Independent Bank Group, Inc.
Form 10-Q
April 26, 2018

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, 2018.
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, smaller reporting company, or an emerging growth company. See 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	ý	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 pursuant to Section 13(a) of the Exchange Act. ¨

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 – 28,372,135 shares as of April 24, 2018.

INDEPENDENT BANK GROUP, INC. AND SUBSIDIARIES
Form 10-Q
March 31, 2018

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Independent Bank Group, Inc. and Subsidiaries

Consolidated Balance Sheets
March 31, 2018 (unaudited) and December 31, 2017
(Dollars in thousands, except share information)

	March 31,	December 31,
Assets	2018	2017
Cash and due from banks	$275,652	$187,574
Interest-bearing deposits in other banks	122,450	243,528
Cash and cash equivalents	398,102	431,102
Certificates of deposit held in other banks	9,800	12,985
Securities available for sale, at fair value	762,662	763,002
Loans held for sale	28,017	39,202
Loans, net	6,607,620	6,432,273
Premises and equipment, net	147,367	147,835
Other real estate owned	5,463	7,126
Federal Home Loan Bank (FHLB) of Dallas stock and other restricted stock	29,324	29,184
Bank-owned life insurance (BOLI)	113,909	113,170
Deferred tax asset	11,280	9,763
Goodwill	621,458	621,458
Core deposit intangible, net	41,913	43,244
Other assets	34,099	34,119
Total assets	$8,811,014	$8,684,463
Liabilities and Stockholders’ Equity		
Deposits:		
Noninterest-bearing	$1,836,929	$1,907,770
Interest-bearing	4,957,731	4,725,052
Total deposits	6,794,660	6,632,822
FHLB advances	480,646	530,667
Other borrowings	136,990	136,911
Junior subordinated debentures	27,704	27,654
Other liabilities	16,315	20,391
Total liabilities	7,456,315	7,348,445
Commitments and contingencies		
Stockholders’ equity:		
Preferred stock (0 and 0 shares outstanding, respectively)	—	—
Common stock (28,362,973 and 28,254,893 shares outstanding, respectively)	284	283
Additional paid-in capital	1,153,553	1,151,990
Retained earnings	210,028	184,232
Accumulated other comprehensive loss	(9,166)	(487)
Total stockholders’ equity	1,354,699	1,336,018
Total liabilities and stockholders’ equity	$8,811,014	$8,684,463

See Notes to Consolidated Financial Statements

1

Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Income
Three Months Ended March 31, 2018 and 2017 (unaudited)
(Dollars in thousands, except per share information)

	Three Months Ended March 31,	
	2018	2017
Interest income:		
Interest and fees on loans	$83,275	$53,744
Interest on taxable securities	2,903	764
Interest on nontaxable securities	1,193	541
Interest on interest-bearing deposits and other	743	890
Total interest income	88,114	55,939
Interest expense:		
Interest on deposits	9,799	5,029
Interest on FHLB advances	1,886	1,171
Interest on other borrowings	2,102	1,705
Interest on junior subordinated debentures	360	167
Total interest expense	14,147	8,072
Net interest income	73,967	47,867
Provision for loan losses	2,695	2,023
Net interest income after provision for loan losses	71,272	45,844
Noninterest income:		
Service charges on deposit accounts	3,485	1,927
Mortgage banking revenue	3,414	1,267
Gain on sale of other real estate	60	—
Loss on sale of securities available for sale	(224)	—
(Loss) gain on sale of premises and equipment	(8)	5
Increase in cash surrender value of BOLI	739	399
Other	1,989	985
Total noninterest income	9,455	4,583
Noninterest expense:		
Salaries and employee benefits	25,168	16,837
Occupancy	5,664	3,872
Data processing	2,405	1,288
FDIC assessment	741	878
Advertising and public relations	385	297
Communications	941	475
Other real estate owned expenses, net	90	37
Impairment of other real estate	85	—
Core deposit intangible amortization	1,331	492
Professional fees	1,119	773
Acquisition expense, including legal	545	146
Other	6,484	2,933
Total noninterest expense	44,958	28,028
Income before taxes	35,769	22,399
Income tax expense	6,805	6,728
Net income	$28,964	$15,671

Basic earnings per share	$1.02	$0.83
Diluted earnings per share	$1.02	$0.82

See Notes to Consolidated Financial Statements

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Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income
Three Months Ended March 31, 2018 and 2017 (unaudited)
(Dollars in thousands)

	Three Months Ended March 31,	
	2018	2017
Net income	$28,964	$15,671
Other comprehensive income (loss) before tax:		
Change in net unrealized gains (losses) on available for sale securities during the year	(10,915)	2,000
Reclassification adjustment for loss on sale of securities available for sale included in net income	224	—
Other comprehensive income (loss) before tax	(10,691)	2,000
Income tax expense (benefit)	(2,245)	700
Other comprehensive income (loss), net of tax	(8,446)	1,300
Comprehensive income	$20,518	$16,971

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, 2018 and 2017 (unaudited)
(Dollars in thousands, except for par value, share and per share information)

	Preferred Stock $.01 Par Value 10 million shares authorized	Common Stock $.01 Par Value 100 million shares authorized		Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
		Shares	Amount				
Balance, December 31, 2017	$ —	28,254,893	$ 283	$1,151,990	$184,232	$ (487)	$1,336,018
Cumulative effect of change in accounting principle	—	—	—	—	233	(233)	—
Net income	—	—	—	—	28,964	—	28,964
Other comprehensive loss, net of tax	—	—	—	—	—	(8,446)	(8,446)
Restricted stock forfeited	—	(606)	—	—	—	—	—
Restricted stock granted	—	99,812	1	(1)		—	—
Stock based compensation expense	—	—	—	1,412	—	—	1,412
Exercise of warrants	—	8,874	—	152	—	—	152
Cash dividends ($0.12 per share)	—	—	—	—	(3,401)	—	(3,401)
Balance, March 31, 2018	$ —	28,362,973	$ 284	$1,153,553	$210,028	$ (9,166)	$1,354,699
Balance, December 31, 2016	$ —	18,870,312	$ 189	$555,325	$117,951	$ (1,100)	$672,365
Net income	—	—	—	—	15,671	—	15,671
Other comprehensive income, net of tax	—	—	—	—	—	1,300	1,300
Restricted stock granted	—	51,667	—	—	—	—	—
Stock based compensation expense	—	—	—	970	—	—	970
Exercise of warrants	—	3,203	—	55	—	—	55
Cash dividends ($0.10 per share)	—	—	—	—	(1,892)	—	(1,892)
Balance, March 31, 2017	$ —	18,925,182	$ 189	$556,350	$131,730	$ 200	$688,469

See Notes to Consolidated Financial Statements

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Independent Bank Group, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Three Months Ended March 31, 2018 and 2017 (unaudited)
(Dollars in thousands)

	Three Months Ended March 31,					
	2018			2017		
Cash flows from operating activities:						
Net income	$	28,964		$	15,671	
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation expense	2,050			1,763		
Accretion of income recognized on acquired loans	(3,503		)	(480		)
Amortization of core deposit intangibles	1,331			492		
Amortization of premium on securities, net	1,175			721		
Amortization of discount and origination costs on borrowings	158			89		
Stock based compensation expense	1,412			970		
Excess tax benefit on restricted stock vested	(349		)	(724		)
FHLB stock dividends	(140		)	(88		)
Loss on sale of securities available for sale	224			—		
Loss (gain) on sale of premises and equipment	8			(5		)
Gain on sale of other real estate owned	(60		)	—		
Impairment of other real estate	85			—		
Deferred tax expense	729			981		
	2,695			2,023		

Provision for loan losses				
Increase in cash surrender value of BOLI	(739	)	(399	)
Originations of loans held for sale	(97,009	)	(51,631	)
Proceeds from sale of loans held for sale	108,194		56,345	
Net change in other assets	19		(2,008	)
Net change in other liabilities	(3,756	)	3,201	
Net cash provided by operating activities	41,488		26,921	
Cash flows from investing activities:				
Proceeds from maturities, calls and pay downs of securities available for sale	32,333		17,241	
Proceeds from sale of securities available for sale	14,801		—	
Purchases of securities available for sale	(58,884	)	(43,868	)
Purchases of certificates of deposits held in other banks	—		(3,185	)
Proceeds from maturities of certificates of deposits held in other banks	3,185		—	
Net purchases of FHLB stock	—		(48	)
Net loans originated held for investment	(214,533	)	(129,883	)
Net proceeds from pay-offs of mortgage warehouse purchase loans	39,994		—	
Additions to premises and equipment	(1,594	)	(155	)
Proceeds from sale of premises and equipment	4		9	
	1,638		—	

Proceeds from sale of other real estate owned		
Capitalized additions to other real estate	—	(174)
Net cash used in investing activities	(183,056)	(160,063)
Cash flows from financing activities:		
Net increase in demand deposits, money market and savings accounts	191,218	141,116
Net increase (decrease) in time deposits	(29,380)	3,978
Proceeds from FHLB advances	275,000	—
Repayments of FHLB advances	(325,021)	(19)
Proceeds from exercise of common stock warrants	152	55
Dividends paid	(3,401)	(1,892)
Net cash provided by financing activities	108,568	143,238
Net change in cash and cash equivalents	(33,000)	10,096
Cash and cash equivalents at beginning of year	431,102	505,027
Cash and cash equivalents at end of period	$ 398,102	$ 515,123

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 and Southeast, Texas areas and along the Colorado Front Range, 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, IBG Adriatica Holdings, Inc. (Adriatica) and Carlile Capital, LLC and the Bank's wholly-owned subsidiaries, IBG Real Estate Holdings, Inc., IBG Real Estate Holdings II, Inc., IBG Aircraft Company III, Preston Grand, Inc., CFRH II, LLC, McKinney Avenue Holdings, Inc. and its wholly owned subsidiary, McKinney Avenue Holdings SPE 1, Inc. Adriatica, CFRH II, LLC, McKinney Avenue Holdings, Inc. and its subsidiary are currently not active entities.
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), Community Group Statutory Trust I (CGI Trust I), Northstar Statutory Trust II (Northstar Trust II) and Northstar Statutory Trust III (Northstar Trust III). 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, 2017. The consolidated statement of condition at December 31, 2017 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.

Recently Adopted Accounting Pronouncements: ASU 2016-01, Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities was effective for the Company on January 1, 2018. The amendments in this update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (vii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. Previously, the Company valued their financial instruments that are not measured at fair value in the financial statements using an entry price notion. This ASU emphasized that these instruments be measured using the exit price notion and clarified that entities should not make use of the practicability exception in determining the fair value of loans. Accordingly, the Company refined the calculation used to determine the disclosed fair value of loans as part of adopting this standard. The impact of this change was not significant to the Company's disclosures. See Note 7 -Fair Value Measurement. The adoption of the remaining provisions had no impact on the Company's 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)

ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The Company elected to early adopt and apply the guidance at the beginning of the period, effective January 1, 2018. The amendments in this update allow reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (TCJA) which was signed into law on December 22, 2017. The impact of adopting the amendment resulted in a cumulative effect adjustment to the consolidated balance sheet as of January 1, 2018 to reclassify approximately $233 of tax expense from accumulated other comprehensive loss to retained earnings as reflected in the accompanying Consolidated Statements of Changes in Stockholders' Equity.

ASU 2014-09, Revenue from Contracts with Customers (Topic 606) was effective for the Company on January 1, 2018. ASU 2014-09 amends existing guidance related to revenue from contracts with customers. The amendments state that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 affects entities that enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards. The Company's revenue consists of net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASU 2014-09, and noninterest income. The Company has applied ASU 2014-09 using the modified retrospective approach to all existing contracts with customers covered under the scope of the standard. The adoption of this ASU was not significant to the Company and had no material effect on how the Company recognizes revenue nor did it result in a cumulative effect adjustment or any presentation changes to the consolidated financial statements. See below for additional information related to revenue generated from contracts with customers.

Revenue Recognition: ASC Topic 606, Revenue from Contracts with Customers, establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The majority of the Company's revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as loans, letters of credit, and investment securities, as well as revenue related to mortgage banking activities, and BOLI, as these activities are subject to other accounting guidance. Descriptions of revenue-generating activities that are within the scope of ASC 606, and are presented in the accompanying Consolidated Statements of Income as components of noninterest income, are as follows:

- Service charges on deposit accounts - these represent general service fees for monthly account maintenance and activity- or-transaction-based fees and consist of transaction-based revenue, time-based revenue (service period), item-based revenue or some other individual attribute-based revenue. Revenue is recognized when the performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed (such as a wire transfer). Payment for such performance obligations are generally received at the time the performance obligations are satisfied.

- Gains/losses on the sale of other real estate owned - generally recognized when the performance obligation is complete which is typically at delivery of control over the property to the buyer at time of each real estate closing.

- Other noninterest income - includes the Company's correspondent bank earnings credit, mortgage warehouse purchase program fees, acquired loan recoveries, wealth management referral income, other deposit fees, and merchant interchange income. The majority of these fees in other noninterest income are not subject to the requirements of ASC 606. The wealth management referral fees, other deposit fees and merchant interchange income are in the scope of ASC 606, and payment for such performance obligations are generally received at the time the performance obligations are satisfied.

The Company has made no significant judgments in applying the revenue guidance prescribed in ASC 606 that affect the determination of the amount and timing of revenue from the above-described contracts with customers.

Independent Bank Group, Inc. and Subsidiaries

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

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 Securities and Exchange Commission (SEC) and noted no subsequent events requiring financial statement recognition or disclosure, except as disclosed in Note 10.

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 participating nonvested common stock was not included in dilutive shares as it was anti-dilutive for the three months ended March 31, 2018 and 2017. Proceeds from the assumed exercise of dilutive stock warrants are assumed to be used to repurchase common stock at the average market price.

The following table presents a reconciliation of net income available to common shareholders and the number of shares used in the calculation of basic and diluted earnings per common share.

	Three Months Ended March 31,	
	2018	2017
Basic earnings per share:		
Net income	$28,964	$ 15,671
Less:		
Undistributed earnings allocated to participating securities	245	176
Dividends paid on participating securities	33	24
Net income available to common shareholders	$28,686	$ 15,471
Weighted-average basic shares outstanding	28,049,014	18,667,274
Basic earnings per share	$1.02	$ 0.83
Diluted earnings per share:		
Net income available to common shareholders	$28,686	$ 15,471
Total weighted-average basic shares outstanding	28,049,014	18,667,274
Add dilutive stock warrants	105,353	107,132
Total weighted-average diluted shares outstanding	28,154,367	18,774,406
Diluted earnings per share	$1.02	$ 0.82
Anti-dilutive participating securities	118,900	126,847

Independent Bank Group, Inc. and Subsidiaries

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

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 Months Ended March 31,	
	2018	2017
Cash transactions:		
Interest expense paid	$15,330	$9,694
Income taxes paid	$—	$—
Noncash transactions:		
Transfers of loans to other real estate owned	$—	$750
Securities purchased, not yet settled	$—	$6,068

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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 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, 2018 and December 31, 2017, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
March 31, 2018				
U.S. treasuries	$ 35,449	$ —	$ (553)	$ 34,896
Government agency securities	207,292	28	(3,602)	203,718
Obligations of state and municipal subdivisions	218,239	863	(4,020)	215,082
Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC, FHS, FHR and GNR	314,035	504	(5,573)	308,966
	$ 775,015	$ 1,395	$ (13,748)	$ 762,662
December 31, 2017				
U.S. treasuries	$ 37,480	$ —	$ (326)	$ 37,154
Government agency securities	213,649	83	(2,223)	211,509
Obligations of state and municipal subdivisions	228,782	2,118	(1,287)	229,613
Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC, FHR and GNR	274,356	1,229	(1,208)	274,377
Other securities	10,397	—	(48)	10,349
	$ 764,664	$ 3,430	$ (5,092)	$ 763,002

Securities with a carrying amount of approximately $270,878 and $238,344 at March 31, 2018 and December 31, 2017, respectively, were pledged to secure public fund deposits and repurchase agreements.

Independent Bank Group, Inc. and Subsidiaries

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

Proceeds from sale of securities available for sale and gross gains and gross losses for the three months ended March 31, 2018 and 2017 were as follows:

	Three Months Ended March 31,	
	2018	2017
Proceeds from sale	$14,801	$ —
Gross gains	$15	$ —
Gross losses	$239	$ —

The amortized cost and estimated fair value of securities available for sale at March 31, 2018, 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, 2018 Securities Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$101,216	$100,888
Due from one year to five years	176,765	173,894
Due from five to ten years	85,936	83,478
Thereafter	97,063	95,436
	460,980	453,696
Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC, FHS, FHR and GNR	314,035	308,966
	$775,015	$762,662

Independent Bank Group, Inc. and Subsidiaries

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

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, 2018 and December 31, 2017, 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, 2018								
U.S. treasuries	4	$16,854	$(450)	3	$18,042	$(103)	$34,896	$(553)
Government agency securities	42	120,230	(2,162)	34	79,155	(1,440)	199,385	(3,602)
Obligations of state and municipal subdivisions	313	137,154	(2,627)	66	30,245	(1,393)	167,399	(4,020)
Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC, FHS, FHR and GNR	129	256,057	(4,632)	13	28,995	(941)	285,052	(5,573)
	488	$530,295	$(9,871)	116	$156,437	$(3,877)	$686,732	$(13,748)
December 31, 2017								
U.S. treasuries	7	$34,053	$(267)	1	$3,101	$(59)	$37,154	$(326)
Government agency securities	51	142,991	(1,155)	27	60,030	(1,068)	203,021	(2,223)
Obligations of state and municipal subdivisions	202	87,625	(564)	54	26,883	(723)	114,508	(1,287)
Residential pass-through securities guaranteed by FNMA, GNMA, FHLMC, FHR and GNR	55	125,970	(834)	10	25,398	(374)	151,368	(1,208)
Other securities	1	10,349	(48)	—	—	—	10,349	(48)
	316	$400,988	$(2,868)	92	$115,412	$(2,224)	$516,400	$(5,092)

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.

Independent Bank Group, Inc. and Subsidiaries

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

Note 4. Loans, Net and Allowance for Loan Losses
Loans, net, at March 31, 2018 and December 31, 2017, consisted of the following:

	March 31, 2018	December 31, 2017
Commercial	$1,035,985	$1,059,984
Real estate:		
Commercial	3,498,483	3,369,892
Commercial construction, land and land development	806,415	744,868
Residential	916,355	892,293
Single family interim construction	284,490	289,680
Agricultural	78,782	82,583
Consumer	31,633	34,639
Other	238	304
	6,652,381	6,474,243
Deferred loan fees	(2,801)	(2,568)
Allowance for loan losses	(41,960)	(39,402)
	$6,607,620	$6,432,273