

FIRST FINANCIAL BANKSHARES INC
Form 10-Q
May 02, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018

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, a smaller reporting company or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company and emerging growth 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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
Common Stock, \$0.01 par value per share

Outstanding at May 2, 2018
67,623,470

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

The consolidated balance sheets of First Financial Bankshares, Inc. (the Company or we) at March 31, 2018 and 2017 and December 31, 2017, and the consolidated statements of earnings, comprehensive earnings, shareholders' equity and cash flows for the three months ended March 31, 2018 and 2017, 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)**

	March 31, 2018	March 31, 2017 (Unaudited)	December 31, 2017
<u>ASSETS</u>			
CASH AND DUE FROM BANKS	\$ 130,979	\$ 163,674	\$ 209,583
FEDERAL FUNDS SOLD		3,840	
INTEREST-BEARING DEPOSITS IN BANKS	67,060	55,165	162,764
Total cash and cash equivalents	198,039	222,679	372,347
INTEREST-BEARING TIME DEPOSITS IN BANKS	1,458	1,707	1,458
SECURITIES AVAILABLE-FOR-SALE, at fair value	3,276,193	3,018,279	3,087,473
SECURITIES HELD-TO-MATURITY (fair value of \$116 at March 31, 2017)		114	
LOANS:			
Held for investment	3,730,051	3,372,512	3,485,569
Less allowance for loan losses	(49,499)	(46,192)	(48,156)
Net loans held for investment	3,680,552	3,326,320	3,437,413
Held for sale	17,030	13,629	15,130
Net loans	3,697,582	3,339,949	3,452,543
BANK PREMISES AND EQUIPMENT, net	126,446	122,787	124,026
INTANGIBLE ASSETS	175,569	143,435	141,143
OTHER ASSETS	92,162	81,420	75,725
Total assets	\$ 7,567,449	\$ 6,930,370	\$ 7,254,715
<u>LIABILITIES AND SHAREHOLDERS EQUITY</u>			
NONINTEREST-BEARING DEPOSITS	\$ 2,111,116	\$ 1,827,609	\$ 2,041,650
INTEREST-BEARING DEPOSITS	4,079,647	3,834,359	3,921,311
Total deposits	6,190,763	5,661,968	5,962,961
DIVIDENDS PAYABLE	12,589	11,904	12,589
BORROWINGS	372,155	360,264	331,000
OTHER LIABILITIES	22,128	36,880	25,397
Total liabilities	6,597,635	6,071,016	6,331,947
COMMITMENTS AND CONTINGENCIES			
SHAREHOLDERS EQUITY:			

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Common stock (\$0.01 par value, authorized 120,000,000 shares; 67,612,760, 66,131,832 and 66,260,444 shares issued at March 31, 2018 and 2017 and December 31, 2017, respectively)	676	661	663
Capital surplus	437,868	373,023	378,062
Retained earnings	533,427	461,229	517,257
Treasury stock (shares at cost: 493,994, 503,105, and 495,964 at March 31, 2018 and 2017, and December 31, 2017, respectively)	(7,291)	(6,790)	(7,148)
Deferred compensation	7,291	6,790	7,148
Accumulated other comprehensive earnings (loss)	(2,157)	24,441	26,786
Total shareholders equity	969,814	859,354	922,768
Total liabilities and shareholders equity	\$ 7,567,449	\$ 6,930,370	\$ 7,254,715

See notes to consolidated financial statements.

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

(Dollars in thousands, except per share amounts)

	Three Months Ended March 31,	
	2018	2017
INTEREST INCOME:		
Interest and fees on loans	\$ 46,746	\$ 39,584
Interest on investment securities:		
Taxable	11,354	7,431
Exempt from federal income tax	10,341	11,492
Interest on federal funds sold and interest-bearing deposits in banks	641	276
Total interest income	69,082	58,783
INTEREST EXPENSE:		
Interest on deposits	3,519	1,590
Other	114	173
Total interest expense	3,633	1,763
Net interest income	65,449	57,020
PROVISION FOR LOAN LOSSES	1,310	1,950
Net interest income after provision for loan losses	64,139	55,070
NONINTEREST INCOME:		
Trust fees	6,904	6,017
Service charges on deposit accounts	4,884	4,550
ATM, interchange and credit card fees	6,996	6,164
Real estate mortgage operations	2,933	3,417
Net gain on sale of available-for-sale securities (includes \$1,221 and \$3 for the three months ended March 31, 2018 and 2017, respectively, related to accumulated other comprehensive earnings reclassifications)	1,221	3
Net gain on sale of foreclosed assets	99	41
Net (loss) gain on sale of assets	(91)	4
Interest on loan recoveries	119	154
Other	1,358	936
Total noninterest income	24,423	21,286
NONINTEREST EXPENSE:		
Salaries and employee benefits	26,203	23,259
Net occupancy expense	2,883	2,600

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Equipment expense	3,516	3,437
FDIC insurance premiums	566	547
ATM, interchange and credit card expenses	2,143	1,713
Professional and service fees	2,413	1,817
Printing, stationery and supplies	486	438
Operational and other losses	566	985
Software amortization and expense	524	500
Amortization of intangible assets	387	168
Other	8,111	6,688
Total noninterest expense	47,798	42,152
EARNINGS BEFORE INCOME TAXES	40,764	34,204
INCOME TAX EXPENSE (includes \$256 and \$1 for the three months ended March 31, 2018 and 2017, respectively, related to income tax expense reclassification)	6,245	7,605
NET EARNINGS	\$ 34,519	\$ 26,599
EARNINGS PER SHARE, BASIC	\$ 0.51	\$ 0.40
EARNINGS PER SHARE, ASSUMING DILUTION	\$ 0.51	\$ 0.40
DIVIDENDS PER SHARE	\$ 0.19	\$ 0.18

See notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2018	2017
NET EARNINGS	\$ 34,519	\$ 26,599
OTHER ITEMS OF COMPREHENSIVE EARNINGS (LOSS):		
Change in unrealized gain on investment securities available-for-sale, before income taxes	(42,706)	9,228
Reclassification adjustment for realized gains on investment securities included in net earnings, before income taxes	(1,221)	(3)
Total other items of comprehensive earnings (loss)	(43,927)	9,225
Income tax benefit (expense) related to other items of comprehensive earnings	9,225	(3,229)
Reclassification of certain income tax effects related to the change in the U.S. statutory federal income tax rate under the Tax Cuts and Jobs Act to retained earnings	5,759	
COMPREHENSIVE EARNINGS (LOSS)	\$ 5,576	\$ 32,595

See notes to consolidated financial statements.

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

(Dollars in thousands, except per share amounts)

	Common Stock Shares	Common Stock Amount	Capital Surplus	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Deferred Compensation	Accumulated Other Comprehensive Earnings	Total Shareholders Equity
Balances at December 31, 2016	66,094,695	\$ 661	\$ 372,245	\$ 446,534	(507,409)	\$(6,671)	\$ 6,671	\$ 18,445	\$ 837,885
Net earnings (unaudited)				26,599					26,599
Stock option exercises (unaudited)	37,137		563						563
Cash dividends declared, \$0.18 per share (unaudited)				(11,904)					(11,904)
Change in unrealized gain in investment securities available-for-sale, net of related income taxes (unaudited)								5,996	5,996
Shares purchased (redeemed) in connection with directors' deferred compensation plan, net (unaudited)					4,304	(119)	119		
Stock option expense (unaudited)			215						