

SOUTHSIDE BANCSHARES INC

Form 10-Q

May 01, 2018

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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 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: 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares of the issuer's common stock, par value \$1.25, outstanding as of April 27, 2018 was 35,052,547 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)

	March 31, 2018	December 31, 2017
ASSETS		
Cash and due from banks	\$65,480	\$ 79,171
Interest earning deposits	183,241	111,541
Federal funds sold	14,090	7,980
Total cash and cash equivalents	262,811	198,692
Securities available for sale, at estimated fair value	2,062,539	1,538,755
Securities held to maturity, at carrying value (estimated fair value of \$161,305 and \$921,800, respectively)	164,847	909,506
FHLB stock, at cost	42,676	55,729
Equity investments	12,067	5,821
Loans held for sale	2,003	2,001
Loans:		
Loans	3,309,627	3,294,356
Less: Allowance for loan losses	(24,220)	(20,781)
Net loans	3,285,407	3,273,575
Premises and equipment, net	131,625	133,640
Goodwill	201,246	201,246
Other intangible assets, net	21,615	22,993
Interest receivable	20,664	28,491
Deferred tax asset, net	16,648	12,204
Unsettled trades to sell securities	35,307	—
Bank owned life insurance	100,963	100,368
Other assets	12,779	15,076
Total assets	\$6,373,197	\$ 6,498,097
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	\$ 1,055,423	\$ 1,037,401
Interest bearing	3,586,474	3,478,046
Total deposits	4,641,897	4,515,447
Federal funds purchased and repurchase agreements	7,825	9,498
FHLB borrowings	772,165	1,017,361
Subordinated notes, net of unamortized debt issuance costs	98,286	98,248
Trust preferred subordinated debentures, net of unamortized debt issuance costs	60,242	60,241
Unsettled trades to purchase securities	3,646	—
Other liabilities	42,740	43,162
Total liabilities	5,626,801	5,743,957

Off-balance-sheet arrangements, commitments and contingencies (Note 13)

Shareholders' equity:

Common stock: (\$1.25 par value, 40,000,000 shares authorized, 37,812,387 shares issued at March 31, 2018 and 37,802,352 shares issued at December 31, 2017)	47,265	47,253
Paid-in capital	758,653	757,439
Retained earnings	39,184	32,851
Treasury stock, at cost (2,759,840 at March 31, 2018 and 2,802,019 at December 31, 2017)	(46,736)	(47,105)
Accumulated other comprehensive loss	(51,970)	(36,298)
Total shareholders' equity	746,396	754,140
Total liabilities and shareholders' equity	\$6,373,197	\$6,498,097

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 March 31,	
	2018	2017
Interest income		
Loans	\$38,830	\$27,254
Investment securities – taxable	227	377
Investment securities – tax-exempt	6,381	6,554
Mortgage-backed securities	10,894	10,045
FHLB stock and equity investments	414	298
Other interest earning assets	448	360
Total interest income	57,194	44,888
Interest expense		
Deposits	7,451	4,281
FHLB borrowings	3,632	3,464
Subordinated notes	1,398	1,393
Trust preferred subordinated debentures	569	467
Other borrowings	11	3
Total interest expense	13,061	9,608
Net interest income	44,133	35,280
Provision for loan losses	3,735	1,098
Net interest income after provision for loan losses	40,398	34,182
Noninterest income		
Deposit services	6,179	5,114
Net (loss) gain on sale of securities available for sale	(827) 322
Gain on sale of loans	115	701
Trust income	1,760	890
Bank owned life insurance income	632	634
Brokerage services	450	547
Other	1,301	1,465
Total noninterest income	9,610	9,673
Noninterest expense		
Salaries and employee benefits	18,559	16,007
Occupancy expense	3,583	2,863
Acquisition expense	832	—
Advertising, travel & entertainment	685	583
ATM and debit card expense	346	927
Professional fees	1,070	939
Software and data processing expense	1,023	725
Telephone and communications	538	526
FDIC insurance	497	441
Amortization expense on intangibles	1,378	431
Other	3,156	2,416
Total noninterest expense	31,667	25,858

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Income before income tax expense	18,341	17,997
Income tax expense	2,090	3,008
Net income	\$16,251	\$14,989

Earnings per common share – basic	\$0.46	\$0.51
Earnings per common share – diluted	\$0.46	\$0.51
Dividends paid per common share	\$0.28	\$0.25

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 March 31,	
	2018	2017
Net income	\$16,251	\$14,989
Other comprehensive (loss) income:		
Securities available for sale and transferred securities:		
Change in net unrealized holding (losses) gains on available for sale securities during the period	(37,783)	4,885
Unrealized net gain on securities transferred from held to maturity to available for sale under the transition guidance enumerated in ASU 2017-12	11,881	—
Change in net unrealized losses on securities transferred from held to maturity to available for sale	401	—
Reclassification adjustment for net loss on equity investments, reclassified to retained earnings with adoption of ASU 2016-01	107	—
Reclassification adjustment for amortization related to available for sale and held to maturity debt securities	138	488
Reclassification adjustment for net loss (gain) on sale of available for sale securities, included in net income	827	(322)
Derivatives:		
Change in net unrealized gain (loss) on effective cash flow hedge interest rate swap derivatives	4,245	(80)
Change in net unrealized gains on interest rate swap derivatives terminated during the period	—	273
Reclassification adjustment from other comprehensive income related to derivatives designated as cash flow hedge	(127)	370
Pension plans:		
Amortization of net actuarial loss and prior service credit, included in net periodic benefit cost	473	389
Other comprehensive (loss) income, before tax	(19,838)	6,003
Income tax benefit (expense) related to items of other comprehensive income (loss)	4,166	(2,101)
Other comprehensive (loss) income, net of tax	(15,672)	3,902
Comprehensive income	\$579	\$18,891

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, 2016	\$ 39,320	\$ 535,240	\$ 30,098	\$ (47,891)	\$ (38,493)	\$ 518,274
Net income	—	—	14,989	—	—	14,989
Other comprehensive income	—	—	—	—	3,902	3,902
Issuance of common stock for dividend reinvestment plan (10,433 shares)	13	340	—	—	—	353
Stock compensation expense	—	494	—	—	—	494
Net issuance of common stock under employee stock plans (33,596 shares)	42	579	(24)	—	—	597
Cash dividends paid on common stock (\$0.25 per share)	—	—	(7,143)	—	—	(7,143)
Balance at March 31, 2017	\$ 39,375	\$ 536,653	\$ 37,920	\$ (47,891)	\$ (34,591)	\$ 531,466
Balance at December 31, 2017	\$ 47,253	\$ 757,439	\$ 32,851	\$ (47,105)	\$ (36,298)	\$ 754,140
Net income	—	—	16,251	—	—	16,251
Other comprehensive loss	—	—	—	—	(15,672)	(15,672)
Issuance of common stock for dividend reinvestment plan (10,035 shares)	12	341	—	—	—	353
Stock compensation expense	—	456	—	—	—	456
Net issuance of common stock under employee stock plans (42,179 shares)	—	417	(25)	369	—	761
Cash dividends paid on common stock (\$0.28 per share)	—	—	(9,808)	—	—	(9,808)
Cumulative effect of ASU 2016-01	—	—	(85)	—	—	(85)
Balance at March 31, 2018	\$ 47,265	\$ 758,653	\$ 39,184	\$ (46,736)	\$ (51,970)	\$ 746,396

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

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SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW
(UNAUDITED)
(in thousands)

	Three Months Ended March 31,	
	2018	2017
OPERATING ACTIVITIES:		
Net income	\$16,251	\$14,989
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and net amortization	3,566	2,417
Securities premium amortization (discount accretion), net	4,058	4,567
Loan (discount accretion) premium amortization, net	(1,057)	(290)
Provision for loan losses	3,735	1,098
Stock compensation expense	456	494
Deferred tax benefit	(255)	(19)
Net loss (gain) on sale of securities available for sale	827	(322)
Net loss on premises and equipment	35	—
Gross proceeds from sales of loans held for sale	5,600	22,521
Gross originations of loans held for sale	(5,602)	(20,183)
Net loss on other real estate owned	67	—
Net change in:		
Interest receivable	7,827	6,910
Other assets	1,875	7,419
Interest payable	(1,219)	(1,523)
Other liabilities	5,501	(5,377)
Net cash provided by operating activities	41,665	32,701
INVESTING ACTIVITIES:		
Securities available for sale:		
Purchases	(138,581)	(139,246)
Sales	237,526	99,653
Maturities, calls and principal repayments	53,717	29,770
Securities held to maturity:		
Purchases	—	(1,521)
Maturities, calls and principal repayments	1,222	8,305
Proceeds from redemption of FHLB stock and other investments	13,377	81
Purchases of FHLB stock and other investments	(638)	(221)
Net loan originations	(15,154)	17,201
Purchases of premises and equipment	(2,018)	(1,287)
Proceeds from sales of premises and equipment	1,903	3
Proceeds from sales of other real estate owned	91	—
Proceeds from sales of repossessed assets	198	179
Net cash provided by investing activities	151,643	12,917

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SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW
(UNAUDITED) (continued)
(in thousands)

	Three Months Ended March 31,	
	2018	2017
FINANCING ACTIVITIES:		
Net change in deposits	\$126,372	\$140,978
Net (decrease) increase in federal funds purchased and repurchase agreements	(1,673)	717
Proceeds from FHLB borrowings	1,110,000	725,000
Repayment of FHLB borrowings	(1,355,194)	(828,780)
Proceeds from stock option exercises	801	639
Cash paid to tax authority from stock option exercises	(40)	(42)
Proceeds from the issuance of common stock for dividend reinvestment plan	353	353
Cash dividends paid	(9,808)	(7,143)
Net cash (used in) provided by financing activities	(129,189)	31,722
Net increase in cash and cash equivalents	64,119	77,340
Cash and cash equivalents at beginning of period	198,692	169,654
Cash and cash equivalents at end of period	\$262,811	\$246,994
SUPPLEMENTAL DISCLOSURES FOR CASH FLOW INFORMATION:		
Interest paid	\$14,280	\$11,131
Income taxes paid	\$—	\$—
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Loans transferred to other repossessed assets and real estate through foreclosure	\$649	\$184
Transfer of held to maturity securities to available for sale securities	\$743,421	\$—
Adjustment to pension liability	\$(473)	\$(389)
Unsettled trades to purchase securities	\$(3,646)	\$(10,465)
Unsettled trades to sell securities	\$35,307	\$57,385
Unsettled issuances of brokered CDs	\$—	\$31,232

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

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SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting and Reporting Policies
Basis of Presentation