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

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

FORM 10-Q
(Mark One)
ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the quarterly period ended March 31, 2015.
or
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the transition period from to .
Commission file number 001-35854

Independent Bank Group, Inc.
(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. Check One:

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

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
Applicable Only to Corporate Issuers
Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practical date.

Common Stock, Par Value $0.01 Per Share – 17,119,376 shares as of April 30, 2015.

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

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Independent Bank Group, Inc. and Subsidiaries

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

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

See Notes to Consolidated Financial Statements

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Independent Bank Group, Inc. and Subsidiaries

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

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

Diluted earnings per share	$0.55	$0.38

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries

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

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

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries

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

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

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries

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

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

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)
(Dollars in thousands, except for share and per share information)

Note 1. Summary of Significant Accounting Policies
Nature of Operations: Independent Bank Group, Inc. (IBG) through its subsidiary, Independent Bank, a Texas state banking corporation (Bank) (collectively known as the Company), provides a full range of banking services to individual and corporate customers in the North Texas, Central Texas and Houston areas through its various branch locations in those areas. The Company is engaged in traditional community banking activities, which include commercial and retail lending, deposit gathering, investment and liquidity management activities. The Company's primary deposit products are demand deposits, money market accounts and certificates of deposit, and its primary lending products are commercial business and real estate, real estate mortgage and consumer loans.
Basis of Presentation: The accompanying consolidated financial statements include the accounts of IBG, its wholly-owned subsidiaries, the Bank and IBG Adriatica Holdings, Inc. (Adriatica) and the Bank's wholly-owned subsidiaries, IBG Real Estate Holdings, Inc. and IBG Aircraft Acquisition, Inc. Adriatica was formed in 2011 to acquire a mixed use residential and retail real estate development in McKinney, Texas. Adriatica was dissolved during the first quarter of 2014. All material intercompany transactions and balances have been eliminated in consolidation. In addition, the Company wholly-owns IB Trust I (Trust I), IB Trust II (Trust II), IB Trust III (Trust III), IB Centex Trust I (Centex Trust I) and Community Group Statutory Trust I (CGI Trust I). The Trusts were formed to issue trust preferred securities and do not meet the criteria for consolidation.
The consolidated interim financial statements are unaudited, but include all adjustments, which, in the opinion of management, are necessary for a fair presentation of the results of the periods presented. All such adjustments were of a normal and recurring nature. These financial statements should be read in conjunction with the financial statements and the notes thereto in the Company's Annual Report of Form10-K for the year ended December 31, 2014. The consolidated statement of condition at December 31, 2014 had been derived from the audited financial statements as of that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.
Segment Reporting: The Company has one reportable segment. The Company's chief operating decision-maker uses consolidated results to make operating and strategic decisions.

Subsequent events: Companies are required to evaluate events and transactions that occur after the balance sheet date but before the date the financial statements are issued. They must recognize in the financial statements the effect of all events or transactions that provide additional evidence of conditions that existed at the balance sheet date, including the estimates inherent in the financial statement preparation process. Entities shall not recognize the impact of events or transactions that provide evidence about conditions that did not exist at the balance sheet date but arose after that date. The Company has evaluated subsequent events through the date of filing these financial statements with the SEC and noted no subsequent events requiring financial statement recognition or disclosure, except as disclosed in Note 12.
Earnings per share: Basic earnings per common share are net income available to common shareholders divided by the weighted average number of common shares outstanding during the period. The unvested share-based payment awards that contain rights to non forfeitable dividends are considered participating securities for this calculation. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under stock warrants. The dilutive effect of participating non vested common stock was not included as it was anti-dilutive. Proceeds from the assumed exercise of dilutive stock warrants are assumed to be used to repurchase common stock at the average market price.

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

Note 2. Statement of Cash Flows

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

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

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

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

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

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

Note 3. Securities Available for Sale

Securities available for sale have been classified in the consolidated balance sheets according to management's intent. The amortized cost of securities and their approximate fair values at March 31, 2015 and December 31, 2014, are as follows:

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

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

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

The amortized cost and estimated fair value of securities available for sale at March 31, 2015, by contractual maturity, are shown below. Maturities of pass-through certificates will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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

The number of securities, unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of March 31, 2015 and December 31, 2014, are summarized as follows:

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

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

Note 4. Loans, Net and Allowance for Loan Losses
Loans, net at March 31, 2015 and December 31, 2014, consisted of the following:

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

The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans.
Commercial loans are underwritten after evaluating and understanding the borrower’s ability to operate profitably and prudently expand its business. The Company’s management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. These cash flows, however, may not be as expected and the value of collateral securing the loans may fluctuate. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short term loans may be made on an unsecured basis. Additionally, our commercial loan portfolio includes loans made to customers in the energy industry, which is a complex, technical and cyclical industry. Experienced bankers with specialized energy lending experience originate our energy loans. Companies in this industry produce, extract, develop, exploit and explore for oil and natural gas. Loans are primarily collateralized with proven producing oil and gas reserves based on a technical evaluation of these reserves. At March 31, 2015 and December 31, 2014, there were approximately $239.0 million and $231.7 million of exploration and production (E&P) energy loans outstanding, respectively.
Commercial real estate loans are subject to underwriting standards and processes similar to commercial loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts, and the repayment of these loans is generally largely dependent on the successful operation of the property or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company’s commercial real estate portfolio are diverse in terms of type and geographic location. Management monitors the diversification of the portfolio on a quarterly basis by type and geographic location. Management also tracks the level of owner occupied property versus non owner occupied property.
Land and commercial land development loans are underwritten using feasibility studies, independent appraisal reviews and financial analysis of the developers or property owners. Generally, borrowers must have a proven track record of success. Commercial construction loans are generally based upon estimates of cost and value of the completed project. These estimates may not be accurate. Commercial construction loans often involve the

disbursement of substantial funds with the repayment dependent on the success of the ultimate project. Sources of repayment for these loans may be pre-committed permanent financing or sale of the developed property. The loans in this portfolio are geographically diverse and due to the increased risk are monitored closely by management and the board of directors on a quarterly basis.

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

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

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

Consumer loans represent less than 2% of the outstanding total loan portfolio. Collateral consists primarily of automobiles and other personal assets. Credit score analysis is used to supplement the underwriting process.

Most of the Company's lending activity occurs within the State of Texas, primarily in the north, central and southeast Texas regions. A large percentage of the Company's portfolio consists of commercial and residential real estate loans. As of March 31, 2015 and December 31, 2014, there were no concentrations of loans related to a single industry in excess of 10% of total loans.

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

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

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

Loans requiring an allocated loan loss provision are generally identified at the servicing officer level based on review of weekly past due reports and/or the loan officer's communication with borrowers. In addition, past due loans are discussed at weekly officer loan committee meetings to determine if classification is warranted. The Company's credit department has implemented an internal risk based loan review process to identity potential internally classified loans that supplements the annual independent external loan review. The external review generally covers all loans greater than $2.4 million. These reviews include analysis of borrower's financial condition, payment histories and collateral values to determine if a loan should be internally classified. Generally, once classified, an impaired loan analysis is completed by the credit department to determine if the loan is impaired and the amount of allocated allowance required.

The Texas economy, specifically the Company's lending area of north, central and southeast Texas, has generally performed better than certain other parts of the country. However, the recent drop in oil prices has the potential to have negative impact on the Texas economy. The risk of loss associated with all segments of the portfolio could increase due to this impact.

The economy and other risk factors are minimized by the Company's underwriting standards, which include the following principles: 1) financial strength of the borrower including strong earnings, high net worth, significant liquidity and acceptable debt to worth ratio, 2) managerial business competence, 3) ability to repay, 4) loan to value, 5) projected cash flow and 6) guarantor financial statements as applicable. The following is a summary of the activity in the allowance for loan losses by loan class for the three months ended March 31, 2015 and 2014:

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

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

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

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

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

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

The accrual of interest is discontinued on a loan when management believes after considering collection efforts and other factors that the borrower's financial condition is such that collection of interest is doubtful. All interest accrued but not collected for loans that are placed on nonaccrual status or charged-off is reversed against interest income. Cash collections on nonaccrual loans are generally credited to the loan receivable balance, and no interest income is recognized on those loans until the principal balance has been collected. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Impaired loans are those loans where it is probable that all amounts due according to contractual terms of the loan agreement will not be collected. The Company has identified these loans through its normal loan review procedures. Impaired loans are measured based on 1) the present value of expected future cash flows discounted at the loans effective interest rate; 2) the loan's observable market price; or 3) the fair value of collateral if the loan is collateral dependent. Substantially all of the Company’s impaired loans are measured at the fair value of the collateral. In limited cases, the Company may use the other methods to determine the level of impairment of a loan if such loan is not collateral dependent.

All commercial, real estate, agricultural loans and troubled debt restructurings are considered for individual impairment analysis. Smaller balance consumer loans are collectively evaluated for impairment.

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

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

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

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

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

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

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

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

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

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

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

	Loans 30-89 Days Past Due	Loans 90 or More Past Due	Total Past Due Loans	Current Loans	Total Loans
March 31, 2015					
Commercial	$244	$5,838	$6,082	$691,367	$697,449
Commercial real estate, land and land development	86	—	86	1,857,320	1,857,406
Residential real estate	1,087	404	1,491	514,225	515,716
Single-family interim construction	—	—	—	148,202	148,202
Agricultural	—	—	—	37,650	37,650
Consumer	1,363	11	1,374	46,013	47,387
Other	—	—	—	139	139
	$2,780	$6,253	$9,033	$3,294,916	$3,303,949
December 31, 2014					
Commercial	$6,006	$157	$6,163	$665,889	$672,052
Commercial real estate, land and land development	973	288	1,261	1,784,137	1,785,398
Residential real estate	1,258	554	1,812	512,213	514,025
Single-family interim construction	410	—	410	137,868	138,278
Agricultural	—	—	—	38,822	38,822
Consumer	1,899	8	1,907	50,360	52,267
Other	—	—	—	242	242
	$10,546	$1,007	$11,553	$3,189,531	$3,201,084

The Company’s internal classified report is segregated into the following categories: 1) Pass/Watch, 2) Other Assets Especially Mentioned (OAEM), 3) Substandard and 4) Doubtful. The loans placed in the Pass/Watch category reflect the Company’s opinion that the loans reflect potential weakness that requires monitoring on a more frequent basis. The loans in the OAEM category reflect the Company’s opinion that the credit contains weaknesses which represent a greater degree of risk and warrant extra attention. These loans are reviewed monthly by officers and senior management to determine if a change in category is warranted. The loans placed in the Substandard category are considered to be potentially inadequately protected by the current debt service capacity of the borrower and/or the pledged collateral. These credits, even if apparently protected by collateral value, have shown weakness related to adverse financial, managerial, economic, market or political conditions, which may jeopardize repayment of principal and interest. There is possibility that some future loss could be sustained by the Company if such weakness is not corrected. The Doubtful category includes loans that are in default or principal exposure is probable. Substandard and Doubtful loans are individually evaluated to determine if they should be classified as impaired and an allowance is allocated if deemed necessary under ASC 310-10.

The loans that are not impaired are included with the remaining “pass” credits in determining the portion of the allowance for loan loss based on historical loss experience and other qualitative factors. The portfolio is segmented into categories including: commercial loans, consumer loans, commercial real estate loans, residential real estate loans and agricultural loans. The adjusted historical loss percentage is applied to each category. Each category is then added together to determine the allowance allocated under ASC 450-20.

A summary of loans by credit quality indicator by class as of March 31, 2015 and December 31, 2014, is as follows:

	Pass	Pass/ Watch	OAEM	Substandard	Doubtful	Total
March 31, 2015						
Commercial	$619,818	$57,847	$13,536	$6,248	$—	$697,449
Commercial real estate, construction, land and land development	1,832,284	8,626	5,962	10,534	—	1,857,406
Residential real estate	507,953	2,155	190	5,418	—	515,716
Single-family interim construction	148,202	—	—	—	—	148,202
Agricultural	37,595	55	—	—	—	37,650
Consumer	47,188	35	45	119	—	47,387
Other	139	—	—	—	—	139
	$3,193,179	$68,718	$19,733	$22,319	$—	$3,303,949
December 31, 2014						
Commercial	$647,894	$16,919	$977	$6,262	$—	$672,052
Commercial real estate, construction, land and land development	1,759,533	8,667	6,008	11,190	—	1,785,398
Residential real estate	505,920	2,188	325	5,592	—	514,025
Single-family interim construction	138,278	—	—	—	—	138,278
Agricultural	38,422	57	—	343	—	38,822
Consumer	52,055	39	50	123	—	52,267
Other	242	—	—	—	—	242
	$3,142,344	$27,870	$7,360	$23,510	$—	$3,201,084

The Company has acquired certain loans which experienced credit deterioration since origination (purchased credit impaired (PCI) loans). Accretion on PCI loans is based on estimated future cash flows, regardless of contractual maturity. There are no PCI loans outstanding for acquisitions prior to 2012. No additional PCI loans were acquired during the three months ended March 31, 2015.

The following table summarizes the outstanding balance and related carrying amount of purchased credit impaired loans by acquired bank as of the respective acquisition date for the acquisitions occurring in 2014:

	Acquisition Date		
	October 1, 2014 Houston City Bancshares, Inc.	April 15, 2014 BOH Holdings, Inc.	January 1, 2014 Live Oak Financial Corp.
Outstanding balance	$12,021	$55,718	$3,583
Nonaccretable difference	(1,240)	(5,798)	(519)
Accretable yield	(561)	(2,579)	(182)
Carrying amount	$10,220	$47,341	$2,882

The carrying amount of all acquired PCI loans included in the consolidated balance sheet and the related outstanding balance at March 31, 2015 and December 31, 2014, were as follows:

	March 31, 2015	December 31, 2014
Outstanding balance	$63,595	$69,371
Carrying amount	54,837	59,697

There was no allocation established in the allowance for loan losses relating to PCI loans at March 31, 2015 or December 31, 2014.

The changes in accretable yield during the three months ended March 31, 2015 in regard to loans transferred at acquisition for which it was probable that all contractually required payments would not be collected are presented in the table below. Activity in accretable yield for the three months ended March 31, 2014 was not material.

	Three Months Ended March 31, 2015
Balance at January 1, 2015	$2,546
Additions	—
Accretion	(184)
Net transfers to/from nonaccretable	—
Balance at March 31, 2015	$2,362

Note 5. Commitments and Contingencies

Financial Instruments with Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. The commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

The Company’s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of this instrument. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. At March 31, 2015 and December 31, 2014, the approximate amounts of these financial instruments were as follows:

	March 31, 2015	December 31, 2014
Commitments to extend credit	$566,165	$565,881
Standby letters of credit	7,110	8,571
	$573,275	$574,452

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. 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. The Company evaluates each customer’s credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management’s credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, farm crops, property, plant and equipment and income-producing commercial properties.

Letters of credit are written conditional commitments used by the Company to guarantee the performance of a customer to a third party. The Company’s policies generally require that letter of credit arrangements contain security and debt covenants similar to those contained in loan arrangements. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount shown in the table above. If the commitment is funded, the Company would be entitled to seek recovery from the customer. As of March 31, 2015 and December 31, 2014, no amounts have been recorded as liabilities for the Company’s potential obligations under these guarantees.

Litigation

The Company is involved in certain legal actions arising from normal business activities. Management believes that the outcome of such proceedings will not materially affect the financial position, results of operations or cash flows of the Company.

Lease Commitments

The Company leases certain branch facilities and other facilities. Rent expense related to these leases amounted to $483 and $198 for the three months ended March 31, 2015 and 2014, respectively.

Other

In March 2015, the Company entered into a purchase agreement totaling $8,800 to purchase a new aircraft for the Company. Through March 31, 2015, the Company has made payments totaling $2,000 with the remaining $6,800 due at time of delivery of the aircraft, which is scheduled for September 2015. The Company is currently in negotiations to sell its current aircraft.

Note 6. Repurchase Agreements and Other Borrowings

At March 31, 2015 and December 31, 2014, repurchase agreements totaled $5,783 and $4,012, respectively. Securities held in safekeeping totaling $5,784 are pledged as security on these repurchase agreement accounts.

Other borrowings, including those borrowings due to related parties totaled $72,105 and $72,730 at March 31, 2015 and December 31, 2014, respectively. Scheduled principal payments of $625 were made on January 15, 2015 for subordinated debentures issued to individuals.

Note 7. Income Taxes

Income tax expense for the three months ended March 31, 2015 and 2014 was as follows:

	Three Months Ended March 31,			
	2015		2014	
Income tax expense for the period	$4,536		$2,339	
Effective tax rate	32.4	%	32.8	%

The effective tax rates differ from the statutory federal tax rate of 35% largely due to tax exempt interest income earned on certain investment securities and loans and the nontaxable earnings on bank owned life insurance.

Note 8. Fair Value Measurements

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. ASC Topic 820, Fair Value Measurements and Disclosures, 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 might 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 (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 Inputs – Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

The following table represents assets reported on the consolidated balance sheets at their fair value on a recurring basis as of March 31, 2015 and December 31, 2014 by level within the ASC Topic 820 fair value measurement hierarchy:

		Fair Value Measurements at Reporting Date Using		
	Assets/ Liabilities Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2015				
Measured on a recurring basis:				
Assets:				
Investment securities available for sale:				
U.S. treasuries	$1,008	$—	$1,008	$—
Government agency securities	54,289	—	54,289	—
Obligations of state and municipal subdivisions	75,407	—	75,407	—
Corporate bonds	1,098	—	1,098	—
Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC and FHR	66,347	—	66,347	—
December 31, 2014				
Measured on a recurring basis:				
Assets:				
Investment securities available for sale:				
U.S. treasuries	$1,006	$—	$1,006	$—
Government agency securities	58,023	—	58,023	—
Obligations of state and municipal subdivisions	76,899	—	76,899	—
Corporate bonds	1,081	—	1,081	—
Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC and FHR	69,053	—	69,053	—

There were no transfers between level categorizations and no changes in valuation methodologies for the periods presented.

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

Securities classified as available for sale are reported at fair value utilizing 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 dealer quotes, market spreads, cash flows, the U.S. Treasury and other yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security’s terms and conditions, among other things.

In accordance with ASC Topic 820, certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities 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). The following table presents the assets carried on the consolidated balance sheet by caption and by level in the fair value hierarchy at March 31, 2015 and December 31, 2014, for which a nonrecurring change in fair value has been recorded:

		Fair Value Measurements at Reporting Date Using			
	Assets Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Period Ended Total (Gains) Losses
March 31, 2015					
Measured on a nonrecurring basis:					
Assets:					
Impaired loans	$4,203	$—	$—	$4,203	$709
Other real estate	—	—	—	—	$—
December 31, 2014					
Measured on a nonrecurring basis:					
Assets:					
Impaired loans	$4,943	$—	$—	$4,943	$188
Other real estate	138	—	—	138	22

Impaired loans (loans which are not expected to repay all principal and interest amounts due in accordance with the original contractual terms) are measured at an observable market price (if available) or at the fair value of the loan's collateral (if collateral dependent). Fair value of the loan's collateral is determined by appraisals or independent valuation, which is then adjusted for the estimated costs related to liquidation of the collateral. Management's ongoing review of appraisal information may result in additional discounts or adjustments to valuation based upon more recent market sales activity or more current appraisal information derived from properties of similar type and/or locale. Therefore, the Company has categorized its impaired loans as Level 3.

The Company has no nonfinancial assets or nonfinancial liabilities measured at fair value on a recurring basis. Other real estate is measured at fair value on a nonrecurring basis (upon initial recognition or subsequent impairment). Other real estate is classified within Level 3 of the valuation hierarchy. When transferred from the loan portfolio, other real estate is adjusted to fair value less estimated selling costs and is subsequently carried at the lower of carrying value or fair value less estimated selling costs. The fair value is determined using an external appraisal process, discounted based on internal criteria.

In addition, mortgage loans held for sale are required to be measured at the lower of cost or fair value. The fair value of mortgage loans held for sale is based upon binding quotes or bids from third party investors. As of March 31, 2015 and December 31, 2014, all mortgage loans held for sale were recorded at cost.

The methods and assumptions used by the Company in estimating fair values of financial instruments as disclosed herein in accordance with ASC Topic 825, Financial Instruments, other than for those measured at fair value on a recurring and nonrecurring basis discussed above, are as follows:

Cash and cash equivalents: The carrying amounts of cash and cash equivalents approximate their fair value.

Loans and loans held for sale: For variable-rate loans that reprice frequently and have no significant changes in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (for example, one-to-four family residential), commercial real estate and commercial loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Federal Home Loan Bank of Dallas and other restricted stock: The carrying value of restricted securities such as stock in the Federal Home Loan Bank of Dallas and Independent Bankers Financial Corporation approximates fair value.

Deposits: The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is their carrying amounts). The carrying amounts of variable-rate certificates of deposit (CDs) approximate their fair values at the reporting date. Fair values for fixed-rate CDs are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Federal Home Loan Bank advances, line of credit and federal funds purchased: The fair value of advances maturing within 90 days approximates carrying value. Fair value of other advances is based on the Company’s current borrowing rate for similar arrangements.

Repurchase agreements and other borrowings: The carrying value of repurchase agreements approximates fair value due to the short term nature. The fair values of private subordinated debentures are based upon prevailing rates on similar debt in the market place. The subordinated notes that are publicly traded are valued based on indicative bid prices based upon market pricing observations in the current market.

Junior subordinated debentures: The fair value of junior subordinated debentures is estimated using discounted cash flow analyses based on the Company’s current incremental borrowing rates for similar types of borrowing arrangements.

Accrued interest: The carrying amounts of accrued interest approximate their fair values.

Off-balance sheet instruments: Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not material.

The carrying amount, estimated fair value and the level of the fair value hierarchy of the Company’s financial instruments were as follows at March 31, 2015 and December 31, 2014:

			Fair Value Measurements at Reporting Date Using		
	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2015					
Financial assets:					
Cash and cash equivalents	$358,798	$358,798	$358,798	$—	$—
Securities available for sale	198,149	198,149	—	198,149	—
Loans held for sale	7,034	7,034	—	7,034	—
Loans, net	3,283,021	3,302,768	—	3,296,646	6,122
FHLB of Dallas stock and other restricted stock	12,333	12,333	—	12,333	—
Accrued interest receivable	9,111	9,111	—	9,111	—
Financial liabilities:					
Deposits	3,386,678	3,388,747	—	3,388,747	—
Accrued interest payable	1,823	1,823	—	1,823	—
FHLB advances	219,386	219,556	—	219,556	—
Repurchase agreements	5,783	5,783	—	5,783	—
Other borrowings	72,105	74,686	—	74,686	—
Junior subordinated debentures	18,147	18,137	—	18,137	—
Off-balance sheet assets (liabilities):					
Commitments to extend credit	—	—	—	—	—
Standby letters of credit	—	—	—	—	—
December 31, 2014					
Financial assets:					
Cash and cash equivalents	$324,047	$324,047	$324,047	$—	$—
Securities available for sale	206,062	206,062	—	206,062	—
Loans held for sale	4,453	4,453	—	4,453	—
Loans, net	3,182,045	3,203,337	—	3,200,261	3,076
FHLB of Dallas stock and other restricted stock	12,321	12,321	—	12,321	—
Accrued interest receivable	9,655	9,655	—	9,655	—
Financial liabilities:					
Deposits	3,249,598	3,252,114	—	3,252,114	—
Accrued interest payable	2,919	2,919	—	2,919	—
FHLB advances	229,405	228,607	—	228,607	—
Repurchase agreements	4,012	4,012	—	4,012	—
Other borrowings	72,730	75,164	—	75,164	—
Junior subordinated debentures	18,147	18,134	—	18,134	—
Off-balance sheet assets (liabilities):					
Commitments to extend credit	—	—	—	—	—
Standby letters of credit	—	—	—	—	—

Note 9. Stock Awards and Stock Warrants
The Company grants common stock awards to certain employees of the Company. The common stock issued prior to 2013 vests five years from the date the award is granted and the related compensation expense is recognized over the vesting period. In connection with the initial public offering in April 2013, the Board of Directors adopted a new 2013 Equity Incentive Plan. Under this plan, the Compensation Committee may grant awards in the form of restricted stock, restricted stock rights, restricted stock units, qualified and nonqualified stock options, performance-based share awards and other equity-based awards. The Plan reserved 800,000 shares of common stock to be awarded by the Company's compensation committee. The shares currently issued under the 2013 Plan are restricted and will vest evenly over the required employment period, generally ranging from three to five years. Shares granted under a previous plan prior to 2012 and those in and subsequent to 2013 under the 2013 Equity Incentive Plan were issued at the date of grant and receive dividends. Shares issued under a revised plan in 2012 are not outstanding shares of the Company until they vest and do not receive dividends.
The following table summarizes the activity in nonvested shares for the three months ended March 31, 2015 and 2014:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested shares, December 31, 2014	373,886	$41.58
Granted during the period	87,124	31.41
Vested during the period	(19,016)	32.98
Nonvested shares, March 31, 2015	441,994	$40.16
Nonvested shares, December 31, 2013	306,524	$22.75
Granted during the period	27,183	50.80
Vested during the period	(92,000)	17.92
Nonvested shares, March 31, 2014	241,707	$27.75

Compensation expense related to these awards is recorded based on the fair value of the award at the date of grant and totaled $1,097 and $390 for the three months ended March 31, 2015 and 2014, respectively. Compensation expense is recorded in salaries and employee benefits in the accompanying consolidated statements of income. At March 31, 2015, future compensation expense is estimated to be $13,650 and will be recognized over a remaining weighted average period of 3.33 years.
The fair value of common stock awards that vested during the three months ended March 31, 2015 and 2014 was $678 and $4,869, respectively. The Company has recorded $3 and $1,022 to additional paid in capital, which represents the excess tax benefit recognized on the vested shares for the three months ended March 31, 2015 and 2014, respectively.
At March 31, 2015, the future vesting schedule of the nonvested shares is as follows:

First year	110,675
Second year	127,348
Third year	111,307
Fourth year	58,564
Fifth year	34,100
Total nonvested shares	441,994

The Company has warrants outstanding representing the right to purchase 150,544 shares of Company stock at $17.19 per share to certain Company directors and shareholders. The warrants were issued in return for the shareholders' agreement to repurchase the subordinated debt outstanding to an unaffiliated bank in the event of Company default. The subordinated debt was paid off by the Company in 2013. The warrants expire in December 2018.

Note 10. Regulatory Matters

Under banking law, there are legal restrictions limiting the amount of dividends the Bank can declare. Approval of the regulatory authorities is required if the effect of dividends declared would cause the regulatory capital of the Bank to fall below specified minimum levels. For state banks, subject to regulatory capital requirements, payment of dividends is generally allowed to the extent of net profits.

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company’s consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

In July 2013, the Federal Reserve published final rules for the adoption of the Basel III regulatory capital framework (the "Basel III Capital Rules"). The Basel III Capital Rules, among other things, (i) introduce a new capital measure called "Common Equity Tier 1" ("CET1"), (ii) specify that Tier 1 capital consist of Common Equity Tier 1 and "Additional Tier 1 Capital" instruments meeting specified requirements, (iii) define Common Equity Tier 1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to Common Equity Tier 1 and not to the other components of capital and (iv) expand the scope of the deductions/adjustments as compared to existing regulations. The Basel III Capital Rules became effective for the Company on January 1, 2015 with certain transition provisions fully phased in on January 1, 2019.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total, CET1 and Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of March 31, 2015 and December 31, 2014, the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of March 31, 2015 and December 31, 2014, the Bank’s capital ratios exceeded those levels necessary to be categorized as “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as “well capitalized," the Bank must maintain minimum total risk based, CET1, Tier 1 risk based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank’s category.

The actual capital amounts and ratios of the Company and Bank as of March 31, 2015 and December 31, 2014, are presented in the following table:

	Actual			Minimum for Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
March 31, 2015									
Total capital to risk weighted assets:									
Consolidated	$412,795	11.88	%	$277,924	8.00	%	N/A	N/A	
Bank	406,452	11.71		277,597	8.00		$346,996	10.00	%
Tier 1 capital to risk weighted assets:									
Consolidated	323,305	9.31		208,443	6.00		N/A	N/A	
Bank	386,225	11.13		208,198	6.00		277,597	8.00	%
Common equity tier 1 to risk weighted assets									
Consolidated	299,367	8.62		156,333	4.50		N/A	N/A	
Bank	386,225	11.13		156,148	4.50		225,547	6.50	%
Tier 1 capital to average assets:									
Consolidated	323,305	7.78		166,160	4.00		N/A	N/A	
Bank	386,225	9.93		155,549	4.00		194,436	5.00	%
December 31, 2014									
Total capital to risk weighted assets:									
Consolidated	$402,326	12.59	%	$255,633	8.00	%	N/A	N/A	
Bank	397,512	12.46		255,219	8.00		$319,024	10.00	%
Tier 1 capital to risk weighted assets:									
Consolidated	314,136	9.83		127,817	4.00		N/A	N/A	
Bank	378,960	11.88		127,609	4.00		191,414	6.00	%
Tier 1 capital to average assets:									
Consolidated	314,136	8.15		154,270	4.00		N/A	N/A	
Bank	378,960	9.93		152,598	4.00		190,747	5.00	%

Note 11. Business Combination

BOH Holdings

During the three months ended March 31, 2015, the Company made measurement-period adjustments to previously-reported acquisition accounting estimates for the April 15, 2014 acquisition of BOH Holdings. Additional termination accruals were identified that related to BOH accounts that existed prior to the acquisition and resulted in an increase of $182 to other liabilities and to goodwill.

Note 12. Subsequent Event

Declaration of Dividends

On May 1, 2015, the Company declared a quarterly cash dividend in the amount of $0.08 per share of common stock to the stockholders of record on May 15, 2015. The dividend will be paid on May 28, 2015.

Revised Capital Ratios

Subsequent to the Company’s issuance of its first quarter earnings release on April 27, 2015, the Company changed its calculation of risk weighted assets, which in turn affected the risk weighted capital ratios reported in the earnings release. After the issuance of the earnings release, the Company discovered that an incorrect credit conversion factor had been applied to certain unfunded commitments in calculating the amount of risk weighted assets. Due to this calculation error, risk weighted assets were overstated by approximately $112 million which resulted in the Company’s common equity tier 1 capital to risk weighted assets, tier 1 capital to risk weighted assets and total capital to risk-weighted assets ratios being understated in the earnings release by approximately 27, 29 and 37 basis points, respectively. The Company’s risk weighted capital ratios set forth in footnote 10 of the financial statements are based upon the corrected calculation and reflect an increase in the risk weighted capital ratios previously reported in the earnings release. The Company continues to be well capitalized under applicable regulations.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Note Regarding Forward Looking Statements

This Quarterly Report on Form 10-Q, our other filings with the SEC, and other press releases, documents, reports and announcements that we make, issue or publish may contain statements that we believe are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are statements or projections with respect to matters such as our future results of operations, including our future revenues, income, expenses, provision for taxes, effective tax rate, earnings per share and cash flows, our future capital expenditures and dividends, our future financial condition and changes therein, including changes in our loan portfolio and allowance for loan losses, our future capital structure or changes therein, the plan and objectives of management for future operations, our future or proposed acquisitions, the future or expected effect of acquisitions on our operations, results of operations and financial condition, our future economic performance and the statements of the assumptions underlying any such statement. Such statements are typically identified by the use in the statements of words or phrases such as "aim," "anticipate," "estimate," "expect," "goal," "guidance," "intend," "is anticipated," "is estimated expected," "is intended," "objective," "plan," "projected," "projection," "will affect," "will be," "will continue," "will decrease "will impact," "will increase," "will incur," "will reduce," "will remain," "will result," "would be," variations of such words or phrases (including where the word "could", "may" or "would" is used rather than the word "will" in a phrase) and similar words and phrases indicating that the statement addresses some future result, occurrence, plan or objective. The forward-looking statements that we make are based on the Company's current expectations and assumptions regarding its business, the economy, and other future conditions. Because forward-looking statements relate to future results and occurrences, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. The Company's actual results may differ materially from those contemplated by the forward-looking statements, which are neither statements of historical fact nor guarantees or assurances of future performance. Many possible events or factors could affect the future financial results and performance of the Company and could cause such results or performance to differ materially from those expressed in forward-looking statements. These factors include, but are not limited to, the following:

- worsening business and economic conditions nationally, regionally and in our target markets, particularly in Texas and the geographic areas in which we operate;
- our dependence on our management team and our ability to attract, motivate and retain qualified personnel;
- the concentration of our business within our geographic areas of operation in Texas;
- deteriorating asset quality and higher loan charge-offs;
- concentration of our loan portfolio in commercial and residential real estate loans and changes in the prices, values and sales volumes of commercial and residential real estate;
- inaccuracy of the assumptions and estimates we make in establishing reserves for probable loan losses and other estimates;
- lack of liquidity, including as a result of a reduction in the amount of sources of liquidity we currently have;
- material decreases in the amount of deposits we hold;
- regulatory requirements to maintain minimum capital levels;
- changes in market interest rates that affect the pricing of our loans and deposits and our net interest income;
- fluctuations in the market value and liquidity of the securities we hold for sale;
- effects of competition from a wide variety of local, regional, national and other providers of financial, investment and insurance services;
- changes in economic and market conditions that affect the amount of assets we have under administration;
- the institution and outcome of litigation and other legal proceeding against us or to which we become subject;
- the occurrence of market conditions adversely affecting the financial industry generally;
- the impact of recent and future legislative and regulatory changes, including changes in banking, securities and tax laws and regulations and their application by our regulators, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act;

- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the SEC and Public Company Accounting Oversight Board:
- governmental monetary and fiscal policies;
- changes in the scope and cost of FDIC insurance and other coverage;
- the effects of war or other conflicts, acts of terrorism (including cyber attacks) or other catastrophic events, including storms, droughts, tornadoes and flooding, that may affect general economic conditions;

- our actual cost savings resulting from the acquisitions of BOH Holdings, Houston City Bancshares and Live Oak Financial Corp. are less than expected, we are unable to realize those cost savings as soon as expected or we incur additional or unexpected costs;
- our revenues after the BOH Holdings, Inc., Houston City Bancshares and Live Oak Financial Corp. acquisitions are less than expected;
- deposit attrition, operating costs, customer loss and business disruption before and after our completed acquisitions, including, without limitation, difficulties in maintaining relationships with employees, may be greater than we expected;
- the risk that the businesses of the Company, and financial institutions that it has or will acquire, will not be integrated successfully, or such integrations may be more difficult, time-consuming or costly than expected;
- the quality of the assets acquired from other organizations being lower than determined in our due diligence investigation and related exposure to unrecoverable losses on loans acquired;
- general business and economic conditions in our markets change or are less favorable than expected;
- changes occur in business conditions and inflation;
- personal or commercial customers' bankruptcies increase;
- technology-related changes are harder to make or are more expensive than expected; and
- the other factors that are described or referenced in Part II, Item 1A. of this Quarterly Report on Form 10-Q under the caption "Risk Factors."

We urge you to consider all of these risks, uncertainties and other factors carefully in evaluating all such forward-looking statements we may make. As a result of these and other matters, including changes in facts, assumptions not being realized or other factors, the actual results relating to the subject matter of any forward-looking statement may differ materially from the anticipated results expressed or implied in that forward-looking statement. Any forward-looking statement made by the Company in any report, filing, press release, document, report or announcement speaks only as of the date on which it is made. The Company undertakes no obligation to update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

A forward looking-statement may include a statement of the assumptions or bases underlying the forward-looking statement. The Company believes it has chosen these assumptions or bases in good faith and they are reasonable. However, the Company cautions you that assumptions or bases almost always vary from actual results, and the differences between assumptions or bases and actual results can be material. The Company undertakes no obligation to publicly update or otherwise revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

This Management's Discussion and Analysis of Financial Condition and Results of Operations analyzes the major elements of the Company's financial condition and results of operation as reflected in the interim consolidated financial statements and accompanying notes appearing in this Quarterly Report on Form 10-Q. This section should be read in conjunction with the Company's interim consolidated financial statements and accompanying notes included elsewhere in this report and with the consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2014.

The Company was organized as a bank holding company in 2002. On January 1, 2009, the Company was merged with Independent Bank Group Central Texas, Inc., and, since that time, has pursued a strategy to create long-term shareholder value through organic growth of our community banking franchise in our market areas and through selective acquisitions of complementary banking institutions with operations in our market areas. On April 8, 2013, the Company consummated the initial public offering, or IPO, of its common stock which is traded on the NASDAQ Global Select Market.

The Company operates 40 full service banking locations, with 22 located in the Dallas/North Texas region, 7 located in the Austin/Central Texas region and 11 in the Houston region. The Company's headquarters are located at 1600 Redbud, Suite 400, McKinney, Texas 75069, and its telephone number is (972) 562-9004. The Company's website address is www.ibtx.com. Information contained on the Company's website is not incorporated by reference into this Quarterly Report on Form 10-Q and is not part of this or any other report.

Our principal business is lending to and accepting deposits from businesses, professionals and individuals. We conduct all of our banking operations through Independent Bank, which is a Texas state banking corporation and our principal subsidiary (the Bank). We derive our income principally from interest earned on loans and, to a lesser extent, income from securities available for sale. We also derive income from non-interest sources, such as fees received in connection with various deposit services and mortgage brokerage operations. From time to time, we also realize gains on the sale of assets. Our principal expenses include interest expense on interest-bearing customer deposits, advances from the Federal Home Loan Bank of Dallas, or the FHLB, and other borrowings, operating expenses, such as salaries, employee benefits, occupancy costs, data processing and communication costs, expenses associated with other real estate owned, other administrative expenses, provisions for loan losses and our assessment for FDIC deposit insurance.

Certain Events Affect Year-over-Year Comparability

Acquisitions. During 2014, the Company completed three acquisitions. These acquisitions increased total assets, gross loans and deposits on the respective acquisition dates as detailed below.

	Acquisition Date	Total Assets	Gross Loans	Deposits
Live Oak Financial Corp.	January 1, 2014	131.0 million	71.3 million	105.0 million
BOH Holdings	April 15, 2014	1.2 billion	785.2 million	820.8 million
Houston Community Bancshares, Inc.	October 1, 2014	350.7 million	194.9 million	303.1 million

The comparability of the Company's results of operations for the three months ended March 31, 2015 and 2014 are affected by these acquisitions.

Discussion and Analysis of Results of Operations for the Three Months Ended March 31, 2015 and 2014

The following discussion and analysis of our results of operations compares our results of operations for the three months ended March 31, 2015 with the three months ended March 31, 2014. The results of operations for the three months ended March 31, 2015 are not necessarily indicative of the results of operations that may be expected for all of the year ending December 31, 2015.

Results of Operations

For the three months ended March 31, 2015, net income available to common shareholders was $9.4 million ($0.55 per common share on a diluted basis) compared with $4.8 million ($0.38 per common share on a diluted basis) for the three months ended March 31, 2014. The Company posted annualized returns on average common equity of 7.31% and 7.90%, returns on average assets of 0.92% and 0.84% and efficiency ratios of 60.90% and 65.70% for the three months ended March 31, 2015 and 2014, respectively. The efficiency ratio is calculated by dividing total noninterest expense (which does not include the provision for loan losses) by net interest income plus noninterest income.

Net Interest Income

The Company’s net interest income is its interest income, net of interest expenses. Changes in the balances of the Company’s earning assets and its deposits, FHLB advances and other borrowings, as well as changes in the market interest rates, affect the Company’s net interest income. The difference between the Company’s average yield on earning assets and its average rate paid for interest-bearing liabilities is its net interest spread. Noninterest-bearing sources of funds, such as demand deposits and stockholders’ equity, also support the Company’s earning assets. The impact of the noninterest-bearing sources of funds is reflected in the Company’s net interest margin, which is calculated as annualized net interest income divided by average earning assets.

Net interest income was $36.1 million for the three months ended March 31, 2015, an increase of $13.9 million, or 63.0%, from $22.1 million at March 31, 2014. This increase is due primarily to a $1.4 billion increase, or 67.3%, in average interest earning assets to $3.6 billion for the three months ended March 31, 2015 compared to $2.2 billion for the three months ended March 31, 2014. The greatest part of the increases in interest-earning assets and interest-bearing deposits occurred as a result of the acquisitions the Company completed in April and October 2014 but was also due in part to organic loan and deposit growth. The net interest margin for the three months ended March 31, 2015 decreased 10 basis points to 4.07% compared to 4.17% for the three months ended March 31, 2014. The decrease from the prior year is due to interest expense on subordinated debt issued in July 2014 (10 basis point effect on net interest margin for the quarter) and a decrease in loan yields of 40 basis points from the prior year. The average yield on interest earning assets decreased 15 basis points from 4.74% to 4.59%. The effect of this decrease was partially offset by a decrease in the average rate paid on interest bearing liabilities of 3 basis points from 0.71% to 0.68%. This change was due to a decrease in the cost of deposits partially offset by the increase in other borrowings due to the new issuance of the subordinated debt.

Average Balance Sheet Amounts, Interest Earned and Yield Analysis. The following table presents average balance sheet information, interest income, interest expense and the corresponding average yields earned and rates paid for the three months ended March 31, 2015 and 2014. The average balances are principally daily averages and, for loans, include both performing and nonperforming balances.

	For The Three Months Ended March 31,							
	2015				2014			
	Average Outstanding Balance	Interest	Yield/ Rate [3]		Average Outstanding Balance	Interest	Yield/ Rate [3]	
(dollars in thousands)								
Interest-earning assets:								
Loans [1]	$3,254,038	$39,580	4.93	%	$1,835,154	$24,123	5.33	%
Taxable securities	134,015	609	1.84		174,880	699	1.62	
Nontaxable securities	69,245	414	2.42		32,282	257	3.23	
Federal funds sold and other	141,968	133	0.38		108,676	83	0.31	
Total interest-earning assets	3,599,266	$40,736	4.59		2,150,992	$25,162	4.74	
Noninterest-earning assets	554,741				179,940			
Total assets	$4,154,007				$2,330,932			
Interest-bearing liabilities:								
Checking accounts	$1,267,242	$1,358	0.43		$814,583	$998	0.50	
Savings accounts	143,754	65	0.18		122,038	88	0.29	
Money market accounts	236,589	100	0.17		91,836	56	0.25	
Certificates of deposit	818,773	1,186	0.59		487,408	765	0.64	
Total deposits	2,466,358	2,709	0.45		1,515,865	1,907	0.51	
FHLB advances	219,842	752	1.39					