

FIRST FINANCIAL BANKSHARES INC
Form 10-Q
October 25, 2016
Table of Contents

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, 2016
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 25, 2016
Common Stock, \$0.01 par value per share	66,063,285

Table of Contents

TABLE OF CONTENTS

Item	Page
<u>PART I</u>	
<u>FINANCIAL INFORMATION</u>	
1. <u>Financial Statements</u>	3
<u>Consolidated Balance Sheets Unaudited</u>	4
<u>Consolidated Statements of Earnings Unaudited</u>	5
<u>Consolidated Statements of Comprehensive Earnings Unaudited</u>	6
<u>Consolidated Statements of Shareholders Equity Unaudited</u>	7
<u>Consolidated Statements of Cash Flows Unaudited</u>	8
<u>Notes to Consolidated Financial Statements Unaudited</u>	9
2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	34
3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	53
4. <u>Controls and Procedures</u>	53
<u>PART II</u>	
<u>OTHER INFORMATION</u>	
1. <u>Legal Proceedings</u>	54
1A. <u>Risk Factors</u>	54
2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	54
3. <u>Defaults Upon Senior Securities</u>	54
4. <u>Mine Safety Disclosures</u>	54
5. <u>Other Information</u>	54
6. <u>Exhibits</u>	55
<u>Signatures</u>	57

Table of Contents

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

The consolidated balance sheets of First Financial Bankshares, Inc. (the Company or we) at September 30, 2016 and 2015 and December 31, 2015, and the consolidated statements of earnings and comprehensive earnings for the three and nine months ended September 30, 2016 and 2015, and the consolidated statement of shareholders' equity and cash flows for the nine months ended September 30, 2016 and 2015, 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, 2016	September 30, 2015 (Unaudited)	December 31, 2015
ASSETS			
CASH AND DUE FROM BANKS	\$ 166,981	\$ 133,340	\$ 179,140
FEDERAL FUNDS SOLD	3,400	2,790	3,810
INTEREST-BEARING DEPOSITS IN BANKS	117,334	4,268	89,936
Total cash and cash equivalents	287,715	140,398	272,886
INTEREST-BEARING TIME DEPOSITS IN BANKS	1,707	4,491	3,495
SECURITIES AVAILABLE-FOR-SALE, at fair value	2,729,030	2,737,353	2,733,899
SECURITIES HELD-TO-MATURITY (fair value of \$133, \$291 and \$283 at September 30, 2016 and 2015, and December 31, 2015, respectively)	129	286	278
LOANS:			
Held for investment	3,337,793	3,266,817	3,317,050
Less - allowance for loan losses	(45,298)	(40,420)	(41,877)
Net loans held for investment	3,292,495	3,226,397	3,275,173
Held for sale	31,591	21,605	33,543
Net loans	3,324,086	3,248,002	3,308,716
BANK PREMISES AND EQUIPMENT, net	122,725	116,803	115,712
INTANGIBLE ASSETS	143,729	144,296	144,449
OTHER ASSETS	77,615	76,016	85,635
Total assets	\$ 6,686,736	\$ 6,467,645	\$ 6,665,070
LIABILITIES AND SHAREHOLDERS' EQUITY			
NONINTEREST-BEARING DEPOSITS	\$ 1,702,993	\$ 1,720,383	\$ 1,745,952
INTEREST-BEARING DEPOSITS	3,532,471	3,376,900	3,444,217
Total deposits	5,235,464	5,097,283	5,190,169
DIVIDENDS PAYABLE	11,891	10,551	10,558
SHORT-TERM BORROWINGS	513,759	500,903	615,675

OTHER LIABILITIES	57,678	66,874	43,682
Total liabilities	5,818,792	5,675,611	5,860,084
COMMITMENTS AND CONTINGENCIES			
SHAREHOLDERS EQUITY:			
Common stock - (\$0.01 par value, authorized 120,000,000 shares; 66,063,285, 65,942,155, and 65,990,234 shares issued at September 30, 2016 and 2015, and December 31, 2015, respectively)	661	659	660
Capital surplus	371,170	367,444	368,925
Retained earnings	431,765	373,372	388,006
Treasury stock (shares at cost: 510,955, 524,163, and 520,651 at September 30, 2016 and 2015, and December 31, 2015, respectively)	(6,566)	(6,207)	(6,296)
Deferred compensation	6,566	6,207	6,296
Accumulated other comprehensive earnings	64,348	50,559	47,395
Total shareholders equity	867,944	792,034	804,986
Total liabilities and shareholders equity	\$ 6,686,736	\$ 6,467,645	\$ 6,665,070

See notes to consolidated financial statements.

Table of Contents

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

(Dollars in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
INTEREST INCOME:				
Interest and fees on loans	\$ 40,411	\$ 39,368	\$ 120,700	\$ 110,464
Interest on investment securities:				
Taxable	6,775	7,298	21,167	22,502
Exempt from federal income tax	10,808	10,457	32,220	29,439
Interest on federal funds sold and interest-bearing deposits in banks	99	40	222	171
Total interest income	58,093	57,163	174,309	162,576
INTEREST EXPENSE:				
Interest on deposits	1,112	932	3,197	2,761
Other	254	133	811	281
Total interest expense	1,366	1,065	4,008	3,042
Net interest income	56,727	56,098	170,301	159,534
PROVISION FOR LOAN LOSSES				
Net interest income after provision for loan losses	52,894	53,434	162,082	154,026
NONINTEREST INCOME:				
Trust fees	5,066	4,818	14,446	14,289
Service charges on deposit accounts	4,796	4,653	13,614	12,442
ATM, interchange and credit card fees	6,000	5,794	17,521	16,209
Real estate mortgage operations	4,697	3,742	11,849	7,321
Net gain on sale of available-for-sale securities (includes \$239 and \$136 for the three months ended September 30, 2016 and 2015, respectively, and \$1,153 and \$380 for the nine months ended September 30, 2016 and 2015, respectively, related to accumulated other comprehensive earnings reclassifications)	239	136	1,153	380
Net gain (loss) on sale of foreclosed assets	(10)	28	343	10
Net gain (loss) on sale of assets	(168)	(11)	271	(11)
Interest on loan recoveries	709	323	1,970	834
Other	823	963	2,243	2,678

Total noninterest income	22,152	20,446	63,410	54,152
NONINTEREST EXPENSE:				
Salaries and employee benefits	22,931	21,648	67,668	59,086
Net occupancy expense	2,672	3,050	7,886	7,640
Equipment expense	3,420	3,114	10,186	9,005
FDIC insurance premiums	513	819	2,155	2,316
ATM, interchange and credit card expenses	1,859	1,509	5,352	4,844
Professional and service fees	1,883	1,148	5,099	3,370
Printing, stationery and supplies	536	594	1,504	1,662
Amortization of intangible assets	172	200	570	362
Other	8,017	7,891	23,420	20,837
Total noninterest expense	42,003	39,973	123,840	109,122
EARNINGS BEFORE INCOME TAXES	33,043	33,907	101,652	99,056
INCOME TAX EXPENSE (includes \$84 and \$48 for the three months ended September 30, 2016 and 2015, respectively, and \$404 and \$133 for the nine months ended September 30, 2016 and 2015, respectively, related to income tax expense from reclassification items)	7,440	8,021	23,544	23,867
NET EARNINGS	\$ 25,603	\$ 25,886	\$ 78,108	\$ 75,189
EARNINGS PER SHARE, BASIC	\$ 0.39	\$ 0.40	\$ 1.18	\$ 1.16
EARNINGS PER SHARE, ASSUMING DILUTION	\$ 0.39	\$ 0.40	\$ 1.18	\$ 1.16
DIVIDENDS PER SHARE	\$ 0.18	\$ 0.16	\$ 0.52	\$ 0.46

See notes to consolidated financial statements.

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

(Dollars in thousands)

	Three Months Ended September 30,		Three Months Ended September 30,	
	2016	2015	2016	2015
NET EARNINGS	\$ 25,603	\$ 25,886	\$ 78,108	\$ 75,189
OTHER ITEMS OF COMPREHENSIVE EARNINGS (LOSS):				
Change in unrealized gain (loss) on investment securities available-for-sale, before income taxes	(18,984)	23,025	27,235	5,318
Reclassification adjustment for realized gains on investment securities included in net earnings, before income tax	(239)	(136)	(1,153)	(380)
Minimum liability pension adjustment, before income taxes		(108)		(216)
Total other items of comprehensive earnings (losses)	(19,223)	22,781	26,082	4,722
Income tax benefit (expense) related to:				
Investment securities	6,728	(8,011)	(9,129)	(1,728)
Minimum liability pension adjustment		38		76
Total income tax benefit (expense)	6,728	(7,973)	(9,129)	(1,652)
COMPREHENSIVE EARNINGS	\$ 13,108	\$ 40,694	\$ 95,061	\$ 78,259

See notes to consolidated financial statements.

Table of Contents

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Dollars in thousands, except per share amounts)

	Common Shares	Stock Amount	Capital Surplus	Retained Earnings	Treasury Shares	Stock Amount	Deferred Compensation	Accumulated Other Comprehensive Earnings	Total Shareholders' Equity
Balances at December 31, 2014	64,089,921	\$ 641	\$ 305,429	\$ 327,978	(529,563)	\$ (5,878)	\$ 5,878	\$ 47,489	\$ 681,537
Net earnings (unaudited)				75,189					75,189
Stock option exercises (unaudited)	89,790		1,290						1,290
Restricted stock grant (unaudited)	7,070		250						250
Stock issued in acquisition of FBC Bancshares, Inc. (unaudited)	1,755,374	18	59,630						59,648
Cash dividends declared, \$0.46 per share (unaudited)				(29,795)					(29,795)
Minimum liability pension adjustment, net of related income taxes (unaudited)								(140)	(140)
Change in unrealized gain in investment securities available-for-sale, net of related income taxes (unaudited)								3,210	3,210
			303						303

Additional tax benefit related to directors deferred compensation plan (unaudited)										
Shares purchased in connection with directors deferred compensation plan, net (unaudited)					5,400	(329)	329			
Stock option expense (unaudited)			542							542
Balances at September 30, 2015 (unaudited)	65,942,155	\$ 659	\$ 367,444	\$ 373,372	(524,163)	\$ (6,207)	\$ 6,207	\$ 50,559	\$ 792,034	
Balances at December 31, 2015	65,990,234	\$ 660	\$ 368,925	\$ 388,006	(520,651)	\$ (6,296)	\$ 6,296	\$ 47,395	\$ 804,986	
Net earnings (unaudited)				78,108						78,108
Stock option exercises (unaudited)	66,866	1	988							989
Restricted stock grant (unaudited)	6,185		250							250
Cash dividends declared, \$0.52 per share (unaudited)				(34,349)						(34,349)
Change in unrealized gain in investment securities available-for-sale, net of related income taxes (unaudited)								16,953		16,953
Additional tax benefit related to directors deferred compensation plan (unaudited)			345							345

Shares purchased
in connection with
directors' deferred
compensation
plan, net
(unaudited)

9,696 (270) 270

Stock option
expense
(unaudited)

662

662

Balances at
September 30,

2016 (unaudited) 66,063,285 \$ 661 \$ 371,170 \$ 431,765 (510,955) \$ (6,566) \$ 6,566 \$ 64,348 \$ 867,944

See notes to consolidated financial statements.

Table of Contents

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

(Dollars in thousands)

	Nine Months Ended September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 78,108	\$ 75,189
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	8,627	8,069
Provision for loan losses	8,219	5,508
Securities premium amortization (discount accretion), net	21,275	20,493
Gain on sale of assets, net	(1,767)	(379)
Deferred federal income tax expense (benefit)	825	(1,487)
Change in loans held for sale	1,952	(12,801)
Change in other assets	10,059	(9,655)
Change in other liabilities	530	8,983
Total adjustments	49,720	18,731
Net cash provided by operating activities	127,828	93,920
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	1,788	12,511
Activity in available-for-sale securities:		
Sales	20,792	34,541
Maturities	2,830,522	2,189,905
Purchases	(2,835,964)	(2,501,587)
Activity in held-to-maturity securities - maturities	148	155
Net increase in loans	(27,446)	(91,259)
Purchases of bank premises and equipment and other assets	(17,151)	(12,437)
Proceeds from sale of other assets	2,960	727
Net cash used in investing activities	(24,351)	(304,178)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in noninterest-bearing deposits	(42,959)	(2,096)
Net decrease in interest-bearing deposits	88,254	5,540
Net increase (decrease) in short-term borrowings	(101,916)	120,668
Common stock transactions:		

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Proceeds from stock issuances	989	1,290
Dividends paid	(33,016)	(28,217)
Net cash (used in) provided by financing activities	(88,648)	97,185
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	14,829	(113,073)
CASH AND CASH EQUIVALENTS, beginning of period	272,886	253,471
CASH AND CASH EQUIVALENTS, end of period	\$ 287,715	\$ 140,398

**SUPPLEMENTAL INFORMATION AND NONCASH
TRANSACTIONS:**

Interest paid	\$ 4,018	\$ 3,066
Federal income tax paid	21,631	22,179
Transfer of loans to foreclosed assets	1,905	97
Investment securities purchased but not settled	4,521	17,869
See notes to consolidated financial statements.		

Table of Contents

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, 2016, we had 69 financial centers across Texas, with eleven locations in Abilene, three locations in San Angelo and Weatherford, two locations in Cleburne, Conroe, Stephenville and Granbury, and one location each in Acton, Albany, Aledo, Alvarado, Beaumont, Boyd, Bridgeport, Brock, Burleson, Cisco, Clyde, Cut and Shoot, Decatur, Eastland, Fort Worth, Glen Rose, Grapevine, Hereford, Huntsville, 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, all in Texas. Our trust subsidiary has eight locations which are located in Abilene, Fort Worth, Lubbock, Odessa, Beaumont, San Angelo, Stephenville and Sweetwater.

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, 2015. All adjustments were of a normal recurring nature. However, the results of operations for the three months and nine months ended September 30, 2016, are not necessarily indicative of the results to be expected for the year ending December 31, 2016, 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.

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.

Table of Contents**Note 2 Stock Repurchase**

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, 2016, no shares were repurchased under this authorization.

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 months and nine months ended September 30, 2016 and 2015, 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 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, 2016 and 2015 were 66,023,069 and 65,335,457 shares, respectively. The weighted average common shares outstanding used in computing basic earnings per common share for the nine months ended September 30, 2016 and 2015 were 66,004,797 and 64,540,034 shares, respectively. The weighted average common shares outstanding used in computing fully diluted earnings per common share for the three months ended September 30, 2016 and 2015 were 66,147,202 and 65,501,697 shares, respectively. The weighted average common shares outstanding used in computing fully diluted earnings per common share for the nine months ended September 30, 2016 and 2015 were 66,135,918 and 64,736,155 shares, respectively.

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

Interest-bearing time deposits in banks totaled \$1,707,000, \$4,491,000 and \$3,495,000 at September 30, 2016 and 2015 and December 31, 2015, respectively, and have original maturities generally ranging from one to three years.

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.

Table of Contents

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 states 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):

		September 30, 2016		
	Amortized	Gross	Gross	Estimated
	Cost Basis	Unrealized	Unrealized	Fair Value
		Holding Gains	Holding Losses	
U.S. Treasury securities	\$ 10,685	\$ 54	\$	\$ 10,739
Obligations of U.S. government sponsored enterprises and agencies	114,918	802		115,720
Obligations of states and political subdivisions	1,419,737	83,694	(715)	1,502,716
Corporate bonds and other	68,285	1,325	(1)	69,609
Residential mortgage-backed securities	750,673	17,125	(1,299)	766,499
Commercial mortgage-backed securities	259,636	4,200	(89)	263,747
Total securities available-for-sale	\$ 2,623,934	\$ 107,200	\$ (2,104)	\$ 2,729,030

Table of Contents

	September 30, 2015			
	Amortized Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
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

	December 31, 2015			
	Amortized Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
U.S. Treasury securities	\$ 10,792	\$ 5	\$ (2)	\$ 10,795
Obligations of U.S. government sponsored enterprises and agencies	148,393	268	(107)	148,554
Obligations of states and political subdivisions	1,379,879	71,382	(134)	1,451,127
Corporate bonds and other	86,182	1,778	(5)	87,955
Residential mortgage-backed securities	781,648	10,993	(3,759)	788,882
Commercial mortgage-backed securities	247,991	429	(1,834)	246,586
Total securities available-for-sale	\$ 2,654,885	\$ 84,855	\$ (5,841)	\$ 2,733,899

Disclosures related to the Company's held-to-maturity securities, which totaled \$129,000, \$286,000 and \$278,000 at September 30, 2016 and 2015, and December 31, 2015, 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, 2016 were computed by using scheduled amortization of balances and historical prepayment rates. At September 30, 2016 and 2015, and December 31, 2015, the Company did not hold CMOs that entail higher risks than standard mortgage-backed securities.

Table of Contents

The amortized cost and estimated fair value of available-for-sale securities at September 30, 2016, by contractual and expected maturity, are shown below (in thousands):

	Amortized Cost Basis	Estimated Fair Value
Due within one year	\$ 195,637	\$ 197,334
Due after one year through five years	675,403	710,096
Due after five years through ten years	740,541	788,744
Due after ten years	2,044	2,610
Mortgage-backed securities	1,010,309	1,030,246
Total	\$ 2,623,934	\$ 2,729,030

The following tables disclose, as of September 30, 2016 and 2015, and December 31, 2015, 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, 2016						
Obligations of states and political subdivisions	\$ 82,131	\$ 711	\$ 741	\$ 4	\$ 82,872	\$ 715
Corporate bonds and other	12,257	1			12,257	1
Residential mortgage-backed securities	80,015	267	57,334	1,032	137,349	1,299
Commercial mortgage-backed securities	10,213	25	13,692	64	23,905	89
Total	\$ 184,616	\$ 1,004	\$ 71,767	\$ 1,100	\$ 256,383	\$ 2,104

	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

Total

December 31, 2015	Fair Value	Unrealized Loss	12 Months or Longer		Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
			Fair Value	Unrealized Loss				
U.S. Treasury securities	\$ 5,110	\$ 2	\$	\$	\$ 5,110	\$ 2		
Obligations of U.S. government sponsored enterprises and agencies	50,388	107			50,388	107		
Obligations of states and political subdivisions	32,929	127	1,513	7	34,442	134		
Corporate bonds and other	7,004	5			7,004	5		
Residential mortgage-backed securities	231,481	1,765	63,919	1,994	295,400	3,759		
Commercial mortgage-backed securities	196,163	1,752	9,345	82	205,508	1,834		
Total	\$ 523,075	\$ 3,758	\$ 74,777	\$ 2,083	\$ 597,852	\$ 5,841		

Table of Contents

The number of investments in an unrealized loss position totaled 89 at September 30, 2016. 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, 2016 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, 2016, 81.51% of our available-for-sale securities that are obligations of states and political subdivisions were issued within the State of Texas, of which 32.00% are guaranteed by the Texas Permanent School Fund.

At September 30, 2016, \$1,805,813,000 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, 2016 and 2015, sales of investment securities that were classified as available-for-sale totaled \$7,410,000 and \$27,910,000, respectively. Gross realized gains from security sales during the third quarter of 2016 and 2015 totaled \$239,000 and \$142,000, respectively. Gross realized losses from security sales during the third quarter of 2015 totaled \$6,000. There were no gross realized losses during the third quarter of 2016. During the nine months ended September 30, 2016 and 2015, sales of investment securities that were classified as available-for-sale totaled \$20,792,000 and \$34,541,000, respectively. Gross realized gains from security sales during the nine-month periods ended September 30, 2016 and 2015 totaled \$1,158,000 and \$390,000, respectively. Gross realized losses from security sales during the nine-month periods ended September 30, 2016 and 2015 totaled \$5,000 and \$10,000, 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.

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.

Table of Contents

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.

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 decline in the economy and employment rates 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

Table of Contents

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, 2016 and 2015, and December 31, 2015, 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, 2016 and 2015, and December 31, 2015, 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 nine 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.

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 the acquired loan portfolio.

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

Table of Contents

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, 2016 and 2015, and December 31, 2015, was \$1,853,000, \$2,422,000 and \$2,178,000, respectively, compared to a contractual balance of \$2,528,000, \$3,213,000, and \$2,936,000, 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,
	2016	2015	2015
Commercial	\$ 663,581	\$ 698,406	\$ 696,163
Agricultural	84,716	99,232	102,351
Real estate	2,191,260	2,088,002	2,136,233
Consumer	398,236	381,177	382,303
Total loans held-for-investment	\$ 3,337,793	\$ 3,266,817	\$ 3,317,050

Loans held for sale totaled \$31,591,000, \$21,605,000 and \$33,543,000 at September 30, 2016 and 2015, and December 31, 2015, respectively, which are valued using the lower of cost or market method.

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,
	2016	2015	2015
Non-accrual loans*	\$ 33,712	\$ 21,788	\$ 28,601
Loans still accruing and past due 90 days or more	107	49	341
Troubled debt restructured loans**	750	204	199
Total	\$ 34,569	\$ 22,041	\$ 29,141

* Includes \$1,853,000, \$2,422,000 and \$2,178,000 of purchased credit impaired loans as of September 30, 2016 and 2015, and December 31, 2015, respectively.

** Troubled debt restructured loans of \$7,513,000, \$6,462,000 and \$6,113,000, whose interest collection, after considering economic and business conditions and collection efforts, is doubtful are included in non-accrual loans

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at September 30, 2016 and 2015, and December 31, 2015, respectively.

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

September 30, 2016		September 30, 2015		December 31, 2015	
Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance
\$ 33,712	\$ 7,042	\$ 21,788	\$ 4,645	\$ 28,601	\$ 5,071

Table of Contents

The Company had \$34,938,000, \$22,742,000 and \$29,768,000 in non-accrual, past due 90 days or more and still accruing, restructured loans and foreclosed assets at September 30, 2016 and 2015, and December 31, 2015, respectively. Non-accrual loans at September 30, 2016 and 2015, and December 31, 2015, consisted of the following by class of financing receivables (in thousands):

	September 30,		December 31,
	2016	2015	2015
Commercial	\$ 12,714	\$ 5,077	\$ 8,761
Agricultural	167	75	97
Real estate	19,582	16,124	18,766
Consumer	1,249	512	977
Total	\$ 33,712	\$ 21,788	\$ 28,601

No significant additional funds are committed to be advanced in connection with impaired loans as of September 30, 2016.

The Company's impaired loans and related allowance as of September 30, 2016 and 2015, and December 31, 2015, 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 Average Recorded Investment	Three-Month Average Recorded Investment
September 30, 2016							
Commercial	\$ 21,696	\$ 1,067	\$ 11,647	\$ 12,714	\$ 3,983	\$ 8,421	\$ 14,238
Agricultural	168		167	167	41	83	84
Real Estate	24,130	5,626	13,956	19,582	2,566	17,021	19,436
Consumer	1,479	324	925	1,249	452	989	1,166
Total	\$ 47,473	\$ 7,017	\$ 26,695	\$ 33,712	\$ 7,042	\$ 26,514	\$ 34,924

* Includes \$1,853,000 of purchased credit impaired loans.

	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, 2015							
Commercial	\$ 6,351	\$ 413	\$ 4,664	\$ 5,077	\$ 1,666	\$ 4,037	\$ 4,316
Agricultural	121		75	75	47	55	85

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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

* Includes \$2,422,000 of purchased credit impaired loans.

December 31, 2015	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance*	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Year Average Recorded Investment
Commercial	\$ 10,056	\$ 608	\$ 8,153	\$ 8,761	\$ 2,030	\$ 5,812
Agricultural	97		97	97	70	48
Real Estate	23,710	5,314	13,452	18,766	2,827	15,211
Consumer	1,167	624	353	977	144	664
Total	\$ 35,030	\$ 6,546	\$ 22,055	\$ 28,601	\$ 5,071	\$ 21,735

* Includes \$2,178,000 of purchased credit impaired loans.

Table of Contents

The Company recognized interest income on impaired loans prior to being recognized as impaired of approximately \$922,000 during the year ended December 31, 2015. Such amounts for the three-month and nine-month periods ended September 30, 2016 and 2015 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 weaknesses 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.

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, 2016 and 2015, and December 31, 2015 (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
September 30, 2016					
Commercial	\$ 614,900	\$ 6,108	\$ 42,573	\$	\$ 663,581
Agricultural	82,400		2,316		84,716
Real Estate	2,118,807	19,064	53,389		2,191,260
Consumer	395,086	316	2,832	2	398,236
Total	\$ 3,211,193	\$ 25,488	\$ 101,110	\$ 2	\$ 3,337,793

September 30, 2015	Pass	Substandard	Doubtful	Total
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		Special Mention			
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

Table of Contents

December 31, 2015	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	\$ 633,083	\$ 9,762	\$ 53,318	\$	\$ 696,163
Agricultural	99,862	1,398	1,091		102,351
Real Estate	2,054,738	29,000	52,458	37	2,136,233
Consumer	379,941	416	1,946		382,303
Total	\$ 3,167,624	\$ 40,576	\$ 108,813	\$ 37	\$ 3,317,050

At September 30, 2016 and 2015, and December 31, 2015, the Company's past due loans are as follows (in thousands):

September 30, 2016	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	\$ 4,707	\$ 841	\$ 6,950	\$ 12,498	\$ 651,083	\$ 663,581	\$ 61
Agricultural	523	63		586	84,130	84,716	
Real Estate	13,444	1,496	3,376	18,316	2,172,944	2,191,260	34
Consumer	1,418	314	180	1,912	396,324	398,236	12
Total	\$ 20,092	\$ 2,714	\$ 10,506	\$ 33,312	\$ 3,304,481	\$ 3,337,793	\$ 107

September 30, 2015	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	\$ 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
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

December 31, 2015	15-59 Days Past Due*	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Total Current	Total Loans	Total 90 Days Past Due Still Accruing

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Commercial	\$ 3,099	\$ 3,652	\$ 1,024	\$ 7,775	\$ 688,388	\$ 696,163	\$ 54
Agricultural	348	83		431	101,920	102,351	
Real Estate	12,247	2,226	2,874	17,347	2,118,886	2,136,233	217
Consumer	1,645	183	266	2,094	380,209	382,303	70
Total	\$ 17,339	\$ 6,144	\$ 4,164	\$ 27,647	\$ 3,289,403	\$ 3,317,050	\$ 341

* 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, 2016 and 2015, and December 31, 2015, by portfolio segment (in thousands). There were no allowances for purchased credit impaired loans at September 30, 2016 and 2015, and December 31, 2015. 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, 2016	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	\$ 3,983	\$ 41	\$ 2,566	\$ 452	\$ 7,042
Loans collectively evaluated for impairment	9,733	1,027	23,655	3,841	38,256
Total	\$ 13,716	\$ 1,068	\$ 26,221	\$ 4,293	\$ 45,298

Table of Contents

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

December 31, 2015	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	\$ 2,030	\$ 70	\$ 2,827	\$ 144	\$ 5,071
Loans collectively evaluated for impairment	10,614	1,121	21,548	3,523	36,806
Total	\$ 12,644	\$ 1,191	\$ 24,375	\$ 3,667	\$ 41,877

Changes in the allowance for loan losses for the three and nine months ended September 30, 2016 and 2015, are summarized as follows by portfolio segment (in thousands):

Three months ended September 30, 2016	Commercial	Agricultural	Real Estate	Consumer	Total
Beginning balance	\$ 14,026	\$ 1,451	\$ 25,644	\$ 3,939	\$ 45,060
Provision for loan losses	3,248	(358)	296	647	3,833
Recoveries	298	4	367	108	777
Charge-offs	(3,856)	(29)	(86)	(401)	(4,372)
Ending balance	\$ 13,716	\$ 1,068	\$ 26,221	\$ 4,293	\$ 45,298

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

Nine months ended September 30, 2016	Commercial	Agricultural	Real Estate	Consumer	Total
Beginning balance	\$ 12,644	\$ 1,191	\$ 24,375	\$ 3,667	\$ 41,877
Provision for loan losses	6,239	41	367	1,572	8,219
Recoveries	839	20	1,957	427	3,243
Charge-offs	(6,006)	(184)	(478)	(1,373)	(8,041)
Ending balance	\$ 13,716	\$ 1,068	\$ 26,221	\$ 4,293	\$ 45,298

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

Table of Contents

The Company's recorded investment in loans as of September 30, 2016 and 2015, and December 31, 2015 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 \$1,853,000, \$2,422,000 and \$2,178,000 at September 30, 2016 and 2015, and December 31, 2015, respectively, are included in loans individually evaluated for impairment.

September 30, 2016	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	\$ 12,714	\$ 167	\$ 19,582	\$ 1,249	\$ 33,712
Loans collectively evaluated for impairment	650,867	84,549	2,171,678	396,987	3,304,081
Total	\$ 663,581	\$ 84,716	\$ 2,191,260	\$ 398,236	\$ 3,337,793

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

December 31, 2015	Commercial	Agricultural	Real Estate	Consumer	Total
Loans individually evaluated for impairment	\$ 8,761	\$ 97	\$ 18,766	\$ 977	\$ 28,601
Loans collectively evaluated for impairment	687,402	102,254	2,117,467	381,326	3,288,449
Total	\$ 696,163	\$ 102,351	\$ 2,136,233	\$ 382,303	\$ 3,317,050

The Company's loans that were modified in the three and nine months ended September 30, 2016 and 2015 and considered troubled debt restructurings are as follows (in thousands):

	Three Months Ended September 30, 2016			Nine Months Ended September 30, 2016		
	Pre-Modification Number	Post-Modification Recorded Investment	Post-Modification Recorded Investment	Pre-Modification Number	Post-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial	3	\$ 230	\$ 230	14	\$ 3,156	\$ 3,156
Agricultural						
Real Estate	3	706	706	5	1,169	1,169
Consumer	1	44	44	5	162	162
Total	7	\$ 980	\$ 980	24	\$ 4,487	\$ 4,487

Three Months Ended September 30, 2015 Nine Months Ended September 30, 2015

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		Pre-	Post-		Pre-	Post-
		Modification	Modification		Modification	Modification
		Recorded	Recorded		Recorded	Recorded
	Number	Investment	Investment	Number	Investment	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

Table of Contents

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, 2016 and 2015 (in thousands):

	Three Months Ended September 30, 2016			Nine Months Ended September 30, 2016		
	Adjusted Interest Rate	Extended Maturity	Combined Rate and Maturity	Adjusted Interest Rate	Extended Maturity	Combined Rate and Maturity
Commercial	\$	\$ 112	\$ 118		\$ 2,561	\$ 595
Agricultural						
Real Estate		185	521		298	871
Consumer			44		43	119
Total	\$	\$ 297	\$ 683		\$ 2,902	\$ 1,585

	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
Total	\$	\$ 247	\$	\$	\$ 453	\$ 103

During the three months ended September 30, 2016, two loans were modified as troubled debt restructured loan within the previous 12 months and for which there was a payment default. There were no such defaults in the three months ended September 30, 2015. During the nine months ended September 30, 2016 and 2015, three loans and one loan, respectively, were modified 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):

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
	Number	Balance	Number	Balance
Commercial	1	\$ 62	1	\$ 62
Agriculture				
Real Estate	1	112	2	462
Consumer				

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Total	2	\$ 174	3	\$ 524
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Three Months Ended September 30, 2016 Three Months Ended September 30, 2015

	Number	Balance	Number	Balance
Commercial		\$	1	\$ 111
Agriculture				
Real Estate				
Consumer				
Total		\$	1	\$ 111

Table of Contents

As of September 30, 2016, 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, 2016, \$2,037,821,000 in loans held by our bank subsidiary were subject to blanket liens as security for this line of credit. At September 30, 2016, \$160,000,000 were outstanding under this line of credit.

Note 6 Borrowings

Borrowings at September 30, 2016 and 2015, and December 31, 2015 consisted of the following (dollars in thousands):

	September 30, 2016	September 30, 2015	December 31, 2015
Securities sold under agreements with customers to repurchase	\$ 345,559	\$ 324,150	\$ 310,330
Federal funds purchased	8,200	6,725	6,325
Advances from Federal Home Loan Bank of Dallas	160,000	170,028	299,020
Total	\$ 513,759	\$ 500,903	\$ 615,675

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 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 \$7,440,000 for the third quarter of 2016 as compared to \$8,021,000 for the same period in 2015. The Company's effective tax rates on pretax income were 22.52% and 23.66% for the third quarters of 2016 and 2015, respectively. Income tax expense was \$23,544,000 for the nine months ended September 30, 2016 as compared to \$23,867,000 for the same period in 2015. The Company's effective tax rates on pretax income were 23.16% and 24.09% for the nine months ended September 30, 2016 and 2015, 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 Option Plan and Restricted Stock Plan

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, 2016, no options have been granted in 2016. On October 27, 2015, the Company granted 455,000 shares in incentive stock options at an exercise price of \$33.89 to

its employees. The Company recorded stock option expense totaling \$220,000 and \$182,000 for the three-month periods ended September 30, 2016 and 2015, respectively. The Company recorded stock option expense totaling \$661,000 and \$543,000 for the nine months ended September 30, 2016 and 2015, respectively. The additional disclosure requirements under authoritative accounting guidance have been omitted due to the amounts being insignificant.

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 was expensed over the period

Table of Contents

from grant date to April 26, 2016, the annual shareholders meeting at which these director's term expired. On April 26, 2016, upon re-election of existing directors, 7,660 shares with a total value of \$250,000 were granted to the ten non-employee directors and is being expensed over the period from grant day to April 25, 2017, the next scheduled annual shareholders meeting at which the current directors' current term will expire. The Company recorded director expense related to these restricted stock grants of \$63,000 and \$56,000, respectively, for the three months ended September 30, 2016 and 2015 and \$215,000 and \$56,000, respectively, for the nine months ended September 30, 2016 and 2015. On October 27, 2015, the Company also granted 32,748 shares with a total value of \$1,110,000 to certain officers that is being expensed over the vesting period of three years. The Company recorded restricted stock grant expense for officers of \$88,000 for the three month period ended September 30, 2016. The Company recorded restricted stock grant expense for officers of \$262,000 for the nine month period ended September 30, 2016.

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 a contribution totaling \$500,000 in 2015 and through September 30, 2016 has made a contribution of \$500,000.

Net periodic benefit costs totaling \$82,000 and \$83,000 were recorded for the three months ended September 30, 2016 and 2015, respectively. Net periodic benefit costs totaling \$247,000 and \$232,000 were recorded for the nine months ended September 30, 2016 and 2015, 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

Table of Contents

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.

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, 2016 and 2015, and the year ended December 31, 2015.

Table of Contents

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of September 30, 2016 and 2015, and December 31, 2015, respectively, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (dollars in thousands):

September 30, 2016

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Available-for-sale investment securities:				
U.S. Treasury securities	\$ 10,739	\$	\$	\$ 10,739
Obligations of U. S. government sponsored enterprises and agencies		115,720		115,720
Obligations of states and political subdivisions		1,502,716		1,502,716
Corporate bonds		65,037		65,037
Residential mortgage-backed securities		766,499		766,499
Commercial mortgage-backed securities		263,747		263,747
Other securities	4,572			4,572
Total	\$ 15,311	\$ 2,713,719	\$	\$ 2,729,030

September 30, 2015

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
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

December 31, 2015

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Available-for-sale investment securities:				
U.S. Treasury securities	\$ 10,795	\$	\$	\$ 10,795

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Obligations of U. S. government sponsored enterprises and agencies	148,554	148,554
Obligations of states and political subdivisions	1,451,127	1,451,127
Corporate bonds	83,254	83,254
Residential mortgage-backed securities	788,882	788,882
Commercial mortgage-backed securities	246,586	246,586
Other securities	4,701	4,701
Total	\$ 15,496	\$ 2,718,403
		\$ 2,733,899

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

Table of Contents

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, 2016:

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, 2016, impaired loans with a carrying value of \$33,712,000 were reduced by specific valuation reserves totaling \$7,042,000 resulting in a net fair value of \$26,670,000.

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, 2016, the Company's mortgage loans held-for-sale were recorded at cost as fair value exceeded cost.

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 months and nine months ended September 30, 2016 and 2015 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. Re-evaluation 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, 2016		2015
Carrying value of other real estate owned prior to re-measurement	\$		\$
Write-downs included in gain (loss) on sale of other real estate owned			
Fair value	\$		\$
		Nine Months Ended September 30, 2016	
Carrying value of other real estate owned prior to re-measurement	\$	\$	351
Write-downs included in gain (loss) on sale of other real estate owned			(95)

Fair value	\$	\$	256
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At September 30, 2016 and 2015, and December 31, 2015, other real estate owned totaled \$241,000, \$360,000, and \$153,000, respectively.

Table of Contents

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.

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.

Table of Contents

The estimated fair values and carrying values of all financial instruments under current authoritative guidance at September 30, 2016 and 2015, and December 31, 2015, were as follows (in thousands):

	September 30, 2016		2015		December 31, 2015		Fair Value Hierarchy
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	
Cash and due from banks	\$ 166,981	\$ 166,981	\$ 133,340	\$ 133,340	\$ 179,140	\$ 179,140	Level 1
Federal funds sold	3,400	3,400	2,790	2,790	3,810	3,810	Level 1
Interest-bearing deposits in banks	117,334	117,334	4,268	4,268	89,936	89,936	Level 1
Interest-bearing time deposits in banks	1,707	1,709	4,491	4,498	3,495	3,500	Level 2
Available-for-sale Securities	2,729,030	2,729,030	2,737,353	2,737,353	2,733,899	2,733,899	Levels 1 and 2
Held-to-maturity securities	129	133	286	291	278	283	Level 2
Loans	3,324,086	3,334,965	3,248,002	3,249,558	3,308,716	3,316,243	Level 3
Accrued interest receivable	26,209	26,209	26,888	26,888	34,697	34,697	Level 2
Deposits with stated maturities	535,793	537,167	652,919	654,705	620,852	622,572	Level 2
Deposits with no stated maturities	4,699,671	4,699,671	4,444,364	4,444,364	4,569,317	4,569,317	Level 1
Borrowings	513,759	513,759	500,903	500,903	615,675	615,675	Level 2
Accrued interest Payable	230	230	261	261	240	240	Level 2

Note 11 - Recently Issued Authoritative Accounting Guidance

Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers. ASU 2014-09 implements 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 does not expect implementation of this new guidance to have a significant impact on the Company's financial statements but is continuing to evaluate the potential impact to the Company's financial statements.

ASU 2014-11, Transfers and Servicing. ASU 2014-11 amended 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

Table of Contents

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.

ASU 2014-14, Receivables Troubled Debt Restructuring by Creditors. ASU 2014-14 clarified 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.

ASU 2015-01, Income Statement Extraordinary and Unusual Items. ASU 2015-01 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 became effective for the Company beginning January 1, 2016, and did not have a significant impact on the Company's financial statements.

ASU 2015-05, Intangibles Goodwill and Other Internal-Use Software Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. ASU 2015-05 addresses accounting for fees paid by a customer in cloud computing arrangements such as (i) software as a service, (ii) platform as a service, (iii) infrastructure as a service and (iv) other similar hosting arrangements. ASU 2015-05 provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. ASU 2015-05 became effective on January 1, 2016 and did not have a significant impact on the Company's financial statements.

ASU 2015-16, Business Combinations Simplifying the Accounting Measurement Period Adjustments. ASU 2015-16 amended business combination guidance to require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The acquirer must record, in the same period's financial statements, the effect of earnings on changes in depreciation, amortization, or other income effects, if any, as a result of the changes to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. Additionally, the entity is required to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The amended guidance became effective for the Company on January 1, 2016, and did not have a significant impact on the Company's financial statements.

ASU 2016-1, No. 2016-01, Financial Instruments Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-1, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring

the fair value of financial

Table of Contents

instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (vii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities. ASU 2016-1 will be effective for us on January 1, 2018 and is not expected to have a significant impact on the Company's financial statements.

ASU 2016-02, Leases. ASU 2016-02 will amend current lease accounting to require lessees to recognize (i) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and (ii) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model. The amended guidance will be effective in the first quarter of 2019 and will require transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is evaluating the potential impact of ASU 2016-02 on the Company's financial statements.

ASU 2016-09, Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 will amend current guidance such that all excess tax benefits and tax deficiencies related to share-based payment awards will be recognized as income tax expense or benefit in the income statement during the period in which they occur. Additionally, excess tax benefits will be classified along with other income tax cash flows as an operating activity rather than a financing activity. ASU 2016-09 also provides that any entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest, which is the current requirement, or account for forfeitures when they occur. ASU 2016-09 will be effective January 1, 2017 and is not expected to have a significant impact on our financial statements.

ASU 2016-13, Financial Instruments - Credit Losses. ASU 2016-13 implements a comprehensive change in estimating the allowances for loan losses from the current model of losses inherent in the loan portfolio to a current expected credit loss model that generally is expected to result in earlier recognition of allowances for losses. Additionally, purchase accounting rules have been modified as well as credit losses on held-to-maturity debt securities. ASU 2016-13 will be effective in the first quarter of 2020. While the Company generally expects that the implementation of ASU 2016-13 will increase their allowance for loan losses balance, the Company is continuing to evaluate the potential 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 reorganization to acquire FBC Bancshares, Inc. and its wholly owned bank subsidiary, First Bank, N.A., Conroe, Texas (First Bank). 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 was merged into First Financial Bank, National Association, 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'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.

Table of Contents

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	15,262
Total identifiable assets acquired	374,085
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	15,726
Goodwill resulting from acquisition	\$ 43,922

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 had branches in Conroe, Magnolia, Montgomery, Tomball, Cut and Shoot and Huntsville, all located north of Houston, Texas. On February 26, 2016, the Company closed First Bank's Huntsville location and consolidated the branch with the Company's existing Huntsville location.

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 asset purchase was finalized on May 31, 2015, which we refer to

herein as the 4Trust asset purchase. The total asset purchase price exceeded the estimated fair value of assets purchased by approximately \$1,750,000 and the Company recorded such excess as goodwill.

Table of Contents

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 and commodity 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;

changes in our competitive environment from other financial institutions and financial service providers;

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);

the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters;

the effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which we and our subsidiaries must comply;

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 and increase market share;

changes in our liquidity position;

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

cyber attacks on our technology 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.

Table of Contents

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 2015 Annual Report on Form 10-K.

Critical Accounting Policies

We prepare consolidated financial statements based on GAAP 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.

Table of Contents

Results of Operations

Performance Summary. Net earnings for the third quarter of 2016 were \$25.60 million compared to \$25.89 million for the same quarter in 2015, or a 1.09% decrease.

Basic earnings per share for the third quarter of 2016 were \$0.39 compared to \$0.40 for the same quarter last year. The return on average assets was 1.54% for the third quarter of 2016, as compared to 1.61% for the third quarter of 2015. The return on average equity was 11.72% for the third quarter of 2016 as compared to 13.63% for the third quarter of 2015.

Net earnings for the nine-month period ended September 30, 2016 were \$78.11 million compared to \$75.19 million for the same period in 2015, or a 3.88% increase.

Basic earnings per share for the first nine months of 2016 were \$1.18 compared to \$1.16 for the same period in 2015, or a 1.72% increase. The return on average assets was 1.59% for the first nine months of 2016, as compared to 1.64% for the same period in 2015. The return on average equity was 12.33% for the first nine months of 2016, as compared to 13.99% 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 \$63.00 million for the third quarter of 2016, as compared to \$62.08 million for the same period last year. The increase in 2016 compared to 2015 was largely attributable to the increase in volume of interest earning assets due primarily to the First Bank acquisition. Average earning assets increased \$246.56 million for the third quarter of 2016 over the same period in 2015. Average loans and tax exempt securities increased \$188.23 million and \$102.60 million, respectively, for the third quarter of 2016 over the same quarter of 2015. Average interest bearing liabilities increased \$162.25 million for the third quarter of 2016, as compared to the same period in 2015. The yield on earning assets decreased seven basis points and the rate paid on interest-bearing liabilities increased two basis points for the third quarter of 2016 over the third quarter of 2015.

Tax-equivalent net interest income was \$188.86 million for the first nine months of 2016, as compared to \$176.37 million for the same period last year. The increase in 2016 compared to 2015 was largely attributable to the increase in volume of interest earning assets due primarily to the First Bank acquisition. Average earning assets increased \$402.99 million for the first nine months of 2016 over the same period in 2015. Average loans and tax exempt securities increased \$302.65 million and \$160.69 million, respectively, for the first nine months of 2016 over the same period of 2015. Average interest bearing liabilities increased \$266.10 million for the first nine months of 2016, as compared to the same period in 2015. The yield on earning assets increased two basis points and the rate paid on interest-bearing liabilities increased two basis points for the first nine months of 2016 over the first nine months of 2015.

Table of Contents

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, 2016			Nine Months Ended September 30, 2016		
	Compared to Three Months Ended September 30, 2015			Compared to Nine Months Ended September 30, 2015		
	Change Attributable to Volume	Rate	Total Change	Change Attributable to Volume	Rate	Total Change
Short-term investments	\$ 17	\$ 41	\$ 58	\$ (24)	\$ 74	\$ 50
Taxable investment securities	(360)	(161)	(521)	(840)	(495)	(1,335)
Tax-exempt investment securities (1)	1,194	(674)	520	5,626	(1,415)	4,211
Loans (1) (2)	2,369	(1,210)	1,159	11,200	(670)	10,530
Interest income	3,220	(2,004)	1,216	15,962	(2,506)	13,456
Interest-bearing deposits	47	132	179	171	265	436
Short-term borrowings		121	121	37	493	530
Interest expense	47	253	300	208	758	966
Net interest income	\$ 3,173	\$ (2,257)	\$ 916	\$ 15,754	\$ (3,264)	\$ 12,490

(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 2016 was 4.04%, a decrease of nine basis points from the same period in 2015. The net interest margin for the nine months ended September 30, 2016 was 4.10%, unchanged from the same period in 2015. Although the Federal Reserve slightly increased rates in late 2015 and continues to consider future increases in rates in the fourth quarter of 2016 and future years, we expect interest rates to remain at lower levels which will continue the downward pressure on our net interest margin.

Table of Contents

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,					
	2016			2015		
	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate
Assets						
Short-term investments (1)	\$ 73,881	\$ 99	0.53%	\$ 50,417	\$ 41	0.32%
Taxable investment securities (2)	1,305,103	6,775	2.08	1,372,834	7,296	2.13
Tax-exempt investment securities (2)(3)	1,478,719	16,541	4.47	1,376,119	16,021	4.66
Loans (3)(4)	3,349,458	40,948	4.86	3,161,229	39,789	4.99
Total earning assets	6,207,161	\$ 64,363	4.13%	5,960,599	\$ 63,147	4.20%
Cash and due from banks	152,080			146,921		
Bank premises and equipment, net	122,944			113,662		
Other assets	55,358			51,208		
Goodwill and other intangible assets, net	143,854			129,962		
Allowance for loan losses	(45,997)			(39,579)		
Total assets	\$ 6,635,400			\$ 6,362,773		
Liabilities and Shareholders Equity						
Interest-bearing deposits	\$ 3,460,208	\$ 1,111	0.13%	\$ 3,295,411	\$ 932	0.11%
Short-term borrowings	569,883	254	0.18	572,431	133	0.09
Total interest-bearing liabilities	4,030,091	\$ 1,365	0.13%	3,867,842	\$ 1,065	0.11%
Noninterest-bearing deposits	1,663,460			1,687,285		
Other liabilities	72,611			54,034		
Total liabilities	5,766,162			5,609,161		
Shareholders equity	869,238			753,612		
Total liabilities and shareholders equity	\$ 6,635,400			\$ 6,362,773		
Net interest income		\$ 62,998			\$ 62,082	
Rate Analysis:						
Interest income/earning assets			4.13%			4.20%
Interest expense/earning assets			0.09			0.07
Net yield on earning assets			4.04%			4.13%

Table of Contents

	Nine Months Ended September 30,					
	Average Balance	2016 Income/ Expense	Yield/ Rate	Average Balance	2015 Income/ Expense	Yield/ Rate
Assets						
Short-term investments (1)	\$ 54,908	\$ 221	0.54%	\$ 63,833	\$ 171	0.36%
Taxable investment securities (2)	1,325,935	21,167	2.13	1,377,363	22,502	2.18
Tax-exempt investment securities (2)(3)	1,448,933	49,313	4.54	1,288,242	45,102	4.67
Loans (3)(4)	3,319,337	122,162	4.92	3,016,686	111,632	4.95
Total earning assets	6,149,113	\$ 192,863	4.19%	5,746,124	\$ 179,407	4.17%
Cash and due from banks	151,485			146,676		
Bank premises and equipment, net	119,664			107,394		
Other assets	55,094			48,244		
Goodwill and other intangible assets, net	144,091			108,478		
Allowance for loan losses	(44,487)			(38,447)		
Total assets	\$ 6,574,960			\$ 6,118,469		
Liabilities and Shareholders Equity						
Interest-bearing deposits	\$ 3,431,572	\$ 3,197	0.12%	\$ 3,231,925	\$ 2,761	0.11%
Short-term borrowings	573,464	811	0.19	507,011	281	0.07
Total interest-bearing liabilities	4,005,036	\$ 4,008	0.13%	3,738,936	\$ 3,042	0.11%
Noninterest-bearing deposits	1,656,935			1,607,931		
Other liabilities	66,855			53,077		
Total liabilities	5,728,826			5,399,944		
Shareholders equity	846,134			718,525		
Total liabilities and shareholders equity	\$ 6,574,960			\$ 6,118,469		
Net interest income		\$ 188,855			\$ 176,365	
Rate Analysis:						
Interest income/earning assets			4.19%			4.17%
Interest expense/earning assets			0.09			0.07
Net yield on earning assets			4.10%			4.10%

(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 2016 was \$22.15 million, an increase of \$1.71 million compared to the same period in 2015. ATM, interchange and credit card fees and service charges on deposit accounts increased 3.56 percent and 3.07 percent, respectively, to \$6.00 million and \$4.80 million compared with \$5.79 million and \$4.65 million, respectively, in the same quarter last year due to continued growth in net new accounts and debit cards. Real estate mortgage fees increased 25.52 percent in the third quarter of 2016 to \$4.70 million compared with \$3.74 million in the same quarter a year ago. Trust fees increased to \$5.07 million in the third quarter of 2016 compared with \$4.82 million in the same quarter last year, due to continued growth in the fair value of Trust assets managed to \$4.22 billion from \$3.83 billion a year ago. This growth offset a \$76 thousand decline in Trust oil and gas fee income in the third quarter of 2016 compared to the same quarter a year ago due to the decrease in oil and gas prices. Interest on loan recoveries increased \$386 thousand in the third quarter of 2016 over the same period in 2015.

Noninterest income for the nine-month period ended September 30, 2016 was \$63.41 million, an increase of \$9.26 million compared to the same period in 2015. ATM, interchange and credit card fees and service charges on deposit accounts increased 8.09 percent and 9.42 percent, respectively, to \$17.52 million and \$13.61 million compared with \$16.21 million and \$12.44 million, respectively, in the same period last year due primarily to the First Bank acquisition and the continued growth in net new accounts and debit cards. Real estate mortgage fees increased 61.85 percent in the first nine months of 2016 to \$11.85

Table of Contents

million compared with \$7.32 million in the same period a year ago, primarily resulting from additional loan origination production from the 4Trust asset purchase. Trust fees increased \$157 thousand to \$14.45 million in the first nine months of 2016 compared with \$14.29 million in the same period in 2015, due to continued growth in the fair value of Trust assets managed to \$4.22 billion from \$3.83 billion a year ago. This growth offset a \$447 thousand decline in Trust oil and gas fee income in the first nine months of 2016 compared to the same period a year ago due to the decrease in oil and gas prices. Gain on sale of available-for-sale securities totaled \$1.15 million in the first nine months of 2016 compared to \$380 thousand in the same period in 2015. Interest on loan recoveries increased \$1.14 million for the nine months ended September 30, 2016 compared to the same period in 2015.

ATM and interchange fees are charges that merchants pay to us and other card-issuing banks for processing electronic payment transactions. ATM and interchange fees consist of income from debit card usage, point of sale income for debit card transactions and ATM service fees. Federal Reserve rules applicable to financial institutions that have assets of \$10 billion or more provide that the maximum permissible interchange fee for an electronic debit transaction is the sum of 21 cents per transaction and 5 basis points multiplied by the value of the transaction. While we currently have assets under \$10 billion, we are monitoring the effect of this reduction in per transaction fee income as we approach the \$10 billion asset level.

Table 3 - Noninterest Income (in thousands):

	Three Months Ended September 30, Increase			Nine Months Ended September 30, Increase		
	2016	(Decrease)	2015	2016	(Decrease)	2015
Trust fees	\$ 5,066	\$ 248	\$ 4,818	\$ 14,446	\$ 157	\$ 14,289
Service charges on deposit accounts	4,796	143	4,653	13,614	1,172	12,442
ATM, interchange and credit card fees	6,000	206	5,794	17,521	1,312	16,209
Real estate mortgage operations	4,697	955	3,742	11,849	4,528	7,321
Net gain on sale of available-for-sale securities	239	103	136	1,153	773	380
Net gain (loss) on sale of foreclosed assets	(10)	(38)	28	343	333	10
Gain (loss) on sale of assets	(168)	(157)	(11)	271	282	(11)
Interest on loan recoveries	709	386	323	1,970	1,136	834
Other:						
Check printing fees	51	(8)	59	137	(32)	169
Safe deposit rental fees	115	3	112	426	10	416
Credit life and debt protection fees	240	63	177	474	(60)	534
Brokerage commissions	47	(163)	210	300	(277)	577
Miscellaneous income	370	(35)	405	906	(76)	982
Total other	823	(140)	963	2,243	(435)	2,678
Total Noninterest Income	\$ 22,152	\$ 1,706	\$ 20,446	\$ 63,410	\$ 9,258	\$ 54,152

Noninterest Expense. Total noninterest expense for the third quarter of 2016 was \$42.00 million, an increase of \$2.03 million compared to the same period in 2015. 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 2016 was 49.33%, compared to 48.44% from the same period in 2015.

Salaries and employee benefits for the third quarter of 2016 totaled \$22.93 million, an increase of \$1.28 million compared to the same period in 2015. The increase was primarily driven by the addition of First Bank employees and annual merit pay increases. In addition, our healthcare claims increased \$767 thousand in the third quarter of 2016 over the same quarter in 2015, which was offset by lower profit sharing expense of \$903 thousand.

Table of Contents

All other categories of noninterest expense for the third quarter of 2016 totaled \$19.07 million, an increase of \$747 thousand compared to the same quarter in 2015. This increase primarily resulted from increases in equipment, ATM, interchange and credit card, telephone and professional fee expenses also largely driven by the 4Trust asset purchase and First Bank acquisition. 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.

Total noninterest expense for the first nine months of 2016 was \$123.84 million compared to \$109.12 million in the same period of 2015. Our efficiency ratio for the first nine months of 2016 was 49.09%, compared to 47.34% from the same period in 2015.

Salaries and employee benefits for the first nine months of 2016 totaled \$67.67 million, an increase of \$8.58 million compared to the same period in 2015. The increase was primarily driven by the addition of 4Trust and First Bank employees and annual pay increases. In addition, our healthcare claims increased \$2.57 million in the first nine months of 2016 over the same period in 2015, which was offset by lower profit sharing expense of \$2.30 million.

All other categories of noninterest expense for the first nine months of 2016 totaled \$56.17 million, an increase of approximately \$6.14 million, as compared to the same period in 2015. The increase primarily resulted from increases in equipment, ATM, interchange and credit card, telephone and professional fee expenses also largely driven by the 4Trust asset purchase and First Bank acquisition.

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

	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
	2015	Increase (Decrease)	2016	2015	Increase (Decrease)	2016
Salaries	\$ 16,627	\$ 1,219	\$ 17,846	\$ 45,378	\$ 7,205	\$ 52,583
Medical	1,455	767	2,222	3,882	2,567	6,449
Profit sharing	1,641	(903)	738	4,190	(2,297)	1,893
Pension	83	(1)	82	232	15	247
401(k) match expense	542	49	591	1,513	281	1,794
Payroll taxes	1,118	25	1,143	3,348	430	3,778
Stock option and stock grant expense	182	127	309	543	381	924
Total salaries and employee benefits	21,648	1,283	22,931	59,086	8,582	67,668
Net occupancy expense	3,050	(378)	2,672	7,640	246	7,886
Equipment expense	3,114	306	3,420	9,005	1,181	10,186
FDIC assessment fees	819	(306)	513	2,316	(161)	2,155
ATM, interchange and credit card expense	1,509	350	1,859	4,844	508	5,352
Professional and service fees	1,148	735	1,883	3,370	1,729	5,099
Printing, stationery and supplies	594	(58)	536	1,662	(158)	1,504
Amortization of intangible assets	200	(28)	172	362	208	570
Other:						
Data processing fees	823	(704)	119	1,019	(686)	333
Postage	433	(27)	406	1,262	(39)	1,223
Advertising	919	5	924	2,509	146	2,655
Correspondent bank service charges	238	2	240	686	40	726
Telephone	603	280	883	1,577	911	2,488
Public relations and business development	645	160	805	1,893	162	2,055
Directors fees	295	6	301	777	223	1,000
Audit and accounting fees	468	(28)	440	1,289	51	1,340
Legal fees	325	154	479	1,432	100	1,532
Regulatory exam fees	265	16	281	776	72	848
Travel	384	(52)	332	908	30	938
Courier expense	194	28	222	619	6	625
Operational and other losses	397	136	533	907	545	1,452
Other real estate	36	(2)	34	108	68	176
Other miscellaneous expense	1,866	152	2,018	5,075	954	6,029
Total other	7,891	126	8,017	20,837	2,583	23,420
Total Noninterest Expense	\$ 39,973	\$ 2,030	\$ 42,003	\$ 109,122	\$ 14,718	\$ 123,840

Table of Contents**Balance Sheet Review**

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 commercial real estate, which are primarily owner-occupied. 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, 2016, total loans held for investment were \$3.34 billion, an increase of \$20.74 million, as compared to December 31, 2015 balances. As compared to December 31, 2015, commercial loans decreased \$32.58 million, agricultural loans decreased \$17.64 million, real estate loans increased \$55.03 million, and consumer loans increased \$15.93 million. Loans averaged \$3.35 billion during the third quarter of 2016, an increase of \$188.23 million from the prior year third quarter average balances. Loans averaged \$3.32 billion during the nine-month period ended September 30, 2016, an increase of \$302.65 million from the prior year nine-month average balances.

Table 5 - Composition of Loans (in thousands):

	September 30, 2016	September 30, 2015	December 31, 2015
Commercial	\$ 663,581	\$ 698,406	\$ 696,163
Agricultural	84,716	99,232	102,351
Real estate	2,191,260	2,088,002	2,136,233
Consumer	398,236	381,177	382,303
Total loans held-for-investment	\$ 3,337,793	\$ 3,266,817	\$ 3,317,050

At September 30, 2016, our real estate loans represent approximately 65.65% of our loan portfolio and are comprised of (i) 1-4 family residence loans of 44.87%, (ii) commercial real estate loans of 24.22%, generally owner occupied, (iii) other loans, which includes ranches, hospitals and universities, of 16.63%, (iv) residential development and construction loans of 9.19%, which includes our custom and speculation home construction loans and (v) commercial development and construction loans of 5.09%.

Loans held for sale, consisting of secondary market mortgage loans, totaled \$31.59 million, \$21.61 million, and \$33.54 million at September 30, 2016 and 2015, and December 31, 2015, respectively, which are valued using the lower of cost or market method.

Asset Quality. Our loan portfolio 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 \$34.94 million at September 30, 2016, as compared to \$22.74 million at September 30, 2015 and \$29.77 million at December 31, 2015. As a percent of loans and foreclosed assets, these assets were 1.04% at September 30, 2016, as compared to 0.69% at September 30, 2015 and 0.89% at December 31, 2015. As a percent of total assets, these assets were 0.52% at September 30, 2016, as compared to 0.35% at September 30, 2015 and 0.45% at December 31, 2015. The increase in the Company's nonperforming assets as a percentage of loans and foreclosed assets ratio and total assets at September 30, 2016 primarily resulted from the addition of one commercial loan to the Company's

quarter-end nonaccrual balances. 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, 2016.

Table of Contents

Supplemental Oil and Gas Information. As of September 30, 2016, the Company's exposure to the oil and gas industry remained at 2.58% of gross loans, or \$86.79 million, down slightly from December 31, 2015 year-end levels, and consisted (based on collateral supporting the loan) of (i) development and production loans of 5.10%, (ii) oil and gas field servicing loans of 13.84%, (iii) real estate loans of 37.68%, (iv) accounts receivable and inventory of 18.99% and (v) other of 24.39%. These loans have experienced increased stress due to continued depressed oil and gas prices. The Company has instituted additional monitoring procedures for these loans and has classified, downgraded and charged-off loans as appropriate. The following oil and gas information is as of and for the quarters ended September 30, 2016 and 2015, and December 31, 2015:

	September 30, 2016	September 30, 2015	December 31, 2015
Oil and gas related loans	\$ 86,785	\$ 92,382	\$ 96,712
Oil and gas related loans as a % of total loans	2.58%	2.81%	2.89%
Classified oil and gas related loans	\$ 31,541	\$ 30,028	\$ 34,506
Nonaccrual oil and gas related loans	5,140	2,589	5,404
Net charge-offs for oil and gas related loans	104	567	1,370
Allowance for oil and gas related loans as a % of oil and gas loans	5.60%	6.48%	6.35%

Table 6 Non-accrual, Past Due 90 Days or More and Still Accruing, Restructured Loans and Foreclosed Assets (in thousands, except percentages):

	September 30, 2016	September 30, 2015	December 31, 2015
Non-accrual loans*	\$ 33,712	\$ 21,788	\$ 28,601
Loans still accruing and past due 90 days or more	107	49	341
Troubled debt restructured loans**	750	204	199
Foreclosed assets	369	701	627
Total nonperforming assets	\$ 34,938	\$ 22,742	\$ 29,768
As a % of loans and foreclosed assets	1.04%	0.69%	0.89%
As a % of total assets	0.52%	0.35%	0.45%

* Includes \$1.85 million, \$2.42 million and \$2.18 million of purchased credit impaired loans as of September 30, 2016 and 2015, and December 31, 2015, respectively.

** Troubled debt restructured loans of \$7.51 million, \$6.46 million and \$6.11 million, whose interest collection, after considering economic and business conditions and collection efforts, is doubtful are included in non-accrual loans at September 30, 2016 and 2015, and December 31, 2015, 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, 2015 of approximately \$780 thousand during the year ended December 31, 2015. If interest on these impaired loans had been recognized on a full accrual basis during the year ended December 31, 2015, such income would have approximated \$2.74 million. Such

amounts for the three months and nine months periods in 2016 were not significant.

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

Table of Contents

methodology, see note 5 to our notes to the consolidated financial statements (unaudited). The provision for loan losses was \$3.83 million for the third quarter of 2016, as compared to \$2.66 million for the third quarter of 2015. The provision for loan losses was \$8.22 million for the nine-month period ended September 30, 2016, as compared to \$5.51 million for the same period in 2015. The continued provision for loan losses in 2016 and 2015 reflects the continued levels of nonperforming and classified assets, gross charge-offs, as well as the economic effects related to the oil and gas industry. As a percent of average loans, net loan charge-offs were 0.43% for the third quarter of 2016, as compared to 0.16% for the third quarter of 2015. As a percent of average loans, net loan charge-offs were 0.19% for the first nine months of 2016, as compared to 0.08% for the first nine months of 2015. The increase in the net charge-off rate for both the three and nine-month periods ended September 30, 2016 was primarily due to one commercial loan, which totaled \$3.00 million and \$4.00 million, respectively. The allowance for loan losses as a percent of loans was 1.34% as of September 30, 2016, as compared to 1.23% as of September 30, 2015 and 1.25% as of December 31, 2015. Included in Table 7 is further analysis of our allowance for loan losses.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Allowance for loan losses at period-end	\$ 45,298	\$ 40,420	\$ 45,298	\$ 40,420
Loans held for investment at period-end	3,337,793	3,266,817	3,337,793	3,266,817
Average loans for period	3,349,458	3,161,229	3,319,337	3,016,686
Net charge-offs/average loans (annualized)	0.43%	0.16%	0.19%	0.08%
Allowance for loan losses/period-end loans	1.34%	1.23%	1.34%	1.23%
Allowance for loan losses/non-accrual loans, past due 90 days still accruing and restructured loans	131.04%	183.39%	131.04%	183.29%

Interest-Bearing Deposits in Banks. At September 30, 2016, our interest-bearing deposits in banks were \$119.04 million compared to \$8.76 million at September 30, 2015 and \$93.43 million at December 31, 2015, respectively. At September 30, 2016, interest-bearing deposits in banks included \$1.71 million invested in FDIC-insured certificates of deposit, \$117.05 million maintained at the Federal Reserve Bank of Dallas and \$281 thousand on deposit with the Federal Home Loan Bank of Dallas (FHLB).

Available-for-Sale and Held-to-Maturity Securities. At September 30, 2016, securities with a fair value of \$2.73 billion were classified as securities available-for-sale and securities with an amortized cost of \$129 thousand were classified as securities held-to-maturity. As compared to December 31, 2015, the available-for-sale portfolio at September 30, 2016 reflected (i) a decrease of \$32.83 million in obligations of U.S. government sponsored enterprises and agencies, (ii) an increase of \$51.59 million in obligations of states and political subdivisions, (iii) a decrease of \$18.35 million in corporate bonds and other, (iv) a decrease of \$5.22 million in mortgage-backed securities and (v) a decrease of \$56 thousand 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, 2016 and 2015, and December 31, 2015.

Table of Contents**Table 8 - Maturities and Yields of Available-for-Sale Securities Held at September 30, 2016 (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	\$ 254	1.07%	\$ 10,485	1.13%	\$	%\$	%\$	%\$	10,739	1.13%
Obligations of U.S. government sponsored enterprises and agencies	41,122	1.18	74,598	1.33					115,720	1.28
Obligations of states and political subdivisions	106,068	4.38	605,294	5.17	788,744	4.73	2,610	6.77	1,502,716	4.89
Corporate bonds and other securities	49,890	2.42	19,719	3.78					69,609	2.81
Mortgage-backed securities	13,580	3.22	844,577	2.13	172,089	2.53			1,030,246	2.21
Total	\$ 210,914	3.22%	\$ 1,554,673	3.29%	\$ 960,833	4.33%	\$ 2,610	6.77%	\$ 2,729,030	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, 2016, the investment portfolio had an overall tax equivalent yield of 3.65%, a weighted average life of 4.12 years and modified duration of 3.70 years.

Deposits. Deposits held by our subsidiary bank represent our primary source of funding. Total deposits were \$5.24 billion as of September 30, 2016, as compared to \$5.10 billion as of September 30, 2015 and \$5.19 billion as of December 31, 2015. Table 9 provides a breakdown of average deposits and rates paid for the three and nine month periods ended September 30, 2016 and 2015.

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

Three Months Ended September 30,

	2016		2015	
	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing deposits	\$ 1,663,460	%	\$ 1,687,285	%
Interest-bearing deposits:				
Interest-bearing checking	\$ 1,688,540	0.11	1,617,367	0.09
Savings and money market accounts	1,230,111	0.09	1,042,610	0.06
Time deposits under \$100,000	233,443	0.18	273,734	0.21
Time deposits of \$100,000 or more	308,114	0.32	361,700	0.32
Total interest-bearing deposits	3,460,208	0.13%	3,295,411	0.11%
Total average deposits	\$ 5,123,668		\$ 4,982,696	

Table of Contents

	Nine Months Ended September 30,			
	2016		2015	
	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing deposits	\$ 1,656,935	%	\$ 1,607,931	%
Interest-bearing deposits:				
Interest-bearing checking	1,712,095	0.11	1,601,087	0.09
Savings and money market accounts	1,146,368	0.07	1,004,584	0.06
Time deposits under \$100,000	241,031	0.18	263,031	0.21
Time deposits of \$100,000 or more	332,078	0.31	363,223	0.31
Total interest-bearing deposits	3,431,572	0.13%	3,231,925	0.11%
Total average deposits	\$ 5,088,507		\$ 4,839,856	

Borrowings. Included in borrowings were federal funds purchased, securities sold under repurchase agreements and advances from the FHLB of \$513.76 million, \$500.90 million and \$615.68 million at September 30, 2016 and 2015 and December 31, 2015, 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 borrowings. The average balance of federal funds purchased, securities sold under repurchase agreements and advances from the FHLB were \$569.88 million and \$572.43 million in the third quarters of 2016 and 2015, respectively. The weighted average interest rate paid on these borrowings were 0.18% and 0.09% for the third quarters of 2016 and 2015, respectively. The average balances of federal funds purchased, securities sold under repurchase agreements and advances from the FHLB was \$573.46 million and \$507.01 million for the nine-month periods ended September 30, 2016 and 2015, respectively. The weighted average interest rate paid on these short-term borrowings was 0.19% and 0.07% for the first nine months of 2016 and 2015, respectively.

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 \$867.94 million, or 12.98% of total assets at September 30, 2016, as compared to \$792.03 million, or 12.25% of total assets at September 30, 2015 and \$804.99 million, or 12.08% of total assets at December 31, 2015. Included in shareholders' equity at September 30, 2016 and 2015 and December 31, 2015, were \$68.31 million, \$53.37 million and \$51.36 million, respectively, in unrealized gains on investment securities available-for-sale, net of related income taxes. For the third quarter of 2016, total shareholders' equity averaged \$869.24 million, or 13.10% of average assets, as compared to \$753.61 million, or 11.84% of average assets, during the same period in 2015. For the nine months ended September 30, 2016, total shareholders' equity averaged \$846.13 or 12.87% as compared to \$718.52 or 11.74% of total assets during the same period in 2015.

Banking regulators measure capital adequacy by means of the risk-based capital ratios and the leverage ratio under the Basel III regulatory capital framework and prompt corrective action regulations. The risk-based capital rules provide for the weighting of assets and off-balance-sheet commitments and contingencies according to prescribed risk categories. 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.

Table of Contents

Beginning in January 2016, under the Basel III regulatory capital framework, the implementation of the capital conservation buffer was effective for the Company starting at the 0.625% level and increasing 0.625% each year thereafter, until it reaches 2.5% on January 1, 2019. The capital conservation buffer is designed to absorb losses during periods of economic stress and requires increased capital levels for the purpose of capital distributions and other payments. Failure to meet the amount of the buffer will result in restrictions on the Company's ability to make capital distributions, including dividend payments and stock repurchases, and to pay discretionary bonuses to executive officers.

As of September 30, 2016 and 2015, and December 31, 2015, we had a total risk-based capital ratio of 18.28%, 16.70% and 16.97%, a Tier 1 capital to risk-weighted assets ratio of 17.12%, 15.65% and 15.90%; a common equity Tier 1 to risk-weighted assets ratio of 17.12%, 15.65% and 15.90% and a Tier 1 leverage ratio of 10.60%, 9.96% and 9.96%, respectively. The regulatory capital ratios as of September 30, 2016 and 2015, and December 31, 2015 were calculated under Basel III rules. There is no threshold for well-capitalized status for bank holding companies.

As of September 30, 2016 and 2015, and December 31, 2015, the regulatory capital ratios of the Company and Bank under the Basel III regulatory capital framework are as follows:

As of September 30, 2016:	Actual		Minimum Capital Required Under Basel III Phase-In		Minimum Capital Required-Basel III Fully Phased-In		Required to be Considered Well-Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>Total Capital to Risk-Weighted Assets:</i>								
Consolidated	\$ 723,248	18.28%	\$ 341,309	8.625%	\$ 415,506	10.50%		N/A
First Financial Bank, N.A.	\$ 629,168	15.94%	\$ 340,429	8.625%	\$ 414,436	10.50%	\$ 394,701	10.00%
<i>Tier 1 Capital to Risk-Weighted Assets:</i>								
Consolidated	\$ 677,289	17.12%	\$ 262,165	6.625%	\$ 336,362	8.50%		N/A
First Financial Bank, N.A.	\$ 583,209	14.78%	\$ 261,489	6.625%	\$ 335,496	8.50%	\$ 315,760	8.00%
<i>Common Equity Tier 1 Capital to Risk-Weighted Assets:</i>								
Consolidated	\$ 677,289	17.12%	\$ 202,807	5.125%	\$ 277,004	7.00%		N/A
First Financial Bank, N.A.	\$ 583,209	14.78%	\$ 202,284	5.125%	\$ 276,290	7.00%	\$ 256,555	6.50%
<i>Leverage Ratio:</i>								
Consolidated	\$ 677,289	10.60%	\$ 255,659	4.00%	\$ 255,659	4.00%		N/A
First Financial Bank, N.A.	\$ 583,209	9.16%	\$ 254,799	4.00%	\$ 254,799	4.00%	\$ 318,499	5.00%
As of September 30, 2015:								
<i>Total Capital to Risk-Weighted Assets:</i>								
Consolidated	\$ 655,429	16.70%	\$ 314,032	8.00%	\$ 412,168	10.50%		N/A

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First Financial Bank, N.A.	\$ 567,379	14.48%	\$ 313,379	8.00%	\$ 411,310	10.50%	\$ 391,724	10.00%
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*Tier 1 Capital to
Risk-Weighted Assets:*

Consolidated	\$ 614,184	15.65%	\$ 235,524	6.00%	\$ 333,659	8.50%		N/A
First Financial Bank, N.A.	\$ 526,134	13.43%	\$ 235,034	6.00%	\$ 332,965	8.50%	\$ 313,379	8.00%

*Common Equity Tier 1
Capital to Risk-Weighted
Assets:*

Consolidated	\$ 614,184	15.65%	\$ 176,643	4.50%	\$ 274,778	7.00%		N/A
First Financial Bank, N.A.	\$ 526,134	13.43%	\$ 176,276	4.50%	\$ 274,207	7.00%	\$ 254,620	6.50%

Leverage Ratio:

Consolidated	\$ 614,184	9.96%	\$ 246,784	4.00%	\$ 246,784	4.00%		N/A
First Financial Bank, N.A.	\$ 526,134	8.38%	\$ 251,042	4.00%	\$ 251,042	4.00%	\$ 313,802	5.00%

Table of Contents**As of December 31, 2015:***Total Capital to**Risk-Weighted Assets:*

Consolidated	\$ 672,920	16.97%	\$ 318,528	8.00%	\$ 418,068	10.50%	N/A
First Financial Bank, N.A.	\$ 570,910	14.37%	\$ 317,788	8.00%	\$ 417,097	10.50%	\$ 397,235 10.00%

*Tier 1 Capital to**Risk-Weighted Assets:*

Consolidated	\$ 630,413	15.90%	\$ 238,896	6.00%	\$ 338,436	8.50%	N/A
First Financial Bank, N.A.	\$ 528,403	13.30%	\$ 238,341	6.00%	\$ 337,650	8.50%	\$ 317,788 8.00%

*Common Equity Tier 1**Capital to Risk-Weighted**Assets:*

Consolidated	\$ 630,413	15.90%	\$ 179,172	4.50%	\$ 278,712	7.00%	N/A
First Financial Bank, N.A.	\$ 528,403	13.30%	\$ 178,756	4.50%	\$ 278,065	7.00%	\$ 258,203 6.50%

Leverage Ratio:

Consolidated	\$ 630,413	9.96%	\$ 256,368	4.00%	\$ 256,368	4.00%	N/A
First Financial Bank, N.A.	\$ 528,403	8.37%	\$ 252,419	4.00%	\$ 252,419	4.00%	\$ 315,524 5.00%

We have performed a preliminary assessment using the regulatory capital estimation tool made available by the OCC and believe the Company and Bank are prepared to meet the new requirements upon full adoption of Basel III that will be effective December 31, 2019.

In connection with the adoption of the Basel III regulatory capital framework, 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, 2016, the model simulations projected that 100 and 200 basis point increases in interest rates would result in positive variances in net interest income of positive 0.84% and 1.05%, 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 negative variance in net interest income of 2.23% 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, 2016 remote given current interest rate levels. Our model simulation as of September 30, 2016 indicate that our balance sheet is slightly more liability sensitive in the short-term one year category, due primarily to the level of short-term borrowings from the FHLB. 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

Table of Contents

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 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 \$513.76 million at September 30, 2016, and an unfunded \$25.00 million revolving line of credit established with Frost Bank, a nonaffiliated bank, which matures in June 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, 2016, no amounts were drawn on these lines of credit. Our subsidiary bank also has available a line of credit with the FHLB totaling \$1.12 billion, at September 30, 2016, secured by portions of our loan portfolio and certain investment securities. At September 30, 2016, \$160.00 million in advances were outstanding under this line of credit.

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, 2016. There was no outstanding balance under the line of credit as of September 30, 2016 or December 31, 2015.

Table of Contents

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 our parent company which totaled \$81.85 million at September 30, 2016, investment securities which totaled \$11.95 million at September 30, 2016 and mature over 7 to 14 years, available dividends from our subsidiaries which totaled \$166.77 million at September 30, 2016, 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.

Our liquidity position is continuously monitored and adjustments are made to the balance between sources and uses of funds as deemed appropriate. Liquidity risk management is an important element in our asset/liability management process. We regularly model liquidity stress scenarios to assess potential liquidity outflows or funding problems resulting from economic disruptions, volatility in the financial markets, unexpected credit events or other significant occurrences deemed potentially problematic by management. These scenarios are incorporated into our contingency funding plan, which provides the basis for the identification of our liquidity needs. As of September 30, 2016, management is not aware of any events that are reasonably likely to have a material adverse effect on our liquidity, capital resources or operations. 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. In addition, management is not aware of any regulatory recommendations regarding liquidity, that would have a material adverse effect on us.

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 of Contents**Table 10 Commitments as of September 30, 2016 (in thousands):**

	Total Notional Amounts Committed
Unfunded lines of credit	\$ 539,957
Unfunded commitments to extend credit	227,161
Standby letters of credit	23,327
 Total commercial commitments	 \$ 790,445

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, 2016, approximately \$166.77 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 \$25.60 million and \$28.00 million for the nine-month periods ended September 30, 2016 and 2015, 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 43.98% and 39.63% of net earnings for the first nine months of 2016 and 2015, 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.

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 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 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 OCC and the FDIC have issued policy statements that recommend that bank holding companies and insured banks should generally only pay dividends out of current operating earnings.

Table of Contents

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.

Item 4. Controls and Procedures

As of September 30, 2016, 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, 2016.

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.

Table of Contents

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 2015 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

Table of Contents

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., 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 2002 Incentive Stock Option Plan (incorporated by reference from Exhibit 10.3 of the Registrant's Form 10-Q filed May 4, 2010)++
- 10.2 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).++
- 10.3 Loan agreement dated September 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).
- 10.4 First Amendment to Loan Agreement, dated September 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 September 30, 2015).
- 10.5 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).++
- 10.6 Executive Recognition Agreement (incorporated by reference from Exhibit 10.1 of the Registrant's Form 8-K filed August 26, 2016).++
- 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.*
- 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.*

Table of Contents

- * Filed herewith
- + Furnished herewith. This Exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.
- ++ Management contract or compensatory plan or arrangement.

Table of Contents

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 25, 2016

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

Date: October 25, 2016

**By: /s/ J. Bruce Hildebrand
J. Bruce Hildebrand

Executive Vice President and Chief Financial
Officer**