

SOUTHSIDE BANCSHARES INC

Form 10-Q

August 07, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from _____ to _____

Commission file number: 0-12247

SOUTHSIDE BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

TEXAS

(State or other jurisdiction of incorporation or
organization)

75-1848732

(I.R.S. Employer Identification No.)

1201 S. Beckham Avenue, Tyler, Texas

(Address of principal executive offices)

903-531-7111

(Registrant's telephone number, including area code)

75701

(Zip Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of 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 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

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

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

The number of shares of the issuer's common stock, par value \$1.25, outstanding as of August 4, 2014 was 18,845,618 shares.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(in thousands, except share amounts)

	June 30, 2014	December 31, 2013
ASSETS		
Cash and due from banks	\$53,880	\$45,624
Interest earning deposits	100,543	8,807
Total cash and cash equivalents	154,423	54,431
Investment securities:		
Available for sale, at estimated fair value	351,908	337,429
Held to maturity, at carrying value (estimated fair value of \$394,638 and \$377,383, respectively)	390,221	391,552
Mortgage-backed securities:		
Available for sale, at estimated fair value	751,740	840,258
Held to maturity, at carrying value (estimated fair value of \$266,185 and \$271,836, respectively)	260,659	275,569
FHLB stock, at cost	25,512	34,065
Other investments, at cost	2,064	2,065
Loans held for sale	755	151
Loans:		
Loans	1,391,285	1,351,273
Less: Allowance for loan losses	(18,408) (18,877)
Net Loans	1,372,877	1,332,396
Premises and equipment, net	53,322	52,060
Goodwill	22,034	22,034
Other intangible assets, net	123	178
Interest receivable	20,512	21,973
Deferred tax asset	12,726	18,415
Unsettled trades to sell securities	19,183	3,933
Other assets	60,603	59,154
TOTAL ASSETS	\$3,498,662	\$3,445,663
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	\$711,391	\$529,897
Interest bearing	1,890,087	1,997,911
Total deposits	2,601,478	2,527,808
Short-term obligations:		
Federal funds purchased and repurchase agreements	2,057	859
FHLB advances	8,413	73,445
Total short-term obligations	10,470	74,304
Long-term obligations:		
FHLB advances	505,710	499,349
Long-term debt	60,311	60,311
Total long-term obligations	566,021	559,660

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Unsettled trades to purchase securities	10,269	973
Other liabilities	26,464	23,400
TOTAL LIABILITIES	3,214,702	3,186,145

Off-Balance-Sheet Arrangements, Commitments and Contingencies (Note 12)

Shareholders' equity:

Common stock (\$1.25 par, 40,000,000 shares authorized, 21,315,256 shares issued at June 30, 2014 and 20,386,221 shares issued at December 31, 2013)	26,644	25,483
Paid-in capital	240,305	214,091
Retained earnings	63,469	78,673
Treasury stock (2,469,638 shares at cost)	(37,692)	(37,692)
Accumulated other comprehensive loss	(8,766)	(21,037)
TOTAL SHAREHOLDERS' EQUITY	283,960	259,518
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$3,498,662	\$3,445,663

The accompanying notes are an integral part of these consolidated financial statements.

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SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

(in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Interest income				
Loans	\$ 18,305	\$ 18,390	\$ 36,668	\$ 36,055
Investment securities – taxable	143	169	266	533
Investment securities – tax-exempt	6,021	5,907	11,979	10,395
Mortgage-backed securities	7,557	4,680	15,239	8,616
FHLB stock and other investments	38	34	108	99
Other interest earning assets	22	35	65	78
Total interest income	32,086	29,215	64,325	55,776
Interest expense				
Deposits	1,984	2,001	4,100	4,071
Short-term obligations	56	389	127	1,639
Long-term obligations	2,190	1,954	4,350	3,735
Total interest expense	4,230	4,344	8,577	9,445
Net interest income	27,856	24,871	55,748	46,331
Provision for loan losses	2,650	2,021	6,783	2,513
Net interest income after provision for loan losses	25,206	22,850	48,965	43,818
Noninterest income				
Deposit services	3,794	3,904	7,432	7,657
Net gain on sale of securities available for sale	498	5,001	509	9,346
Total other-than-temporary impairment losses	—	—	—	(52)
Portion of loss recognized in other comprehensive income (before taxes)	—	—	—	10
Net impairment losses recognized in earnings	—	—	—	(42)
Gain on sale of loans	81	241	161	560
Trust income	762	733	1,542	1,453
Bank owned life insurance income	307	264	621	518
Other	1,073	953	2,056	1,844
Total noninterest income	6,515	11,096	12,321	21,336
Noninterest expense				
Salaries and employee benefits	13,092	13,401	26,194	26,610
Occupancy expense	1,786	1,897	3,540	3,768
Advertising, travel & entertainment	605	656	1,148	1,297
ATM and debit card expense	302	303	619	684
Professional fees	1,304	562	2,231	1,202
Software and data processing expense	486	444	987	987
Telephone and communications	320	384	598	835
FDIC insurance	434	409	882	830
FHLB prepayment fees	—	988	—	988
Other	2,097	2,122	4,409	4,284
Total noninterest expense	20,426	21,166	40,608	41,485

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Income before income tax expense	11,295	12,780	20,678	23,669
Provision for income tax expense	838	1,712	1,997	3,559
Net income	\$10,457	\$11,068	\$18,681	\$20,110
Earnings per common share – basic	\$0.55	\$0.59	\$0.99	\$1.07
Earnings per common share – diluted	\$0.55	\$0.59	\$0.99	\$1.07
Dividends paid per common share	\$0.21	\$0.20	\$0.42	\$0.40

The accompanying notes are an integral part of these consolidated financial statements.

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SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)
(in thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Net income	\$10,457	\$11,068	\$18,681	\$20,110
Other comprehensive income (loss):				
Unrealized holding gains (losses) on available for sale securities during the period	8,308	(38,536)	18,319	(44,280)
Change in net unrealized loss on securities transferred to held to maturity	278	28	554	28
Noncredit portion of other-than-temporary impairment losses on the AFS securities	—	—	—	(10)
Reclassification adjustment for net gain on sale of available for sale securities, included in net income	(498)	(5,001)	(509)	(9,346)
Reclassification of other-than-temporary impairment charges on available for sale securities, included in net income	—	—	—	42
Amortization of net actuarial loss, included in net periodic benefit cost	289	751	521	1,394
Amortization of prior service credit, included in net periodic benefit cost	(4)	(11)	(7)	(22)
Other comprehensive income (loss), before tax	8,373	(42,769)	18,878	(52,194)
Income tax (expense) benefit related to other items of comprehensive income	(2,930)	14,969	(6,607)	18,268
Other comprehensive income (loss), net of tax	5,443	(27,800)	12,271	(33,926)
Comprehensive income (loss)	\$15,900	\$(16,732)	\$30,952	\$(13,816)

The accompanying notes are an integral part of these consolidated financial statements.

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SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)

(in thousands, except share and per share data)

	Common Stock	Paid In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2012	\$24,308	\$195,602	\$70,708	\$(35,793)	\$2,938	\$257,763
Net Income			20,110			20,110
Other comprehensive loss					(33,926)	(33,926)
Issuance of common stock (28,529 shares)	35	593				628
Purchase of common stock (90,300 shares)				(1,899)		(1,899)
Stock compensation expense		373				373
Tax benefits related to stock awards		22				22
Net issuance of common stock under employee stock plan	12	63	(62)			13
Cash dividends paid on common stock (\$0.40 per share)			(6,964)			(6,964)
Stock dividend declared	1,065	15,995	(17,060)			—
Balance at June 30, 2013	\$25,420	\$212,648	\$66,732	\$(37,692)	\$(30,988)	\$236,120
Balance at December 31, 2013	\$25,483	\$214,091	\$78,673	\$(37,692)	\$(21,037)	\$259,518
Net Income			18,681			18,681
Other comprehensive income					12,271	12,271
Issuance of common stock (18,265 shares)	23	500				523
Stock compensation expense		577				577
Tax benefits related to stock awards		38				38
Net issuance of common stock under employee stock plan	14	158	(103)			69
Cash dividends paid on common stock (\$0.42 per share)			(7,717)			(7,717)
Stock dividend declared	1,124	24,941	(26,065)			—
Balance at June 30, 2014	\$26,644	\$240,305	\$63,469	\$(37,692)	\$(8,766)	\$283,960

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