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 June 30, 2013

Commission file number 0-7674

FIRST FINANCIAL BANKSHARES, INC.

(Exact name of registrant as specified in its charter)

Texas	**75-0944023**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization)	**Identification No.)**
400 Pine Street, Abilene, Texas	**79601**
(Address of principal executive offices)	**(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 x 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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

Class	Outstanding at July 30, 2013
Common Stock, $0.01 par value per share	31,967,424

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

The consolidated balance sheets of First Financial Bankshares, Inc. (the Company) at June 30, 2013 and 2012 and December 31, 2012, the consolidated statements of earnings and comprehensive earnings, for the three and six months ended June 30, 2013 and 2012, and changes in shareholders equity and cash flows for the six months ended June 30, 2013 and 2012, follow on pages 4 through 8.

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FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

	June 30, 2013	June 30, 2012	December 31, 2012
	(Unaudited)		
ASSETS			
CASH AND DUE FROM BANKS	$ 138,087	$ 122,534	$ 207,018
FEDERAL FUNDS SOLD	16,025	10,100	14,045
INTEREST-BEARING DEPOSITS IN BANKS	6,624	25,794	139,676
Total cash and cash equivalents	160,736	158,428	360,739
INTEREST-BEARING TIME DEPOSITS IN BANKS	39,350	74,594	49,005
SECURITIES AVAILABLE-FOR-SALE, at fair value	1,974,604	1,961,908	1,819,035
SECURITIES HELD-TO-MATURITY (fair value of $900, $1,485 and $1,080 at June 30, 2013 and 2012 and December 31, 2012, respectively)	886	1,459	1,061
LOANS			
Held for investment	2,560,890	1,908,615	2,077,166
Less - allowance for loan losses	(34,099)	(34,747)	(34,839)
Net loans held for investment	2,526,791	1,873,868	2,042,327
Held for sale	17,993	9,677	11,457
Net loans	2,544,784	1,883,545	2,053,784
BANK PREMISES AND EQUIPMENT, net	94,808	80,404	84,122
INTANGIBLE ASSETS	97,248	72,040	71,973
OTHER ASSETS	70,189	59,426	62,293
Total assets	$ 4,982,605	$ 4,291,804	$ 4,502,012
LIABILITIES AND SHAREHOLDERS EQUITY			
NONINTEREST-BEARING DEPOSITS	$ 1,305,049	$ 1,156,238	$ 1,311,708
INTEREST-BEARING DEPOSITS	2,612,540	2,235,942	2,320,876
Total deposits	3,917,589	3,392,180	3,632,584
DIVIDENDS PAYABLE	8,311	7,870	
SHORT-TERM BORROWINGS	431,575	251,428	259,697
OTHER LIABILITIES	49,266	106,063	52,768
Total liabilities	4,406,741	3,757,541	3,945,049
COMMITMENTS AND CONTINGENCIES			
SHAREHOLDERS EQUITY			
Common stock - $0.01 par value, authorized 80,000,000 shares; 31,967,424, 31,481,747, and 31,496,881 shares issued at June 30, 2013 and 2012 and December 31, 2012, respectively	320	315	315

Capital surplus	301,963	276,801	277,412
Retained earnings	249,804	205,554	227,927
Treasury stock (shares at cost: 269,579, 263,917, and 266,845 at June 30, 2013 and 2012 and December 31, 2012, respectively)	(5,259)	(4,763)	(5,007)
Deferred compensation	5,259	4,763	5,007
Accumulated other comprehensive earnings	23,777	51,593	51,309
Total shareholders equity	575,864	534,263	556,963
Total liabilities and shareholders equity	$ 4,982,605	$ 4,291,804	$ 4,502,012

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 June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
INTEREST INCOME:				
Interest and fees on loans	$ 28,950	$ 25,014	$ 55,396	$ 49,654
Interest on investment securities:				
Taxable	6,313	8,214	12,688	17,018
Exempt from federal income tax	7,063	6,456	13,642	12,598
Interest on federal funds sold and interest-bearing deposits in banks	120	227	296	438
Total interest income	42,446	39,911	82,022	79,708
INTEREST EXPENSE:				
Interest on deposits	853	1,310	1,721	2,793
Other	93	45	130	102
Total interest expense	946	1,355	1,851	2,895
Net interest income	41,500	38,556	80,171	76,813
PROVISION FOR LOAN LOSSES	832	759	1,233	2,055
Net interest income after provision for loan losses	40,668	37,797	78,938	74,758
NONINTEREST INCOME:				
Trust fees	3,953	3,670	7,746	7,124
Service charges on deposit accounts	4,316	4,042	8,211	7,924
ATM, interchange and credit card fees	4,181	3,784	7,910	7,460
Real estate mortgage operations	1,686	1,218	3,069	2,268
Net gain on available-for-sale securities (includes $33 and $382 for the three months ended June 30, 2013 and 2012, and $255 and $728 for the six months ended June 30, 2013 and 2012, respectively, related to accumulated other comprehensive earnings reclassifications)	33	382	255	728
Net gain (loss) on sale of foreclosed assets	17	(404)	(299)	(406)
Other	967	772	2,221	1,664
Total noninterest income	15,153	13,464	29,113	26,762
NONINTEREST EXPENSE:				
Salaries and employee benefits	16,151	14,189	31,331	28,418
Net occupancy expense	2,064	1,743	3,831	3,480
Equipment expense	2,380	2,144	4,661	4,252
FDIC insurance premiums	568	565	1,141	1,093
ATM, interchange and credit card expenses	1,347	1,450	2,687	2,699
Professional and service fees	1,027	689	1,830	1,426
Printing, stationery and supplies	498	511	970	1,015
Amortization of intangible assets	33	38	43	82
Other	5,843	5,416	10,888	10,748
Total noninterest expense	29,911	26,745	57,382	53,213

EARNINGS BEFORE INCOME TAXES	25,910	24,516	50,669	48,307
INCOME TAX EXPENSE (includes $12 and $134 for the three months ended June 30, 2013 and 2012, respectively, and $89 and $255 for the six months ended June 30, 2013 and 2012, respectively related to income tax expense from reclassification items)	6,420	6,165	12,602	12,200
NET EARNINGS	$ 19,490	$ 18,351	$ 38,067	$ 36,107
EARNINGS PER SHARE, BASIC	$ 0.62	$ 0.58	$ 1.20	$ 1.15
EARNINGS PER SHARE, ASSUMING DILUTION	$ 0.61	$ 0.58	$ 1.20	$ 1.15
DIVIDENDS PER SHARE	$ 0.26	$ 0.25	$ 0.51	$ 0.49

See notes to consolidated financial statements.

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FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS - (UNAUDITED)

(Dollars in thousands)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
NET EARNINGS	$ 19,490	$ 18,351	$ 38,067	$ 36,107
OTHER ITEMS OF COMPREHENSIVE EARNINGS:				
Change in unrealized gain on investment securities available-for-sale, before income taxes	(35,988)	10,536	(42,103)	7,448
Reclassification adjustment for realized gains on investment securities included in net earnings, before income tax	(33)	(382)	(255)	(728)
Total other items of comprehensive earnings	(36,021)	10,154	(42,358)	6,720
Income tax expense related to other items of comprehensive earnings	12,608	(3,554)	14,826	(2,352)
COMPREHENSIVE EARNINGS	$ (3,923)	$ 24,951	$ 10,535	$ 40,475

See notes to consolidated financial statements.

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FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(Dollars in thousands, except per share amounts)

	Common Stock		Capital	Retained	Treasury Stock		Deferred	Accumulated Other Comprehensive	Total Shareholders
	Shares	Amount	Surplus	Earnings	Shares	Amounts	Compensation	Earnings	Equity
Balances at December 31, 2011	31,459,635	$ 314	$ 276,127	$ 184,871	(258,235)	$ (4,597)	$ 4,597	$ 47,225	$ 508,537
Net earnings (unaudited)				36,107					36,107
Stock option exercises (unaudited)	22,112	1	481						482
Cash dividends declared, $0.49 per share (unaudited)				(15,424)					(15,424)
Change in unrealized gain in investment securities available-for-sale, net of related income taxes (unaudited)								4,368	4,368
Additional tax benefit related to directors deferred compensation plan (unaudited)			20						20
Shares purchased in connection with directors deferred compensation plan, net (unaudited)					(5,682)	(166)	166		
Stock option expense (unaudited)			173						173
Balances at June 30, 2012 (unaudited)	31,481,747	$ 315	$ 276,801	$ 205,554	(263,917)	$ (4,763)	$ 4,763	$ 51,593	$ 534,263
Balances at December 31, 2012	31,496,881	$ 315	$ 277,412	$ 227,927	(266,845)	$ (5,007)	$ 5,007	$ 51,309	$ 556,963
Net earnings (unaudited)				38,067					38,067
Stock issued in acquisition of Orange Savings Bank, SSB (unaudited)	420,000	4	23,096						23,100
Stock option exercises (unaudited)	50,543	1	1,259						1,260
Cash dividends declared, $0.51 per share (unaudited)				(16,190)					(16,190)
Change in unrealized gain in investment securities available-for-sale, net of								(27,532)	(27,532)

related income taxes (unaudited)									
Additional tax benefit related to directors deferred compensation plan (unaudited)			20						20
Shares purchased in connection with directors deferred compensation plan, net (unaudited)					(2,734)	(252)	252		
Stock option expense (unaudited)			176						176
Balances at June 30, 2013 (unaudited)	31,967,424	$ 320	$ 301,963	$ 249,804	(269,579)	$ (5,259)	$ 5,259	$ 23,777	$ 575,864

See notes to consolidated financial statements.

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FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS - (UNAUDITED)

(Dollars in thousands)

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 38,067	$ 36,107
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	4,121	3,913
Provision for loan losses	1,233	2,055
Securities premium amortization (discount accretion), net	8,905	7,659
Gain on sale of assets, net	(125)	(555)
Deferred federal income tax benefit	(467)	(627)
Change in loans held for sale	(5,191)	952
Change in other assets	(2,876)	991
Change in other liabilities	2,233	5,471
Total adjustments	7,833	19,859
Net cash provided by operating activities	45,900	55,966
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash paid for acquisition of Orange Savings Bank, SSB, less cash acquired	(25,706)	
Net decrease (increase) in interest-bearing time deposits in banks	9,655	(13,419)
Activity in available-for-sale securities:		
Sales	71,355	68,961
Maturities	176,867	162,251
Purchases	(343,474)	(314,770)
Activity in held-to-maturity securities - maturities		2,150
Net increase in loans	(194,002)	(134,677)
Purchases of bank premises and equipment and other assets	(6,215)	(8,525)
Proceeds from sale of other assets	1,304	3,222
Net cash used in investing activities	(310,216)	(234,807)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in noninterest-bearing deposits	(74,188)	54,662
Net increase (decrease) in interest-bearing deposits	(26,757)	2,720
Net increase in short-term borrowings	171,878	43,672
Common stock transactions:		
Proceeds from stock issuances	1,260	482
Dividends paid	(7,880)	(15,103)
Net cash provided by financing activities	64,313	86,433
NET DECREASE IN CASH AND CASH EQUIVALENTS	(200,003)	(92,408)
CASH AND CASH EQUIVALENTS, beginning of period	360,739	250,836
CASH AND CASH EQUIVALENTS, end of period	$ 160,736	$ 158,428

SUPPLEMENTAL INFORMATION AND NONCASH TRANSACTIONS		
Interest paid	$ 1,772	$ 3,096
Federal income tax paid	10,107	8,975
Transfer of loans to foreclosed assets	248	614
Investment securities purchased but not settled	14,210	58,496

See notes to consolidated financial statements.

FIRST FINANCIAL BANKSHARES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 - Basis of Presentation

The interim consolidated financial statements include the accounts of the Company, a Texas corporation and a financial holding company registered under the Bank Holding Company Act of 1956, as amended, or BHCA, and its wholly-owned subsidiaries: First Financial Bank, National Association, Abilene, Texas; First Technology Services, Inc.; First Financial Trust & Asset Management Company, National Association; First Financial Investments, Inc.; and First Financial Insurance Agency, Inc.

Through our subsidiary bank, we conduct a full-service commercial banking business. Our banking centers are located primarily in Central, North Central and West Texas. As of June 30, 2013, we had 61 financial centers across Texas, with eleven locations in Abilene, two locations in Cleburne, Stephenville and Granbury, three locations in San Angelo and Weatherford, and one location each in Mineral Wells, Hereford, Sweetwater, Eastland, Ranger, Rising Star, Cisco, Southlake, Grapevine, Aledo, Willow Park, Brock, Alvarado, Burleson, Keller, Trophy Club, Boyd, Bridgeport, Decatur, Roby, Trent, Merkel, Clyde, Moran, Albany, Midlothian, McLewis, Glen Rose, Odessa, Waxahachie, Acton, Fort Worth, Orange, Newton, Port Arthur, Vidor, Mauriceville and Huntsville. Our trust subsidiary has six locations which are located in Abilene, San Angelo, Stephenville, Sweetwater, Fort Worth and Odessa, all in Texas.

In the opinion of management, the unaudited interim consolidated financial statements reflect all adjustments necessary for a fair presentation of the Company s financial position and unaudited results of operations and should be read in conjunction with the Company s audited consolidated financial statements, and notes thereto in the Company s Annual Report on Form 10-K, for the year ended December 31, 2012. All adjustments were of a normal recurring nature. However, the results of operations for the three and six months ended June 30, 2013, are not necessarily indicative of the results to be expected for the year ending December 31, 2013, due to seasonality, changes in economic conditions and loan credit quality, interest rate fluctuations, regulatory and legislative changes and other factors. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted under SEC rules and regulations. The Company evaluated subsequent events for potential recognition and/or disclosure through the date the consolidated financial statements were issued.

Effective December 30, 2012, the Company consolidated its eleven bank charters into one charter. The Company cited regulatory, compliance and technology complexities and the opportunity for cost savings as its reason for making this change. The Company noted it expects to operate the one charter as it previously did with eleven charters, with local management and board decisions to benefit the customers and communities it serves.

On October 26, 2011, the Company s Board of Directors authorized the repurchase of up to 750,000 common shares through September 30, 2014. The stock buyback plan authorizes management to repurchase the stock at such time as repurchases are considered beneficial to shareholders. Any repurchase of stock will be made through the open market, block trades or in privately negotiated transactions in accordance with applicable laws and regulations. Under the repurchase plan, there is no minimum number of shares that the Company is required to repurchase. Through June 30, 2013, no shares have been repurchased under this authorization.

On April 24, 2012, the Company s shareholders approved an amendment to the Company s Amended and Restated Certificate of Formation to increase the number of authorized common shares to 80,000,000.

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On May 31, 2013, the Company acquired 100% of the outstanding capital stock of Orange Savings Bank, SSB, a wholly-owned subsidiary of OSB Financial Services, Inc. The results of operations of Orange Savings Bank, SSB subsequent to the acquisition date are included in the consolidated earnings of the Company. See Note 10 to the Consolidated Financial Statements (unaudited) for more information.

Goodwill and other intangible assets are evaluated annually for impairment as of the end of the second quarter. No such impairment has been noted in connection with the current or any prior evaluations.

Note 2 - Earnings Per Share

Basic earnings per common share is computed by dividing net income available to common shareholders by the weighted average number of shares outstanding during the periods presented. In computing diluted earnings per common share for the three and six months ended June 30, 2013 and 2012, the Company assumes that all dilutive outstanding options to purchase common stock have been exercised at the beginning of the period (or the time of issuance, if later). The dilutive effect of the outstanding options is reflected by application of the treasury stock method, whereby the proceeds from the exercised options are assumed to be used to purchase common stock at the average market price during the respective periods. The weighted average common shares outstanding used in computing basic earnings per common share for the three months ended June 30, 2013 and 2012, were 31,683,355 and 31,478,980 shares, respectively. The weighted average common shares outstanding used in computing basic earnings per common share for the six months ended June 30, 2013 and 2012, were 31,596,150 and 31,472,843 shares, respectively. The weighted average common shares outstanding used in computing fully diluted earnings per common share for the three months ended June 30, 2013 and 2012, were 31,809,840 and 31,497,241, respectively. The weighted average common shares outstanding used in computing fully diluted earnings per common share for the six months ended June 30, 2013 and 2012, were 31,709,971 and 31,474,653, respectively.

Note 3 - Interest-bearing Time Deposits in Banks and Securities

Interest-bearing time deposits in banks totaled $39,350,000 and $49,005,000 at June 30, 2013 and December 31, 2012, respectively, and have original maturities generally ranging from one to two years. Of these amounts, $35,799,000 and $44,776,000 are time deposits with balances greater than $100,000 at June 30, 2013 and December 31, 2012, respectively.

The Company records its available-for-sale and trading securities portfolio at fair value.

Management classifies debt and equity securities as held-to-maturity, available-for-sale, or trading based on its intent. Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at cost, adjusted for amortization of premiums and accretion of discounts, which are recognized as adjustments to interest income using the interest method. Securities not classified as held-to-maturity or trading are classified as available-for-sale and recorded at estimated fair value, with all unrealized gains and unrealized losses judged to be temporary, net of deferred income taxes, excluded from earnings and reported in the consolidated statements of comprehensive earnings. Available-for-sale securities that have unrealized losses that are judged other than temporary are included in gain (loss) on sale of securities and a new cost basis is established. Securities classified as trading are recorded at estimated fair value with unrealized gains and losses included in earnings.

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Fair values of these securities are determined based on methodologies in accordance with current authoritative accounting guidance. Fair values are volatile and may be influenced by a number of factors, including market interest rates, prepayment speeds, discount rates, credit ratings and yield curves. Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on the quoted prices of similar instruments or an estimate of fair value by using a range of fair value estimates in the market place as a result of the illiquid market specific to the type of security.

When the fair value of a security is below its amortized cost, and depending on the length of time the condition exists and the extent the fair value is below amortized cost, additional analysis is performed to determine whether an other-than-temporary impairment condition exists. Available-for-sale and held-to-maturity securities are analyzed quarterly for possible other-than-temporary impairment. The analysis considers (i) whether we have the intent to sell our securities prior to recovery and/or maturity, (ii) whether it is more likely than not that we will have to sell our securities prior to recovery and/or maturity, (iii) the length of time and extent to which the fair value has been less than costs, and (iv) the financial condition of the issuer. Often, the information available to conduct these assessments is limited and rapidly changing, making estimates of fair value subject to judgment. If actual information or conditions are different than estimated, the extent of the impairment of the security may be different than previously estimated, which could have a material effect on the Company s results of operations and financial condition.

The Company s investment portfolio consists of traditional investments, substantially all in U. S. Treasury securities, obligations of U. S. government sponsored-enterprises and agencies, mortgage pass-through securities, corporate bonds and general obligation or revenue based municipal bonds. Pricing for such securities is generally readily available and transparent in the market. The Company utilizes independent third party pricing services to assist in valuing its investment securities. The Company reviews the prices supplied by the independent pricing services as well as the underlying pricing methodologies for reasonableness and to ensure such prices are aligned with traditional pricing matrices. The Company validates quarterly, on a sample basis, prices supplied by the independent pricing services by comparison to prices obtained from other third party sources.

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A summary of available-for-sale and held-to-maturity securities follows (in thousands):

	June 30, 2013			
	Amortized Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Securities available-for-sale:				
Obligations of U.S. government sponsored-enterprises and agencies	$ 156,494	$ 1,997	$ (11)	$ 158,480
Obligations of states and political subdivisions	968,655	39,760	(6,302)	1,002,113
Corporate bonds and other	108,854	3,786	(12)	112,628
Residential mortgage-backed securities	578,081	17,970	(3,955)	592,096
Commercial mortgage-backed securities	113,079		(3,792)	109,287
Total securities available-for-sale	$ 1,925,163	$ 63,513	$ (14,072)	$ 1,974,604
Securities held-to-maturity:				
Obligations of states and political subdivisions	$ 594	$ 5	$	$ 599
Residential mortgage-backed securities	292	9		301
Total debt securities held-to-maturity	$ 886	$ 14	$	$ 900

	December 31, 2012			
	Amortized Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Securities available-for-sale:				
U. S. Treasury securities	$ 6,042	$ 48	$	$ 6,090
Obligations of U.S. government sponsored-enterprises and agencies	219,420	4,060		223,480
Obligations of states and political subdivisions	786,278	57,541	(129)	843,690
Corporate bonds and other	117,244	6,020	(73)	123,191
Residential mortgage-backed securities	564,434	23,285	(443)	587,276
Commercial mortgage-backed securities	33,819	1,739	(250)	35,308
Total securities available-for-sale	$ 1,727,237	$ 92,693	$ (895)	$ 1,819,035
Securities held-to-maturity:				
Obligations of states and political subdivisions	$ 735	$ 7	$	$ 742
Residential mortgage-backed securities	294	11		305
Commercial mortgage-backed securities	32	1		33
Total debt securities held-to-maturity	$ 1,061	$ 19	$	$ 1,080

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The Company invests in mortgage-backed securities that have expected maturities that differ from their contractual maturities. These differences arise because borrowers may have the right to call or prepay obligations with or without a prepayment penalty. These securities include collateralized mortgage obligations (CMOs) and other asset backed securities. The expected maturities of these securities at June 30, 2013, were computed by using scheduled amortization of balances and historical prepayment rates. At June 30, 2013 and December 31, 2012, the Company did not hold any CMOs that entail higher risks than standard mortgage-backed securities.

The amortized cost and estimated fair value of debt securities at June 30, 2013, by contractual and expected maturity, are shown below (in thousands):

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost Basis	Estimated Fair Value	Amortized Cost Basis	Estimated Fair Value
Due within one year	$ 109,550	$ 111,021	$ 594	$ 599
Due after one year through five years	519,047	536,927		
Due after five years through ten years	568,925	587,782		
Due after ten years	36,481	37,491		
Mortgage-backed securities	691,160	701,383	292	301
Total	$ 1,925,163	$ 1,974,604	$ 886	$ 900

The following tables disclose, as of June 30, 2013 and December 31, 2012, the Company s investment securities that have been in a continuous unrealized-loss position for less than 12 months and for 12 months or longer (in thousands):

	Less than 12 Months		12 Months or Longer		Total	
June 30, 2013	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Obligations of U.S. government sponsored-enterprises and agencies	$ 3,478	$ 11	$	$	$ 3,478	$ 11
Obligations of states and political subdivisions	242,758	6,302			242,758	6,302
Residential mortgage-backed securities	117,005	3,753	13,714	202	130,719	3,955
Commercial mortgage-backed securities	109,287	3,792			109,287	3,792
Corporate bonds and other	5,236	12			5,236	12
Total	$ 477,764	$ 13,870	$ 13,714	$ 202	$ 491,478	$ 14,072

	Less than 12 Months		12 Months or Longer		Total	
December 31, 2012	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Obligations of states and political subdivisions	$ 36,480	$ 129	$	$	$ 36,480	$ 129
Residential mortgage-backed securities	17,344	401	3,574	42	20,918	443
Commercial mortgage-backed securities	12,453	250			12,453	250
Corporate bonds and other	4,994	73			4,994	73
Total	$ 71,271	$ 853	$ 3,574	$ 42	$ 74,845	$ 895

The number of investment positions in an unrealized loss position totaled 366 at June 30, 2013. We do not believe these unrealized losses are other than temporary as (i) we do not have the intent to sell our securities prior to recovery and/or maturity and (ii) it is more likely than not that we will not have to sell our securities prior to recovery and/or maturity. In making the determination, we also consider the length of time and extent to which fair value has been less than cost and the financial condition of the issuer. The unrealized losses noted are interest rate related due to the level of interest rates at June 30, 2013 compared to the time of purchase. We have reviewed the ratings of the issuers and have not identified any issues related to the ultimate repayment of principal as a result of credit concerns on these securities. Our mortgage related securities are backed by GNMA, FNMA and FHLMC or are collateralized by securities backed by these agencies.

Securities, carried at approximately $969,296,000 at June 30, 2013, were pledged as collateral for public or trust fund deposits, repurchase agreements and for other purposes required or permitted by law.

During the quarters ended June 30, 2013 and 2012, sales of investment securities that were classified as available-for-sale totaled $66,128,000 and $47,958,000, respectively. Gross realized gains from securities sales and calls during the second quarter of 2013 and 2012 totaled $34,000 and $383,000, respectively. Gross realized losses from securities sales and calls during the second quarter of 2013 and 2012 totaled $1,000 for each respective quarter. During the six-months ended June 30, 2013 and 2012, sales of investment securities that were classified as available-for-sale totaled $71,355,000 and $68,961,000, respectively. Gross realized gains from securities sales and calls during the six-month period of ended June 30, 2013 and 2012 totaled $257,000 and $729,000, respectively. Gross realized losses from securities sales and calls during the six-month period of 2013 and 2012 totaled $2,000 and $1,000, respectively. The specific identification method was used to determine cost in order to compute the realized gains and losses.

Note 4 - Loans and Allowance for Loan Losses

Loans held for investment are stated at the amount of unpaid principal, reduced by unearned income and an allowance for loan losses. Interest on loans is calculated by using the simple interest method on daily balances of the principal amounts outstanding. The Company defers and amortizes net loan origination fees and costs as an adjustment to yield. The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes the collectability of the principal is unlikely.

The Company has certain lending policies and procedures in place that are designed to maximize loan income with an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis and makes changes as appropriate. Management receives and reviews frequent reports related to loan originations, quality, concentrations, delinquencies, non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions, both by type of loan and geographic location.

Commercial loans are underwritten after evaluating and understanding the borrower s ability to operate profitably and effectively. Underwriting standards are designed to determine whether the borrower possesses sound business ethics and practices and to evaluate current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and, secondarily, on the underlying collateral provided by the borrower. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory and include personal guarantees.

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Agricultural loans are subject to underwriting standards and processes similar to commercial loans. These agricultural loans are based primarily on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. Most agricultural loans are secured by the agriculture related assets being financed, such as farm land, cattle or equipment and include personal guarantees.

Real estate loans are also subject to underwriting standards and processes similar to commercial and agricultural loans. These loans are underwritten primarily based on projected cash flows and, secondarily, as loans secured by real estate. The repayment of real estate loans is generally largely dependent on the successful operation of the property securing the loans or the business conducted on the property securing the loan. Real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company s real estate portfolio are generally diverse in terms of type and geographic location. This diversity helps reduce the exposure to adverse economic events that affect any single market or industry. Generally, real estate loans are owner occupied which further reduces the Company s risk.

Consumer loan underwriting utilizes methodical credit standards and analysis to supplement the Company s underwriting policies and procedures. The Company s loan policy addresses types of consumer loans that may be originated and the collateral, if secured, which must be perfected. The relatively smaller individual dollar amounts of consumer loans that are spread over numerous individual borrowers also minimize the Company s risk.

The allowance for loan losses is an amount management believes is appropriate to absorb probable losses that have been incurred on existing loans as of the balance sheet date based upon management s review and evaluation of the loan portfolio. The allowance for loan losses is comprised of three elements: (i) specific reserves determined in accordance with current authoritative accounting guidance based on probable losses on specific classified loans; (ii) a general reserve determined in accordance with current authoritative accounting guidance that considers historical loss rates; and (iii) qualitative reserves determined in accordance with current authoritative accounting guidance based upon general economic conditions and other qualitative risk factors both internal and external to the Company. The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries). Management s periodic evaluation of the appropriateness of the allowance is based on general economic conditions, the financial condition of borrowers, the value and liquidity of collateral, delinquency, prior loan loss experience, and the results of periodic reviews of the portfolio. For purposes of determining our general reserve, the loan portfolio, less cash secured loans, government guaranteed loans and classified loans, is multiplied by the Company s historical loss rate. Our methodology is constructed so that specific allocations are increased in accordance with deterioration in credit quality and a corresponding increase in risk of loss on a particular loan. In addition, we adjust our allowance for qualitative factors such as current local economic conditions and trends, including, without limitations, unemployment, changes in lending staff, policies and procedures, changes in credit concentrations, changes in the trends and severity of problem loans and changes in trends in volume and terms of loans. This additional allocation based on qualitative factors serves to compensate for additional areas of uncertainty inherent in our portfolio that are not reflected in our historic loss factors.

Although we believe we use the best information available to make loan loss allowance determinations, future adjustments could be necessary if circumstances or economic conditions differ substantially from the assumptions used in making our initial determinations. A further downturn in the economy and employment could result in increased levels of non-performing assets and charge-offs, increased loan provisions and reductions in income. Additionally, bank regulatory agencies periodically review our allowance for loan losses and could require additions to the loan loss allowance based on their judgment of information available to them at the time of their examination.

Accrual of interest is discontinued on a loan and payments are applied to principal when management believes, after considering economic and business conditions and collection efforts, the borrower s financial condition is such that collection of interest is doubtful. Except consumer loans, generally all loans past due greater than 90 days, based on contractual terms, are placed on non-accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Consumer loans are generally charged-off when a loan becomes past due 90 days. For other loans in the portfolio, facts and circumstances are evaluated in making charge-off decisions.

Loans are considered impaired when, based on current information and events, management determines that it is probable we will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. If a loan is impaired, a specific valuation allowance is allocated, if necessary. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectable.

The Company s policy requires measurement of the allowance for an impaired, collateral dependent loan based on the fair value of the collateral. Other loan impairments are measured based on the present value of expected future cash flows or the loan s observable market price. At June 30, 2013 and 2012, and December 31, 2012, all significant impaired loans have been determined to be collateral dependent and the allowance for loss has been measured utilizing the estimated fair value of the collateral.

From time to time, the Company modifies its loan agreement with a borrower. A modified loan is considered a troubled debt restructuring when two conditions are met: (i) the borrower is experiencing financial difficulty and (ii) concessions are made by the Company that would not otherwise be considered for a borrower with similar credit risk characteristics. Modifications to loan terms may include a lower interest rate, a reduction of principal, or a longer term to maturity. To date, these troubled debt restructurings have been such that, after considering economic and business conditions and collection efforts, the collection of interest is doubtful and therefore the loan has been placed on non-accrual. Each of these loans is evaluated for impairment and a specific reserve is recorded based on probable losses, taking into consideration the related collateral and modified loan terms and cash flow. As of June 30, 2013 and 2012, and December 31, 2012, all of the Company s troubled debt restructured loans are included in the non-accrual totals.

The Company originates certain mortgage loans for sale in the secondary market. Accordingly, these loans are classified as held for sale and are carried at the lower of cost or fair value on an aggregate basis. Loans held for sale totaled $17,993,000, $9,677,000 and $11,457,000, at June 30, 2013 and 2012 and December 31, 2012, respectively, in which the carrying amounts approximate fair value. The mortgage loan sales contracts contain indemnification clauses should the loans default, generally in the first three to six months, or if documentation is determined not to be in compliance with regulations. The Company s historic losses as a result of these indemnities have been insignificant.

Loans acquired, including loans acquired in a business combination, are initially recorded at fair value with no valuation allowance. Acquired loans were segregated between those considered to be credit impaired and those deemed performing. To make this determination, management considered such factors as past due status, nonaccrual status and credit risk ratings. The fair value of acquired performing loans was determined by discounting expected cash flows, both principal and interest, at prevailing market interest rates. The difference between the fair value and principal balances due at acquisition date, the fair value discount, is accreted into income over the estimated life of each loan.

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Purchased credit impaired loans are those loans that showed evidence of deterioration of credit quality since origination and for which it is probable, at acquisition, that the Company will be unable to collect all amounts contractually owed. Their fair value was initially based on the estimate of cash flows, both principal and interest, expected to be collected or estimated collateral values if cash flows are not estimable, discounted at prevailing market rates of interest. The difference between the undiscounted cash flows expected at acquisition and the investment in the loan, is recognized as interest income on a level-yield method over the life of the loan, unless management was unable to reasonable forecast cash flows in which case the loans were placed on nonaccrual. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, are not recognized as a yield adjustment. Increases in expected cash flows subsequent to the initial investment are recognized prospectively through adjustment of the yield on the loan over its remaining life. Decreases in expected cash flows are recognized as impairment. Valuation allowances on these impaired loans reflect only losses incurred after the acquisition. The carrying amount of purchased credit impaired loans at June 30, 2013 was $3,497,000 compared to a contractual balance of $4,848,000. Other purchased credit impaired loan disclosures were omitted due to immateriality.

Major classifications of loans held for investment are as follows (in thousands):

	June 30, 2013	June 30, 2012	December 31, 2012
Commercial	$ 608,226	$ 479,697	$ 509,609
Agricultural	60,663	51,822	68,306
Real estate	1,574,524	1,143,031	1,226,823
Consumer	317,477	234,065	272,428
Total loans held for investment	$ 2,560,890	$ 1,908,615	$ 2,077,166

The Company s non-accrual loans, loans still accruing and past due 90 days or more and restructured loans are as follows (in thousands):

	June 30, 2013	June 30, 2012	December 31, 2012
Non-accrual loans *	$ 26,297	$ 26,606	$ 21,800
Loans still accruing and past due 90 days or more	187	105	97
Restructured loans **			
Total	$ 26,484	$ 26,711	$ 21,897

* Includes $3,497 of purchased credit impaired loans as of June 30, 2013. There were no purchased impaired loan balances in prior periods.

** Restructured loans whose interest collection, after considering economic and business conditions and collection efforts, is doubtful are included in non-accrual loans.

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

June 30, 2013		June 30, 2012		December 31, 2012	
Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance
$ 26,297	$ 4,872	$ 26,606	$ 7,473	$ 21,800	$ 6,010

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The average recorded investment in impaired loans for the three and six months ended June 30, 2013 and the year ended December 31, 2012 was approximately $22,450,000, $22,693,000 and $24,025,000, respectively. The Company had $31,073,000, $33,860,000 and $25,462,000 in non-accrual, past due 90 days still accruing and restructured loans and foreclosed assets at June 30, 2013 and 2012, and December 31, 2012, respectively. Non-accrual loans totaled $26,297,000, $26,606,000 and $21,800,000, respectively, and consisted of the following amounts by type (in thousands):

	June 30, 2013	June 30, 2012	December 31, 2012
Commercial	$ 1,366	$ 4,427	$ 2,251
Agricultural	286	446	372
Real estate	24,059	21,520	18,698
Consumer	586	213	479
Total	$ 26,297	$ 26,606	$ 21,800

No additional funds are committed to be advanced in connection with impaired loans.

The Company s impaired loans and related allowance as of June 30, 2013 and 2012, and December 31, 2012, are summarized in the following table (in thousands). No interest income was recognized on impaired loans subsequent to their classification as impaired.

June 30, 2013	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance *	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Year-to-Date Average Recorded Investment	Three-month Average Recorded Investment
Commercial	$ 1,697	$ 265	$ 1,101	$ 1,366	$ 512	$ 1,659	$ 1,622
Agricultural	286	21	265	286	108	478	467
Real Estate	29,269	5,636	18,423	24,059	4,006	19,083	18,924
Consumer	681	156	430	586	246	1,473	1,437
Total	$ 31,933	$ 6,078	$ 20,219	$ 26,297	$ 4,872	$ 22,693	$ 22,450

* Includes $3,497 of purchased credit impaired loans.

June 30, 2012	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Year-to-Date Average Recorded Investment	Three-month Average Recorded Investment
Commercial	$ 5,067	$ 30	$ 4,397	$ 4,427	$ 2,122	$ 4,635	$ 4,461
Agricultural	470	2	444	446	138	487	480
Real Estate	25,043	2,038	19,482	21,520	5,109	22,668	22,276
Consumer	263	13	200	213	104	244	209
Total	$ 30,843	$ 2,083	$ 24,523	$ 26,606	$ 7,473	$ 28,034	$ 27,426

December 31, 2012	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Year-to-Date Average Recorded Investment
Commercial	$ 2,677	$ 20	$ 2,231	$ 2,251	$ 1,350	$ 2,966
Agricultural	381		372	372	131	437
Real Estate	22,569	2,049	16,649	18,698	4,356	20,164
Consumer	543	115	364	479	173	458