

Loans held for sale, consisting of secondary market mortgage loans, totaled \$21.61 million, \$11.27 million and \$8.80 million at September 30, 2015 and 2014, and December 31, 2014, respectively, which were recorded at cost as fair value approximated cost.

Asset Quality. The loan portfolio of our bank subsidiary is subject to periodic reviews by our centralized independent loan review group as well as periodic examinations by bank regulatory agencies. Loans are placed on nonaccrual status when, in the judgment of management, the collectability of principal or interest under the original terms becomes doubtful. Nonaccrual, past due 90 days or more and still accruing and restructured loans plus foreclosed assets were \$22.74 million at September 30, 2015, as compared to \$23.63 million at September 30, 2014 and \$21.72 million at December 31, 2014. As a percent of loans and foreclosed assets, these assets were 0.69% at September 30, 2015, as compared to 0.83% at September 30, 2014 and 0.74% at December 31, 2014. As a percent of total assets, these assets were 0.35% at September 30, 2015 as compared to 0.42% at September 30, 2014 and 0.37% at December 31, 2014. We believe the level of these assets to be manageable and are not aware of any material classified credits not properly disclosed as nonperforming at September 30, 2015.

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	September 30,		December 31,
	2015	2014	2014
Non-accrual loans*	\$ 21,788	\$ 22,093	\$ 20,194
Loans still accruing and past due 90 days or more	49	263	261
Troubled debt restructured loans**	204		226
Foreclosed assets	701	1,273	1,035
Total	\$ 22,742	\$ 23,629	\$ 21,716
As a % of loans and foreclosed assets	0.69%	0.83%	0.74%
As a % of total assets	0.35%	0.42%	0.37%

* Includes \$2.42 million, \$2.38 million and \$2.15 million of purchased credit impaired loans as of September 30, 2015 and 2014, and December 31, 2014, respectively.

** Troubled debt restructured loans of \$6.46 million, \$10.11 million and \$9.07 million, whose interest collection, after considering economic and business conditions and collection efforts, is doubtful are included in non-accrual loans at September 30, 2015 and 2014, and December 31, 2014, respectively.

We record interest payments received on non-accrual loans as reductions of principal. Prior to the loans being placed on non-accrual, we recognized interest income on impaired loans as of December 31, 2014 of approximately \$97 thousand during the year ended December 31, 2014. If interest on these impaired loans had been recognized on a full accrual basis during the year ended December 31, 2014, such income would have approximated \$1.58 million. Such amounts for the 2015 and 2014 interim periods were insignificant.

Provision and Allowance for Loan Losses. The allowance for loan losses is the amount we determine as of a specific date to be appropriate to absorb probable losses on existing loans in which full collectability is unlikely based on our review and evaluation of the loan portfolio. For a discussion of our methodology, see note 5 to our notes to the consolidated financial statements (unaudited). The provision for loan losses was \$2.66 million for the third quarter of 2015, as compared to \$896 thousand for the third quarter of 2014. The provision for loan losses was \$5.51 million for the nine month period ended September 30, 2015, as compared to \$3.71 million for the same period in 2014. The continued provision for loan losses in 2015 and 2014 reflects the overall growth in loans and continuing levels of nonperforming and classified assets, including those related to the oil and gas industry. The Company's direct exposure to the oil and gas industry remained at approximately 2.8% of total loans at September 30, 2015, consistent with December 31, 2014 year-end levels. As a percent of average loans, net loan charge-offs were 0.16% for the third quarter of 2015 compared to 0.06% during the third quarter of 2014. As a percent of average loans, net loan charge-offs were 0.08% for the first nine months of 2015, compared to 0.06% for the first nine months of 2014. The allowance for loan losses as a percent of loans was 1.23% as of September 30, 2015, as compared to 1.25% as of December 31, 2014 and 1.28% as of September 30, 2014. Included in Table 7 is further analysis of our allowance for loan losses.

Table of Contents**Table 7 - Loan Loss Experience and Allowance for Loan Losses (in thousands, except percentages):**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Allowance for loan losses at period-end	\$ 40,420	\$ 36,388	\$ 40,420	\$ 36,388
Loans held for investment at period-end	3,266,817	2,828,430	3,266,817	2,828,430
Average loans for period	3,161,229	2,814,083	3,016,686	2,750,983
Net charge-offs/average loans (annualized)	0.16%	0.06%	0.08%	0.06%
Allowance for loan losses/period-end loans	1.23%	1.28%	1.23%	1.28%
Allowance for loan losses/non-accrual loans, past due 90 days still accruing and restructured loans	183.39%	162.77%	183.29%	162.77%

Interest-Bearing Deposits in Banks. At September 30, 2015, our interest-bearing deposits in banks were \$8.76 million compared with \$103.23 million and \$71.33 million as of September 30, 2014 and December 31, 2014, respectively. At September 30, 2015, interest-bearing deposits in banks included \$4.49 million invested in FDIC-insured certificates of deposit, \$4.01 million maintained at the Federal Reserve Bank of Dallas and \$252 thousand on deposit with the FHLB.

Available-for-Sale and Held-to-Maturity Securities. At September 30, 2015, securities with a fair value of \$2.74 billion were classified as securities available-for-sale and securities with an amortized cost of \$286 thousand were classified as securities held-to-maturity. As compared to December 31, 2014, the available-for-sale portfolio at September 30, 2015 reflected (i) an increase of \$25.44 million in obligations of U.S. government sponsored enterprises and agencies, (ii) an increase of \$269.52 million in obligations of states and political subdivisions, (iii) a decrease of \$7.45 million in corporate bonds and other, (iv) an increase of \$23.58 million in mortgage-backed securities and (v) an increase of \$10.40 million in U.S. Treasury securities. Our mortgage related securities are backed by GNMA, FNMA or FHLMC or are collateralized by securities backed by these agencies.

See note 4 to the consolidated financial statements (unaudited) for additional disclosures relating to the investment portfolio at September 30, 2015 and 2014, and December 31, 2014.

Table of Contents**Table 8 - Maturities and Yields of Available-for-Sale Securities Held at September 30, 2015 (in thousands, except percentages):**

Available-for-Sale:	One Year or Less		After One Year Through Five Years		Maturing After Five Years Through Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. Treasury securities	\$		%\$ 10,917	1.12%	\$		%\$		%\$ 10,917	1.12%
Obligations of U.S. government sponsored enterprises and agencies	37,760	1.17	117,437	1.27					155,197	1.25
Obligations of states and political subdivisions	69,090	4.35	596,309	5.13	767,254	4.86	4,498	7.78	1,437,151	4.96
Corporate bonds and other securities	29,055	1.78	62,254	2.93					91,309	2.56
Mortgage-backed securities	2,258	4.46	833,255	2.30	207,134	2.43	132	2.14	1,042,779	2.33
Total	\$ 138,163	2.94%	\$ 1,620,172	3.28%	\$ 974,388	4.35%	\$ 4,630	7.62%	\$ 2,737,353	3.65%

Amounts for held-to-maturity securities are not included herein due to insignificance.

All yields are computed on a tax-equivalent basis assuming a marginal tax rate of 35%. Yields on available-for-sale securities are based on amortized cost. Maturities of mortgage-backed securities are based on contractual maturities and could differ due to prepayments of underlying mortgages. Maturities of other securities are reported at the earlier of maturity date or call date.

As of September 30, 2015, the investment portfolio had an overall tax equivalent yield of 3.65%, a weighted average life of 4.43 years and modified duration of 3.95 years.

Deposits. Deposits held by our subsidiary bank represent our primary source of funding. Total deposits were \$5.10 billion as of September 30, 2015, as compared to \$4.46 billion as of September 30, 2014 and \$4.75 billion as of December 31, 2014. Table 9 provides a breakdown of average deposits and rates paid for the three and nine-month periods ended September 30, 2015 and 2014.

Table of Contents**Table 9 Composition of Average Deposits (in thousands, except percentages):**

	Three Months Ended September 30,			
	2015		2014	
	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing deposits	\$ 1,687,285	%	\$ 1,470,682	%
Interest-bearing deposits:				
Interest-bearing checking	1,617,367	0.09	1,317,199	0.10
Savings and money market accounts	1,042,610	0.06	897,391	0.06
Time deposits under \$100,000	273,734	0.21	277,113	0.25
Time deposits of \$100,000 or more	361,700	0.32	400,362	0.34
Total interest-bearing deposits	3,295,411	0.11%	2,892,065	0.14%
Total average deposits	\$ 4,982,696		\$ 4,362,747	

	Nine Months Ended September 30,			
	2015		2014	
	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing deposits	\$ 1,607,931	%	\$ 1,397,909	%
Interest-bearing deposits:				
Interest-bearing checking	1,601,087	0.09	1,307,362	0.11
Savings and money market accounts	1,004,584	0.06	869,072	0.06
Time deposits under \$100,000	263,031	0.21	283,469	0.23
Time deposits of \$100,000 or more	363,223	0.31	399,366	0.31
Total interest-bearing deposits	3,231,925	0.11%	2,859,269	0.14%
Total average deposits	\$ 4,839,856		\$ 4,257,178	

Short-Term Borrowings. Included in short-term borrowings were federal funds purchased, securities sold under repurchase agreements and advances from the FHLB of \$500.90 million and \$341.91 million at September 30, 2015 and 2014, respectively. Securities sold under repurchase agreements are generally with significant customers of the Company that require short-term liquidity for their funds for which we pledge certain securities that have a fair value equal to at least the amount of the short-term borrowing. The average balance of federal funds purchased, securities sold under repurchase agreements and advances from the FHLB was \$572.43 million and \$384.77 million in the third quarters of 2015 and 2014, respectively. The weighted average interest rate paid on these short-term borrowings was 0.09% and 0.07% for the third quarters of 2015 and 2014, respectively. The average balances of federal funds purchased, securities sold under repurchase agreements and advances from the FHLB was \$507.01 million and \$405.81 million for the nine-month periods ended September 30, 2015 and 2014, respectively. The weighted average

interest rate paid on these short-term borrowings was 0.07% and 0.08% for the first nine months of 2015 and 2014, respectively.

Table of Contents**Capital Resources**

We evaluate capital resources by our ability to maintain adequate regulatory capital ratios to do business in the banking industry. Issues related to capital resources arise primarily when we are growing at an accelerated rate but not retaining a significant amount of our profits or when we experience significant asset quality deterioration.

Total shareholders' equity was \$792.03 million, or 12.25% of total assets at September 30, 2015, as compared to \$658.77 million, or 11.81% of total assets, at September 30, 2014. Included in shareholders' equity at September 30, 2015 and September 30, 2014, were \$53.37 million and \$43.22 million, respectively, in unrealized gains on investment securities available-for-sale, net of related income taxes. For the third quarter of 2015, total shareholders' equity averaged \$753.61 million, or 11.84% of average assets, as compared to \$651.51 million, or 11.96% of average assets, during the same period in 2014. For the nine-months ended September 30, 2015, total shareholders' equity averaged \$718.53, or 11.74%, as compared to \$628.97 million, or 11.79%, of total assets during the same period in 2014.

Banking regulators measure capital adequacy by means of the risk-based capital ratios and leverage ratio. The risk-based capital rules provide for the weighting of assets and off-balance-sheet commitments and contingencies according to prescribed risk categories ranging from 0% to 100%. Regulatory capital is then divided by risk-weighted assets to determine the risk-adjusted capital ratios. The leverage ratio is computed by dividing shareholders' equity less intangible assets by quarter-to-date average assets less intangible assets.

As of September 30, 2015 and December 31, 2014, we had a total risk-based capital ratio of 16.78% and 17.16%, a Tier 1 capital to risk-weighted assets ratio of 15.73% and 16.05% and a Tier 1 leverage ratio of 9.96% and 9.89%, respectively. At September 30, 2015, we had a common equity Tier 1 to risk-weighted assets ratio of 15.73%. The regulatory capital ratios as of September 30, 2015 were calculated under Interim Final Basel III rules and the regulatory capital ratios as of December 31, 2014 were calculated under Basel I rules. There is no threshold for well-capitalized status for bank holding companies.

As of September 30, 2015 and December 31, 2014, the regulatory capital ratios of the Company and Bank exceeded the required minimums, as seen in the table below (dollars in thousands):

	Actual		For Capital Adequacy Purposes:		To Be Well Capitalized Under Prompt Corrective Action Provisions:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2015:						
Total Capital (to Risk-Weighted Assets):						
Consolidated	\$ 655,429	17%	³ \$314,032	³ 8%	N/A	
First Financial Bank, N.A.	\$ 567,379	14%	³ \$313,379	³ 8%	³ \$391,724	³ 10%
Tier1 Capital (to Risk-Weighted Assets):						
Consolidated	\$ 614,184	16%	³ \$157,016	³ 4%	N/A	
First Financial Bank, N.A.	\$ 526,134	13%	³ \$156,689	³ 4%	³ \$235,034	³ 6%

Common Equity Tier 1 Capital (to Risk-Weighted Assets):

Consolidated	\$ 614,184	16%	³ \$157,016	³ 4%	N/A	
First Financial Bank, N.A.	\$ 526,134	13%	³ \$156,689	³ 4%	³ \$235,034	³ 6%

Tier 1 Capital (to Average Assets) Leverage:

Consolidated	\$ 614,184	10%	³ \$185,088	³ 3%	N/A	
First Financial Bank, N.A.	\$ 526,134	8%	³ \$188,281	³ 3%	³ \$313,802	³ 5%

As of December 31, 2014:

Total Capital (to Risk-Weighted Assets):

Consolidated	\$ 587,094	17%	³ \$273,764	³ 8%	N/A	
First Financial Bank, N.A.	\$ 492,668	14%	³ \$272,318	³ 8%	³ \$340,397	³ 10%

Tier1 Capital (to Risk-Weighted Assets):

Consolidated	\$ 549,124	16%	³ \$136,882	³ 4%	N/A	
First Financial Bank, N.A.	\$ 454,698	13%	³ \$136,159	³ 4%	³ \$204,238	³ 6%

Tier1 Capital (to Average Assets) Leverage:

Consolidated	\$ 549,124	10%	³ \$166,489	³ 3%	N/A	
First Financial Bank, N.A.	\$ 454,698	8%	³ \$165,598	³ 3%	³ \$275,996	³ 5%

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We have performed a preliminary assessment using the regulatory capital estimation tool made available by the OCC and believe the Company is prepared to meet the new requirements upon full adoption of the Basel III Notice of Proposed Rulemaking.

Our subsidiary bank made the election to continue to exclude most accumulated other comprehensive income (AOCI) from capital in connection with its March 31, 2015 quarterly financial filing and, in effect, to retain the AOCI treatment under the prior capital rules.

Interest Rate Risk

Interest rate risk results when the maturity or repricing intervals of interest-earning assets and interest-bearing liabilities are different. Our exposure to interest rate risk is managed primarily through our strategy of selecting the types and terms of interest-earning assets and interest-bearing liabilities that generate favorable earnings while limiting the potential negative effects of changes in market interest rates. We use no off-balance-sheet financial instruments to manage interest rate risk.

Our subsidiary bank has an asset liability management committee that monitors interest rate risk and compliance with investment policies. The subsidiary bank utilizes an earnings simulation model as the primary quantitative tool in measuring the amount of interest rate risk associated with changing market rates. The model quantifies the effects of various interest rate scenarios on projected net interest income and net income over the next twelve months. The model measures the impact on net interest income relative to a base case scenario of hypothetical fluctuations in interest rates over the next twelve months. These simulations incorporate assumptions regarding balance sheet growth and mix, pricing and the re-pricing and maturity characteristics of the existing and projected balance sheet.

As of September 30, 2015, the model simulations projected that 100 and 200 basis point increases in interest rates would result in variances in net interest income of 0.15% and (0.03%), respectively, relative to the current financial statement structure over the next twelve months, while a decrease in interest rates of 50 basis points would result in a variance in net interest income of (2.57%) relative to the current financial statement structure over the next twelve months. We consider the likelihood of a decrease in interest rates beyond 50 basis points as of September 30, 2015 remote given current interest rate levels. These are good faith estimates and assume that the composition of our interest sensitive assets and liabilities existing at each year-end will remain constant over the relevant twelve month measurement period and that changes in market interest rates are instantaneous and sustained across the yield curve regardless of duration of pricing characteristics on specific assets or liabilities. Also, this analysis does not contemplate any actions that we might undertake in response to changes in market interest rates. We believe these estimates are not necessarily indicative of what actually could occur in the event of

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immediate interest rate increases or decreases of this magnitude. As interest-bearing assets and liabilities re-price in different time frames and proportions to market interest rate movements, various assumptions must be made based on historical relationships of these variables in reaching any conclusion. Since these correlations are based on competitive and market conditions, we anticipate that our future results will likely be different from the foregoing estimates, and such differences could be material.

Should we be unable to maintain a reasonable balance of maturities and repricing of our interest-earning assets and our interest-bearing liabilities, we could be required to dispose of our assets in an unfavorable manner or pay a higher than market rate to fund our activities. Our asset liability committee oversees and monitors this risk.

Liquidity

Liquidity is our ability to meet cash demands as they arise. Such needs can develop from loan demand, deposit withdrawals or acquisition opportunities. Potential obligations resulting from the issuance of standby letters of credit and commitments to fund future borrowings to our loan customers are other factors affecting our liquidity needs. Many of these obligations and commitments are expected to expire without being drawn upon; therefore the total commitment amounts do not necessarily represent future cash requirements affecting our liquidity position. The potential need for liquidity arising from these types of financial instruments is represented by the contractual notional amount of the instrument. Asset liquidity is provided by cash and assets which are readily marketable or which will mature in the near future. Liquid assets include cash, federal funds sold, and short-term investments in time deposits in banks. Liquidity is also provided by access to funding sources, which include core depositors and correspondent banks that maintain accounts with and sell federal funds to our subsidiary bank. Other sources of funds include our ability to borrow from short-term sources, such as purchasing federal funds from correspondent banks, sales of securities under agreements to repurchase and advances from the FHLB, which amounted to \$500.90 million at September 30, 2015, and an unfunded \$25.00 million revolving line of credit established with Frost Bank, a nonaffiliated bank, which matures on June 30, 2017 (see next paragraph). Our subsidiary bank also has federal funds purchased lines of credit with two non-affiliated banks totaling \$130.00 million. At September 30, 2015, there were no amounts drawn on these lines of credit. Our subsidiary bank also has available a line of credit with the FHLB totaling \$931.80 million, at September 30, 2015, secured by portions of our loan portfolio and certain investment securities. At September 30, 2015, \$170.03 million in advances and \$5.00 million in letters of credit issued by the FHLB were outstanding under this line of credit. The letters of credit were pledged as collateral for public funds held by our subsidiary bank.

The Company renewed its loan agreement, effective June 30, 2015, with Frost Bank. Under the loan agreement, as renewed and amended, we are permitted to draw up to \$25.00 million on a revolving line of credit. Prior to June 30, 2017, interest is paid quarterly at *The Wall Street Journal* Prime Rate and the line of credit matures June 30, 2017. If a balance exists at June 30, 2017, the principal balance converts to a term facility payable quarterly over five years and interest is paid quarterly at our election at *The Wall Street Journal* Prime Rate plus 50 basis points or LIBOR plus 250 basis points. The line of credit is unsecured. Among other provisions in the credit agreement, we must satisfy certain financial covenants during the term of the loan agreement, including, without limitation, covenants that require us to maintain certain capital, tangible net worth, loan loss reserve, non-performing asset and cash flow coverage ratios. In addition, the credit agreement contains certain operational covenants, which among others, restricts the payment of dividends above 55% of consolidated net income, limits the incurrence of debt (excluding any amounts acquired in an acquisition) and prohibits the disposal of assets except in the ordinary course of business. Since 1995, we have historically declared dividends as a percentage of our consolidated net income in a range of 37% (low) in 1995 to 53% (high) in 2003 and 2006. The Company was in compliance with the financial and operational covenants at September 30, 2015. There was no outstanding balance under the line of credit as of September 30, 2015 or December 31, 2014.

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In addition, we anticipate that future acquisitions of financial institutions, expansion of branch locations or offerings of new products could also place a demand on our cash resources. Available cash and cash equivalents at the Company, which totaled \$78.50 million at September 30, 2015, investment securities which totaled \$12.07 million at September 30, 2015 which matures over 8 to 15 years, available dividends from our subsidiaries which totaled \$125.86 million at September 30, 2015, utilization of available lines of credit, and future debt or equity offerings, are expected to be the source of funding for these potential acquisitions or expansions.

Given the strong core deposit base and relatively low loan to deposit ratios maintained at our subsidiary bank, we consider our current liquidity position to be adequate to meet our short-term and long-term liquidity needs.

Off-Balance Sheet Arrangements. We are a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include unfunded lines of credit, commitments to extend credit and federal funds sold to correspondent banks and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in our consolidated balance sheets.

Our exposure to credit loss in the event of nonperformance by the counterparty to the financial instrument for unfunded lines of credit, commitments to extend credit and standby letters of credit is represented by the contractual notional amount of these instruments. We generally use the same credit policies in making commitments and conditional obligations as we do for on-balance-sheet instruments.

Unfunded lines of credit and commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. These commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. We evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, as we deem necessary upon extension of credit, is based on our credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant, and equipment and income-producing commercial properties.

Standby letters of credit are conditional commitments we issue to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The average collateral value held on letters of credit usually exceeds the contract amount.

Table 10 Commitments as of September 30, 2015 (in thousands):

	Total Notional Amounts Committed
Unfunded lines of credit	\$ 458,417
Unfunded commitments to extend credit	158,910
Standby letters of credit	36,589
Total commercial commitments	\$ 653,916

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We believe we have no other off-balance sheet arrangements or transactions with unconsolidated, special purpose entities that would expose us to liability that is not reflected on the face of the financial statements.

Parent Company Funding. Our ability to fund various operating expenses, dividends, and cash acquisitions is generally dependent on our own earnings (without giving effect to our subsidiaries), cash reserves and funds derived from our subsidiaries. These funds historically have been produced by intercompany dividends and management fees that are limited to reimbursement of actual expenses. We anticipate that our recurring cash sources will continue to include dividends and management fees from our subsidiaries. At September 30, 2015, approximately \$125.86 million was available for the payment of intercompany dividends by our subsidiaries without the prior approval of regulatory agencies. Our subsidiaries paid aggregate dividends of \$28.00 million and \$34.00 million for the nine-month periods ended September 30, 2015 and 2014, respectively.

Dividends. Our long-term dividend policy is to pay cash dividends to our shareholders of approximately 40% of annual net earnings while maintaining adequate capital to support growth. We are also restricted by a loan covenant within our line of credit agreement with Frost Bank to dividend no greater than 55% of net income as defined in such loan agreement. The cash dividend payout ratios have amounted to 39.63% and 39.21% of net earnings for the first nine months of 2015 and the same period in 2014, respectively. Given our current capital position and projected earnings and asset growth rates, we do not anticipate any significant change in our current dividend policy. On April 28, 2015, the Board of Directors declared a \$0.16 per share cash dividend that was paid July 1, 2015 to shareholders of record on June 16, 2015. This represented a 14.29 percent increase in quarterly dividends over the third quarter of 2014.

Our bank subsidiary, which is a national banking association and a member of the Federal Reserve System, is required by federal law to obtain the prior approval of the Office of the Comptroller of the Currency (the OCC) to declare and pay dividends if the total of all dividends declared in any calendar year would exceed the total of (1) such bank's net profits (as defined and interpreted by regulation) for that year plus (2) its retained net profits (as defined and interpreted by regulation) for the preceding two calendar years, less any required transfers to surplus.

To pay dividends, we and our subsidiary bank must maintain adequate capital above regulatory guidelines. In addition, if the applicable regulatory authority believes that a bank under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending on the financial condition of the bank, could include the payment of dividends), the authority may require, after notice and hearing, that such bank cease and desist from the unsafe practice. The Federal Reserve, the Federal Deposit Insurance Corporation (the FDIC) and the OCC have each indicated that paying dividends that deplete a bank's capital base to an inadequate level would be an unsafe and unsound banking practice. The Federal Reserve, the FDIC and the OCC have issued policy statements that recommend that bank holding companies and insured banks should generally only pay dividends out of current operating earnings.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Management considers interest rate risk to be a significant market risk for the Company. See Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Capital Resources - Interest Rate Risk for disclosure regarding this market risk.

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Item 4. Controls and Procedures

As of September 30, 2015, we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934). Our management, which includes our principal executive officer and our principal financial officer, does not expect that our disclosure controls and procedures will prevent all errors and all fraud.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Our principal executive officer and principal financial officer have concluded, based on our evaluation of our disclosure controls and procedures, that our disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2015.

Subsequent to our evaluation, there were no significant changes in internal controls over financial reporting or other factors that have materially affected, or are reasonably likely to materially affect, these internal controls.

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PART II

OTHER INFORMATION

Item 1. Legal Proceedings

From time to time we and our subsidiaries are parties to lawsuits arising in the ordinary course of our banking business. However, there are no material pending legal proceedings to which we, our subsidiaries, or any of their properties, are currently subject. Other than regular, routine examinations by state and federal banking authorities, there are no proceedings pending or known to be contemplated by any governmental authorities.

Item 1A. Risk Factors

There has been no material change in the risk factors previously disclosed under Item 1A. of the Company's 2014 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

Not Applicable

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

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Item 6. Exhibits

The following exhibits are filed as part of this report:

- 2.1 Agreement and Plan of Merger between First Financial Bankshares, Inc., First Financial Bank, N.A., OSB Financial Services, Inc. and Orange Savings Bank, SSB, dated as of February 20, 2013 (Schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K) (incorporated by reference from Exhibit 2.1 to Registrant's Form 8-K filed February 26, 2013).
- 2.2 Agreement and Plan of Merger between First Financial Bankshares, Inc., First Financial Bank, N.A., FBC Bancshares, Inc. and First Bank, N.A., Conroe, Texas, dated as of April 1, 2015 (Schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K) (incorporated by reference from Exhibit 2.1 to Registrant's Form 8-K filed April 3, 2015).
- 3.1 Amended and Restated Certificate of Formation (incorporated by reference from Exhibit 3.1 of the Registrant's Form 8-K filed April 28, 2015).
- 3.2 Amended and Restated Bylaws of the Registrant (incorporated by reference from Exhibit 3.2 of the Registrant's Form 8-K filed January 24, 2012).
- 4.1 Specimen certificate of First Financial Common Stock (incorporated by reference from Exhibit 3 of the Registrant's Amendment No. 1 to Form 8-A filed on Form 8-A/A No. 1 on January 7, 1994).
- 10.1 Executive Recognition Agreement (incorporated by reference from Exhibit 10.1 of the Registrant's Form 8-K Report filed June 30, 2014).
- 10.2 2002 Incentive Stock Option Plan (incorporated by reference from Exhibit 10.3 of the Registrant's Form 10-Q filed May 4, 2010).
- 10.3 2012 Incentive Stock Option Plan (incorporated by reference from Appendix A of the Registrant's Definitive Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 filed March 1, 2012).
- 10.4 Loan agreement dated June 30, 2013, between First Financial Bankshares, Inc. and Frost Bank (incorporated by reference from Exhibit 10.1 of the Registrant's Form 8-K filed July 1, 2013).
- 10.5 Loan agreement dated June 30, 2015, between First Financial Bankshares, Inc. and Frost Bank (incorporated by reference from Exhibit 10.1 of the Registrant's Form 8-K filed June 30, 2015).
- 10.6 2015 Restricted Stock Plan (incorporated by reference from Appendix A of the Registrant's Definitive Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 filed March 2, 2015).
- 31.1 Rule 13a-14(a) / 15(d)-14(a) Certification of Chief Executive Officer of First Financial Bankshares, Inc.*
- 31.2 Rule 13a-14(a) / 15(d)-14(a) Certification of Chief Financial Officer of First Financial Bankshares, Inc.*
- 32.1 Section 1350 Certification of Chief Executive Officer of First Financial Bankshares, Inc.+
- 32.2 Section 1350 Certification of Chief Financial Officer of First Financial Bankshares, Inc.+
- 101.INS XBRL Instance Document.*

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101.SCH	XBRL Taxonomy Extension Schema Document.*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.*

* Filed herewith

+ Furnished herewith

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIRST FINANCIAL BANKSHARES, INC.

Date: October 28, 2015

**By: /s/ F. Scott Dueser
F. Scott Dueser
President and Chief Executive Officer**

Date: October 28, 2015

**By: /s/ J. Bruce Hildebrand
J. Bruce Hildebrand
Executive Vice President and Chief Financial
Officer**