Independent Bank Group, Inc.
Form 10-Q
August 11, 2014

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

FORM 10-Q
(Mark One)
ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the quarterly period ended June 30, 2014.
or
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the transition period from to .
Commission file number 001-35854

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

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

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

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

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

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

Common Stock, Par Value $0.01 Per Share – 16,370,707 shares as of August 8, 2014.

INDEPENDENT BANK GROUP, INC. AND SUBSIDIARIES
Form 10-Q
June 30, 2014

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Signatures

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Independent Bank Group, Inc. and Subsidiaries

Consolidated Balance Sheets
June 30, 2014 and December 31, 2013 (unaudited)
(Dollars in thousands, except share information)

Assets	June 30, 2014	December 31, 2013
Cash and due from banks	$148,551	$27,408
Federal Reserve Excess Balance Account (EBA)	43,977	65,646
Cash and cash equivalents	192,528	93,054
Securities available for sale (amortized cost of $247,921 and $196,689, respectively)	249,856	194,038
Loans held for sale	5,500	3,383
Loans, net of allowance for loan losses of $16,219 and $13,960, respectively	2,828,324	1,709,200
Premises and equipment, net	81,286	72,735
Other real estate owned	3,788	3,322
Federal Home Loan Bank (FHLB) of Dallas stock and other restricted stock	13,805	9,494
Bank-owned life insurance (BOLI)	39,222	21,272
Deferred tax asset	2,598	4,834
Goodwill	207,175	34,704
Core deposit intangible, net	10,779	3,148
Other assets	19,450	14,800
Total assets	$3,654,311	$2,163,984
Liabilities and Stockholders’ Equity		
Deposits:		
Noninterest-bearing	$711,475	$302,756
Interest-bearing	2,141,943	1,407,563
Total deposits	2,853,418	1,710,319
FHLB advances	269,443	187,484
Repurchase agreements	3,932	—
Other borrowings	4,460	4,460
Other borrowings, related parties	3,270	3,270
Junior subordinated debentures	18,147	18,147
Other liabilities	10,550	6,532
Total liabilities	3,163,220	1,930,212
Commitments and contingencies		
Stockholders’ equity:		
Series A preferred stock (23,938.35 and 0 shares issued and outsanding, respectively)	23,938	—
Common stock (16,370,707 and 12,330,158 shares outstanding, respectively)	164	123
Additional paid-in capital	444,342	222,116
Retained earnings	20,796	12,663
Accumulated other comprehensive income (loss)	1,851	(1,130)
Total stockholders’ equity	491,091	233,772
Total liabilities and stockholders’ equity	$3,654,311	$2,163,984

See Notes to Consolidated Financial Statements

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Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Income
Three and Six Months Ended June 30, 2014 and 2013 (unaudited)
(Dollars in thousands, except per share information)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Interest income:				
Interest and fees on loans	$33,881	$20,448	$58,004	$41,207
Interest on taxable securities	777	308	1,476	641
Interest on nontaxable securities	367	258	624	507
Interest on federal funds sold and other	53	91	136	171
Total interest income	35,078	21,105	60,240	42,526
Interest expense:				
Interest on deposits	2,437	1,733	4,344	3,461
Interest on FHLB advances	965	828	1,817	1,656
Interest on repurchase agreements, notes payable and other borrowings	136	558	271	1,073
Interest on junior subordinated debentures	136	136	269	271
Total interest expense	3,674	3,255	6,701	6,461
Net interest income	31,404	17,850	53,539	36,065
Provision for loan losses	1,379	1,079	2,632	2,109
Net interest income after provision for loan losses	30,025	16,771	50,907	33,956
Noninterest income:				
Service charges on deposit accounts	1,453	1,210	2,664	2,349
Mortgage fee income	967	1,097	1,697	2,163
Gain on sale of other real estate	—	148	39	173
Loss on sale of premises and equipment	—	(2)	—	(1)
Increase in cash surrender value of BOLI	260	79	409	160
Other	439	200	644	314
Total noninterest income	3,119	2,732	5,453	5,158
Noninterest expense:				
Salaries and employee benefits	16,112	7,964	25,246	15,712
Occupancy	3,227	2,298	5,765	4,445
Data processing	452	316	948	612
FDIC assessment	516	(258)	820	(12)
Advertising and public relations	180	188	414	404
Communications	402	338	722	678
Net other real estate owned expenses (including taxes)	57	91	136	257
Operations of IBG Adriatica, net	—	175	23	372
Other real estate impairment	—	15	—	463
Core deposit intangible amortization	299	176	498	352
Professional fees	596	293	964	565
Acquisition expense, including legal	1,523	(9)	1,999	128
Other	1,979	1,797	3,884	3,331
Total noninterest expense	25,343	13,384	41,419	27,307
Income before taxes	7,801	6,119	14,941	11,807
Income tax expense	2,682	245	5,021	245

Net income	$5,119	$5,874	$9,920	$11,562
Basic earnings per share	$0.32	$0.49	$0.70	$1.14
Diluted earnings per share	$0.32	$0.49	$0.69	$1.13
Pro Forma:				
Income tax expense	n/a	2,005	n/a	3,871
Net income	n/a	$4,114	n/a	$7,936
Basic earnings per share	n/a	$0.34	n/a	$0.78
Diluted earnings per share	n/a	$0.34	n/a	$0.78

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income
Three and Six Months Ended June 30, 2014 and 2013 (unaudited)
(Dollars in thousands)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Net income	$5,119	$5,874	$9,920	$11,562
Other comprehensive income (loss) before tax:				
Change in net unrealized gains (losses) on available for sale securities during the year	2,157	(4,466)	4,586	(5,350)
Reclassification adjustment for loss on sale of securities available for sale included in net income	—	—	—	—
Other comprehensive income (loss) before tax	2,157	(4,466)	4,586	(5,350)
Income tax expense (benefit)	755	(1,563)	1,605	(1,563)
Other comprehensive income (loss), net of tax	1,402	(2,903)	2,981	(3,787)
Comprehensive income	$6,521	$2,971	$12,901	$7,775

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity
Six Months Ended June 30, 2014 and 2013 (unaudited)
(Dollars in thousands, except for par value and share information)

	Series A Preferred Stock $.01 Par Value 10 million shares authorized	Common Stock $.01 Par Value 100 million shares authorized		Additional Paid in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
		Shares	Amount					
Balance, December 31, 2013	$—	12,330,158	$123	$222,116	$12,663	$—	$ (1,130)	$233,772
Net income	—	—	—	—	9,920	—	—	9,920
Other comprehensive income, net of tax	—	—	—	—	—	—	2,981	2,981
Series A preferred stock issued	23,938	—	—	—	—	—	—	23,938
Stock issued for acquisition of banks, net of offering costs of $442	—	3,851,480	39	220,036	—	—	—	220,075
Restricted stock granted	—	189,069	2	(2)	—	—	—	—
Stock based compensation expense	—	—	—	1,170	—	—	—	1,170
Excess tax benefit on restricted stock vested	—	—	—	1,022	—	—	—	1,022
Preferred stock dividends	—	—	—	—	(49)	—	—	(49)
Cash dividends ($0.12 per share)	—	—	—	—	(1,738)	—	—	(1,738)
Balance, June 30, 2014	$23,938	16,370,707	$164	$444,342	$20,796	$—	$ 1,851	$491,091
Balance, December 31, 2012	$—	8,278,354	$83	$88,791	$33,290	$(232)	$ 2,578	$124,510
Net income	—	—	—	—	11,562	—	—	11,562
Other comprehensive (loss), net of tax	—	—	—	—	—	—	(3,787)	(3,787)
Treasury stock retired	—	(8,647)	—	(232)	—	232	—	—
Common stock issued, net of offering costs	—	3,680,000	37	86,620	—	—	—	86,657
Reclassification adjustment for change in taxable status	—	—	—	33,624	(33,624)	—	—	—
Restricted stock granted	—	115,260	1	(1)	—	—	—	—
Stock based compensation expense	—	—	—	594	—	—	—	594
Dividends ($0.65 per share)	—	—	—	—	(5,354)	—	—	(5,354)

Balance, June 30, 2013	$—	12,064,967	$121	$209,396	$5,874	$—	$ (1,209)	$214,182

See Notes to Consolidated Financial Statements

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Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Six Months Ended June 30, 2014 and 2013 (unaudited)
(Dollars in thousands)

	Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net income	$9,920	$11,562
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	2,435	1,983
Amortization of core deposit intangibles	498	352
Amortization of premium on securities, net	942	35
Stock based compensation expense	1,170	594
FHLB stock dividends	(17)	(12)
Net loss on sale of premises and equipment	—	1
Gain recognized on other real estate transactions	(39)	(173)
Impairment of other real estate	—	463
Deferred tax benefit	(7)	(1,881)
Provision for loan losses	2,632	2,109
Increase in cash surrender value of life insurance	(409)	(160)
Loans originated for sale	(63,946)	(95,680)
Proceeds from sale of loans	61,829	96,384
Net change in other assets	(1,018)	228
Net change in other liabilities	(5,679)	1,754
Net cash provided by operating activities	8,311	17,559
Cash flows from investing activities:		
Proceeds from maturities, calls and pay downs of securities available for sale	48,967	19,241
Purchases of securities available for sale	(21,514)	(22,203)
Proceeds from maturities of certificates held in other banks	—	3,935
Net purchases of FHLB stock	2,519	(140)
Net loans originated	(264,091)	(145,791)
Additions to premises and equipment	(1,577)	(5,032)
Proceeds from sale of premises and equipment	11	9
Proceeds from sale of other real estate owned	1,255	1,046
Capitalized additions to other real estate	(28)	(63)
Cash received from acquired bank	167,771	—
Cash paid in connection with acquisition	(44,010)	—
Net cash used in investing activities	(110,697)	(148,998)
Cash flows from financing activities:		
Net increase in demand deposits, NOW and savings accounts	59,416	62,657
Net increase in time deposits	157,466	31,732
Net change in FHLB advances	(13,041)	(72)
Net change in repurchase agreements	199	—
Repayments of notes payable and other borrowings	—	(19,952)
Proceeds from sale of common stock	—	86,657
Offering costs paid in connection with acquired bank	(442)	—
Dividends paid	(1,738)	(5,354)
Net cash provided by financing activities	201,860	155,668

Net change in cash and cash equivalents	99,474	24,229
Cash and cash equivalents at beginning of year	93,054	102,290
Cash and cash equivalents at end of period	$192,528	$126,519

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries

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

Note 1. Summary of Significant Accounting Policies
Nature of Operations: Independent Bank Group, Inc. (IBG) through its subsidiary, Independent Bank, a Texas state banking corporation (Bank) (collectively known as the Company), provides a full range of banking services to individual and corporate customers in the North, Central Texas and Houston areas through its various branch locations in those areas. The Company is engaged in traditional community banking activities, which include commercial and retail lending, deposit gathering, investment and liquidity management activities. The Company's primary deposit products are demand deposits, money market accounts and certificates of deposit, and its primary lending products are commercial business and real estate, real estate mortgage and consumer loans.
Basis of Presentation: The accompanying consolidated financial statements include the accounts of IBG, its wholly-owned subsidiaries, the Bank and IBG Adriatica Holdings, Inc. (Adriatica) and the Bank's wholly-owned subsidiaries, IBG Real Estate Holdings, Inc. and IBG Aircraft Acquisition, Inc. Adriatica was formed in 2011 to acquire a mixed use residential and retail real estate development in McKinney, Texas. Adriatica was dissolved during the first quarter of 2014. All material intercompany transactions and balances have been eliminated in consolidation. In addition, the Company wholly-owns IB Trust I (Trust I), IB Trust II (Trust II), IB Trust III (Trust III), IB Centex Trust I (Centex Trust I) and Community Group Statutory Trust I (CGI Trust I). The Trusts were formed to issue trust preferred securities and do not meet the criteria for consolidation.
The consolidated interim financial statements are unaudited, but include all adjustments, which, in the opinion of management, are necessary for a fair presentation of the results of the periods presented. All such adjustments were of a normal and recurring nature. These financial statements should be read in conjunction with the financial statements and the notes thereto in the Company's Annual Report of Form10-K for the year ended December 31, 2013. The consolidated statement of condition at December 31, 2013 had been derived from the audited financial statements as of that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.
Segment Reporting: The Company has one reportable segment. The Company's chief operating decision-maker uses consolidated results to make operating and strategic decisions.
Pro forma statements: Because the Company was not a taxable entity prior to April 1, 2013, pro forma amounts for income tax expense and basic and diluted earnings per share have been presented assuming the Company's effective tax rate of 32.8% for the three and six months ended June 30, 2013, as if it had been a C Corporation during that period. The difference in the statutory rate of 35% and the Company's effective rate is primarily due to nontaxable income earned on municipal securities and bank owned life insurance.

Subsequent events: Companies are required to evaluate events and transactions that occur after the balance sheet date but before the date the financial statements are issued. They must recognize in the financial statements the effect of all events or transactions that provide additional evidence of conditions that existed at the balance sheet date, including the estimates inherent in the financial statement preparation process. Entities shall not recognize the impact of events or transactions that provide evidence about conditions that did not exist at the balance sheet date but arose after that date. The Company has evaluated subsequent events through the date of filing these financial statements with the SEC and noted no subsequent events requiring financial statement recognition or disclosure, except as disclosed in Note 13.
Earnings per share: Basic earnings per common share are net income available to common shareholders divided by the weighted average number of common shares outstanding during the period. The unvested share-based payment awards that contain rights to non forfeitable dividends are considered participating securities for this calculation. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under stock warrants. The dilutive effect of participating non vested common stock was not included as it was anti-dilutive. Proceeds from the assumed exercise of dilutive stock warrants are assumed to be used to repurchase common stock at

the average market price.

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Basic earnings per share:				
Net income	$5,119	$5,874	$9,920	$11,562
Less: Preferred stock dividends	(49)	—	(49)	—
Net income after preferred stock dividends	5,070	5,874	9,871	11,562
Less:				
Undistributed earnings allocated to participating securities	80	115	140	116
Dividends paid on participating securities	18	—	29	100
Net income available to common shareholders	$4,972	$5,759	$9,702	$11,346
Weighted-average basic shares outstanding	15,483,257	11,776,084	13,951,830	9,960,767
Basic earnings per share	$0.32	$0.49	$0.70	$1.14
Diluted earnings per share:				
Net income available to common shareholders	$4,972	$5,759	$9,702	$11,346
Total weighted-average basic shares outstanding	15,483,257	11,776,084	13,951,830	9,960,767
Add dilutive stock warrants	101,383	60,563	101,513	48,419
Total weighted-average diluted shares outstanding	15,584,640	11,836,647	14,053,343	10,009,186
Diluted earnings per share	$0.32	$0.49	$0.69	$1.13
Pro forma earnings per share:				
Pro forma net income	n/a	$4,114	n/a	$7,936
Less undistributed earnings allocated to participating securities	n/a	81	n/a	48
Less dividends paid on participating securities	n/a	—	n/a	100
Pro forma net income available to common shareholders after tax	n/a	$4,033	n/a	$7,788
Pro forma basic earnings per share	n/a	$0.34	n/a	$0.78
Pro forma diluted earnings per share	n/a	$0.34	n/a	$0.78
Anti-dilutive participating securities	142,125	165,653	90,203	108,639

Note 2. Statement of Cash Flows

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

	Six Month Ended June 30,	
	2014	2013
Cash transactions:		
Interest expense paid	$6,483	$6,254
Income taxes paid	$5,625	$—
Noncash transactions:		
Accrued preferred stock dividends	$49	$—
Transfers of loans to other real estate owned	$120	$2,678
Loans to facilitate the sale of other real estate owned	$48	$113
Writeoff of debt origination costs related to warrants	$—	$223
Securities purchased, not yet settled	$1,746	$—
Excess tax benefit on restricted stock vested	$1,022	$—
Transfer of bank premises to other real estate	$391	$—

Supplemental schedule of noncash investing activities from the Live Oak Financial Corp. and BOH Holdings acquisitions are as follows:

	Six Month Ended June 30,	
	2014	2013
Noncash assets acquired		
Cash and cash equivalents	$167,771	$—
Securities available for sale	75,881	—
Loans	858,065	—
Premises and equipment	9,811	—
Other real estate owned	1,191	—
Goodwill	171,722	—
Core deposit intangibles	8,147	—
Other assets	27,624	—
Total assets	$1,320,212	$—
Noncash liabilities assumed:		
Deposits	$925,712	$—
Repurchase agreements	3,733	—
FHLB advances	95,000	—
Other liabilities	7,302	—
Total liabilities	$1,031,747	$—
Cash paid to shareholders of acquired bank	$44,010	$—
Series A preferred stock exchanged in connection with acquired bank	$23,938	$—
Fair value of common stock issued to shareholders of acquired bank	$220,517	$—

In addition, the following measurement-period adjustments were made during the period relating the November 30, 2013 acquisition of Collin Bank:

	Six Month Ended June 30,	
	2014	2013
Noncash assets acquired:		
Loans	$(328)	$—
Goodwill	749	—
Core deposit intangibles	(18)	—
Deferred tax asset	109	—
Other assets	10	—
Total assets	$522	$—
Noncash liabilities assumed:		
Deposits	$505	$—
Other liabilities	17	—
Total liabilities	$522	$—

Note 3. Securities Available for Sale

Securities available for sale have been classified in the consolidated balance sheets according to management's intent. The amortized cost of securities and their approximate fair values at June 30, 2014 and December 31, 2013, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
June 30, 2014:				
U.S. treasuries	$999	$10	$—	$1,009
Government agency securities	78,553	276	(435)	78,394
Obligations of state and municipal subdivisions	77,490	1,444	(935)	77,999
Corporate bonds	1,074	9	—	1,083
Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC, SBIC and FHR	89,805	1,568	(2)	91,371
	$247,921	$3,307	$(1,372)	$249,856
December 31, 2013:				
U.S. treasuries	$3,498	$15	$—	$3,513
Government agency securities	95,407	84	(1,076)	94,415
Obligations of state and municipal subdivisions	37,861	541	(1,787)	36,615
Corporate bonds	2,079	—	(27)	2,052
Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC and FHR	57,844	67	(468)	57,443
	$196,689	$707	$(3,358)	$194,038

Securities with a carrying amount of approximately $192,000 and $111,673 at June 30, 2014 and December 31, 2013, respectively, were pledged to secure public fund deposits and repurchase agreements.

There were no sales of securities during the three and six months ended June 30, 2014 and 2013.

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The amortized cost and estimated fair value of securities available for sale at June 30, 2014, by contractual maturity, are shown below. Maturities of pass-through certificates will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	June 30, 2014	
	Securities Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$5,350	$5,354
Due from one year to five years	63,406	63,079
Due from five to ten years	48,930	49,130
Thereafter	40,430	40,922
	158,116	158,485
Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC, SBIC and FHR	89,805	91,371
	$247,921	$249,856

The number of securities, unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of June 30, 2014 and December 31, 2013, are summarized as follows:

	Less Than 12 Months			Greater Than 12 Months			Total	
Description of Securities	Number of Securities	Estimated Fair Value	Unrealized Losses	Number of Securities	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Securities Available for Sale								
June 30, 2014								
Government agency securities	8	$12,926	$(60)	16	$24,621	$(375)	$37,547	$(435)
Obligations of state and municipal subdivisions	53	22,796	(288)	22	14,174	(647)	36,970	(935)
Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC, SBIC and FHR	1	95	(2)	—	—	—	95	(2)
	62	$35,817	$(350)	38	$38,795	$(1,022)	$74,612	$(1,372)
December 31, 2013								
Government agency securities	46	$74,331	$(1,076)	—	$—	$—	$74,331	$(1,076)
Obligations of state and municipal subdivisions	21	11,888	(1,139)	6	4,047	(648)	15,935	(1,787)
Corporate bonds	2	2,052	(27)	—	—	—	2,052	(27)
Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC and FHR	14	49,126	(468)	—	—	—	49,126	(468)

	83	$137,397	$(2,710)	6	$4,047	$(648)	$141,444	$(3,358)

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

Note 4. Loans, Net and Allowance for Loan Losses

Loans, net at June 30, 2014 and December 31, 2013, consisted of the following:

	June 30, 2014	December 31, 2013
Commercial	$568,138	$241,178
Real estate:		
Commercial	1,301,668	843,436
Commercial construction, land and land development	270,774	130,320
Residential	481,007	338,654
Single family interim construction	112,642	83,144
Agricultural	41,445	40,558
Consumer	68,727	45,762
Other	142	108
	2,844,543	1,723,160
Allowance for loan losses	(16,219)	(13,960)
	$2,828,324	$1,709,200

The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans.

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. The Company's management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. These cash flows, however, may not be as expected and the value of collateral securing the loans may fluctuate. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short term loans may be made on an unsecured basis. Additionally, our commercial loan portfolio includes loans made to customers in the energy industry, which is a complex, technical and cyclical industry. Experienced bankers with specialized energy lending experience originate our energy loans. Companies in this industry produce, extract, develop, exploit and explore for oil and natural gas. Loans are primarily collateralized with proven producing oil and gas reserves based on a technical evaluation of these reserves.

Commercial real estate loans are subject to underwriting standards and processes similar to commercial loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts, and the repayment of these loans is generally largely dependent on the successful operation of the property or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's commercial real estate portfolio are diverse in terms of type and geographic location. Management monitors the diversification of the portfolio on a quarterly basis by type and geographic location. Management also tracks the level of owner occupied property versus non owner occupied property.

Land and commercial land development loans are underwritten using feasibility studies, independent appraisal reviews and financial analysis of the developers or property owners. Generally, borrowers must have a proven track record of success. Commercial construction loans are generally based upon estimates of cost and value of the completed project. These estimates may not be accurate. Commercial construction loans often involve the disbursement of substantial funds with the repayment dependent on the success of the ultimate project. Sources of repayment for these loans may be pre-committed permanent financing or sale of the developed property. The loans in

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

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

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

Consumer loans represent less than 3% of the outstanding total loan portfolio. Collateral consists primarily of automobiles and other personal assets. Credit score analysis is used to supplement the underwriting process.

Most of the Company’s lending activity occurs within the State of Texas, primarily in the north, central and southeast Texas regions. A large percentage of the Company’s portfolio consists of commercial and residential real estate loans. As of June 30, 2014 and December 31, 2013, there were no concentrations of loans related to a single industry in excess of 10% of total loans.

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

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

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

Loans requiring an allocated loan loss provision are generally identified at the servicing officer level based on review of weekly past due reports and/or the loan officer’s communication with borrowers. In addition, past due loans are discussed at weekly officer loan committee meetings to determine if classification is warranted. The Company’s credit department has implemented an internal risk based loan review process to identity potential internally classified loans that supplements the annual independent external loan review. The external review generally covers all loans greater than $1.5 million. These reviews include analysis of borrower’s financial condition, payment histories and collateral values to determine if a loan should be internally classified. Generally, once classified, an impaired loan analysis is completed by the credit department to determine if the loan is impaired and the amount of allocated allowance

required.

The Texas economy, specifically the Company's lending area of north, central and southeast Texas, has generally performed better and appears to be recovering faster than certain other parts of the country. However, Texas is not completely immune to the problems associated with the U.S. economy. The risk of loss associated with all segments of the loan portfolio continues to be impacted by the prolonged economic recovery.

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The economy and other risk factors are minimized by the Company's underwriting standards, which include the following principles: 1) financial strength of the borrower including strong earnings, high net worth, significant liquidity and acceptable debt to worth ratio, 2) managerial business competence, 3) ability to repay, 4) loan to value, 5) projected cash flow and 6) guarantor financial statements as applicable. The following is a summary of the activity in the allowance for loan losses by loan class for the three and six months ended June 30, 2014 and 2013:

	Commercial	Commercial Real Estate, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Unallocated	Total
Three months ended June 30, 2014									
Balance at the beginning of period	$ 2,620	$ 8,117	$ 2,278	$ 536	$ 244	$ 353	$—	$ 693	$ 14,841
Provision for loan losses	1,056	945	42	38	28	16	—	(746)	1,379
Charge-offs	(5)	—	(31)	—	—	(28)	—	—	(64)
Recoveries	5	38	2	10	—	8	—	—	63
Balance at end of period	$ 3,676	$ 9,100	$ 2,291	$ 584	$ 272	$ 349	$—	$ (53)	$ 16,219
Six months ended June 30, 2014									
Balance at the beginning of period	$ 2,401	$ 7,872	$ 2,440	$ 577	$ 238	$ 363	$—	$ 69	$ 13,960
Provision for loan losses	1,634	1,201	(121)	(4)	34	10	—	(122)	2,632
Charge-offs	(368)	(21)	(32)	—	—	(42)	—	—	(463)
Recoveries	9	48	4	11	—	18	—	—	90
Balance at end of period	$ 3,676	$ 9,100	$ 2,291	$ 584	$ 272	$ 349	$—	$ (53)	$ 16,219
Three months ended June 30, 2013									
Balance at the beginning of period	$ 2,101	$ 6,478	$ 2,420	$ 365	$ 232	$ 334	$—	$ 54	$ 11,984
Provision for loan losses	95	585	210	175	(22)	9	—	27	1,079
Charge-offs	(231)	(25)	(66)	—	—	(12)	—	—	(334)
Recoveries	5	6	3	—	—	19	—	—	33
Balance at end of period	$ 1,970	$ 7,044	$ 2,567	$ 540	$ 210	$ 350	$—	$ 81	$ 12,762
Six months ended June 30, 2013									
Balance at the beginning of period	$ 2,377	$ 4,924	$ 2,965	$ 523	$ 159	$ 278	$—	$ 252	$ 11,478
Provision for loan losses	(185)	2,667	(338)	17	51	68	—	(171)	2,109

Charge-offs	(231)	(556)	(66)	—	—	(24)	—	—	(877)
Recoveries	9	9	6	—	—	28	—	—	52
Balance at end of period	$ 1,970	$ 7,044	$ 2,567	$ 540	$ 210	$ 350	$—	$ 81	$ 12,762

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The following table details the amount of the allowance for loan losses and recorded investment in loans by class as of June 30, 2014 and December 31, 2013:

	Commercial	Commercial Real Estate, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Unallocated	Total
June 30, 2014									
Allowance for losses:									
Individually evaluated for impairment	$ 52	$ 210	$ 7	$ —	$ —	$ 16	$—	$ —	$ 285
Collectively evaluated for impairment	3,624	8,890	2,284	584	272	333	—	(53)	15,934
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—
Ending balance	$ 3,676	$ 9,100	$ 2,291	$ 584	$ 272	$ 349	$—	$ (53)	$ 16,219
Loans:									
Individually evaluated for impairment	$ 142	$ 8,108	$ 3,187	$ —	$ —	$ 51	$—	$ —	$ 11,488
Collectively evaluated for impairment	558,023	1,510,766	476,208	112,642	41,445	68,671	142	—	2,767,897
Acquired with deteriorated credit quality	9,973	53,568	1,612	—	—	5	—	—	65,158
Ending balance	$ 568,138	$ 1,572,442	$ 481,007	$ 112,642	$ 41,445	$ 68,727	$ 142	$ —	$ 2,844,543
December 31, 2013									
Allowance for losses:									
Individually evaluated for impairment	$ 313	$ 504	$ 14	$ —	$ —	$ 24	$—	$ —	$ 855
Collectively evaluated for impairment	2,088	7,368	2,426	577	238	339	—	69	13,105
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—
Ending balance	$ 2,401	$ 7,872	$ 2,440	$ 577	$ 238	$ 363	$—	$ 69	$ 13,960
Loans:									
	$ 501	$ 8,013	$ 3,182	$ 170	$ —	$ 68	$—	$ —	$ 11,934

Individually evaluated for impairment									
Collectively evaluated for impairment	234,103	959,254	334,770	82,974	40,558	45,682	108	—	1,697,449
Acquired with deteriorated credit quality	6,574	6,489	702	—	—	12	—	—	13,777
Ending balance	$ 241,178	$ 973,756	$ 338,654	$ 83,144	$ 40,558	$ 45,762	$ 108	$ —	$ 1,723,160

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Nonperforming loans by loan class at June 30, 2014 and December 31, 2013, are summarized as follows:

	Commercial	Commercial Real Estate, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Total
June 30, 2014								
Nonaccrual loans	$ 161	$ 502	$ 1,868	$ —	$ —	$ 32	$—	$ 2,563
Loans past due 90 days and still accruing	—	—	—	—	—	—	—	—
Troubled debt restructurings (not included in nonaccrual or loans past due and still accruing)	91	5,193	1,272	—	—	—	—	6,556
	$ 252	$ 5,695	$ 3,140	$ —	$ —	$ 32	$—	$ 9,119
December 31, 2013								
Nonaccrual loans	$ 357	$ 253	$ 1,852	$ 170	$ —	$ 43	$—	$ 2,675
Loans past due 90 days and still accruing	—	—	—	—	—	—	—	—
Troubled debt restructurings (not included in nonaccrual or loans past due and still accruing)	107	5,090	1,288	—	—	1	—	6,486
	$ 464	$ 5,343	$ 3,140	$ 170	$ —	$ 44	$—	$ 9,161

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

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

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

Impaired loans by loan class at June 30, 2014 and December 31, 2013, are summarized as follows:

	Commercial	Commercial Real Estate, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Total
June 30, 2014								
Recorded investment in impaired loans:								
Impaired loans with an allowance for loan losses	$ 89	$ 2,129	$ 15	$ —	$ —	$ 29	$—	$2,262
Impaired loans with no allowance for loan losses	53	5,979	3,172	—	—	22	—	9,226
Total	$ 142	$ 8,108	$ 3,187	$ —	$ —	$ 51	$—	$11,488
Unpaid principal balance of impaired loans	$ 143	$ 9,077	$ 3,236	$ —	$ —	$ 59	$—	$12,515
Allowance for loan losses on impaired loans	$ 52	$ 210	$ 7	$ —	$ —	$ 16	$—	$285
December 31, 2013								
Recorded investment in impaired loans:								
Impaired loans with an allowance for loan losses	$ 401	$ 3,866	$ 1,135	$ —	$ —	$ 40	$—	$5,442
Impaired loans with no allowance for loan losses	100	4,147	2,047	170	—	28	—	6,492
Total	$ 501	$ 8,013	$ 3,182	$ 170	$ —	$ 68	$—	$11,934
Unpaid principal balance of impaired loans	$ 501	$ 8,408	$ 3,216	$ 170	$ —	$ 75	$—	$12,370
Allowance for loan losses on impaired loans	$ 313	$ 504	$ 14	$ —	$ —	$ 24	$—	$855
For the three months ended June 30, 2014								
Average recorded investment in impaired loans	$ 197	$ 7,835	$ 3,210	$ —	$ —	$ 54	$—	$11,296
Interest income recognized on impaired loans	$ 2	$ 109	$ 49	$ —	$ —	$ —	$—	$160
For the six months ended June 30, 2014								
Average recorded investment in impaired loans	$ 298	$ 7,894	$ 3,200	$ 57	$ —	$ 59	$—	$11,508
Interest income recognized on impaired loans	$ 5	$ 233	$ 78	$ —	$ —	$ 1	$—	$317
For the three months ended June 30, 2013								
Average recorded investment in impaired loans	$ 698	$ 8,246	$ 3,528	$ —	$ —	$ 78	$—	$12,550
Interest income recognized on impaired loans	$ 4	$ 104	$ 47	$ —	$ —	$ 1	$—	$156

For the six months ended June 30, 2013								
Average recorded investment in impaired loans	$ 706	$ 9,031	$ 3,477	$ —	$ —	$ 87	$—	$13,301
Interest income recognized on impaired loans	$ 12	$ 208	$ 87	$ —	$ —	$ 1	$—	$308

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

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

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

A “troubled debt restructured” loan is identified as impaired and measured for credit impairment as of each reporting period in accordance with the guidance in Accounting Standards Codification (ASC) 310-10-35. The recorded investment in troubled debt restructurings, including those on nonaccrual, was $7,971 and $7,938 as of June 30, 2014 and December 31, 2013.

Following is a summary of loans modified under troubled debt restructurings during the three months and six months ended June 30, 2014 and 2013:

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	Commercial	Commercial Real Estate, Land and Land Development	Residential Real Estate	Single-Family Interim Construction	Agricultural	Consumer	Other	Total
Troubled debt restructurings during the three months ended June 30, 2014								
Number of contracts	—	1	—	—	—	—	—	1
Pre-restructuring outstanding recorded investment	$—	$408	$—	$ —	$—	$—	$—	$408
Post-restructuring outstanding recorded investment	$—	$408	$—	$ —	$—	$—	$—	$408
Troubled debt restructurings during the six months ended June 30, 2014								
Number of contracts	—	2	—	—	—	—	—	2
Pre-restructuring outstanding recorded investment	$—	$1,108	$—	$ —	$—	$—	$—	$1,108
Post-restructuring outstanding recorded investment	$—	$1,108	$—	$ —	$—	$—	$—	$1,108
Troubled debt restructurings during the three months ended June 30, 2013								
Number of contracts	—	1	—	—	—	—	—	1
Pre-restructuring outstanding recorded investment	$—	$820	$—	$ —	$—	$—	$—	$820
Post-restructuring outstanding recorded investment	$—	$820	$—	$ —	$—	$—	$—	$820

Troubled debt restructurings during the six months ended June 30, 2013								
Number of contracts	—	1	—	—	—	—	—	1
Pre-restructuring outstanding recorded investment	$—	$820	$—	$ —	$—	$—	$—	$820
Post-restructuring outstanding recorded investment	$—	$820	$—	$ —	$—	$—	$—	$820

At June 30, 2014 and 2013, there were no loans modified under troubled debt restructurings during the previous twelve month period that subsequently defaulted during the three and six months ended June 30, 2014 and, 2013, respectively. At June 30, 2014 and 2013, the Company had no commitments to lend additional funds to any borrowers with loans whose terms have been modified under troubled debt restructurings.

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

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. The following table presents information regarding the aging of past due loans by loan class as of June 30, 2014 and December 31, 2013:

	Loans 30-89 Days Past Due	Loans 90 or More Past Due	Total Past Due Loans	Current Loans	Total Loans
June 30, 2014					
Commercial	$572	$—	$572	$567,566	$568,138
Commercial real estate, land and land development	2,078	431	2,509	1,569,933	1,572,442
Residential real estate	609	224	833	480,174	481,007
Single-family interim construction	—	—	—	112,642	112,642
Agricultural	46	—	46	41,399	41,445
Consumer	100	—	100	68,627	68,727
Other	—	—	—	142	142
	$3,405	$655	$4,060	$2,840,483	$2,844,543
December 31, 2013					
Commercial	$257	$357	$614	$240,564	$241,178
Commercial real estate, land and land development	2,076	73	2,149	971,607	973,756
Residential real estate	1,322	1,603	2,925	335,729	338,654
Single-family interim construction	—	170	170	82,974	83,144
Agricultural	3	—	3	40,555	40,558
Consumer	97	1	98	45,664	45,762
Other	—	—	—	108	108
	$3,755	$2,204	$5,959	$1,717,201	$1,723,160

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

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

A summary of loans by credit quality indicator by class as of June 30, 2014 and December 31, 2013, is as follows:

	Pass (Rating 1-4)	Pass/ Watch	OAEM	Substandard	Doubtful	Total
June 30, 2014						
Commercial	$562,175	$3,852	$1,641	$360	$110	$568,138
Commercial real estate, construction, land and land development	1,542,770	10,296	7,315	12,061	—	1,572,442
Residential real estate	470,645	5,862	338	4,162	—	481,007
Single-family interim construction	112,642	—	—	—	—	112,642
Agricultural	41,228	204	—	13	—	41,445
Consumer	68,562	55	52	58	—	68,727
Other	142	—	—	—	—	142
	$2,798,164	$20,269	$9,346	$16,654	$110	$2,844,543
December 31, 2013						
Commercial	$231,080	$7,199	$1,311	$1,453	$135	$241,178
Commercial real estate, construction, land and land development	952,863	10,697	2,982	7,214	—	973,756
Residential real estate	328,918	5,379	454	3,903	—	338,654
Single-family interim construction	83,144	—	—	—	—	83,144
Agricultural	40,328	210	—	20	—	40,558
Consumer	45,556	82	39	85	—	45,762
Other	108	—	—	—	—	108
	$1,681,997	$23,567	$4,786	$12,675	$135	$1,723,160

The Company has acquired certain loans which experienced credit deterioration since origination (purchased credit impaired (PCI) loans). Accretion on PCI loans is based on estimated future cash flows, regardless of contractual maturity. There are no PCI loans outstanding for acquisitions prior to 2012.

The following table summarizes the outstanding balance and related carrying amount of purchased credit impaired loans by acquired bank as of the respective acquisition date for the acquisitions occurring in 2014 and 2013:

	Acquisition Date		
	April 15, 2014	January 1, 2014	November 30, 2013
	Bank of Houston *	Live Oak	Collin Bank
Outstanding balance	$63,186	$3,583	$11,897
Nonaccretable difference	(3,170)	(519)	(1,810)
Accretable yield	(3,481)	(182)	(408)
Carrying amount	$56,535	$2,882	$9,679

* Amounts represent provisional estimates and are subject to final purchase accounting adjustments.

The carrying amount of all acquired PCI loans included in the consolidated balance sheet and the related outstanding balance at June 30, 2014 and December 31, 2013, were as follows:

	June 30, 2014	December 31, 2013
Outstanding balance	$74,864	$15,768
Carrying amount	65,158	13,777

At June 30, 2014 and December 31, 2013, there was no allocation established in the allowance for loan losses related to purchased credit impaired loans.

Note 5. Commitments and Contingencies

Financial Instruments with Off-Balance Sheet Risk
The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. The commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.
The Company’s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of this instrument. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.
At June 30, 2014 and December 31, 2013, the approximate amounts of these financial instruments were as follows:

	June 30, 2014	December 31, 2013
Commitments to extend credit	$544,387	$365,575
Standby letters of credit	10,115	2,120
	$554,502	$367,695

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer’s credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management’s credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, farm crops, property, plant and equipment and income-producing commercial properties.
Letters of credit are written conditional commitments used by the Company to guarantee the performance of a customer to a third party. The Company’s policies generally require that letter of credit arrangements contain security and debt covenants similar to those contained in loan arrangements. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount shown in the table above. If the commitment is funded, the Company would be entitled to seek recovery from the customer. As of June 30, 2014 and December 31, 2013, no amounts have been recorded as liabilities for the Company’s potential obligations under these guarantees.

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

Lease Commitments
The Company leases certain branch facilities and other facilities. Rent expense related to these leases amounted to $318 and $516 for the three and six months ended June 30, 2014, respectively, and $174 and $383 for the three and six months ended June 30, 2013, respectively.

Note 6. Repurchase Agreements and Other Borrowings

The Company assumed repurchase agreement accounts in the Live Oak acquisition on January 1, 2014. At June 30, 2014 and December 31, 2013, repurchase accounts totaled $3,932 and $0, respectively. Securities held in safekeeping totaling $5,088 are pledged as security on these repurchase agreement accounts.

Other borrowings, including those borrowings due to related parties totaled $7,730 at June 30, 2014 and December 31, 2013.

On June 4, 2014, the Company entered into a $35 million unsecured revolving line of credit with an unrelated bank. The line bears interest at LIBOR plus 2.50% and matures June 3, 2015. As of June 30, 2014 there had been no draws made on the line.

Note 7. Income Taxes

In connection with the initial public offering, the Company terminated its S-Corporation status and became a taxable entity (C Corporation) on April 1, 2013. As such, any periods prior to March 31, 2013 do not reflect income tax expense.

Income tax expense for the three months ended June 30, 2014 and 2013 and for the six months ended June 30, 2014 was as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,
	2014	2013	2014
Current income tax expense	$2,682	$2,005	$5,021
Initial recording of deferred tax benefit	—	(1,760)	—
Income tax expense for the period	$2,682	$245	$5,021
Effective tax rate	34.4%	4.0%	33.6%

The reported income tax expense for the three months ended June 30, 2013 reflects the initial recording of the deferred tax net asset of $1,760, which is the result of timing differences in the recognition of income/deductions for generally accepted accounting principles (GAAP) and tax purposes. Without the initial recording of the deferred tax benefit, the effective tax rate would have been 32.8%. The effective tax rates differ from the statutory federal tax rate of 35% largely due to tax exempt interest income earned on certain investment securities and loans and the nontaxable earnings on bank owned life insurance.

Note 8. Fair Value Measurements

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. ASC Topic 820, Fair Value Measurements and Disclosures, establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

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

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

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

The following table represents assets reported on the consolidated balance sheets at their fair value on a recurring basis as of June 30, 2014 and December 31, 2013 by level within the ASC Topic 820 fair value measurement hierarchy:

		Fair Value Measurements at Reporting Date Using		
	Assets/ Liabilities Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2014				
Measured on a recurring basis:				
Assets:				
Investment securities available for sale:				
U.S. treasuries	$1,009	$—	$1,009	$—
Government agency securities	78,394	—	78,394	—
Obligations of state and municipal subdivisions	77,999	—	77,999	—
Corporate bonds	1,083	—	1,083	—
Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC, SBIC and FHR	91,371	—	91,371	—
December 31, 2013				
Measured on a recurring basis:				
Assets:				
Investment securities available for sale:				
U.S. treasuries	$3,513	$—	$3,513	$—
Government agency securities	94,415	—	94,415	—
Obligations of state and municipal subdivisions	36,615	—	36,615	—
Corporate bonds	2,052	—	2,052	—
Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC and FHR	57,443	—	57,443	—

There were no transfers between Level 1 and Level 2 categorizations for the periods presented.

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

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

Contingent consideration, related to the acquisition of Town Center Bank in 2010, was reported at fair value using Level 3 inputs. The contingent consideration was remeasured on a recurring basis based on the expected present value of cash flows to be paid to the shareholders of the acquired institution using a market discount rate. In August 2013, the Company paid the final contingent payment. The following table presents the activity in the contingent consideration for the six months ended June 30, 2013:

	Six months ended June 30, 2013
Balance, beginning of period	$290

Settlements	—
Change in estimated payments to be made	(3)
Balance, end of period	$287

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In accordance with ASC Topic 820, certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets carried on the consolidated balance sheet by caption and by level in the fair value hierarchy at June 30, 2014 and December 31, 2013, for which a nonrecurring change in fair value has been recorded:

		Fair Value Measurements at Reporting Date Using			
	Assets Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Period Ended Total (Gains) Losses
June 30, 2014					
Measured on a nonrecurring basis:					
Assets:					
Impaired loans	$2,478	$—	$—	$2,478	$(14)
Other real estate	—	—	—	—	$—
December 31, 2013					
Measured on a nonrecurring basis:					
Assets:					
Impaired loans	$1,514	$—	$—	$1,514	$497
Other real estate	2,449	—	—	2,449	537

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

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

In addition, mortgage loans held for sale are required to be measured at the lower of cost or fair value. The fair value of mortgage loans held for sale is based upon binding quotes or bids from third party investors. As of June 30, 2014 and December 31, 2013, all mortgage loans held for sale were recorded at cost.

The methods and assumptions used by the Company in estimating fair values of financial instruments as disclosed herein in accordance with ASC Topic 825, Financial Instruments, other than for those measured at fair value on a recurring and nonrecurring basis discussed above, are as follows:
Cash and cash equivalents: The carrying amounts of cash and cash equivalents approximate their fair value.
Loans and loans held for sale: For variable-rate loans that reprice frequently and have no significant changes in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (for example, one-to-four family residential), commercial real estate and commercial loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.
Federal Home Loan Bank of Dallas and other restricted stock: The carrying value of restricted securities such as stock in the Federal Home Loan Bank of Dallas and Independent Bankers Financial Corporation approximates fair value.
Deposits: The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is their carrying amounts). The carrying amounts of variable-rate certificates of deposit (CDs) approximate their fair values at the reporting date. Fair values for fixed-rate CDs are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.
Federal Home Loan Bank advances, line of credit and federal funds purchased: The fair value of advances maturing within 90 days approximates carrying value. Fair value of other advances is based on the Company’s current borrowing rate for similar arrangements.
Repurchase agreements and other borrowings: The fair values are based upon prevailing rates on similar debt in the market place.
Junior subordinated debentures: The fair value of junior subordinated debentures is estimated using discounted cash flow analyses based on the Company’s current incremental borrowing rates for similar types of borrowing arrangements.
Accrued interest: The carrying amounts of accrued interest approximate their fair values.
Off-balance sheet instruments: Commitments to extend credit and standby letters of credit have short maturities and therefore have no significant fair value.

The carrying amount, estimated fair value and the level of the fair value hierarchy of the Company's financial instruments were as follows at June 30, 2014 and December 31, 2013:

			Fair Value Measurements at Reporting Date Using		
	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2014					
Financial assets:					
Cash and cash equivalents	$192,528	$192,528	$192,528	$—	$—
Securities available for sale	249,856	249,856	—	249,856	—
Loans held for sale	5,500	5,500	—	5,500	—
Loans, net	2,828,324	2,836,616	—	2,834,639	1,977
FHLB of Dallas stock and other restricted stock	13,805	13,805	—	13,805	—
Accrued interest receivable	8,669	8,669	—	8,669	—
Financial liabilities:					
Deposits	2,853,418	2,855,615	—	2,855,615	—
Accrued interest payable	1,166	1,166	—	1,166	—
FHLB advances	269,443	270,373	—	270,373	—
Repurchase agreements	3,932	3,932	—	3,932	—
Other borrowings	7,730	7,892	—	7,892	—
Junior subordinated debentures	18,147	18,130	—	18,130	—
Off-balance sheet assets (liabilities):					
Commitments to extend credit	—	—	—	—	—
Standby letters of credit	—	—	—	—	—
December 31, 2013					
Financial assets:					
Cash and cash equivalents	$93,054	$93,054	$93,054	$—	$—
Certificates of deposit held in other banks	—	—	—	—	—
Securities available for sale	194,038	194,038	—	194,038	—
Loans held for sale	3,383	3,383	—	3,383	—
Loans, net	1,709,200	1,714,815	—	1,710,228	4,587
FHLB of Dallas stock and other restricted stock	9,494	9,494	—	9,494	—
Accrued interest receivable	4,713	4,713	—	4,713	—
Financial liabilities:					
Deposits	1,710,319	1,712,654	—	1,712,654	—
Accrued interest payable	948	948	—	948	—
FHLB advances	187,484	189,092	—	189,092	—
Notes payable	—	—	—	—	—
Other borrowings	7,730	8,061	—	8,061	—
Junior subordinated debentures	18,147	18,099	—	18,099	—
Contingent consideration	—	—	—	—	—
Off-balance sheet assets (liabilities):					

Commitments to extend credit	—	—	—	—	—
Standby letters of credit	—	—	—	—	—

Note 9. Stock Awards and Stock Warrants

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

The following table summarizes the activity in nonvested shares for the six months ended June 30, 2014 and 2013:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested shares, December 31, 2013	306,524	$22.75
Granted during the period	189,069	56.70
Vested during the period	(113,964)	19.93
Nonvested shares, June 30, 2014	381,629	$40.41
Nonvested shares, December 31, 2012	208,608	$17.07
Granted during the period	111,420	28.38
Vested during the period	(20,157)	13.54
Nonvested shares, June 30, 2013	299,871	$21.86

Compensation expense related to these awards is recorded based on the fair value of the award at the date of grant and totaled $780 and $1,170 for the three and six months ended June 30, 2014, respectively and $413 and $594 for the three and six months ended June 30, 2013, respectively. Compensation expense is recorded in salaries and employee benefits in the accompanying consolidated statements of income. At June 30, 2014, future compensation expense is estimated to be $13,540 and will be recognized over a remaining weighted average period of 3.88 years.

The fair value of common stock awards that vested during the six months ended June 30, 2014 and 2013 was $6,015 and $511, respectively. The Company has recorded $1,022 and $0 to additional paid in capital, which represents the excess tax benefit recognized on the vested shares for the six months ended June 30, 2014 and 2013, respectively.

At June 30, 2014, the future vesting schedule of the nonvested shares is as follows:

First year	90,573
Second year	72,692
Third year	109,600
Fourth year	76,164
Fifth year	32,600
Total nonvested shares	381,629

The Company has issued warrants representing the right to purchase 150,544 shares of Company stock at $17.19 per share to certain Company directors and shareholders. The warrants were issued in return for the shareholders' agreement to repurchase the subordinated debt outstanding to an unaffiliated bank in the event of Company default. The warrants expire in December 2018 and were recorded as equity at a fair value of $475 as of the date of the warrants issuance. The Company recorded this amount as debt origination costs and was amortizing it over the term of the debt. In April 2013, the Company paid off the subordinated debt and wrote off the remaining balance of $223 of the debt origination costs to interest expense.

Note 10. Regulatory Matters

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

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of June 30, 2014 and December 31, 2013, the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of June 30, 2014 and December 31, 2013, the Bank’s capital ratios exceeded those levels necessary to be categorized as “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as “well capitalized," the Bank must maintain minimum total risk based, Tier I risk based and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank’s category.

The actual capital amounts and ratios of the Company and Bank as of June 30, 2014 and December 31, 2013, are presented in the following table:

	Actual			Minimum for Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
June 30, 2014									
Total capital to risk weighted assets:									
Consolidated	$311,289	11.00	%	$226,329	8.00	%	N/A	N/A	
Bank	304,196	10.76		226,129	8.00		$282,661	10.00	%
Tier I capital to risk weighted assets:									
Consolidated	288,886	10.21		113,165	4.00		N/A	N/A	
Bank	287,977	10.19		113,064	4.00		169,596	6.00	%
Tier I capital to average assets:									
Consolidated	288,886	9.07		127,427	4.00		N/A	N/A	
Bank	287,977	8.69		132,525	4.00		165,657	5.00	%

December 31, 2013									
Total capital to risk weighted assets:									
Consolidated	$234,794	13.83	%	$135,801	8.00	%	N/A	N/A	
Bank	212,656	12.54		135,648	8.00		$169,560	10.00	%
Tier I capital to risk weighted assets:									
Consolidated	214,650	12.64		67,901	4.00		N/A	N/A	
Bank	198,696	11.72		67,824	4.00		101,736	6.00	%
Tier I capital to average assets:									
Consolidated	214,650	10.71		80,204	4.00		N/A	N/A	
Bank	198,696	9.97		79,710	4.00		99,637	5.00	%

Note 11. Small Business Lending Fund Preferred Stock

In connection with the acquisition of BOH Holdings on April 15, 2014, the Company entered into an Assignment and Assumption Agreement with BOH Holdings to acquire all assets and assume all liabilities of BOH Holdings. BOH Holdings participated in the US Treasury's Small Business Lending Fund (SBLF) program. The SBLF is a U.S. Department of the Treasury lending program that encourages qualified community banks to partner with small businesses and entrepreneurs to create jobs and promote economic development in local communities. As a result of continued participation in the program, the Company issued 23,938.35 shares of Senior Non-Cumulative Perpetual SBLF Preferred Stock, Series A at $1,000 par value to the US Treasury Department in exchange for the 23,938.35 shares of BOH Series C SBLF Preferred Stock.

The SBLF Preferred Stock qualifies as Tier 1 capital. The holders of SBLF Preferred Stock are entitled to receive non-cumulative dividends, payable quarterly. The dividend rate was determined based on the level of Qualified Small Business Lending at BOH Holdings and was set at 1.00% at time of acquisition. The Company qualified for the 1.00% rate continuing through January 2016, at which time the dividend rate will increase to 9.00%. During the three and six months ended June 30, 2014, the Company accrued preferred stock dividends of $49.

The Series A Preferred Stock is non-voting, except in limited circumstances. The Company may redeem the shares of Series A Preferred Stock, in whole or in part, at any time at a redemption price equal to the sum of the Liquidation Amount per share and the per share amount of any unpaid dividends for the then-current period, subject to any required prior approval by the Company’s primary federal banking regulator.

Note 12. Business Combinations

Collin Bank

During the six months ended June 30, 2014, the Company made certain measurement-period adjustments to previous purchase accounting estimates for the November 30, 2013 acquisition of Collin Bank. The differences from estimated values resulted from completion of the valuations. The following table summarizes the previously reported estimates and the measurement-period adjustments made to asset and liability accounts to derive at the final purchase accounting allocations for Collin Bank.

	As Reported at December 31, 2013	Measurement Period Adjustments	Final Recorded Value
Assets of acquired bank:			
Cash and cash equivalents	$22,792	$—	$22,792
Securities available for sale	62,373	—	62,373
Loans	72,611	(328)	72,283
Premises and equipment	141	—	141
Investment in FHLB stock	1,156	—	1,156
Goodwill	5,962	749	6,711
Core deposit intangible	600	(18)	582
Deferred tax asset	1,385	109	1,494
Other assets	775	10	785
Total assets	$167,795	$522	$168,317

Liabilities of acquired bank:

Deposits	$111,164	$505	$111,669
FHLB advances	26,000	—	26,000
Other liabilities	358	17	375
Total liabilities	$137,522	$522	$138,044
Common stock issued in the Collin Bank transaction	$11,861	$—	$11,861
Cash paid in the Collin Bank transaction	$18,412	$—	$18,412

Live Oak Financial Corp.
On January 1, 2014, the Company acquired 100% of the outstanding stock of Live Oak Financial Corp. and its wholly owned subsidiary, Live Oak State Bank, Dallas, TX (Live Oak) with one branch located east of downtown Dallas. The Company issued 235,594 shares of Company stock and paid $10.0 million in cash for the outstanding shares of Live Oak common stock.

The Company recognized goodwill of $6,956, which is calculated as the excess of both the consideration exchanged and liabilities assumed compared to the fair market value of identifiable assets acquired. The goodwill in this acquisition resulted from a combination of expected synergies and a desirable branch location. None of the goodwill recognized is expected to be deductible for income tax purposes.

The Company has incurred expenses related to the acquisition of approximately $54 during the three months ended March 31, 2014, which is included in acquisition expenses in the consolidated statements of income. The acquisition is not considered significant to the Company's financial statements and therefore, pro forma financial data is not included.

Non-credit impaired loans had a fair value of $68,256 at the date of acquisition and contractual balances of $68,351. The difference of $95 will be recognized into interest income as an adjustment to yield over the life of the loans.

Fair values of the assets acquired and liabilities assumed in this transaction as of the closing date are as follows:

Assets of acquired bank:	
Cash and cash equivalents	$32,246
Securities available for sale	16,740