Independent Bank Group, Inc.
Form 10-Q
May 05, 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 March 31, 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 – 16,366,821 shares as of May 2, 2014.

INDEPENDENT BANK GROUP, INC. AND SUBSIDIARIES
Form 10-Q
March 31, 2014

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Independent Bank Group, Inc. and Subsidiaries

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

Assets	March 31, 2014	December 31, 2013
Cash and due from banks	$32,771	$27,408
Federal Reserve Excess Balance Account (EBA)	64,944	65,646
Cash and cash equivalents	97,715	93,054
Securities available for sale (amortized cost of $204,761 and $196,689, respectively)	204,539	194,038
Loans held for sale	2,191	3,383
Loans, net of allowance for loan losses of $14,841 and $13,960, respectively	1,878,241	1,709,200
Premises and equipment, net	74,461	72,735
Other real estate owned	2,909	3,322
Federal Home Loan Bank (FHLB) of Dallas stock and other restricted stock	9,012	9,494
Bank-owned life insurance (BOLI)	21,421	21,272
Deferred tax asset	3,937	4,834
Goodwill	42,575	34,704
Core deposit intangible, net	3,813	3,148
Other assets	12,861	14,800
Total assets	$2,353,675	$2,163,984
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing	$352,735	$302,756
Interest-bearing	1,537,942	1,407,563
Total deposits	1,890,677	1,710,319
FHLB advances	174,462	187,484
Repurchase agreements	4,535	—
Other borrowings	4,460	4,460
Other borrowings, related parties	3,270	3,270
Junior subordinated debentures	18,147	18,147
Other liabilities	5,616	6,532
Total liabilities	2,101,167	1,930,212
Commitments and contingencies		
Stockholders' equity:		
Common stock (12,592,935 and 12,330,158 shares outstanding, respectively)	126	123
Additional paid-in capital	235,225	222,116
Retained earnings	16,708	12,663
Accumulated other comprehensive income (loss)	449	(1,130)
Total stockholders' equity	252,508	233,772
Total liabilities and stockholders' equity	$2,353,675	$2,163,984

See Notes to Consolidated Financial Statements

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Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Income
Three Months Ended March 31, 2014 and 2013 (unaudited)
(Dollars in thousands, except per share information)

	Three Months Ended March 31,	
	2014	2013
Interest income:		
Interest and fees on loans	$24,123	$20,759
Interest on taxable securities	699	333
Interest on nontaxable securities	257	249
Interest on federal funds sold and other	83	80
Total interest income	25,162	21,421
Interest expense:		
Interest on deposits	1,907	1,728
Interest on FHLB advances	852	828
Interest on repurchase agreements, notes payable and other borrowings	135	515
Interest on junior subordinated debentures	133	135
Total interest expense	3,027	3,206
Net interest income	22,135	18,215
Provision for loan losses	1,253	1,030
Net interest income after provision for loan losses	20,882	17,185
Noninterest income:		
Service charges on deposit accounts	1,211	1,139
Mortgage fee income	730	1,066
Gain on sale of other real estate	39	25
Gain on sale of premises and equipment	—	1
Increase in cash surrender value of BOLI	149	81
Other	205	114
Total noninterest income	2,334	2,426
Noninterest expense:		
Salaries and employee benefits	9,134	7,748
Occupancy	2,538	2,147
Data processing	496	296
FDIC assessment	304	246
Advertising and public relations	234	216
Communications	320	340
Net other real estate owned expenses (including taxes)	79	166
Operations of IBG Adriatica, net	23	197
Other real estate impairment	—	448
Core deposit intangible amortization	199	176
Professional fees	368	272
Acquisition expense, including legal	476	137
Other	1,905	1,534
Total noninterest expense	16,076	13,923
Income before taxes	7,140	5,688
Income tax expense	2,339	—

Net income	$4,801	$5,688
Basic earnings per share	$0.38	$0.69
Diluted earnings per share	$0.38	$0.68
Pro Forma:		
Income tax expense	n/a	1,866
Net income	n/a	$3,822
Basic earnings per share	n/a	$0.46
Diluted earnings per share	n/a	$0.46

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income
Three Months Ended March 31, 2014 and 2013 (unaudited)
(Dollars in thousands)

	Three Months Ended March 31,	
	2014	2013
Net income	$4,801	$5,688
Other comprehensive income (loss) before tax:		
Change in net unrealized gains (losses) on available for sale securities during the year	2,429	(884)
Reclassification adjustment for loss on sale of securities available for sale included in net income	—	—
Other comprehensive income (loss) before tax	2,429	(884)
Income tax expense (benefit)	850	—
Other comprehensive income (loss), net of tax	1,579	(884)
Comprehensive income	$6,380	$4,804

See Notes to Consolidated Financial Statements

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Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity
Three Months Ended March 31, 2014 and 2013 (unaudited)
(Dollars in thousands, except for par value and share information)

	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	—	—	—	4,801	—	—	4,801
Other comprehensive income, net of tax	—	—	—	—	—	1,579	1,579
Stock issued for acquisition of bank	235,594	3	11,697	—	—	—	11,700
Restricted stock granted	27,183	—	—	—	—	—	—
Stock based compensation expense	—	—	390	—	—	—	390
Excess tax benefit on restricted stock vested	—	—	1,022	—	—	—	1,022
Dividends ($0.06 per share)	—	—	—	(756)	—	—	(756)
Balance, March 31, 2014	12,592,935	$126	$235,225	$16,708	$—	$ 449	$252,508
Balance, December 31, 2012	8,278,354	$83	$88,791	$33,290	$(232)	$ 2,578	$124,510
Net income	—	—	—	5,688	—	—	5,688
Other comprehensive loss	—	—	—	—	—	(884)	(884)
Stock based compensation expense	—	—	182	—	—	—	182
Dividends ($0.65 per share)	—	—	—	(5,354)	—	—	(5,354)
Balance, March 31, 2013	8,278,354	$83	$88,973	$33,624	$(232)	$ 1,694	$124,142

See Notes to Consolidated Financial Statements

Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Three Months Ended March 31, 2014 and 2013 (unaudited)
(Dollars in thousands)

	Three Months Ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net income	$4,801	$5,688
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	1,145	949
Amortization of core deposit intangibles	199	176
Amortization (accretion) of premium (discount) on securities, net	394	(1)
Stock based compensation expense	390	182
FHLB stock dividends	(9)	(5)
Net loss (gain) on sale of premises and equipment	—	(1)
Gain recognized on other real estate transactions	(39)	(25)
Impairment of other real estate	—	448
Deferred tax expense	173	—
Provision for loan losses	1,253	1,030
Increase in cash surrender value of life insurance	(149)	(81)
Loans originated for sale	(28,070)	(47,740)
Proceeds from sale of loans	29,262	50,812
Net change in other assets	1,012	(644)
Net change in other liabilities	(3,326)	(1,355)
Net cash provided by operating activities	7,036	9,433
Cash flows from investing activities:		
Proceeds from maturities and pay downs of securities available for sale	20,941	6,137
Purchases of securities available for sale	(8,667)	(8,205)
Proceeds from maturities of certificates held in other banks	—	3,038
Net purchases of FHLB stock	491	—
Net loans originated	(99,556)	(49,419)
Additions to premises and equipment	(282)	(3,279)
Proceeds from sale of premises and equipment	11	9
Proceeds from sale of other real estate owned	552	496
Capitalized additions to other real estate	(28)	(55)
Cash received from acquired bank	32,246	—
Cash paid in connection with acquisition	(10,000)	—
Net cash used in investing activities	(64,292)	(51,278)
Cash flows from financing activities:		
Net increase in demand deposits, NOW and savings accounts	26,181	8,975
Net increase in time deposits	48,712	15,384
Net change in FHLB advances	(13,022)	(49)
Net change in repurchase agreements	802	—
Repayments of notes payable and other borrowings	—	(835)
Dividends paid	(756)	(3,030)
Net cash provided by financing activities	61,917	20,445
Net change in cash and cash equivalents	4,661	(21,400)
Cash and cash equivalents at beginning of year	93,054	102,290

Cash and cash equivalents at end of year	$97,715	$80,890

See Notes to Consolidated Financial Statements

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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 and Central Texas 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. 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 months ended March 31, 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.

Reclassifications: Certain prior period accounts have been reclassified to conform with current year presentation.

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

participating non vested common stock was not included as it was anti-dilutive. Proceeds from the assumed exercise of dilutive stock warrants are assumed to be used to repurchase common stock at the average market price.

	Three Months Ended March 31,	
	2014	2013
Basic earnings per share:		
Net income	$4,801	$5,688
Less:		
Undistributed earnings allocated to participating securities	58	6
Dividends paid on participating securities	11	93
Net income available to common shareholders	$4,732	$5,589
Weighted-average basic shares outstanding	12,403,387	8,125,279
Basic earnings per share	$0.38	$0.69
Diluted earnings per share:		
Net income available to common shareholders	$4,732	$5,589
Total weighted-average basic shares outstanding	12,403,387	8,125,279
Add dilutive stock warrants	101,643	42,447
Total weighted-average diluted shares outstanding	12,505,030	8,167,726
Diluted earnings per share	$0.38	$0.68
Pro forma earnings per share:		
Pro forma net income	n/a	$3,822
Less undistributed earnings allocated to participating securities	n/a	(27)
Less dividends paid on participating securities	n/a	93
Pro forma net income available to common shareholders after tax	n/a	$3,756
Pro forma basic earnings per share	n/a	$0.46
Pro forma diluted earnings per share	n/a	$0.46
Anti-dilutive participating securities	109,040	118,572

Note 2. Statement of Cash Flows

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

	Three Month Ended March 31,	
	2014	2013
Cash transactions:		
Interest expense paid	$3,045	$3,250
Income taxes paid	$2,700	$—
Noncash transactions:		
Dividends declared, not yet paid	$—	$2,324
Transfers of loans to other real estate owned	$120	$2,503
Loans to facilitate the sale of other real estate owned	$48	$—
Security purchased, not yet settled	$2,000	$—
Excess tax benefit on restricted stock vested	$1,022	$—

Supplemental schedule of noncash investing activities from the Live Oak Financial Corp. acquisition is as follows:

	Three Months Ended March 31,	
	2014	2013
Noncash assets acquired		
Cash and cash equivalents	$32,246	$—
Securities available for sale	16,740	—
Loans	71,138	—
Premises and equipment	2,600	—
Goodwill	7,122	—
Core deposit intangibles	882	—
Other assets	230	—
Total assets	$130,958	$—
Noncash liabilities assumed:		
Deposits	$104,960	$—
Repurchase agreements	3,733	—
Other liabilities	565	—
Total liabilities	$109,258	$—
Cash paid to shareholders of acquired bank	$10,000	$—
Fair value of common stock issued to shareholders of acquired bank	$11,700	$—

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

	Three Months Ended March 31,	
	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 March 31, 2014 and December 31, 2013, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
March 31, 2014:				
U.S. treasuries	$999	$9	$—	$1,008
Government agency securities	90,761	134	(657)	90,238
Obligations of state and municipal subdivisions	37,545	959	(1,050)	37,454
Corporate bonds	2,076	—	(4)	2,072
Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC and FHR	73,380	419	(32)	73,767
	$204,761	$1,521	$(1,743)	$204,539
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 $165,746 and $111,673 at March 31, 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 months ended March 31, 2014 and 2013.

The amortized cost and estimated fair value of securities available for sale at March 31, 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.

	March 31, 2014	
	Securities Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$2,595	$2,600
Due from one year to five years	63,732	63,247
Due from five to ten years	32,623	32,697
Thereafter	32,431	32,228
	131,381	130,772
Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC and FHR	73,380	73,767
	$204,761	$204,539

The number of securities, unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of March 31, 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								
March 31, 2014								
Government agency securities	34	$51,181	$(657)	—	$—	$—	$51,181	$(657)
Obligations of state and municipal subdivisions	12	7,211	(289)	13	7,975	(761)	15,186	(1,050)
Corporate bonds	1	1,073	(4)	—	—	—	1,073	(4)
Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC and FHR	7	13,741	(32)	—	—	—	13,741	(32)
	54	$73,206	$(982)	13	$7,975	$(761)	$81,181	$(1,743)
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.