SOUTHSIDE BANCSHARES INC
Form 10-Q
August 07, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended June 30, 2013

OR

o 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	75-1848732
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1201 S. Beckham, Tyler, Texas	75701
(Address of principal executive offices)	(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 x No o

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 x No o

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. (Check one):

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

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

The number of shares of the issuer's common stock, par value $1.25, outstanding as of July 31, 2013 was 17,866,716 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, 2013	December 31, 2012
ASSETS		
Cash and due from banks	$45,628	$47,312
Interest earning deposits	4,169	103,318
Total cash and cash equivalents	49,797	150,630
Investment securities:		
Available for sale, at estimated fair value	488,321	617,707
Held to maturity, at amortized cost	302,775	1,009
Mortgage-backed and related securities:		
Available for sale, at estimated fair value	821,760	806,360
Held to maturity, at amortized cost	240,514	245,538
FHLB stock, at cost	27,153	27,889
Other investments, at cost	2,064	2,064
Loans held for sale	724	3,601
Loans:		
Loans	1,293,429	1,262,977
Less: Allowance for loan losses	(18,370)	(20,585)
Net Loans	1,275,059	1,242,392
Premises and equipment, net	50,186	50,075
Goodwill	22,034	22,034
Other intangible assets, net	245	324
Interest receivable	20,883	18,936
Deferred tax asset	20,883	4,120
Unsettled issuances of brokered CDs	11,069	—
Other assets	51,511	44,724
TOTAL ASSETS	$3,384,978	$3,237,403
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	$663,594	$595,093
Interest bearing	1,835,744	1,756,804
Total deposits	2,499,338	2,351,897
Short-term obligations:		
Federal funds purchased and repurchase agreements	857	984
FHLB advances	84,882	150,985
Other obligations	219	219
Total short-term obligations	85,958	152,188
Long-term obligations:		
FHLB advances	441,808	369,097
Long-term debt	60,311	60,311
Total long-term obligations	502,119	429,408
Unsettled trades to purchase securities	27,814	10,047

Other liabilities	34,316	36,100
TOTAL LIABILITIES	3,149,545	2,979,640
Off-Balance-Sheet Arrangements, Commitments and Contingencies (Note 10)		
Shareholders' equity:		
Common stock ($1.25 par, 40,000,000 shares authorized, 20,335,929 shares issued in 2013 and 19,446,187 shares issued in 2012)	25,420	24,308
Paid-in capital	212,648	195,602
Retained earnings	65,219	70,708
Treasury stock (2,469,638 and 2,379,338 shares at cost)	(37,692)	(35,793)
Accumulated other comprehensive (loss) income	(30,162)	2,938
TOTAL SHAREHOLDERS' EQUITY	235,433	257,763
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$3,384,978	$3,237,403

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 June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Interest income				
Loans	$18,390	$17,526	$36,055	$34,296
Investment securities – taxable	169	20	533	51
Investment securities – tax-exempt	4,877	2,961	8,835	5,628
Mortgage-backed and related securities	4,680	8,872	8,616	21,035
FHLB stock and other investments	34	54	99	133
Other interest earning assets	35	9	78	15
Total interest income	28,185	29,442	54,216	61,158
Interest expense				
Deposits	2,001	2,765	4,071	6,160
Short-term obligations	389	1,734	1,639	3,326
Long-term obligations	1,954	2,398	3,735	5,131
Total interest expense	4,344	6,897	9,445	14,617
Net interest income	23,841	22,545	44,771	46,541
Provision for loan losses	2,021	2,174	2,513	5,226
Net interest income after provision for loan losses	21,820	20,371	42,258	41,315
Noninterest income				
Deposit services	3,904	3,838	7,657	7,586
Gain on sale of securities available for sale	5,052	3,297	9,417	9,269
Loss on sale of securities carried at fair value through income	—	(13)	—	(498)
Total other-than-temporary impairment losses	—	(21)	(52)	(21)
Portion of loss recognized in other comprehensive income (before taxes)	—	(19)	10	(160)
Net impairment losses recognized in earnings	—	(40)	(42)	(181)
FHLB advance option impairment charges	—	(1,364)	—	(1,836)
Gain on sale of loans	241	298	560	429
Trust income	733	669	1,453	1,346
Bank owned life insurance income	264	254	518	520
Other	953	1,123	1,844	2,234
Total noninterest income	11,147	8,062	21,407	18,869
Noninterest expense				
Salaries and employee benefits	13,401	12,142	26,610	23,975
Occupancy expense	1,897	1,851	3,768	3,609
Advertising, travel & entertainment	656	603	1,297	1,207
ATM and debit card expense	303	287	684	566
Director fees	273	273	537	541
Supplies	169	222	419	381
Professional fees	562	612	1,202	1,303
Telephone and communications	384	445	835	851

FDIC insurance	409	414	830	884
FHLB prepayment fees	988	—	988	—
Other	2,124	2,247	4,315	4,301
Total noninterest expense	21,166	19,096	41,485	37,618
Income before income tax expense	11,801	9,337	22,180	22,566
Provision for income tax expense	1,729	1,608	3,583	4,698
Net income	$10,072	$7,729	$18,597	$17,868
Earnings per common share – basic	$0.56	$0.42	$1.04	$0.98
Earnings per common share – diluted	$0.56	$0.42	$1.04	$0.98
Dividends paid per common share	$0.20	$0.20	$0.40	$0.38

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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	$10,072	$7,729	$18,597	$17,868
Other comprehensive income (loss):				
Unrealized holding (losses) gains on available for sale securities during the period	(37,666)	842	(42,881)	(4,044)
Change in net unrealized gain on securities transferred to held to maturity	(30)	—	(30)	—
Noncredit portion of other-than-temporary impairment losses on the AFS securities	—	40	(10)	181
Reclassification adjustment for gain on sale of available for sale securities, included in net income	(5,052)	(3,297)	(9,417)	(9,269)
Reclassification of other-than-temporary impairment charges on available for sale securities, included in net income	—	40	42	181
Amortization of net actuarial loss, included in net periodic benefit cost	751	512	1,394	1,011
Amortization of prior service credit, included in net periodic benefit cost	(11)	(12)	(22)	(22)
Other comprehensive loss, before tax	(42,008)	(1,875)	(50,924)	(11,962)
Income tax benefit related to other items of comprehensive income	14,703	656	17,824	4,187
Other comprehensive loss, net of tax	(27,305)	(1,219)	(33,100)	(7,775)
Comprehensive (loss) income	$(17,233)	$6,510	$(14,503)	$10,093

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 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 Equity
Balance at December 31, 2011	$23,146	$176,791	$72,646	$(28,377)	$14,721	$258,927
Net Income			17,868			17,868
Other comprehensive loss					(7,775)	(7,775)
Issuance of common stock (30,436 shares)	38	595				633
Stock compensation expense		133				133
Tax benefits of incentive stock options		11				11
Net issuance of common stock under employee stock plans	10	39	(54)			(5)
Cash dividends paid on common stock ($0.38 per share)			(6,436)			(6,436)
Stock dividend declared	1,034	16,425	(17,459)			—
Balance at June 30, 2012	$24,228	$193,994	$66,565	$(28,377)	$6,946	$263,356
Balance at December 31, 2012	$24,308	$195,602	$70,708	$(35,793)	$2,938	$257,763
Net Income			18,597			18,597
Other comprehensive loss					(33,100)	(33,100)
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 plans	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	$65,219	$(37,692)	$(30,162)	$235,433

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)

	Six Months Ended June 30, 2013	2012
OPERATING ACTIVITIES:		
Net income	$18,597	$17,868
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	1,807	1,778
Amortization of premium	17,636	22,864
Accretion of discount and loan fees	(2,913)	(2,399)
Provision for loan losses	2,513	5,226
Stock compensation expense	373	133
Deferred tax expense (benefit)	1,060	(2,743)
Excess tax benefits from stock-based compensation	(22)	(11)
Loss on sale of securities carried at fair value through income	—	498
Gain on sale of securities available for sale	(9,417)	(9,269)
Net other-than-temporary impairment losses	42	181
FHLB advance option impairment charges	—	1,836
Gain on sale of other real estate owned	(72)	(3)
Net change in:		
Interest receivable	(1,947)	1,497
Other assets	(7,117)	27
Interest payable	(481)	(458)
Other liabilities	69	(2,393)
Loans held for sale	2,877	2,105
Net cash provided by operating activities	23,005	36,737
INVESTING ACTIVITIES:		
Securities held to maturity:		
Purchases	(115,647)	—
Maturities, calls and principal repayments	118,178	32,331
Securities available for sale:		
Purchases	(1,018,900)	(1,213,923)
Sales	612,459	448,725
Maturities, calls and principal repayments	179,203	163,809
Securities carried at fair value through income:		
Purchases	—	(57,606)
Sales	—	675,255
Maturities, calls and principal repayments	—	25,279
Proceeds from redemption of FHLB stock	5,242	10,292
Purchases of FHLB stock and other investments	(4,506)	(10,757)
Net increase in loans	(35,355)	(100,529)
Purchases of premises and equipment	(1,918)	(1,433)
Proceeds from sales of premises and equipment	—	—
Proceeds from sales of other real estate owned	461	112

Proceeds from sales of repossessed assets	2,304	2,070
Net cash used in investing activities	(258,479)	(26,375)

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

	Six Months Ended June 30, 2013	2012
FINANCING ACTIVITIES:		
Net increase in demand and savings accounts	140,307	198,420
Net decrease in certificates of deposit	(3,947)	(124,695)
Net decrease in federal funds purchased and repurchase agreements	(127)	(997)
Proceeds from FHLB advances	6,792,758	9,133,164
Repayment of FHLB advances	(6,786,150)	(9,147,464)
Excess tax benefits from stock-based awards	22	11
Net issuance of common stock under employee stock plan	13	—
Purchase of common stock	(1,899)	—
Proceeds from the issuance of common stock	628	633
Cash dividends paid	(6,964)	(6,436)
Net cash provided by financing activities	134,641	52,636
Net (decrease) increase in cash and cash equivalents	(100,833)	62,998
Cash and cash equivalents at beginning of period	150,630	43,238
Cash and cash equivalents at end of period	$49,797	$106,236
SUPPLEMENTAL DISCLOSURES FOR CASH FLOW INFORMATION:		
Interest paid	$9,925	$15,075
Income taxes paid	$1,600	$9,200
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Loans transferred to other repossessed assets and real estate through foreclosure	$2,555	$2,621
Transfer of available for sale securities to held to maturity securities	$290,136	$—
Adjustment to pension liability	$(1,372)	$(989)
5% stock dividend	$17,060	$17,459
Unsettled trades to purchase securities	$(27,814)	$(42,300)
Unsettled trades to sell securities	$—	$1,071
Unsettled issuances of brokered CDs	$11,069	$—

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

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SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

1. Basis of Presentation

In this report, the words “the Company,” “we,” “us,” and “our” refer to the combined entities of Southside Bancshares, Inc. and its subsidiaries. The words “Southside” and “Southside Bancshares” refer to Southside Bancshares, Inc. The words “Southside Bank” and “the Bank” refer to Southside Bank. “FWBS” refers to Fort Worth Bancshares, Inc., a bank holding company acquired by Southside. “SFG” refers to SFG Finance, LLC (formerly Southside Financial Group, LLC) which is a wholly-owned subsidiary of the Bank as of July 15, 2011.

As mentioned in our 10-K for the year ended December 31, 2012, we made a decision to close Southside Securities, Inc. The closure was completed during the second quarter of 2013.

The consolidated balance sheet as of June 30, 2013, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows and notes to the financial statements for the three- and six-month periods ended June 30, 2013 and 2012 are unaudited; in the opinion of management, all adjustments necessary for a fair statement of such financial statements have been included. Such adjustments consisted only of normal recurring items. All significant intercompany accounts and transactions are eliminated in consolidation. The preparation of these consolidated financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires the use of management’s estimates. These estimates are subjective in nature and involve matters of judgment. Actual amounts could differ from these estimates.

Interim results are not necessarily indicative of results for a full year. These financial statements should be read in conjunction with the financial statements and notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2012. For a description of our significant accounting and reporting policies, refer to Note 1 of the Notes to Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2012.

On March 28, 2013 our board of directors declared a 5% stock dividend to common stock shareholders of record as of April 18, 2013, which was paid on May 9, 2013. All share data has been adjusted to give retroactive recognition to stock dividends.

Accounting Pronouncements

ASU 2011-11, “Balance Sheet (Topic 210) – Disclosures about Offsetting Assets and Liabilities.” ASU 2011-11 amends Topic 210, “Balance Sheet,” to require an entity to disclose both gross and net information about financial instruments, such as sales and repurchase agreements and reverse sale and repurchase agreements and securities borrowing/lending arrangements, and derivative instruments that are eligible for offset in the statement of financial position and/or subject to a master netting arrangement or similar agreement. We adopted ASU 2011-11 on January 1, 2013, and it did not have a significant impact on our consolidated financial statements.

ASU 2013-02, “Comprehensive Income (Topic 220) – Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.” ASU 2013-02 requires entities to provide information about the significant amounts reclassified out of accumulated other comprehensive income by component. This update also requires companies to disclose the income statement line items impacted by any significant reclassifications. We adopted ASU 2013-02 on January 1, 2013, and it did not have a significant impact on our consolidated financial statements.

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2. Earnings Per Share

Earnings per share on a basic and diluted basis have been adjusted to give retroactive recognition to stock dividends and is calculated as follows (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Basic and Diluted Earnings:				
Net income	$10,072	$7,729	$18,597	$17,868
Basic weighted-average shares outstanding	17,849	18,210	17,853	18,203
Add: Stock options	32	13	26	13
Diluted weighted-average shares outstanding	17,881	18,223	17,879	18,216
Basic Earnings Per Share:	$0.56	$0.42	$1.04	$0.98
Diluted Earnings Per Share:	$0.56	$0.42	$1.04	$0.98

For the three- and six-month periods ended June 30, 2013 there were approximately 10,000 and 17,000 anti-dilutive shares, respectively. For the three- and six-month periods ended June 30, 2012 there were approximately 4,000 and 6,000 anti-dilutive shares, respectively.

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3. Accumulated Other Comprehensive (Loss) Income

The changes in accumulated other comprehensive income by component are as follows (in thousands):

	Six Months Ended June 30, 2013				
	Unrealized Gains (Losses) on Securities		Pension Plans		
	Other	OTTI	Net Prior Service (Cost) Credit	Net Gain (Loss)	Total
Beginning balance, net of tax	$30,500	$(1,140)	$248	$(26,670)	$2,938
Other comprehensive (loss) income before reclassifications	(43,045)	154	—	—	(42,891)
Reclassified from accumulated other comprehensive income (1)	(9,447)	42	(22)	1,394	(8,033)
Income tax benefit (expense)	18,372	(68)	8	(488)	17,824
Net current-period other comprehensive (loss) income, net of tax	(34,120)	128	(14)	906	(33,100)
Ending balance, net of tax	$(3,620)	$(1,012)	$234	$(25,764)	$(30,162)

	Three Months Ended June 30, 2013				
	Unrealized Gains (Losses) on Securities		Pension Plans		
	Other	OTTI	Net Prior Service (Cost) Credit	Net Gain (Loss)	Total
Beginning balance, net of tax	$24,525	$(1,371)	$241	$(26,252)	$(2,857)
Other comprehensive (loss) income before reclassifications	(38,218)	552	—	—	(37,666)
Reclassified from accumulated other comprehensive income (1)	(5,082)	—	(11)	751	(4,342)
Income tax benefit (expense)	15,155	(193)	4	(263)	14,703
Net current-period other comprehensive (loss) income, net of tax	(28,145)	359	(7)	488	(27,305)
Ending balance, net of tax	$(3,620)	$(1,012)	$234	$(25,764)	$(30,162)

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	Six Months Ended June 30, 2012				
	Unrealized Gains (Losses) on Securities		Pension Plans		
	Other	OTTI	Net Prior Service (Cost) Credit	Net Gain (Loss)	Total
Beginning balance, net of tax	$37,271	$(1,577)	$276	$(21,249)	$14,721
Other comprehensive (loss) income before reclassifications	(3,987)	124	—	—	(3,863)
Reclassified from accumulated other comprehensive income	(9,269)	181	(22)	1,011	(8,099)
Income tax benefit (expense)	4,640	(107)	8	(354)	4,187
Net current-period other comprehensive (loss) income, net of tax	(8,616)	198	(14)	657	(7,775)
Ending balance, net of tax	$28,655	$(1,379)	$262	$(20,592)	$6,946

	Three Months Ended June 30, 2012				
	Unrealized Gains (Losses) on Securities		Pension Plans		
	Other	OTTI	Net Prior Service (Cost) Credit	Net Gain (Loss)	Total
Beginning balance, net of tax	$30,202	$(1,382)	$270	$(20,925)	$8,165
Other comprehensive (loss) income before reclassifications	917	(35)	—	—	882
Reclassified from accumulated other comprehensive income	(3,297)	40	(12)	512	(2,757)
Income tax benefit (expense)	833	(2)	4	(179)	656
Net current-period other comprehensive (loss) income, net of tax	(1,547)	3	(8)	333	(1,219)
Ending balance, net of tax	$28,655	$(1,379)	$262	$(20,592)	$6,946

(1) Includes realized gains on sale of securities and amortization of unrealized gains on securities transferred from available-for-sale to held-to-maturity.

The reclassifications out of accumulated other comprehensive income into net income are presented below (in thousands):

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	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Unrealized holding gains arising during period:				
Realized gain on sale of securities (1)	$5,052	$3,297	$9,417	$9,269
Change in unrealized gain on securities transferred to held to maturity (2)	30	—	30	—
Impairment losses (3)	—	(40)	(42)	(181)
Total before tax	5,082	3,257	9,405	9,088
Tax benefit (expense)	(1,779)	(1,140)	(3,292)	(3,181)
Net of tax	$3,303	$2,117	$6,113	$5,907
Amortization of defined benefit pension items:				
Net loss (4)	$(751)	$(512)	$(1,394)	$(1,011)
Prior service credit (4)	11	12	22	22
Total before tax	(740)	(500)	(1,372)	(989)
Tax benefit (expense)	259	175	480	346
Net of tax	$(481)	$(325)	$(892)	$(643)
Total reclassifications for the period, net of tax	$2,822	$1,792	$5,221	$5,264

(1) Listed as Gain on sale of securities available for sale on the Statements of Income.
(2) Included in Interest income on the Statements of Income.
(3) Listed as Net impairment losses recognized in earnings on the Statements of Income.
(4) These accumulated other comprehensive income components are included in the computation of net periodic pension cost presented in “Note 7 - Employee Benefit Plans.”

4. Securities

The amortized cost and estimated fair value of investment and mortgage-backed securities as of June 30, 2013 and December 31, 2012, are reflected in the tables below (in thousands):

	June 30, 2013				
			Gross Unrealized Losses		
AVAILABLE FOR SALE	Amortized Cost	Gross Unrealized Gains	OTTI	Other	Estimated Fair Value
Investment Securities:					
U.S. Government Agency Debentures	$15,551	$—	$—	$1,353	$14,198
State and Political Subdivisions	472,419	7,148	—	19,740	459,827
Other Stocks and Bonds	15,770	142	1,558	58	14,296
Mortgage-backed Securities: (1)					
Residential	670,639	15,402	—	2,420	683,621
Commercial	146,289	274	—	8,424	138,139
Total	$1,320,668	$22,966	$1,558	$31,995	$1,310,081

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	June 30, 2013				
HELD TO MATURITY	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses OTTI	Other	Estimated Fair Value
Investment Securities:					
State and Political Subdivisions	$302,775	$112	$—	$12,654	$290,233
Mortgage-backed Securities: (1)					
Residential	125,189	5,134	—	1	130,322
Commercial	115,325	—	—	5,786	109,539
Total	$543,289	$5,246	$—	$18,441	$530,094

	December 31, 2012				
AVAILABLE FOR SALE	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses OTTI	Other	Estimated Fair Value
Investment Securities:					
U.S. Government Agency Debentures	$61,461	$—	$—	$598	$60,863
State and Political Subdivisions	515,116	30,888	—	316	545,688
Other Stocks and Bonds	12,807	104	1,754	1	11,156
Mortgage-backed Securities: (1)					
Residential	789,356	18,003	—	999	806,360
Total	$1,378,740	$48,995	$1,754	$1,914	$1,424,067

	December 31, 2012				
HELD TO MATURITY	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses OTTI	Other	Estimated Fair Value
Investment Securities:					
State and Political Subdivisions	$1,009	$128	$—	$—	$1,137
Mortgage-backed Securities: (1)					
Residential	245,538	8,770	—	47	254,261
Total	$246,547	$8,898	$—	$47	$255,398

(1) All mortgage-backed securities issued and/or guaranteed by U.S. government agencies or U.S. government-sponsored enterprises.

Securities carried at fair value through income were as follows (in thousands):

	At June 30, 2013	At December 31, 2012	At December 31, 2011
Mortgage-backed Securities:			
U.S. Government Agencies	$—	$—	$30,413
Government-Sponsored Enterprises	—	—	617,346
Total	$—	$—	$647,759

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Net gains and losses on securities carried at fair value through income were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net (loss) gain on sales transactions	$—	$(13)	$—	$(498)
Net mark-to-market gains	—	—	—	—
Net (loss) gain on securities carried at fair value through income	$—	$(13)	$—	$(498)

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The following table represents the unrealized loss on securities for the six months ended June 30, 2013 and year ended December 31, 2012 (in thousands):

	As of June 30, 2013					
	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
AVAILABLE FOR SALE						
Investment Securities:						
U.S. Government Agency Debentures	$14,198	$1,353	$—	$—	$14,198	$1,353
State and Political Subdivisions	339,697	19,740	—	—	339,697	19,740
Other Stocks and Bonds	5,272	58	1,144	1,558	6,416	1,616
Mortgage-backed Securities:						
Residential	115,495	1,967	28,072	453	143,567	2,420
Commercial	135,287	8,424	—	—	135,287	8,424
Total	$609,949	$31,542	$29,216	$2,011	$639,165	$33,553
HELD TO MATURITY						
Investment Securities:						
State and Political Subdivisions	$287,541	$12,654	$—	$—	$287,541	$12,654
Mortgage-backed Securities:						
Residential	3,074	1	—	—	3,074	1
Commercial	109,539	5,786	—	—	109,539	5,786
Total	$400,154	$18,441	$—	$—	$400,154	$18,441

	As of December 31, 2012					
	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
AVAILABLE FOR SALE						
Investment Securities:						
U.S. Government Agency Debentures	$60,863	$598	$—	$—	$60,863	$598
State and Political Subdivisions	49,548	316	—	—	49,548	316
Other Stocks and Bonds	4,856	1	990	1,754	5,846	1,755
Mortgage-backed Securities:						
Residential	260,909	967	3,122	32	264,031	999
Total	$376,176	$1,882	$4,112	$1,786	$380,288	$3,668
HELD TO MATURITY						
Mortgage-backed Securities:						
Residential	$3,251	$47	$—	$—	$3,251	$47
Total	$3,251	$47	$—	$—	$3,251	$47

When it is determined that a decline in fair value of Held to Maturity (“HTM”) and Available for Sale (“AFS”) securities are other-than-temporary, the carrying value of the security is reduced to its estimated fair value, with a corresponding charge to earnings for the credit portion and to other comprehensive income for the noncredit portion. In estimating other-than-temporary impairment losses, management considers, among other things, (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) whether we have a current intent to sell the security

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and whether it is not more likely than not that we will be required to sell the security before the anticipated recovery of their amortized cost basis.

At June 30, 2013, we have in AFS Other Stocks and Bonds, $2.7 million amortized cost basis in pooled trust preferred securities ("TRUPs"). Those securities are structured products with cash flows dependent upon securities issued by U.S. financial institutions, including banks and insurance companies. Our estimate of fair value at June 30, 2013 for the TRUPs is approximately $1.1 million and reflects the market illiquidity. With the exception of the TRUPs, to the best of management's knowledge and based on our consideration of the qualitative factors associated with each security, there were no securities in our investment and mortgage-backed securities portfolio at June 30, 2013 with an other-than-temporary impairment.

Given the facts and circumstances associated with the TRUPs we performed detailed cash flow modeling for each TRUP using an industry-accepted cash flow model. Prior to loading the required assumptions into the model we reviewed the financial condition of each of the underlying issuing banks within the TRUP collateral pool that had not deferred or defaulted as of June 30, 2013. Management's best estimate of a deferral assumption was assigned to each issuing bank based on the category in which it fell. Our analysis of the underlying cash flows contemplated various default, deferral and recovery scenarios to arrive at our best estimate of cash flows. Based on that detailed analysis, we have concluded that the other-than-temporary impairment, which captures the credit component, was estimated at $3.3 million at June 30, 2013 and December 31, 2012. The noncredit charge to other comprehensive income was estimated at $1.6 million and $1.8 million at June 30, 2013 and December 31, 2012, respectively. The carrying amount of the TRUPs was written down with $75,000 and $3.0 million recognized in earnings for the years ended December 31, 2010 and 2009, respectively. There was no write-down recognized in earnings during 2011 but there was an additional write-down of the TRUPs recognized in earnings in the amount of approximately $181,000 during 2012. For the six months ended June 30, 2013 and 2012, the additional write-down recognized in earnings was approximately $42,000 and $181,000, respectively. The cash flow model assumptions represent management's best estimate and consider a variety of qualitative factors, which include, among others, the credit rating downgrades, the severity and duration of the mark-to-market loss, and the structural nuances of each TRUP. We will continue to update our assumptions and the resulting analysis each reporting period to reflect changing market conditions. Additionally, we do not currently intend to sell the TRUPs and it is not more likely than not that we will be required to sell the TRUPs before the anticipated recovery of their amortized cost basis.

The table below provides more detail on the TRUPs at June 30, 2013 (in thousands):

TRUP	Par	Credit Loss	Amortized Cost	Fair Value	Tranche	Credit Rating
1	$2,000	$1,298	$702	$26	C1	Ca
2	2,000	550	1,450	733	B1	C
3	2,000	1,450	550	385	B2	C
	$6,000	$3,298	$2,702	$1,144		

The following tables present a roll forward of the credit losses recognized in earnings, on AFS debt securities (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Balance, beginning of period	$3,298	$3,216	$3,256	$3,075
Additions for credit losses recognized on debt securities that had previously incurred impairment losses	—	40	42	181

Balance, end of period	$3,298	$3,256	$3,298	$3,256

Interest income recognized on securities for the periods presented (in thousands):

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	Six Months Ended June 30,	
	2013	2012
U.S. Treasury	$17	$—
U.S. Government Agency Debentures	305	—
State and Political Subdivisions	8,947	5,642
Other Stocks and Bonds	99	37
Mortgage-backed Securities	8,616	21,035
Total interest income on securities	$17,984	$26,714

	Three Months Ended June 30,	
	2013	2012
U.S. Treasury	$—	$—
U.S. Government Agency Debentures	93	—
State and Political Subdivisions	4,899	2,968
Other Stocks and Bonds	54	13
Mortgage-backed Securities	4,680	8,872
Total interest income on securities	$9,726	$11,853

During the second quarter of 2013, the Company transferred commercial mortgage-backed securities with a fair value of $57.9 million and state and political subdivisions securities with a fair value of $232.2 million from AFS to HTM due to overall balance sheet strategies. The unrealized gain on the securities transferred from AFS to HTM was $3.6 million ($2.4 million, net of tax) at the date of transfer based on the fair value of the securities on the transfer date. The unrealized gain on the transferred securities included in accumulated other comprehensive income will be amortized over the remaining life of the underlying security as an adjustment of the yield on those securities. There were no sales from the HTM portfolio during the six months ended June 30, 2013 or 2012. There were $543.3 million and $246.5 million of securities classified as HTM at June 30, 2013 and December 31, 2012, respectively.

Of the $9.4 million in net securities gains from the AFS portfolio for the six months ended June 30, 2013, there were $10.8 million in realized gains and approximately $1.4 million in realized losses. Of the $9.3 million in net securities gains from the AFS portfolio for the six months ended June 30, 2012, there were $9.4 million in realized gains and approximately $105,000 in realized losses.

The amortized cost and fair value of securities at June 30, 2013, are presented below by contractual maturity. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Mortgage-backed securities are presented in total by category due to the fact that mortgage-backed securities typically are issued with stated principal amounts, and the securities are backed by pools of mortgages that have loans with varying maturities. The characteristics of the underlying pool of mortgages, such as fixed-rate or adjustable-rate, as well as prepayment risk, are passed on to the security holder. The term of a mortgage-backed pass-through security thus approximates the term of the underlying mortgages and can vary significantly due to prepayments.

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	June 30, 2013	
	Amortized Cost	Fair Value
AVAILABLE FOR SALE	(in thousands)	
Investment Securities:		
Due in one year or less	$2,788	$2,793
Due after one year through five years	23,754	24,172
Due after five years through ten years	55,995	56,397
Due after ten years	421,203	404,959
	503,740	488,321
Mortgage-backed Securities:	816,928	821,760
Total	$1,320,668	$1,310,081

	June 30, 2013	
	Amortized Cost	Fair Value
HELD TO MATURITY	(in thousands)	
Investment Securities:		
Due in one year or less	$—	$—
Due after one year through five years	218	215
Due after five years through ten years	8,794	8,572
Due after ten years	293,763	281,446
	302,775	290,233
Mortgage-backed Securities:	240,514	239,861
Total	$543,289	$530,094

Investment and mortgage-backed securities with book values of $912.1 million and $945.7 million were pledged as of June 30, 2013 and December 31, 2012, respectively, to collateralize Federal Home Loan Bank ("FHLB") advances, repurchase agreements, and public funds or for other purposes as required by law.

Securities with limited marketability, such as FHLB stock and other investments, are carried at cost, which approximates its fair value and are assessed for other-than-temporary impairment. These securities have no maturity date.

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5. Loans and Allowance for Probable Loan Losses

Loans in the accompanying consolidated balance sheets are classified as follows (in thousands):

	June 30, 2013	December 31, 2012
Real Estate Loans:		
Construction	$123,493	$113,744
1-4 Family residential	385,241	368,845
Other	232,632	236,760
Commercial loans	153,985	160,058
Municipal loans	224,134	220,947
Loans to individuals	173,944	162,623
Total loans	1,293,429	1,262,977
Less: Allowance for loan losses	18,370	20,585
Net loans	$1,275,059	$1,242,392

Allowance for Loan Losses

The allowance for loan losses is based on the most current review of the loan portfolio and is validated by multiple processes. First, the bank utilizes historical data to establish general reserve amounts for each class of loans. An average three-year history of annualized net charge-offs against the average portfolio balance for that time period is utilized. The historical charge-off figure is further adjusted through qualitative factors that include general trends in past dues, nonaccruals and classified loans to more effectively and promptly react to both positive and negative movements. Second, our lenders have the primary responsibility for identifying problem loans and estimating necessary reserves based on customer financial stress and underlying collateral. These recommendations are reviewed by the senior lender, the Special Assets department, and the Loan Review department. Third, the Loan Review department does independent reviews of the portfolio on an annual basis. The Loan Review department follows a board-approved annual loan review scope. The loan review scope encompasses a number of metrics that takes into consideration the size of the loan, the type of credit extended, the seasoning of the loan along with the performance of the loan. The loan review scope, as it relates to size, focuses more on larger dollar loan relationships, typically, for example, aggregate debt of $500,000 or greater. The loan review officer also tracks specific reserves for loans by type compared to general reserves to determine trends in comparative reserves as well as losses not reserved for prior to charge-off to determine the effectiveness of the specific reserve process.

At each review, a subjective analysis methodology is used to grade the respective loan. Categories of grading vary in severity from loans that do not appear to have a significant probability of loss at the time of review to loans that indicate a probability that the entire balance of the loan will be uncollectible. If full collection of the loan balance appears unlikely at the time of review, estimates of future expected cash flows or appraisals of the collateral securing the debt are used to determine the necessary allowances. The internal loan review department maintains a list of all loans or loan relationships that are graded as having more than the normal degree of risk associated with them. In addition, a list of specifically reserved loans or loan relationships of $50,000 or more is updated on a quarterly basis in order to properly determine necessary allowances and keep management informed on the status of attempts to correct the deficiencies noted with respect to the loan.

For loans to individuals, the methodology associated with determining the appropriate allowance for losses on loans primarily consists of an evaluation of individual payment histories, remaining term to maturity and underlying collateral support.

Industry and our own experience indicates that a portion of our loans will become delinquent and a portion of the loans will require partial or full charge-off. Regardless of the underwriting criteria utilized, losses may be experienced as a result of various factors beyond our control, including, among other things, changes in market conditions affecting the value of properties used as collateral for loans and problems affecting the credit of the borrower and the ability of the borrower to make payments on the loan. Our determination of the appropriateness of the allowance for loan losses is based on various considerations, including an analysis of the risk characteristics of various classifications of loans, previous loan loss experience, specific loans which would have loan loss potential, delinquency trends, estimated fair value of the underlying collateral, current economic conditions, the views of the

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bank regulators (who have the authority to require additional allowances in accordance with GAAP), and geographic and industry loan concentration.

Consumer loans at SFG are reserved for based on general estimates of loss at the time of purchase for current loans. SFG loans experiencing past due status or extension of maturity characteristics are reserved for at significantly higher levels based on the circumstances associated with each specific loan. In general the reserves for SFG are calculated based on the past due status of the loan. For reserve purposes, the portfolio has been segregated by past due status and by the remaining term variance from the original contract. During repayment, loans that pay late will take longer to pay out than the original contract. Additionally, some loans may be granted extensions for extenuating payment circumstances and evaluated for troubled debt classification. The remaining term extensions increase the risk of collateral deterioration and, accordingly, reserves are increased to recognize this risk.

New pools purchased are reserved at their estimated annual loss. Additionally, we use data mining measures to track migration within risk tranches. Reserves are adjusted quarterly to match the migration metrics.

Credit Quality Indicators

We categorize loans into risk categories on an ongoing basis based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. We use the following definitions for risk ratings:

- Satisfactory (Rating 1 – 4) – This rating is assigned to all satisfactory loans. This category, by definition, should consist of acceptable credit. Credit and collateral exceptions should not be present, although their presence would not necessarily prohibit a loan from being rated Satisfactory, if deficiencies are in process of correction. These loans will not be included in the Watch List.

- Satisfactory (Rating 5) – Special Treatment Required – (Pass Watch) – These loans require some degree of special treatment, but not due to credit quality. This category does not include loans specially mentioned or adversely classified by the Loan Review Officer or regulatory authorities; however, particular attention must be accorded such credits due to characteristics such as:

- A lack of, or abnormally extended payment program;
- A heavy degree of concentration of collateral without sufficient margin;
- A vulnerability to competition through lesser or extensive financial leverage; and
- A dependence on a single, or few customers, or sources of supply and materials without suitable substitutes or alternatives.

- Special Mention (Rating 6) – A Special Mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

- Substandard (Rating 7) – Substandard loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

- Doubtful (Rating 8) – Loans classified as Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation, in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

- Loss (Rating 9) – Loans classified as Loss are currently in the process of being charged off and are fully reserved. They are considered uncollectible and of such little value that their continuance as bankable assets is not warranted.

Loans that are accruing and not considered troubled debt restructurings ("TDR") are reserved for as a group of similar type credits and included in the general portion of the allowance for loan losses.

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The general portion of the loan loss allowance is reflective of historical charge-off levels for similar loans adjusted for changes in current conditions and other relevant factors. These factors are likely to cause estimated losses to differ from historical loss experience and include:

- Changes in lending policies or procedures, including underwriting, collection, charge-off, and recovery procedures;
- Changes in local, regional and national economic and business conditions including entry into new markets;
- Changes in the volume or type of credit extended;
- Changes in the experience, ability, and depth of lending management;
- Changes in the volume and severity of past due, nonaccrual, restructured, or classified loans;
- Changes in loan review or Board oversight;
- Changes in the level of concentrations of credit; and
- Changes in external factors, such as competition and legal and regulatory requirements.

The following tables detail activity in the allowance for loan losses by portfolio segment for the periods presented (in thousands):

	Six Months Ended June 30, 2013							
	Real Estate							
	Construction	1-4 Family Residential	Other	Commercial Loans	Municipal Loans	Loans to Individuals	Unallocated	Total
Balance at beginning of period	$2,355	$3,545	$2,290	$3,158	$633	$7,373	$1,231	$20,585
Provision (reversal) for loan losses	(277)	281	(129)	(620)	—	3,916	(658)	2,513
Loans charged off	—	(228)	(67)	(198)	—	(5,364)	—	(5,857)
Recoveries of loans charged off	22	11	10	110	—	976	—	1,129
Balance at end of period	$2,100	$3,609	$2,104	$2,450	$633	$6,901	$573	$18,370

	Three Months Ended June 30, 2013							
	Real Estate							
	Construction	1-4 Family Residential	Other	Commercial Loans	Municipal Loans	Loans to Individuals	Unallocated	Total
Balance at beginning of period	$2,247	$3,488	$2,002	$2,847	$621	$6,451	$886	$18,542
Provision (reversal) for loan losses	(152)	114	118	(330)	12	2,572	(313)	2,021
Loans charged off	—	—	(21)	(127)	—	(2,557)	—	(2,705)
Recoveries of loans charged off	5	7	5	60	—	435	—	512
Balance at end of period	$2,100	$3,609	$2,104	$2,450	$633	$6,901	$573	$18,370

Six Months Ended June 30, 2012

	Real Estate							
	Construction	1-4 Family Residential	Other	Commercial Loans	Municipal Loans	Loans to Individuals	Unallocated	Total
Balance at beginning of period	$2,620	$1,957	$3,051	$2,877	$619	$6,244	$1,172	$18,540
Provision (reversal) for loan losses	(178)	396	177	433	12	4,419	(33)	5,226
Loans charged off	(15)	(53)	(93)	(375)	—	(4,466)	—	(5,002)
Recoveries of loans charged off	47	160	3	253	—	967	—	1,430
Balance at end of period	$2,474	$2,460	$3,138	$3,188	$631	$7,164	$1,139	$20,194

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	Three Months Ended June 30, 2012							
	Real Estate							
	Construction	1-4 Family Residential	Other	Commercial Loans	Municipal Loans	Loans to Individuals	Unallocated	Total
Balance at beginning of period	$2,682	$2,290	$3,065	$3,342	$608	$6,918	$1,169	$20,074
Provision (reversal) for loan losses	(227)	57	165	78	23	2,108	(30)	2,174
Loans charged off	(7)	(42)	(93)	(287)	—	(2,343)	—	(2,772)
Recoveries of loans charged off	26	155	1	55	—	481	—	718
Balance at end of period	$2,474	$2,460	$3,138	$3,188	$631	$7,164	$1,139	$20,194

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment based on impairment method as described in the allowance for loan losses methodology discussion (in thousands):

	As of June 30, 2013							
	Real Estate							
	Construction	1-4 Family Residential	Other	Commercial Loans	Municipal Loans	Loans to Individuals	Unallocated	Total
Ending balance – individually evaluated for impairment	$83	$235	$77	$435	$—	$160	$—	$990
Ending balance – collectively evaluated for impairment	2,017	3,374	2,027	2,015	633	6,741	573	17,380
Balance at end of period	$2,100	$3,609	$2,104	$2,450	$633	$6,901	$573	$18,370

	As of December 31, 2012							
	Real Estate							
	Construction	1-4 Family Residential	Other	Commercial Loans	Municipal Loans	Loans to Individuals	Unallocated	Total
Ending balance – individually evaluated for impairment	$200	$222	$243	$631	$—	$175	$—	$1,471
Ending balance – collectively evaluated for impairment	2,155	3,323	2,047	2,527	633	7,198	1,231	19,114
Balance at end of period	$2,355	$3,545	$2,290	$3,158	$633	$7,373	$1,231	$20,585

The following table details activity of the reserve for unfunded loan commitments for the periods presented (in thousands):

	Six Months Ended June 30,	
	2013	2012
Reserve For Unfunded Loan Commitments:		
Balance at beginning of period	$5	$26
Provision (reversal) for losses on unfunded loan commitments	7	(23)
Balance at end of period	$12	$3

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	Three Months Ended June 30, 2013	2012
Reserve For Unfunded Loan Commitments:		
Balance at beginning of period	$5	$26
Provision (reversal) for losses on unfunded loan commitments	7	(23)
Balance at end of period	$12	$3

The following table sets forth the balance in the recorded investment in loans by portfolio segment based on impairment method as described in the allowance for loan losses methodology discussion for the periods presented (in thousands):

	June 30, 2013 Real Estate Construction	1-4 Family Residential	Other	Commercial Loans	Municipal Loans	Loans to Individuals	Total
Loans individually evaluated for impairment	$1,581	$3,062	$1,879	$1,834	$—	$526	$8,882
Loans collectively evaluated for impairment	121,912	382,179	230,753	152,151	224,134	173,418	1,284,547
Total ending loan balance	$123,493	$385,241	$232,632	$153,985	$224,134	$173,944	$1,293,429

	December 31, 2012 Real Estate Construction	1-4 Family Residential	Other	Commercial Loans	Municipal Loans	Loans to Individuals	Total
Loans individually evaluated for impairment	$2,465	$2,799	$2,613	$2,043	$—	$594	$10,514
Loans collectively evaluated for impairment	111,279	366,046	234,147	158,015	220,947	162,029	1,252,463
Total ending loan balance	$113,744	$368,845	$236,760	$160,058	$220,947	$162,623	$1,262,977

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The following table sets forth loans by credit quality indicator for the periods presented (in thousands):

	June 30, 2013						
	Pass	Pass Watch	Special Mention	Substandard	Doubtful	Loss	Total
Real Estate Loans:							
Construction	$116,891	$—	$3,580	$2,952	$70	$—	$123,493
1-4 Family residential	376,024	1,660	1,466	5,262	829	—	385,241
Other	218,362	2,619	4,959	6,658	34	—	232,632
Commercial loans	145,766	874	11	6,746	588	—	153,985
Municipal loans	223,813	—	—	321	—	—	224,134
Loans to individuals	172,875	53	3	683	330	—	173,944
Total	$1,253,731	$5,206	$10,019	$22,622	$1,851	$—	$1,293,429

	December 31, 2012						
	Pass	Pass Watch	Special Mention	Substandard	Doubtful	Loss	Total
Real Estate Loans:							
Construction	$106,091	$—	$3,637	$3,941	$75	$—	$113,744
1-4 Family residential	360,282	1,805	170	5,711	877	—	368,845
Other	226,394	2,721	4,073	3,319	253	—	236,760
Commercial loans	153,774	731	—	4,690	863	—	160,058
Municipal loans	220,388	204	—	355	—	—	220,947
Loans to individuals	161,458	27	4	723	393	18	162,623
Total	$1,228,387	$5,488	$7,884	$18,739	$2,461	$18	$1,262,977

The following table sets forth nonperforming assets for the periods presented (in thousands):

	At June 30, 2013	At December 31, 2012
Nonaccrual loans	$8,179	$10,314
Accruing loans past due more than 90 days	—	15
Restructured loans	3,053	2,998
Other real estate owned	772	686
Repossessed assets	266	704
Total Nonperforming Assets	$12,270	$14,717

Nonaccrual and Past Due Loans

Nonaccrual loans are those loans which are 90 days or more delinquent and collection in full of both the principal and interest is in doubt. Additionally, some loans that are not delinquent may be placed on nonaccrual status due to doubts about full collection of principal or interest. When a loan is categorized as nonaccrual, the accrual of interest is discontinued and any accrued balance is reversed for financial statement purposes. Payments of contractual interest are recognized as income only to the extent that full recovery of the principal balance of the loan is reasonably certain. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Other factors, such as the value of collateral securing the loan and the financial condition of the borrower must be considered in judgments as to potential loan loss.

Loans are considered impaired if, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. The measurement

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of impaired loans is generally based on the present value of the expected future cash flows discounted at the historical effective interest rate stipulated in the loan agreement, except that all collateral-dependent loans are measured for impairment based on the fair value of the collateral. In measuring the fair value of the collateral, in addition to relying on third party appraisals, we use assumptions such as discount rates, and methodologies, such as comparison to the recent selling price of similar assets, consistent with those that would be utilized by unrelated third parties performing a valuation. Loans that are evaluated and determined not to meet the definition of an impaired loan are reserved for at the general reserve rate for its appropriate class.

Nonaccrual loans and accruing loans past due more than 90 days include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

The following table sets forth the recorded investment in nonaccrual and accruing loans past due more than 90 days by class of loans for the periods presented (in thousands):

	June 30, 2013		December 31, 2012	
	Nonaccrual	Accruing Loans Past Due More Than 90 Days	Nonaccrual	Accruing Loans Past Due More Than 90 Days
Real Estate Loans:				
Construction	$1,540	$—	$2,416	$—
1-4 Family residential	2,189	—	2,001	—
Other	661	—	1,357	—
Commercial loans	1,535	—	1,812	—
Loans to individuals	2,254	—	2,728	15
Total	$8,179	$—	$10,314	$15

The following tables present the aging of the recorded investment in past due loans by class of loans (in thousands):

	June 30, 2013					
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Real Estate Loans:						
Construction	$—	$28	$1,540	$1,568	$121,925	$123,493
1-4 Family residential	486	663	2,189	3,338	381,903	385,241
Other	1,872	476	661	3,009	229,623	232,632
Commercial loans	26	1,157	1,535	2,718	151,267	153,985
Municipal loans	—	—	—	—	224,134	224,134
Loans to individuals	5,524	1,140	2,254	8,918	165,026	173,944
Total	$7,908	$3,464	$8,179	$19,551	$1,273,878	$1,293,429

	December 31, 2012					
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Real Estate Loans:						
Construction	$1,589	$—	$2,416	$4,005	$109,739	$113,744
1-4 Family residential	4,450	977	2,001	7,428	361,417	368,845

Other	1,639	273	1,357	3,269	233,491	236,760
Commercial loans	769	175	1,812	2,756	157,302	160,058
Municipal loans	709	—	—	709	220,238	220,947
Loans to individuals	5,908	1,191	2,743	9,842	152,781	162,623
Total	$15,064	$2,616	$10,329	$28,009	$1,234,968	$1,262,977

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The following table sets forth interest income recognized on nonaccrual and restructured loans by class of loans for the periods presented. Average recorded investment is reported on a year-to-date basis (in thousands):

	Six Months Ended June 30, 2013			June 30, 2012		
	Average Recorded Investment	Interest Income Recognized	Accruing Interest at Original Contracted Rate	Average Recorded Investment	Interest Income Recognized	Accruing Interest at Original Contracted Rate
Real Estate Loans:						
Construction	$1,919	$3	$82	$3,591	$—	$128
1-4 Family residential	3,121	20	82	2,908	9	80
Other	2,159	28	78	1,558	20	65
Commercial loans	1,979	6	57	2,010	12	55
Loans to individuals	3,030	150	300	2,950	150	272
Total	$12,208	$207	$599	$13,017	$191	$600

	Three Months Ended June 30, 2013			June 30, 2012		
	Average Recorded Investment	Interest Income Recognized	Accruing Interest at Original Contracted Rate	Average Recorded Investment	Interest Income Recognized	Accruing Interest at Original Contracted Rate
Real Estate Loans:						
Construction	$1,551	$2	$41	$3,410	$—	$63
1-4 Family residential	3,238	5	42	3,023	4	43
Other	1,900	10	39	1,561	13	33
Commercial loans	1,914	1	28	2,134	7	28
Loans to individuals	2,689	54	162	2,793	63	143
Total	$11,292	$72	$312	$12,921	$87	$310

The following table sets forth impaired loans by class of loans for the periods presented (in thousands):

	June 30, 2013				
	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance for Loan Losses
Real Estate Loans:					
Construction	$2,661	$—	$1,581	$1,581	$83
1-4 Family residential	3,231	—	3,062	3,062	235
Other	2,294	—	1,879	1,879	77
Commercial loans	2,058	—	1,834	1,834	435
Loans to individuals	3,060	—	2,845	2,845	1,265
Total	$13,304	$—	$11,201	$11,201	$2,095

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	December 31, 2012				
	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance for Loan Losses
Real Estate Loans:					
Construction	$3,716	$—	$2,465	$2,465	$200
1-4 Family residential	2,907	—	2,799	2,799	222
Other	3,133	—	2,613	2,613	243
Commercial loans	2,215	—	2,043	2,043	630
Loans to individuals	3,626	1	3,359	3,360	1,428
Total	$15,597	$1	$13,279	$13,280	$2,723

At any time a potential loss is recognized in the collection of principal, proper reserves should be allocated. Loans are charged off when deemed uncollectible. Loans are written down as soon as collection by liquidation is evident to the liquidation value of the collateral net of liquidation costs, if any, and placed in nonaccrual status.

Troubled Debt Restructurings

The restructuring of a loan is considered a TDR if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses.

The following tables set forth the recorded investment in loans modified for the periods presented (dollars in thousands):

	Six Months Ended June 30, 2013					
	Extend Amortization Period	Interest Rate Reductions	Principal Forgiveness	Combination (1)	Total Modifications	Number of Contracts
Real Estate Loans:						
Construction	$40	$—	$—	$—	$40	1
1-4 Family residential	285	—	—	468	753	6
Other	—	—	—	16	16	1
Commercial loans	307	—	—	19	326	5
Loans to individuals	14	185	—	35	234	32
Total	$646	$185	$—	$538	$1,369	45

	Three Months Ended June 30, 2013					
	Extend Amortization Period	Interest Rate Reductions	Principal Forgiveness	Combination (1)	Total Modifications	Number of Contracts
Real Estate Loans:						
Construction	$—	$—	$—	$—	$—	—
1-4 Family residential	—	—	—	391	391	2
Other	—	—	—	16	16	1
Commercial loans	22	—	—	—	22	1
Loans to individuals	14	185	—	28	227	30

Total	$36	$185	$—	$435	$656	34

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	Six Months Ended June 30, 2012					
	Extend Amortization Period	Interest Rate Reductions	Principal Forgiveness	Combination (1)	Total Modifications	Number of Contracts
Real Estate Loans:						
Construction	$—	$—	$—	$—	$—	—
1-4 Family residential	$237	$37	$—	$341	$615	7
Other	$89	$—	$—	$—	$89	1
Commercial loans	$439	$45	$—	$246	$730	6
Loans to individuals	$4	$—	$8	$13	$25	15
Total	$769	$82	$8	$600	$1,459	29

	Three Months Ended June 30, 2012					
	Extend Amortization Period	Interest Rate Reductions	Principal Forgiveness	Combination (1)	Total Modifications	Number of Contracts
Real Estate Loans:						
Construction	$—	$—	$—	$—	$—	—
1-4 Family residential	11	—	—	341	352	4
Other	89	—	—	—	89	1
Commercial loans	223	—	—	246	469	3
Loans to individuals	—	—	—	13	13	12
Total	$323	$—	$—	$600	$923	20

(1) These modifications include more than one of the following-extension of the amortization period, lowering interest rate and principal forgiveness.

The majority of loans restructured as TDRs during the six months ended June 30, 2013 and June 30, 2012 were modified to extend the maturity. Interest continues to be charged on principal balances outstanding during the term extended. Therefore, the financial effects of the recorded investment of loans restructured as TDRs during the three and six months ended June 30, 2013 and June 30, 2012 were insignificant. Generally, the loans identified as TDRs were previously reported as impaired loans prior to restructuring and therefore the modification did not impact our determination of the allowance for loan losses.

On an ongoing basis, the performance of the restructured loans is monitored for subsequent payment default. Payment default for TDRs is recognized when the borrower is 90 days or more past due. For the three and six months ended June 30, 2013, there were two loans modified as TDRs totaling $48,000 in payment default. This default did not significantly impact the determination of the allowance for loan loss. For the three and six months ended June 30, 2012, there were no defaults on loans that were modified as TDRs.

At June 30, 2013 and June 30, 2012, there were no commitments to lend additional funds to borrowers whose terms had been modified in TDRs.

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6. Long-term Obligations

Long-term obligations are summarized as follows (in thousands):

	June 30, 2013	December 31, 2012
FHLB Advances (1)	$441,808	$369,097
Long-term Debt (2)		
Southside Statutory Trust III Due 2033 (3)	20,619	20,619
Southside Statutory Trust IV Due 2037 (4)	23,196	23,196
Southside Statutory Trust V Due 2037 (5)	12,887	12,887
Magnolia Trust Company I Due 2035 (6)	3,609	3,609
Total Long-term Debt	60,311	60,311
Total Long-term Obligations	$502,119	$429,408

(1) At June 30, 2013, the weighted average cost of these advances was 1.48%. Long-term FHLB Advances have maturities ranging from July 2014 through July 2028.

(2) This long-term debt consists of trust preferred securities that qualify under the risk-based capital guidelines as Tier 1 capital, subject to certain limitations.

(3) This debt carries an adjustable rate of 3.214% through September 29, 2013 and adjusts quarterly at a rate equal to three-month LIBOR plus 294 basis points.

(4) This debt carries an adjustable rate of 1.5756% through July 29, 2013 and adjusts quarterly at a rate equal to three-month LIBOR plus 130 basis points.

(5) This debt carries an adjustable rate of 2.52325% through September 15, 2013 and adjusts quarterly at a rate equal to three-month LIBOR plus 225 basis points.

(6) This debt carries an adjustable rate of 2.0741% through August 22, 2013 and adjusts quarterly at a rate equal to three-month LIBOR plus 180 basis points.

During 2010 and 2011, we entered into the option to fund between one and a half and two years forward from the advance commitment date $200 million par in long-term advance commitments from the FHLB at the rates on the date the option was purchased. During the year ended December 31, 2012, $150 million par of long-term advance commitments expired unexercised. During the first quarter of 2013, the remaining $50 million par of long-term advance commitments expired unexercised. For the three and six months ended June 30, 2012, we recorded impairment charges of $1.4 million and $1.8 million in our income statement. At December 31, 2012, the FHLB advance option fees were fully impaired. At June 30, 2013, there were no remaining FHLB advance option fees recorded on our balance sheet.

7. Employee Benefit Plans

The components of net periodic benefit cost are as follows (in thousands):

	Six Months Ended June 30,			
	Defined Benefit Pension Plan		Restoration Plan	
	2013	2012	2013	2012
Service cost	$1,059	$868	$149	$80

Interest cost	1,577	1,533	234	195
Expected return on assets	(2,397)	(2,058)	—	—
Net loss recognition	1,099	852	295	159
Prior service credit amortization	(21)	(21)	(1)	(1)
Net periodic benefit cost	$1,317	$1,174	$677	$433

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	Three Months Ended June 30,			
	Defined Benefit Pension Plan		Restoration Plan	
	2013	2012	2013	2012
Service cost	$503	$403	$98	$30
Interest cost	792	770	135	96
Expected return on assets	(1,199)	(1,029)	—	—
Net loss recognition	554	437	197	75
Prior service credit amortization	(10)	(11)	(1)	(1)
Net periodic benefit cost	$640	$570		