

SOUTHSIDE BANCSHARES INC

Form 10-Q

April 30, 2019

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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, 2019

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)

75701

(Zip Code)

903-531-7111

(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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 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 ☐ 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 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 24, 2019 was 33,718,079 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, 2019	December 31, 2018
ASSETS		
Cash and due from banks	\$81,981	\$87,375
Interest earning deposits	184,612	23,884
Federal funds sold	3,350	9,460
Total cash and cash equivalents	269,943	120,719
Securities:		
Securities available for sale, at estimated fair value	1,876,255	1,989,436
Securities held to maturity, at carrying value (estimated fair value of \$147,666 and \$159,781, respectively)	147,431	162,931
FHLB stock, at cost	35,269	32,583
Equity investments	12,182	12,093
Loans held for sale	384	601
Loans:		
Loans	3,305,110	3,312,799
Less: Allowance for loan losses	(24,155)	(27,019)
Net loans	3,280,955	3,285,780
Premises and equipment, net	138,290	135,972
Operating lease right-of-use assets	9,455	—
Goodwill	201,116	201,116
Other intangible assets, net	16,600	17,779
Interest receivable	20,017	27,287
Deferred tax asset, net	491	9,776
Unsettled trades to sell securities	95,482	—
Unsettled issuances of brokered certificates of deposit	—	15,236
Bank owned life insurance	98,704	98,160
Other assets	14,622	14,025
Total assets	\$6,217,196	\$6,123,494
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	\$1,038,116	\$994,680
Interest bearing	3,529,777	3,430,350
Total deposits	4,567,893	4,425,030
Federal funds purchased and repurchase agreements	8,637	36,810
FHLB borrowings	619,861	719,065
Subordinated notes, net of unamortized debt issuance costs	98,448	98,407
Trust preferred subordinated debentures, net of unamortized debt issuance costs	60,247	60,246
Unsettled trades to purchase securities	55,826	6,378
Operating lease liabilities	9,811	—
Other liabilities	38,440	46,267

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Total liabilities	5,459,163	5,392,203
Off-balance-sheet arrangements, commitments and contingencies (Note 14)		
Shareholders' equity:		
Common stock: (\$1.25 par value, 80,000,000 shares authorized, 37,855,789 shares issued at March 31, 2019 and 37,845,224 shares issued at December 31, 2018)	47,320	47,307
Paid-in capital	763,582	762,470
Retained earnings	57,023	64,797
Treasury stock: (shares at cost, 4,137,710 at March 31, 2019 and 4,120,475 at December 31, 2018)	(94,119)	(93,055)
Accumulated other comprehensive loss	(15,773)	(50,228)
Total shareholders' equity	758,033	731,291
Total liabilities and shareholders' equity	\$6,217,196	\$ 6,123,494
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,	
	2019	2018
Interest income:		
Loans	\$41,619	\$38,830
Investment securities – taxable	28	227
Investment securities – tax-exempt	4,118	6,381
Mortgage-backed securities	12,474	10,894
FHLB stock and equity investments	355	414
Other interest earning assets	433	448
Total interest income	59,027	57,194
Interest expense:		
Deposits	11,241	7,451
FHLB borrowings	4,457	3,632
Subordinated notes	1,400	1,398
Trust preferred subordinated debentures	729	569
Other borrowings	75	11
Total interest expense	17,902	13,061
Net interest income	41,125	44,133
Provision for loan losses	(918)	3,735
Net interest income after provision for loan losses	42,043	40,398
Noninterest income:		
Deposit services	5,986	6,179
Net gain (loss) on sale of securities available for sale	256	(827)
Gain on sale of loans	93	115
Trust income	1,541	1,760
Bank owned life insurance income	544	632
Brokerage services	517	450
Other	601	1,301
Total noninterest income	9,538	9,610
Noninterest expense:		
Salaries and employee benefits	18,046	18,559
Net occupancy expense	3,175	3,583
Acquisition expense	—	832
Advertising, travel & entertainment	847	685
ATM expense	180	346
Professional fees	1,314	1,070
Software and data processing expense	1,076	1,023
Telephone and communications	487	538
FDIC insurance	422	497
Amortization expense on intangibles	1,179	1,378
Other	2,901	3,156
Total noninterest expense	29,627	31,667

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Income before income tax expense	21,954	18,341
Income tax expense	3,137	2,090
Net income	\$18,817	\$16,251

Earnings per common share – basic	\$0.56	\$0.46
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Earnings per common share – diluted	\$0.56	\$0.46
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Cash dividends paid per common share	\$0.30	\$0.28
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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,	
	2019	2018
Net income	\$18,817	\$16,251
Other comprehensive income (loss):		
Securities available for sale and transferred securities:		
Change in unrealized holding gain (loss) on available for sale securities during the period	46,626	(37,783)
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 loss on securities transferred from held to maturity to available for sale	—	401
Reclassification adjustment for amortization related to available for sale and held to maturity debt securities	491	138
Reclassification adjustment for net (gain) loss on sale of available for sale securities, included in net income	(256)	827
Derivatives:		
Change in net unrealized (loss) gain on effective cash flow hedge interest rate swap derivatives	(3,120)	4,245
Reclassification adjustment of net gain related to derivatives designated as cash flow hedge	(668)	(127)
Pension plans:		
Amortization of net actuarial loss and prior service credit, included in net periodic benefit cost	541	473
Other comprehensive income (loss), before tax	43,614	(19,945)
Income tax (expense) benefit related to items of other comprehensive income (loss)	(9,159)	4,188
Other comprehensive income (loss), net of tax	34,455	(15,757)
Comprehensive income	\$53,272	\$494

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, 2017	\$ 47,253	\$ 757,439	\$ 32,851	\$ (47,105)	\$ (36,298)	\$ 754,140
Cumulative effect of accounting change	—	—	(85)	—	85	—
Adjusted beginning balance	47,253	757,439	32,766	(47,105)	(36,213)	754,140
Net income	—	—	16,251	—	—	16,251
Other comprehensive loss	—	—	—	—	(15,757)	(15,757)
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)
Balance at March 31, 2018	\$ 47,265	\$ 758,653	\$ 39,184	\$ (46,736)	\$ (51,970)	\$ 746,396
Balance at December 31, 2018	\$ 47,307	\$ 762,470	\$ 64,797	\$ (93,055)	\$ (50,228)	\$ 731,291
Cumulative effect of accounting change	—	—	(16,452)	—	—	(16,452)
Adjusted beginning balance	47,307	762,470	48,345	(93,055)	(50,228)	714,839
Net income	—	—	18,817	—	—	18,817
Other comprehensive income	—	—	—	—	34,455	34,455
Issuance of common stock for dividend reinvestment plan (10,565 shares)	13	342	—	—	—	355
Purchase of common stock (40,852 shares)	—	—	—	(1,325)	—	(1,325)
Stock compensation expense	—	661	—	—	—	661
Net issuance of common stock under employee stock plans (23,617 shares)	—	109	(32)	261	—	338
Cash dividends paid on common stock (\$0.30 per share)	—	—	(10,107)	—	—	(10,107)
Balance at March 31, 2019	\$ 47,320	\$ 763,582	\$ 57,023	\$ (94,119)	\$ (15,773)	\$ 758,033

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 FLOWS
(UNAUDITED)
(in thousands)

	Three Months Ended March 31,	
	2019	2018
OPERATING ACTIVITIES:		
Net income	\$18,817	\$16,251
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and net amortization	3,023	3,566
Securities premium amortization (discount accretion), net	3,448	4,058
Loan (discount accretion) premium amortization, net	(438)	(1,057)
Provision for loan losses	(918)	3,735
Stock compensation expense	661	456
Deferred tax expense (benefit)	126	(255)
Net (gain) loss on sale of securities available for sale	(256)	827
Net loss on premises and equipment	5	35
Gross proceeds from sales of loans held for sale	4,244	5,600
Gross originations of loans held for sale	(4,027)	(5,602)
Net (gain) loss on other real estate owned	(92)	67
Net change in:		
Interest receivable	7,270	7,827
Other assets	3,305	1,875
Interest payable	(321)	(1,219)
Other liabilities	(14,373)	5,501
Net cash provided by operating activities	20,474	41,665
INVESTING ACTIVITIES:		
Securities available for sale:		
Purchases	(372,465)	(138,581)
Sales	436,182	237,526
Maturities, calls and principal repayments	30,077	53,717
Securities held to maturity:		
Maturities, calls and principal repayments	15,405	1,222
Proceeds from redemption of FHLB stock and other investments	8,788	13,377
Purchases of FHLB stock and other investments	(11,551)	(638)
Net loan paydowns (originations)	5,868	(15,154)
Purchases of premises and equipment	(4,040)	(2,018)
Proceeds from sales of premises and equipment	2	1,903
Proceeds from sales of other real estate owned	470	91
Proceeds from sales of repossessed assets	137	198
Net cash provided by investing activities	108,873	151,643

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

	Three Months Ended March 31,	
	2019	2018
FINANCING ACTIVITIES:		
Net change in deposits	\$ 157,991	\$ 126,372
Net decrease in federal funds purchased and repurchase agreements	(28,173)	(1,673)
Proceeds from FHLB borrowings	1,556,293	1,110,000
Repayment of FHLB borrowings	(1,655,495)	(1,355,194)
Proceeds from stock option exercises	412	801
Cash paid to tax authority related to tax withholding on share-based awards	(74)	(40)
Purchase of common stock	(1,325)	—
Proceeds from the issuance of common stock for dividend reinvestment plan	355	353
Cash dividends paid	(10,107)	(9,808)
Net cash provided by (used in) financing activities	19,877	(129,189)
Net increase in cash and cash equivalents	149,224	64,119
Cash and cash equivalents at beginning of period	120,719	198,692
Cash and cash equivalents at end of period	\$269,943	\$262,811

SUPPLEMENTAL DISCLOSURES FOR CASH FLOW INFORMATION: