

SOUTHSIDE BANCSHARES INC

Form 10-Q

May 07, 2013

Table of Contents

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, 2013

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, Tyler, Texas

(Address of principal executive offices)

903-531-7111

(Registrant's telephone number, including area code)

75701

(Zip Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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 30, 2013 was 17,842,463 shares.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION	
<u>ITEM 1. FINANCIAL STATEMENTS</u>	<u>1</u>
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>34</u>
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>52</u>
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	<u>53</u>
PART II. OTHER INFORMATION	
<u>ITEM 1. LEGAL PROCEEDINGS</u>	<u>54</u>
<u>ITEM 1A. RISK FACTORS</u>	<u>54</u>
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>54</u>
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	<u>54</u>
<u>ITEM 4. MINE SAFETY DISCLOSURES</u>	<u>54</u>
<u>ITEM 5. OTHER INFORMATION</u>	<u>54</u>
<u>ITEM 6. EXHIBITS</u>	<u>54</u>
<u>SIGNATURES</u>	<u>55</u>
<u>EXHIBIT INDEX</u>	<u>56</u>
EXHIBIT 31.1 – CERTIFICATION PURSUANT TO SECTION 302	
EXHIBIT 31.2 – CERTIFICATION PURSUANT TO SECTION 302	
EXHIBIT 32 – CERTIFICATION PURSUANT TO SECTION 906	

Table of Contents

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

	March 31, 2013	December 31, 2012
ASSETS		
Cash and due from banks	\$42,992	\$47,312
Interest earning deposits	12,126	103,318
Total cash and cash equivalents	55,118	150,630
Investment securities:		
Available for sale, at estimated fair value	685,794	617,707
Held to maturity, at amortized cost	1,008	1,009
Mortgage-backed and related securities:		
Available for sale, at estimated fair value	905,107	806,360
Held to maturity, at amortized cost	234,245	245,538
FHLB stock, at cost	25,415	27,889
Other investments, at cost	2,064	2,064
Loans held for sale	3,138	3,601
Loans:		
Loans	1,281,647	1,262,977
Less: Allowance for loan losses	(18,542)	(20,585)
Net Loans	1,263,105	1,242,392
Premises and equipment, net	49,985	50,075
Goodwill	22,034	22,034
Other intangible assets, net	283	324
Interest receivable	13,610	18,936
Deferred tax asset	6,148	4,120
Unsettled trades to sell securities	1,857	—
Other assets	43,186	44,724
TOTAL ASSETS	\$3,312,097	\$3,237,403
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	\$546,143	\$595,093
Interest bearing	1,791,094	1,756,804
Total deposits	2,337,237	2,351,897
Short-term obligations:		
Federal funds purchased and repurchase agreements	857	984
FHLB advances	163,159	150,985
Other obligations	219	219
Total short-term obligations	164,235	152,188
Long-term obligations:		
FHLB advances	389,804	369,097
Long-term debt	60,311	60,311
Total long-term obligations	450,115	429,408
Unsettled trades to purchase securities	71,757	10,047

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Other liabilities	33,041	36,100
TOTAL LIABILITIES	3,056,385	2,979,640

Off-Balance-Sheet Arrangements, Commitments and Contingencies (Note 10)

Shareholders' equity:

Common stock (\$1.25 par, 40,000,000 shares authorized, 20,312,101 shares issued in 2013 (including 851,404 shares declared on March 28, 2013 as a stock dividend) and 19,446,187 shares issued in 2012)	25,390	24,308
Paid-in capital	212,151	195,602
Retained earnings	58,720	70,708
Treasury stock (2,469,638 and 2,379,338 shares at cost)	(37,692	) (35,793
Accumulated other comprehensive (loss) income	(2,857	) 2,938
TOTAL SHAREHOLDERS' EQUITY	255,712	257,763
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$3,312,097	\$3,237,403

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

Table of Contents

SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
(in thousands, except per share data)

	Three Months Ended March 31,	
	2013	2012
Interest income		
Loans	\$17,665	\$16,770
Investment securities – taxable	364	31
Investment securities – tax-exempt	3,958	2,667
Mortgage-backed and related securities	3,936	12,163
FHLB stock and other investments	65	79
Other interest earning assets	43	6
Total interest income	26,031	31,716
Interest expense		
Deposits	2,070	3,395
Short-term obligations	1,250	1,592
Long-term obligations	1,781	2,733
Total interest expense	5,101	7,720
Net interest income	20,930	23,996
Provision for loan losses	492	3,052
Net interest income after provision for loan losses	20,438	20,944
Noninterest income		
Deposit services	3,753	3,748
Gain on sale of securities available for sale	4,365	5,972
Loss on sale of securities carried at fair value through income	—	(485)
Total other-than-temporary impairment losses	(52)	—
Portion of loss recognized in other comprehensive income (before taxes)	10	(141)
Net impairment losses recognized in earnings	(42)	(141)
FHLB advance option impairment charges	—	(472)
Gain on sale of loans	319	131
Trust income	720	677
Bank owned life insurance income	254	266
Other	891	1,111
Total noninterest income	10,260	10,807
Noninterest expense		
Salaries and employee benefits	13,209	11,833
Occupancy expense	1,871	1,758
Advertising, travel & entertainment	641	604
ATM and debit card expense	381	279
Director fees	264	268
Supplies	250	159
Professional fees	640	691
Telephone and communications	451	406
FDIC insurance	421	470

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Other	2,191	2,054
Total noninterest expense	20,319	18,522
Income before income tax expense	10,379	13,229
Provision for income tax expense	1,854	3,090
Net income	\$8,525	\$10,139
Earnings per common share – basic	\$0.48	\$0.56
Earnings per common share – diluted	\$0.48	\$0.56
Dividends paid per common share	\$0.20	\$0.18

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

2

Table of Contents

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

	Three Months Ended March 31,	
	2013	2012
Net income	\$8,525	\$10,139
Other comprehensive income (loss):		
Unrealized holding losses on available for sale securities during the period	(5,215	) (4,886
Noncredit portion of other-than-temporary impairment losses on the AFS securities	(10	) 141
Reclassification adjustment for gain on sale of available for sale securities included in net income	(4,365	) (5,972
Reclassification of other-than-temporary impairment charges on available for sale securities included in net income	42	141
Amortization of net actuarial loss, included in net periodic benefit cost	643	499
Amortization of prior service credit, included in net periodic benefit cost	(11	) (10
Other comprehensive loss, before tax	(8,916	) (10,087
Income tax benefit related to other items of comprehensive income	3,121	3,531
Other comprehensive loss, net of tax	(5,795	) (6,556
Comprehensive income	\$2,730	\$3,583

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

Table of Contents

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			10,139			10,139
Other comprehensive loss					(6,556)	(6,556)
Issuance of common stock (14,496 shares)	18	282				300
Stock compensation expense		39				39
Cash dividends paid on common stock (\$0.18 per share)			(2,970)			(2,970)
Stock dividend declared	1,035	16,441	(17,476)			—
Balance at March 31, 2012	\$24,199	\$193,553	\$62,339	\$(28,377)	\$ 8,165	\$259,879
Balance at December 31, 2012	\$24,308	\$195,602	\$70,708	\$(35,793)	\$ 2,938	\$257,763
Net Income			8,525			8,525
Other comprehensive loss					(5,795)	(5,795)
Issuance of common stock (14,361 shares)	18	288				306
Purchase of common stock (90,300 shares)				(1,899)		(1,899)
Stock compensation expense		207				207
Net issuance of common stock under employee stock plans		62	(62)			—
Cash dividends paid on common stock (\$0.20 per share)			(3,395)			(3,395)
Stock dividend declared	1,064	15,992	(17,056)			—
Balance at March 31, 2013	\$25,390	\$212,151	\$58,720	\$(37,692)	\$(2,857)	\$255,712

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

Table of Contents

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

	Three Months Ended March 31,	
	2013	2012
OPERATING ACTIVITIES:		
Net income	\$8,525	\$10,139
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	895	870
Amortization of premium	9,073	10,366
Accretion of discount and loan fees	(1,363	) (1,129
Provision for loan losses	492	3,052
Stock compensation expense	207	39
Deferred tax expense (benefit)	1,093	(2,880
Loss on sale of securities carried at fair value through income	—	485
Gain on sale of securities available for sale	(4,365	) (5,972
Net other-than-temporary impairment losses	42	141
FHLB advance option impairment charges	—	472
Gain on sale of other real estate owned	(21) —
Net change in:		
Interest receivable	5,326	5,491
Other assets	840	991
Interest payable	(244	) (289
Other liabilities	(2,183	) 3,227
Loans held for sale	463	1,650
Net cash provided by operating activities	18,780	26,653
INVESTING ACTIVITIES:		
Securities held to maturity:		
Purchases	(42,898) —
Maturities, calls and principal repayments	57,275	15,365
Securities available for sale:		
Purchases	(448,973	) (618,587
Sales	237,318	127,298
Maturities, calls and principal repayments	87,694	58,500
Securities carried at fair value through income:		
Purchases	—	(57,606
Sales	—	664,224
Maturities, calls and principal repayments	—	24,872
Proceeds from redemption of FHLB stock	5,242	8,533
Purchases of FHLB stock and other investments	(2,768	) (7,071
Net increase in loans	(21,524	) (55,281
Purchases of premises and equipment	(805	) (656
Proceeds from sales of other real estate owned	266	—
Proceeds from sales of repossessed assets	1,778	1,002
Net cash (used in) provided by investing activities	(127,395	) 160,593

(continued)

5

Table of Contents

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

	Three Months Ended March 31,	
	2013	2012
FINANCING ACTIVITIES:		
Net increase in demand and savings accounts	30,071	71,978
Net decrease in certificates of deposit	(44,734)	(83,512)
Net decrease in federal funds purchased and repurchase agreements	(127)	(1,019)
Proceeds from FHLB advances	942,466	2,964,409
Repayment of FHLB advances	(909,585)	(3,133,462)
Purchase of common stock	(1,899)	—
Proceeds from the issuance of common stock	306	300
Cash dividends paid	(3,395)	(2,970)
Net cash provided by (used in) financing activities	13,103	(184,276)
Net (decrease) increase in cash and cash equivalents	(95,512)	2,970
Cash and cash equivalents at beginning of period	150,630	43,238
Cash and cash equivalents at end of period	\$55,118	\$46,208

SUPPLEMENTAL DISCLOSURES FOR CASH FLOW INFORMATION:

Interest paid	\$5,345	\$8,009
Income taxes paid	\$—	\$2,000

**SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING
ACTIVITIES:**

Loans transferred to other repossessed assets and real estate through foreclosure	\$1,410	\$872
Adjustment to pension liability	\$(632)	\$(489)
Declaration of 5% stock dividend	\$17,056	\$17,476
Unsettled trades to purchase securities	\$(71,757)	\$(96,171)
Unsettled trades to sell securities	\$1,857	\$104,065

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

Table of Contents

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 (which, subsequent to the internal merger of Fort Worth National Bank (“FWNB”) with and into Southside Bank, includes FWNB). “FWBS” refers to Fort Worth Bancshares, Inc., a bank holding company acquired by Southside of which FWNB was a wholly-owned subsidiary. “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. “SSI” refers to Southside Securities, Inc., which is a wholly-owned subsidiary of Southside Bancshares, Inc.

Subsequent to December 31, 2012, we made a decision to close Southside Securities, Inc. It is our expectation that we will complete the closing in the first half of 2013.

The consolidated balance sheet as of March 31, 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-month periods ended March 31, 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, payable 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.

7

Table of Contents

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 March 31,	
	2013	2012
Basic and Diluted Earnings:		
Net income	\$8,525	\$10,139
Basic weighted-average shares outstanding	17,857	18,191
Add: Stock options	20	13
Diluted weighted-average shares outstanding	17,877	18,204
Basic Earnings Per Share:	\$0.48	\$0.56
Diluted Earnings Per Share:	\$0.48	\$0.56

For the three month periods ended March 31, 2013 and 2012, there were approximately 25,000 and 8,000 anti-dilutive shares, respectively.

Table of Contents

3. Accumulated Other Comprehensive (Loss) Income

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

	Three Months Ended March 31, 2013				
	Unrealized Gains (Losses) on Securities		Pension Plans		Total
	Other	OTTI	Net Prior Service (Cost) Credit	Net Gain (Loss)	
Balance, January 1, 2013, net of tax	\$ 30,500	\$ (1,140)	\$ 248	\$ (26,670)	\$ 2,938
Other comprehensive loss (income):					
Other comprehensive (loss) gain before reclassifications	(4,827)	(398)	—	—	(5,225)
Reclassified from accumulated other comprehensive income	(4,365)	42	(11)	643	(3,691)
Income tax benefit	3,217	125	4	(225)	3,121
Net current-period other comprehensive loss, net of tax	(5,975)	(231)	(7)	418	(5,795)
Balance, March 31, 2013, net of tax	\$ 24,525	\$ (1,371)	\$ 241	\$ (26,252)	\$ (2,857)

	Three Months Ended March 31, 2012				
	Unrealized Gains (Losses) on Securities		Pension Plans		Total
	Other	OTTI	Net Prior Service (Cost) Credit	Net Gain (Loss)	
Balance, January 1, 2012, net of tax	\$ 37,271	\$ (1,577)	\$ 276	\$ (21,249)	\$ 14,721
Other comprehensive loss (income):					
Other comprehensive (loss) gain before reclassifications	(4,904)	159	—	—	(4,745)
Reclassified from accumulated other comprehensive income	(5,972)	141	(10)	499	(5,342)
Income tax benefit	3,807	(105)	4	(175)	3,531
Net current-period other comprehensive loss, net of tax	(7,069)	195	(6)	324	(6,556)
Balance, March 31, 2012, net of tax	\$ 30,202	\$ (1,382)	\$ 270	\$ (20,925)	\$ 8,165

Table of Contents

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

	Three Months Ended March 31,	
	2013	2012
Unrealized holding gains arising during period:		
Realized gain on sale of securities (1)	\$4,365	\$5,972
Impairment losses (2)	(42)	(141)
Total before tax	4,323	5,831
Tax expense	(1,513)	(2,041)
Net of tax	\$2,810	\$3,790
Amortization of defined benefit pension items:		
Net loss (3)	\$(643)	\$(499)
Prior service credit (3)	11	10
Total before tax	(632)	(489)
Tax expense	221	171
Net of tax	\$(411)	\$(318)
Total reclassifications for the period, net of tax	\$2,399	\$3,472

(1) Listed as Gain on sale of securities available for sale on the Statements of Income.

(2) Listed as Net impairment losses recognized in earnings on the Statements of Income.

(3) 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 March 31, 2013 and December 31, 2012, are reflected in the tables below (in thousands):

AVAILABLE FOR SALE:	March 31, 2013		Gross Unrealized Losses		Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	OTTI	Other	
Investment Securities:					
U.S. Government Agency Debentures	\$39,215	\$—	\$—	\$499	\$38,716
State and Political Subdivisions	612,367	22,317	—	1,451	633,233
Other Stocks and Bonds	15,767	188	2,110	—	13,845
Mortgage-backed Securities: (1)					
Residential	654,539	17,730	—	568	671,701
Commercial	233,254	673	—	521	233,406
Total	\$1,555,142	\$40,908	\$2,110	\$3,039	\$1,590,901

Table of Contents

	March 31, 2013				
HELD TO MATURITY:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses OTTI	Other	Estimated Fair Value
Investment Securities:					
State and Political Subdivisions	\$ 1,008	\$ 149	\$—	\$—	\$ 1,157
Mortgage-backed Securities: (1)					
Residential	186,966	7,074	—	18	194,022
Commercial	47,279	58	—	152	47,185
Total	\$235,253	\$7,281	\$—	\$ 170	\$242,364

	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.

Table of Contents

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

	At March 31, 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

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

	Three Months Ended March 31,		
	2013	2012	
Net (loss) gain on sales transactions	\$—	\$(485)
Net mark-to-market gains	—	—	
Net (loss) gain on securities carried at fair value through income	\$—	\$(485)

Table of Contents

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

	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
As of March 31, 2013:						
Available for Sale						
U.S. Government Agency Debentures	\$38,716	\$499	\$—	\$—	\$38,716	\$499
State and Political Subdivisions	178,946	1,426	571	25	179,517	1,451
Other Stocks and Bonds	—	—	592	2,110	592	2,110
Mortgage-backed Securities	258,567	1,071	2,323	18	260,890	1,089
Total	\$476,229	\$2,996	\$3,486	\$2,153	\$479,715	\$5,149
Held to Maturity						
Mortgage-backed Securities	\$38,276	\$170	\$—	\$—	\$38,276	\$170
Total	\$38,276	\$170	\$—	\$—	\$38,276	\$170
As of December 31, 2012:						
Available for Sale						
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	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	\$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 is 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, the length of time and the extent to which the fair value has been less than cost and the financial condition and near-term prospects of the issuer. Additionally, we do not currently intend to sell the securities and it is not more likely than not that we will be required to sell the securities before the anticipated recovery of their amortized cost basis.

The turmoil in the capital markets had a significant impact on our estimate of fair value for certain of our securities. We believe the fair values are reflective of illiquidity and credit impairment. At March 31, 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 March 31, 2013 for the TRUPs is approximately \$592,000 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 March 31, 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 March 31, 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 March 31, 2013 and December 31, 2012. The noncredit charge to

Table of Contents

other comprehensive income was estimated at \$2.1 million and \$1.8 million at March 31, 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 three months ended March 31, 2013 and 2012, the additional write-down recognized in earnings was approximately \$42,000 and \$141,000, 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. Management believes that the detailed review of the collateral and cash flow modeling support the conclusion that the TRUPs had an other-than-temporary impairment at March 31, 2013. 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 March 31, 2013 (in thousands):

TRUP	Par	Credit Loss	Amortized Cost	Fair Value	Tranche	Credit Rating
1	\$2,000	\$1,298	\$702	\$65	C1	Ca
2	2,000	550	1,450	309	B1	C
3	2,000	1,450	550	218	B2	C
	\$6,000	\$3,298	\$2,702	\$592		

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

	Three Months Ended March 31,	
	2013	2012
Balance, beginning of period	\$3,256	\$3,075
Additions for credit losses recognized on debt securities that had previously incurred impairment losses	42	141
Balance, end of period	\$3,298	\$3,216

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

	Three Months Ended March 31,	
	2013	2012
U.S. Treasury	\$17	\$—
U.S. Government Agency Debentures	212	—
State and Political Subdivisions	4,048	2,674
Other Stocks and Bonds	45	24
Mortgage-backed Securities	3,936	12,163
Total interest income on securities	\$8,258	\$14,861