SOUTHSIDE BANCSHARES INC
Form 10-Q
April 29, 2016
Table of Contents

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 March 31, 2016
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 Avenue, 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.

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 April 25, 2016 was 24,969,676 shares.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS 1
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS 37
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK 55
ITEM 4. CONTROLS AND PROCEDURES 55
PART II. OTHER INFORMATION
ITEM 1. LEGAL PROCEEDINGS 57
ITEM 1A. RISK FACTORS 57
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS 57
ITEM 3. DEFAULTS UPON SENIOR SECURITIES 57
ITEM 4. MINE SAFETY DISCLOSURES 57
ITEM 5. OTHER INFORMATION 57
ITEM 6. EXHIBITS 57
SIGNATURES 58
EXHIBIT INDEX 59
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, 2016	December 31, 2015
ASSETS		
Cash and due from banks	$52,324	$54,288
Interest earning deposits	16,130	26,687
Total cash and cash equivalents	68,454	80,975
Securities available for sale, at estimated fair value	1,332,381	1,460,492
Securities held to maturity, at carrying value (estimated fair value of $818,108 and $799,763, respectively)	784,579	784,296
FHLB stock, at cost	47,550	51,047
Other investments	5,501	5,462
Loans held for sale	4,971	3,811
Loans:		
Loans	2,443,231	2,431,753
Less: Allowance for loan losses	(21,799)	(19,736)
Net Loans	2,421,432	2,412,017
Premises and equipment, net	107,556	107,929
Goodwill	91,520	91,520
Other intangible assets, net	6,029	6,548
Interest receivable	16,548	22,700
Deferred tax asset	12,512	19,903
Unsettled trades to sell securities	15,039	9,343
Bank owned life insurance	95,718	95,080
Other assets	9,222	10,953
TOTAL ASSETS	$5,019,012	$5,162,076
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	$698,695	$672,470
Interest bearing	2,920,673	2,782,937
Total deposits	3,619,368	3,455,407
Short-term obligations:		
Federal funds purchased and repurchase agreements	2,501	2,429
FHLB advances	257,145	645,407
Total short-term obligations	259,646	647,836
Long-term obligations:		
FHLB advances	561,990	502,281
Long-term debt	60,311	60,311
Total long-term obligations	622,301	562,592
Unsettled trades to purchase securities	23,920	19,350
Other liabilities	36,201	32,829
TOTAL LIABILITIES	4,561,436	4,718,014

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

Shareholders’ equity:		
Common stock ($1.25 par value, 40,000,000 shares authorized, 27,882,740 shares issued at March 31, 2016 and 27,865,798 shares issued at December 31, 2015)	34,853	34,832
Paid-in capital	424,753	424,078
Retained earnings	49,254	41,527
Treasury stock, at cost (2,913,064 at March 31, 2016 and 2,469,638 at December 31, 2015)	(47,891)	(37,692)
Accumulated other comprehensive loss	(3,393)	(18,683)
TOTAL SHAREHOLDERS’ EQUITY	457,576	444,062
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$5,019,012	$5,162,076

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

1

Table of Contents

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

	Three Months Ended March 31,	
	2016	2015
Interest income		
Loans	$27,765	$23,916
Investment securities – taxable	214	237
Investment securities – tax-exempt	5,355	5,865
Mortgage-backed securities	9,391	8,462
FHLB stock and other investments	217	93
Other interest earning assets	70	34
Total interest income	43,012	38,607
Interest expense		
Deposits	3,256	2,529
Short-term obligations	696	142
Long-term obligations	2,443	2,145
Total interest expense	6,395	4,816
Net interest income	36,617	33,791
Provision for loan losses	2,316	3,848
Net interest income after provision for loan losses	34,301	29,943
Noninterest income		
Deposit services	5,085	4,989
Net gain on sale of securities available for sale	2,441	2,476
Gain on sale of loans	643	377
Trust income	855	893
Bank owned life insurance income	674	669
Brokerage services	575	639
Other	1,323	745
Total noninterest income	11,596	10,788
Noninterest expense		
Salaries and employee benefits	17,732	18,199
Occupancy expense	3,335	3,199
Advertising, travel & entertainment	685	657
ATM and debit card expense	712	679
Professional fees	1,338	742
Software and data processing expense	749	1,031
Telephone and communications	484	469
FDIC insurance	638	638
Other	3,735	3,835
Total noninterest expense	29,408	29,449
Income before income tax expense	16,489	11,282
Income tax expense	2,973	1,903
Net income	$13,516	$9,379

Earnings per common share – basic	$0.54	$0.37
Earnings per common share – diluted	$0.54	$0.37
Dividends paid per common share	$0.23	$0.23

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

Table of Contents

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

	Three Months Ended March 31,	
	2016	2015
Net income	$13,516	$9,379
Other comprehensive income:		
Securities available for sale and transferred securities:		
Net unrealized holding gains on available for sale securities during the period	27,744	9,520
Change in net unrealized loss on securities transferred to held to maturity	—	—
Reclassification adjustment for amortization of unrealized losses on securities transferred to held to maturity	57	282
Reclassification adjustment for net gain on sale of available for sale securities, included in net income	(2,441)	(2,476)
Derivatives:		
Change in net unrealized loss on effective cash flow hedge interest rate swap derivatives	(2,244)	—
Pension plans:		
Amortization of net actuarial loss, included in net periodic benefit cost	411	531
Amortization of prior service credit, included in net periodic benefit cost	(4)	(4)
Other comprehensive income, before tax	23,523	7,853
Income tax expense related to other items of comprehensive income	(8,233)	(2,749)
Other comprehensive income, net of tax	15,290	5,104
Comprehensive income	$28,806	$14,483

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 SHAREHOLDERS' EQUITY
(UNAUDITED)
(in thousands, except share and per share data)

	Common Stock	Paid In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2014	$ 33,223	$ 389,886	$ 55,396	$ (37,692)	$ (15,570)	$ 425,243
Net income	—	—	9,379	—	—	9,379
Other comprehensive income	—	—	—	—	5,104	5,104
Issuance of common stock (9,983 shares)	12	292	—	—	—	304
Stock compensation expense	—	273	—	—	—	273
Tax benefits related to stock awards	—	4	—	—	—	4
Net issuance of common stock under employee stock plans	4	60	(11)	—	—	53
Cash dividends paid on common stock ($0.23 per share)	—	—	(5,546)	—	—	(5,546)
Balance at March 31, 2015	$ 33,239	$ 390,515	$ 59,218	$ (37,692)	$ (10,466)	$ 434,814
Balance at December 31, 2015	$ 34,832	$ 424,078	$ 41,527	$ (37,692)	$ (18,683)	$ 444,062
Net income	—	—	13,516	—	—	13,516
Other comprehensive income	—	—	—	—	15,290	15,290
Issuance of common stock (12,030 shares)	15	299	—	—	—	314
Purchase of common stock (443,426 shares)	—	—	—	(10,199)	—	(10,199)
Stock compensation expense	—	355	—	—	—	355
Tax expense related to stock awards	—	(12)	—	—	—	(12)
Net issuance of common stock under employee stock plans	6	33	(15)	—	—	24
Cash dividends paid on common stock ($0.23 per share)	—	—	(5,774)	—	—	(5,774)
Balance at March 31, 2016	$ 34,853	$ 424,753	$ 49,254	$ (47,891)	$ (3,393)	$ 457,576

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,	
	2016	2015
OPERATING ACTIVITIES:		
Net income	$13,516	$9,379
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and net amortization	2,169	2,123
Securities premium amortization (discount accretion), net	4,510	5,264
Loan (discount accretion) premium amortization, net	(799)	(565)
Provision for loan losses	2,316	3,848
Stock compensation expense	355	273
Deferred tax benefit	(812)	(1,535)
Tax expense (benefit) related to stock awards	12	(4)
Net gain on sale of securities available for sale	(2,441)	(2,476)
Net (gain) loss on premises and equipment	(19)	138
Gross proceeds from sales of loans held for sale	17,944	15,176
Gross originations of loans held for sale	(19,104)	(16,373)
Net loss on other real estate owned	152	272
Net change in:		
Interest receivable	6,152	5,792
Other assets	590	3,564
Interest payable	291	(66)
Other liabilities	1,243	(3,142)
Net cash provided by operating activities	26,075	21,668
INVESTING ACTIVITIES:		
Securities available for sale:		
Purchases	(135,648)	(279,911)
Sales	251,976	285,326
Maturities, calls and principal repayments	47,407	77,202
Securities held to maturity:		
Purchases	(18,922)	—
Maturities, calls and principal repayments	5,168	4,061
Proceeds from redemption of FHLB stock	3,644	—
Purchases of FHLB stock and other investments	(171)	(20)
Net loans originated	(11,420)	6,266
Purchases of premises and equipment	(1,648)	(1,223)
Proceeds from sales of premises and equipment	50	3
Proceeds from sales of other real estate owned	483	548
Proceeds from sales of repossessed assets	311	1,088
Net cash provided by investing activities	141,230	93,340

(continued)

5

Table of Contents

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

	Three Months Ended March 31,	
	2016	2015
FINANCING ACTIVITIES:		
Net change in deposits	$164,249	$121,246
Net increase (decrease) in federal funds purchased and repurchase agreements	72	(2,110)
Proceeds from FHLB advances	2,916,882	5,227,768
Repayment of FHLB advances	(3,245,382)	(5,434,204)
Tax (expense) benefit related to stock awards	(12)	4
Net issuance of common stock under employee stock plan	24	53
Purchase of common stock	(10,199)	—
Proceeds from the issuance of common stock	314	304
Cash dividends paid	(5,774)	(5,546)
Net cash used in financing activities	(179,826)	(92,485)
Net (decrease) increase in cash and cash equivalents	(12,521)	22,523
Cash and cash equivalents at beginning of period	80,975	84,655
Cash and cash equivalents at end of period	$68,454	$107,178
SUPPLEMENTAL DISCLOSURES FOR CASH FLOW INFORMATION:		
Interest paid	$6,104	$4,881
Income taxes paid	$—	$—
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Loans transferred to other repossessed assets and real estate through foreclosure	$465	$674
Adjustment to pension liability	$(407)	$(527)
Unsettled trades to purchase securities	$(23,920)	$(13,096)
Unsettled trades to sell securities	$15,039	$1,792

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

6

Table of Contents

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

1. Summary of Significant Accounting and Reporting Policies

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. “Omni” refers to OmniAmerican Bancorp, Inc., a bank holding company acquired by Southside on December 17, 2014. “SFG” refers to SFG Finance, LLC (formerly Southside Financial Group, LLC), which was a wholly-owned subsidiary of the Bank that was dissolved in April 2015.

The consolidated balance sheet as of March 31, 2016, and the related consolidated statements of income, comprehensive income, changes in shareholders’ equity, cash flows and notes to the financial statements for the three-month periods ended March 31, 2016 and 2015 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.

Certain prior period amounts have been reclassified to conform to current year presentation and had no impact on net income, equity or cash flows.

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, 2015.

For a description of our significant accounting and reporting policies, refer to “Note 1- Summary of Significant Accounting and Reporting Policies” in our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2015. The accounting and reporting policies we follow with respect to our derivative instruments and hedging activities are presented below.

Derivative Financial Instruments and Hedging Activities

Derivative financial instruments are carried on the consolidated balance sheets as other assets or other liabilities, as applicable, at estimated fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative financial instrument is determined by whether it has been designated and qualifies as part of a hedging relationship and, further, by the type of hedging relationship. We present derivative financial instruments at fair value in the consolidated balance sheets on a net basis when a right of offset exists, based on transactions with a single counterparty and any cash collateral paid to and/or received from that counterparty for derivative contracts that are subject to legally enforceable master netting arrangements.

For derivative instruments that are designated and qualify as cash flow hedges (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item (i.e., the ineffective portion), if any, is recognized in current earnings during the period of change. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in current earnings during the period of change.

For derivatives designated as hedging instruments at inception, statistical regression analysis is used at inception and for each reporting period thereafter to assess whether the derivative used has been and is expected to be highly effective in offsetting changes in the fair value or cash flows of the hedged item. All components of each derivative instrument's gain or loss are included in the assessment of hedge effectiveness. Net hedge ineffectiveness is recorded in "other noninterest income" on the consolidated statements of income.

Further information on our derivative instruments and hedging activities is included in "Note 9 - Derivative Financial Instruments and Hedging Activities."

Table of Contents

Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842).” ASU 2016-02 requires a lessee to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP which requires only capital leases to be recognized on the balance sheet, the new ASU will require both types of leases to be recognized on the balance sheet. ASU 2016-02 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. We have not yet selected a transition method nor have we determined the impact of adoption on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.” ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification in the statement of cash flows. The ASU requires that all excess tax benefits and tax deficiencies be recognized as income tax expense or benefit in the income statement and should be classified along with other income tax cash flows as an operating activity instead of a financing activity as currently required under GAAP. The ASU also simplifies accounting for forfeitures by allowing an entity to make an entity-wide accounting policy election either to estimate the number of forfeitures expected to occur or to recognize the effects of forfeitures when they occur in compensation cost. Additionally, cash paid by an employer when directly withholding shares for tax-withholding purposes should be classified as a financing activity, and to qualify for equity classification, an employer can now withhold up to the maximum statutory tax rate instead of the minimum statutory tax rate as currently required by GAAP. ASU 2016-09 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. We have not yet selected a transition method nor have we determined the impact of adoption on our consolidated financial statements.

2. Acquisition

On December 17, 2014, we acquired 100% of the outstanding stock of OmniAmerican Bancorp, Inc. and its wholly-owned subsidiary OmniAmerican Bank (collectively, “Omni”) headquartered in Fort Worth, Texas. Omni operated 14 banking offices in Fort Worth, Texas and surrounding areas. We acquired Omni to further expand our presence in the growing Fort Worth market. The total merger consideration for the Omni merger was $298.3 million. The operations of Omni were merged into ours as of the date of the acquisition.

The fair value of assets acquired, adjusted for subsequent measurement period adjustments, excluding goodwill, totaled $1.36 billion, including total loans of $763.5 million and total investment securities of $428.4 million. Total fair value of the liabilities assumed, adjusted for subsequent measurement period adjustments, totaled $1.13 billion, including deposits of $801.3 million. We recognized $69.5 million in goodwill associated with the Omni acquisition. The goodwill resulting from the acquisition represents consideration paid in excess of the net assets acquired and the value expected from the opportunities to strategically grow our franchise in the greater Fort Worth market area and to enhance our operations through customer synergies and efficiencies, thereby providing enhanced customer service. Goodwill is not expected to be deductible for tax purposes.

We recognized a core deposit intangible of $8.6 million in connection with the Omni acquisition, which will be amortized using an accelerated method over a 10 year period consistent with expected future cash flows.

The Omni acquisition was accounted for using the purchase method of accounting and accordingly, purchased assets, including identifiable intangible assets, and assumed liabilities were recorded at their respective acquisition date fair values. For more information concerning the fair value of the assets acquired and liabilities assumed in relation to the acquisition of Omni, see “Note 2 - Acquisition” in our Annual Report on Form 10-K for the year ended December 31, 2015.

The following table reflects our goodwill for the periods presented (in thousands).

	March 31,	December 31, 2015

	2016	
Goodwill	$91,520	$ 91,520

8

Table of Contents

3. Earnings Per Share

Earnings per share on a basic and diluted basis have been calculated as follows (in thousands, except per share amounts):

	Three Months Ended March 31,	
	2016	2015
Basic and Diluted Earnings:		
Net income	$13,516	$9,379
Basic weighted-average shares outstanding	25,186	25,322
Add: Stock awards	66	81
Diluted weighted-average shares outstanding	25,252	25,403
Basic Earnings Per Share:	$0.54	$0.37
Diluted Earnings Per Share:	$0.54	$0.37

For the three-month periods ended March 31, 2016 and 2015, there were approximately 95,000 and 10,000 anti-dilutive shares, respectively.

Table of Contents

4. Accumulated Other Comprehensive (Loss) Income

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

	Three Months Ended March 31, 2016				
			Pension Plans		
	Unrealized Gains (Losses) on Securities	Unrealized Gains (Losses) on Derivatives	Net Prior Service (Cost) Credit	Net Gain (Loss)	Total
Beginning balance, net of tax	$(239)	$ —	$(44)	$(18,400)	$(18,683)
Other comprehensive (loss) income:					
Other comprehensive income (loss) before reclassifications	27,744	(2,244)	—	—	25,500
Reclassified from accumulated other comprehensive income	(2,384)	—	(4)	411	(1,977)
Income tax (expense) benefit	(8,876)	785	1	(143)	(8,233)
Net current-period other comprehensive income (loss), net of tax	16,484	(1,459)	(3)	268	15,290
Ending balance, net of tax	$16,245	$ (1,459)	$(47)	$(18,132)	$(3,393)

	Three Months Ended March 31, 2015				
			Pension Plans		
	Unrealized Gains (Losses) on Securities	Unrealized Gains (Losses) on Derivatives	Net Prior Service (Cost) Credit	Net Gain (Loss)	Total
Beginning balance, net of tax	$6,238	$ —	$7	$(21,815)	$(15,570)
Other comprehensive (loss) income:					
Other comprehensive income before reclassifications	9,520	—	—	—	9,520
Reclassified from accumulated other comprehensive income	(2,194)	—	(4)	531	(1,667)
Income tax (expense) benefit	(2,564)	—	1	(186)	(2,749)
Net current-period other comprehensive income (loss), net of tax	4,762	—	(3)	345	5,104
Ending balance, net of tax	$11,000	$ —	$4	$(21,470)	$(10,466)

Table of Contents

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

	Three Months Ended March 31,	
	2016	2015
Unrealized losses on securities transferred to held to maturity:		
Amortization of unrealized losses [1]	$(57)	$(282)
Tax benefit	20	99
Net of tax	(37)	(183)
Unrealized gains and losses on available for sale securities:		
Realized net gain on sale of securities [2]	$2,441	$2,476
Tax expense	(854)	(867)
Net of tax	1,587	1,609
Amortization of pension plan:		
Net actuarial loss [3]	$(411)	$(531)
Prior service credit [3]	4	4
Total before tax	(407)	(527)
Tax benefit	142	185
Net of tax	(265)	(342)
Total reclassifications for the period, net of tax	$1,285	$1,084

(1) Included in interest income on the consolidated statements of income.

(2) Listed as net gain on sale of securities available for sale on the consolidated statements of income.

(3) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (income) presented in “Note 8 - Employee Benefit Plans.”

Table of Contents

5. Securities

The amortized cost, gross unrealized gains and losses, carrying value, and estimated fair value of investment and mortgage-backed securities as of March 31, 2016 and December 31, 2015 are reflected in the tables below (in thousands):

	March 31, 2016						
		Recognized in OCI			Not recognized in OCI		
	Amortized	Gross Unrealized	Gross Unrealized	Carrying	Gross Unrealized	Gross Unrealized	Estimated
AVAILABLE FOR SALE	Cost	Gains	Losses	Value	Gains	Losses	Fair Value
Investment Securities:							
State and Political Subdivisions	$270,091	$10,172	$ 471	$279,792	$—	$ —	$279,792
Other Stocks and Bonds	12,774	80	45	12,809	—	—	12,809
Other Equity Securities	6,048	52	—	6,100	—	—	6,100
Mortgage-backed Securities: (1)							
Residential	553,121	12,042	153	565,010	—	—	565,010
Commercial	456,552	12,118	—	468,670	—	—	468,670
Total	$1,298,586	$34,464	$ 669	$1,332,381	$—	$ —	$1,332,381
HELD TO MATURITY							
Investment Securities:							
State and Political Subdivisions	$387,936	$4,480	$ 9,094	$383,322	$17,387	$ 1,179	$399,530
Mortgage-backed Securities: (1)							
Residential	34,187	—	44	34,143	2,380	1	36,522
Commercial	371,258	1,192	5,336	367,114	14,942	—	382,056
Total	$793,381	$5,672	$ 14,474	$784,579	$34,709	$ 1,180	$818,108

Table of Contents

	December 31, 2015						
		Recognized in OCI			Not recognized in OCI		
AVAILABLE FOR SALE	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Investment Securities:							
U.S. Treasury	$103,906	$61	$ 380	$103,587	$—	$ —	$103,587
State and Political Subdivisions	236,534	8,323	611	244,246	—	—	244,246
Other Stocks and Bonds	12,772	63	45	12,790	—	—	12,790
Other Equity Securities	6,052	—	36	6,016	—	—	6,016
Mortgage-backed Securities: (1)							
Residential	580,621	9,120	1,239	588,502	—	—	588,502
Commercial	512,116	466	7,231	505,351	—	—	505,351
Total	$1,452,001	$18,033	$ 9,542	$1,460,492	$—	$ —	$1,460,492
HELD TO MATURITY							
Investment Securities:							
State and Political Subdivisions	$389,997	$4,772	$ 9,273	$385,496	$13,061	$ 1,363	$397,194
Mortgage-backed Securities: (1)							
Residential	31,430	—	51	31,379	2,018	1	33,396
Commercial	371,727	1,233	5,539	367,421	4,232	2,480	369,173
Total	$793,154	$6,005	$ 14,863	$784,296	$19,311	$ 3,844	$799,763

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

From time to time, we may transfer securities from available for sale (“AFS”) to held to maturity (“HTM”) due to overall balance sheet strategies. Our management has the current intent and ability to hold the transferred securities until maturity. Any net unrealized gain or loss on the transferred securities included in accumulated other comprehensive income at the time of transfer will be amortized over the remaining life of the underlying security as an adjustment of the yield on those securities. AFS securities transferred with losses included in accumulated other comprehensive income continue to be included in management’s assessment for other-than-temporary impairment for each individual security. There were no securities transferred from AFS to HTM during the three months ended March 31, 2016.

Table of Contents

The following tables represent the fair value and unrealized loss on securities as of March 31, 2016 and December 31, 2015 (in thousands):

	As of March 31, 2016					
	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:						
State and Political Subdivisions	$6,134	$ 16	$17,650	$ 455	$23,784	$ 471
Other Stocks and Bonds	2,955	45	—	—	2,955	45
Mortgage-backed Securities:						
Residential	57,543	147	2,699	6	60,242	153
Total	$66,632	$ 208	$20,349	$ 461	$86,981	$ 669
HELD TO MATURITY						
Investment Securities:						
State and Political Subdivisions	$4,197	$ 40	$47,304	$ 1,139	$51,501	$ 1,179
Mortgage-backed Securities:						
Residential	540	1	—	—	540	1
Total	$4,737	$ 41	$47,304	$ 1,139	$52,041	$ 1,180

	As of December 31, 2015					
	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. Treasury	$64,172	$ 380	$—	$ —	$64,172	$ 380
State and Political Subdivisions	15,550	116	19,270	495	34,820	611
Other Stocks and Bonds	2,954	45	—	—	2,954	45
Other Equity Securities	6,016	36	—	—	6,016	36
Mortgage-backed Securities:						
Residential	229,514	1,215	3,817	24	233,331	1,239
Commercial	422,316	7,039	5,110	192	427,426	7,231
Total	$740,522	$ 8,831	$28,197	$ 711	$768,719	$ 9,542
HELD TO MATURITY						
Investment Securities:						
State and Political Subdivisions	$24,340	$ 214	$62,240	$ 1,149	$86,580	$ 1,363
Mortgage-backed Securities:						
Residential	1,717	1	—	—	1,717	1
Commercial	193,710	2,439	2,481	41	196,191	2,480
Total	$219,767	$ 2,654	$64,721	$ 1,190	$284,488	$ 3,844

Table of Contents

We review those securities in an unrealized loss position for significant differences between fair value and the cost basis to evaluate if a classification of other-than-temporary impairment is warranted. 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. We consider an other-than-temporary impairment to have occurred when there is an adverse change in expected cash flows. When it is determined that a decline in fair value of HTM or 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 the noncredit portion to other comprehensive income. Based upon the length of time and the extent to which fair value is less than cost, we believe that none of the securities with an unrealized loss have other-than-temporary impairment at March 31, 2016.
The majority of the unrealized loss positions are comprised of highly rated municipal securities and U.S. Agency mortgage- backed securities ("MBS") where the unrealized loss is a direct result of the change in interest rates and spreads. For those securities in an unrealized loss position, 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. 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 MBS portfolio with an other-than-temporary impairment at March 31, 2016.

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

	Three Months Ended March 31,	
	2016	2015
U.S. Treasury	$127	$116
U.S. Government Agency Debentures	—	32
State and Political Subdivisions	5,355	5,870
Other Stocks and Bonds	58	52
Other Equity Securities	29	32
Mortgage-backed Securities	9,391	8,462
Total interest income on securities	$14,960	$14,564

Of the approximately $2.4 million in net securities gains from the AFS portfolio for the three months ended March 31, 2016, there were $2.6 million in realized gains and $202,000 in realized losses. Of the $2.5 million in net securities gains from the AFS portfolio for the three months ended March 31, 2015, there were $2.5 million in realized gains and $54,000 in realized losses. There were no sales from the HTM portfolio during the three months ended March 31, 2016 or 2015. We calculate realized gains and losses on sales of securities under the specific identification method.

Table of Contents

The amortized cost, carrying value and fair value of securities at March 31, 2016, are presented below by contractual maturity. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. MBS are presented in total by category due to the fact that MBS 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.

	March 31, 2016	
	Amortized Cost	Fair Value
AVAILABLE FOR SALE	(in thousands)	
Investment Securities:		
Due in one year or less	$18,483	$18,576
Due after one year through five years	21,036	22,078
Due after five years through ten years	30,220	31,318
Due after ten years	213,126	220,629
	282,865	292,601
Mortgage-backed Securities and Other Equity Securities:	1,015,721	1,039,780
Total	$1,298,586	$1,332,381

	March 31, 2016	
	Carrying Value	Fair Value
HELD TO MATURITY	(in thousands)	
Investment Securities:		
Due in one year or less	$5,233	$5,144
Due after one year through five years	22,189	22,649
Due after five years through ten years	77,787	80,387
Due after ten years	278,113	291,350
	383,322	399,530
Mortgage-backed Securities:	401,257	418,578
Total	$784,579	$818,108

Investment and MBS with carrying values of $1.13 billion and $1.33 billion were pledged as of March 31, 2016 and December 31, 2015, respectively, to collateralize Federal Home Loan Bank of Dallas, ("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 fair value and are assessed for other-than-temporary impairment. These securities have no maturity date.

Table of Contents

6. Loans and Allowance for Probable Loan Losses

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

	March 31, 2016	December 31, 2015
Real Estate Loans:		
Construction	$464,750	$ 438,247
1-4 Family Residential	644,826	655,410
Commercial	657,962	635,210
Commercial Loans	233,857	242,527
Municipal Loans	286,217	288,115
Loans to Individuals	155,619	172,244
Total Loans [(1)]	2,443,231	2,431,753
Less: Allowance for Loan Losses	21,799	19,736
Net Loans	$2,421,432	$ 2,412,017

(1) Includes approximately $525.4 million and $581.1 million of loans acquired with the Omni acquisition as of March 31, 2016 and December 31, 2015, respectively. The allowance for loan loss recorded on acquired loans totaled $519,000 and $629,000 as of March 31, 2016 and December 31, 2015, respectively.

Real Estate Construction Loans

Our construction loans are collateralized by property located primarily in the market areas we serve. A majority of our construction loans will be owner-occupied upon completion. Construction loans for speculative projects are financed, but these typically have secondary sources of repayment and collateral. Our construction loans have both adjustable and fixed interest rates during the construction period. Construction loans to individuals are typically priced and made with the intention of granting the permanent loan on the property. Speculative and commercial construction loans are subject to underwriting standards similar to that of the commercial portfolio. Owner occupied 1-4 family residential construction loans are subject to the underwriting standards of the permanent loan.

Real Estate 1-4 Family Residential Loans

Residential loan originations are generated by our loan officers, in-house origination staff, marketing efforts, present customers, walk-in customers and referrals from real estate agents and builders. We focus our residential lending efforts primarily on the origination of loans secured by first mortgages on owner-occupied, 1-4 family residences. Substantially all of our 1-4 family residential loan originations are secured by properties located in or near our market areas.

Our 1-4 family residential loans generally have maturities ranging from five to 30 years. These loans are typically fully amortizing with monthly payments sufficient to repay the total amount of the loan. Our 1-4 family residential loans are made at both fixed and adjustable interest rates.

Underwriting for 1-4 family residential loans includes debt-to-income analysis, credit history analysis, appraised value and down payment considerations. Changes in the market value of real estate can affect the potential losses in the portfolio.

Commercial Real Estate Loans

Commercial real estate consists of $582.8 million of commercial real estate loans, $69.9 million of loans secured by multi-family properties and $5.3 million of loans secured by farm land. Commercial real estate loans primarily include loans collateralized by commercial office buildings, retail, medical facilities and offices, warehouse facilities, hotels and churches. In determining whether to originate commercial real estate loans, we generally consider such factors as the financial condition of the borrower and the debt service coverage of the property. Commercial real estate loans are made at both fixed and adjustable interest rates for terms generally up to 20 years.

17

Commercial Loans

Our commercial loans are diversified loan types including short-term working capital loans for inventory and accounts receivable and short- and medium-term loans for equipment or other business capital expansion. Management does not consider there to be a concentration of risk in any one industry type, other than the medical industry. Loans to borrowers in the medical industry include all loan types listed above for commercial loans. Collateral for these loans varies depending on the type of loan and financial strength of the borrower. The primary source of repayment for loans in the medical community is cash flow from continuing operations.

In our commercial loan underwriting, we assess the creditworthiness, ability to repay, and the value and liquidity of the collateral being offered. Terms of commercial loans are generally commensurate with the useful life of the collateral offered.

Municipal Loans

We have a specific lending department that makes loans to municipalities and school districts primarily throughout the state of Texas. Municipal loans outside the state of Texas have been limited to adjoining states. The majority of the loans to municipalities and school districts have tax or revenue pledges and in some cases are additionally supported by collateral. Municipal loans made without a direct pledge of taxes or revenues are usually made based on some type of collateral that represents an essential service.

Loans to Individuals

Substantially all originations of our loans to individuals are made to consumers in our market areas. The majority of loans to individuals are collateralized by titled equipment, which are primarily automobiles. Loan terms vary according to the type and value of collateral, length of contract and creditworthiness of the borrower. The underwriting standards we employ for consumer loans include an application, a determination of the applicant's payment history on other debts, with the greatest weight being given to payment history with us, and an assessment of the borrower's ability to meet existing obligations and payments on the proposed loan. Although creditworthiness of the applicant is a primary consideration, the underwriting process also includes a comparison of the value of the collateral, if any, in relation to the proposed loan amount. Most of our loans to individuals are collateralized, which management believes should assist in limiting our exposure.

Allowance for Loan Losses

The allowance for loan losses is based on the most current review of the loan portfolio and is a result of multiple processes. First, the bank utilizes historical data to establish general reserve amounts for each class of loans. 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 based on customer financial stress and underlying collateral. These recommendations are reviewed by senior loan administration, the special assets department, and the loan review department. Third, the loan review department independently reviews 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 considerations including the size of the loan, the type of credit extended, the seasoning of the loan and the performance of the loan. The loan review scope, as it relates to size, focuses more on larger dollar loan relationships, typically aggregate debt of $500,000 or greater. The loan review officer also reviews specific reserves 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 $150,000 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.

We calculate historical loss ratios for pools of loans with similar characteristics based on the proportion of actual charge-offs experienced to the total population of loans in the pool. The historical gross loss ratios are updated based on actual charge-off experience quarterly and adjusted for qualitative factors. Our pools of similar loans include consumer loans and loans secured by 1-4 residential family loans.

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 occur 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

Table of Contents

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, and geographic and industry loan concentration.

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:

- Pass (Rating 1 – 4) – This rating is assigned to all satisfactory loans. This category, by definition, consists of acceptable credit. Credit and collateral exceptions should not be present, although their presence would not necessarily prohibit a loan from being rated Pass, if deficiencies are in process of correction. These loans are not included in the Watch List.
- Pass Watch (Rating 5) – 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; 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.

All accruing loans are reserved for as a group of similar type credits and included in the general portion of the allowance for loan losses. Loans to individuals and 1-4 family residential loans, including loans not accruing, are collectively evaluated and included in the general portion of the allowance for loan losses. All loans considered troubled debt restructurings (“TDR”) are evaluated individually for further impairment.

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 charge-off trends;
- 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.

Table of Contents

These factors are also considered for the Omni purchased portfolio specifically in regards to changes in past due, nonaccrual and charge-off trends.
The following tables detail activity in the allowance for loan losses by portfolio segment for the periods presented (in thousands):

	Three Months Ended March 31, 2016						
	Real Estate						
	Construction	1-4 Family Residential	Commercial	Commercial Loans	Municipal Loans	Loans to Individuals	Total
Balance at beginning of period	$4,350	$ 2,595	$ 4,577	$ 6,596	$ 725	$ 893	$19,736
Provision (reversal) for loan losses	(42)	(551)	(116)	2,620	(5)	410	2,316
Loans charged off	—	(19)	—	(273)	—	(848)	(1,140)
Recoveries of loans charged off	269	130	6	21	—	461	887
Balance at end of period	$4,577	$ 2,155	$ 4,467	$ 8,964	$ 720	$ 916	$21,799

	Three Months Ended March 31, 2015						
	Real Estate						
	Construction	1-4 Family Residential	Commercial	Commercial Loans	Municipal Loans	Loans to Individuals	Total
Balance at beginning of period [(1)]	$2,456	$ 2,822	$ 3,025	$ 3,279	$ 716	$ 994	$13,292
Provision (reversal) for loan losses	275	573	269	2,065	108	558	3,848
Loans charged off	—	(6)	—	(57)	—	(1,023)	(1,086)
Recoveries of loans charged off	43	11	66	29	—	723	872
Balance at end of period	$2,774	$ 3,400	$ 3,360	$ 5,316	$ 824	$ 1,252	$16,926

(1) Loans acquired with the Omni acquisition were measured at fair value on December 17, 2014 with no carryover of allowance for loan loss.

The following tables present the balance in the allowance for loan losses by portfolio segment based on impairment method (in thousands):

	As of March 31, 2016						
	Real Estate						
	Construction	1-4 Family Residential	Commercial	Commercial Loans	Municipal Loans	Loans to Individuals	Total
Ending balance – individually evaluated for impairment [(1)]	$31	$ 23	$ 56	$ 6,422	$ 13	$ 92	$6,637
Ending balance – collectively evaluated for impairment	4,546	2,132	4,411	2,542	707	824	15,162
Balance at end of period	$4,577	$ 2,155	$ 4,467	$ 8,964	$ 720	$ 916	$21,799

Table of Contents

	As of December 31, 2015						
	Real Estate						
	Construction	1-4 Family Residential	Commercial	Commercial Loans	Municipal Loans	Loans to Individuals	Total
Ending balance – individually evaluated for impairment [1]	$12	$ 25	$ 137	$ 4,599	$ 13	$ 105	$4,891
Ending balance – collectively evaluated for impairment	4,338	2,570	4,440	1,997	712	788	14,845
Balance at end of period	$4,350	$ 2,595	$ 4,577	$ 6,596	$ 725	$ 893	$19,736

(1) There was approximately $519,000 and $629,000 of allowance for loan losses associated with purchased credit impaired (“PCI”) loans as of March 31, 2016 and December 31, 2015, respectively.

The following tables present the recorded investment in loans by portfolio segment based on impairment method (in thousands):

	March 31, 2016						
	Real Estate						
	Construction	1-4 Family Residential	Commercial	Commercial Loans	Municipal Loans	Loans to Individuals	Total
Loans individually evaluated for impairment	$688	$ 1,730	$ 5,651	$ 14,650	$637	$ 235	$23,591
Loans collectively evaluated for impairment	463,842	636,151	649,297	211,096	285,580	155,194	2,401,160
Purchased credit impaired loans	220	6,945	3,014	8,111	—	190	18,480
Total ending loan balance	$464,750	$ 644,826	$ 657,962	$ 233,857	$286,217	$ 155,619	$2,443,231

	December 31, 2015						
	Real Estate						
	Construction	1-4 Family Residential	Commercial	Commercial Loans	Municipal Loans	Loans to Individuals	Total
Loans individually evaluated for impairment	$508	$ 1,751	$ 3,757	$ 14,250	$637	$ 258	$21,161
Loans collectively evaluated for impairment	437,518	646,590	628,405	220,199	287,478	171,782	2,391,972
Purchased credit impaired loans	221	7,069	3,048	8,078	—	204	18,620
Total ending loan balance	$438,247	$ 655,410	$ 635,210	$ 242,527	$288,115	$ 172,244	$2,431,753

Table of Contents

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

	March 31, 2016					
	Pass	Pass Watch	Special Mention (1)	Substandard (1)	Doubtful (1)	Total
Real Estate Loans:						
Construction	$452,660	$—	$ 1,943	$ 10,031	$116	$464,750
1-4 Family Residential	634,028	1,390	1,622	3,943	3,843	644,826
Commercial	643,504	621	113	12,512	1,212	657,962
Commercial Loans	197,689	1,148	4,717	10,263	20,040	233,857
Municipal Loans	284,563	—	1,017	637	—	286,217
Loans to Individuals	153,923	1	—	436	1,259	155,619
Total	$2,366,367	$3,160	$ 9,412	$ 37,822	$26,470	$2,443,231

	December 31, 2015					
	Pass	Pass Watch	Special Mention (1)	Substandard (1)	Doubtful (1)	Total
Real Estate Loans:						
Construction	$434,893	$—	$ 1,754	$ 1,576	$24	$438,247
1-4 Family Residential	643,498	1,403	1,636	4,915	3,958	655,410
Commercial	620,117	—	—	14,988	105	635,210
Commercial Loans	204,775	716	1,738	27,681	7,617	242,527
Municipal Loans	286,415	—	1,063	637	—	288,115
Loans to Individuals	170,558	2	—	478	1,206	172,244
Total	$2,360,256	$2,121	$ 6,191	$ 50,275	$12,910	$2,431,753

(1) Includes PCI loans comprised of $95,000 special mention and $3.6 million substandard at both March 31, 2016 and December 31, 2015. Includes PCI loans comprised of $9.8 million and $9.9 million doubtful as of March 31, 2016 and December 31, 2015, respectively.

Nonperforming Assets and Past Due Loans

Nonaccrual loans are loans 90 days or more delinquent and collection in full of both the principal and interest is not expected. 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 received on nonaccrual loans are applied to the outstanding principal balance. 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, are considered in judgments as to potential loan loss.

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.

PCI loans are recorded at fair value at acquisition date. Although the PCI loans may be contractually delinquent, we do not classify these loans as past due or nonperforming as the loans were written down to fair value at the acquisition date and the accretable yield is recognized in interest income over the remaining life of the loan. However, subsequent to acquisition, we re-assess PCI loans for additional impairment and record additional impairment in the event we conclude it is probable that we will be unable to collect all cash flows originally expected to be collected at acquisition plus any additional cash flows expected to be collected due to changes in estimates after acquisition. All such PCI loans for which we recognize subsequent impairment are reported as impaired loans in the financial statements.

Table of Contents

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

	At March 31, 2016	At December 31, 2015
Nonaccrual loans [1]	$21,927	$ 20,526
Accruing loans past due more than 90 days [1]	7	3
Restructured loans [2]	11,762	11,143
Other real estate owned	265	744
Repossessed assets	85	64
Total Nonperforming Assets	$34,046	$ 32,480

(1) Excludes PCI loans measured at fair value at acquisition.

(2) Includes $7.4 million and $7.5 million in PCI loans restructured as of March 31, 2016 and December 31, 2015, respectively.

Foreclosed assets include other real estate owned and repossessed assets. For 1-4 family residential real estate properties, a loan is recognized as a foreclosed property once legal title to the real estate property has been received upon completion of foreclosure or the borrower has conveyed all interest in the residential property through a deed in lieu of foreclosure. There were $2.9 million and $67,000 loans secured by 1-4 family residential properties for which formal foreclosure proceedings were in process as of March 31, 2016 and December 31, 2015, respectively.

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

	Nonaccrual Loans [1]	
	March 31, 2016	December 31, 2015
Real Estate Loans:		
Construction	$134	$ 508
1-4 Family Residential	1,410	1,847
Commercial	4,731	2,816
Commercial Loans	14,207	13,896
Loans to Individuals	1,445	1,459
Total	$21,927	$ 20,526

(1) Excludes PCI loans measured at fair value at acquisition.

Accruing loans past due more than 90 days were not significant at March 31, 2016 and December 31, 2015.
Loans are considered impaired if, based on current information and events, it is probable we will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Impairment is evaluated in total for smaller-balance loans of a similar nature and on an individual loan basis for other loans. The measurement of loss on impaired loans is generally based on the fair value of the collateral if repayment is expected solely from the collateral or the present value of the expected future cash flows discounted at the historical effective interest rate stipulated in the loan agreement. 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.

At the time a loss is probable in the collection of contractual amounts, specific reserves are allocated. Loans are charged off to the liquidation value of the collateral net of liquidation costs, if any, when deemed uncollectible or as soon as collection by liquidation is evident.

Table of Contents

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

	March 31, 2016		
	Unpaid Contractual Principal Balance	Recorded Investment With Allowance	Related Allowance for Loan Losses
Real Estate Loans:			
Construction	$690	$ 688	$ 31
1-4 Family Residential	1,823	1,730	23
Commercial	6,669	6,509	56
Commercial Loans	30,239	21,685	6,422
Municipal Loans	637	637	13
Loans to Individuals	269	235	92
Total (1)	$40,327	$ 31,484	$ 6,637

(1) Includes $7.9 million of PCI loans that experienced deterioration in credit quality subsequent to the acquisition date.

	December 31, 2015		
	Unpaid Contractual Principal Balance	Recorded Investment With Allowance	Related Allowance for Loan Losses
Real Estate Loans:			
Construction	$1,320	$ 508	$ 12
1-4 Family Residential	1,842	1,751	25
Commercial	4,756	4,636	137
Commercial Loans	29,844	21,385	4,599
Municipal Loans	637	637	13
Loans to Individuals	288	257	105
Total (1)	$38,687	$ 29,174	$ 4,891

(1) Includes $8.0 million of PCI loans that experienced deterioration in credit quality subsequent to the acquisition date.

There were no impaired loans recorded without an allowance as of March 31, 2016 or December 31, 2015.

Table of Contents

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

	March 31, 2016					
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current [1]	Total
Real Estate Loans:						
Construction	$1,156	$—	$93	$1,249	$463,501	$464,750
1-4 Family Residential	3,622	39	716	4,377	640,449	644,826
Commercial	330	35	1,318	1,683	656,279	657,962
Commercial Loans	844	2,899	54	3,797	230,060	233,857
Municipal Loans	—	—	—	—	286,217	286,217
Loans to Individuals	1,811	208	253	2,272	153,347	155,619
Total	$7,763	$3,181	$2,434	$13,378	$2,429,853	$2,443,231

	December 31, 2015					
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current [1]	Total
Real Estate Loans:						
Construction	$121	$258	$208	$587	$437,660	$438,247
1-4 Family Residential	3,703	781	1,080	5,564	649,846	655,410
Commercial	359	1,289	361	2,009	633,201	635,210
Commercial Loans	527	138	335	1,000	241,527	242,527
Municipal Loans	—	—	—	—	288,115	288,115
Loans to Individuals	2,457	608	285	3,350	168,894	172,244
Total	$7,167	$3,074	$2,269	$12,510	$2,419,243	$2,431,753

(1) Includes PCI loans measured at fair value at acquisition.

The following table sets forth average recorded investment and interest income recognized on impaired loans by class of loans for the periods presented (in thousands):

	Three Months Ended			
	March 31, 2016		March 31, 2015	
	Average Recorded Investment [1]	Interest Income Recognized [1]	Average Recorded Investment [1]	Interest Income Recognized [1]
Real Estate Loans:				
Construction	$454	$ 6	$2,401	$ 23
1-4 Family Residential	1,865	14	4,000	17
Commercial	5,488	21	1,945	13

Commercial Loans	21,675	167	4,530	8
Municipal Loans	637	9	761	10
Loans to Individuals	247	2	462	—
Total	$30,366	$ 219	$14,099	$ 71

(1) Excludes PCI loans measured at fair value at acquisition that have not experienced further deterioration in credit quality subsequent to the acquisition date.

25

Table of Contents

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, restructuring amortization schedules and other actions intended to minimize potential losses.

The following tables set forth the recorded balance at March 31, 2016 and 2015 of loans considered to be TDRs that were restructured during the periods presented (dollars in thousands):

	Three Months Ended March 31, 2016				
	Extend Amortization Period	Interest Rate Reductions	Combination (1)	Total Modifications	Number of Loans
Real Estate Loans:					
Construction	$554	$ —	$ —	$ 554	1
Commercial	2,118	—	—	2,118	1
Commercial Loans	1,176	—	—	1,176	4
Total	$3,848	$ —	$ —	$ 3,848	6

	Three Months Ended March 31, 2015				
	Extend Amortization Period	Interest Rate Reductions	Combination (1)	Total Modifications	Number of Loans
Real Estate Loans:					
1-4 Family Residential	$—	$ —	$ 266	$ 266	2
Commercial	31	—	—	31	1
Commercial Loans	—	—	762	762	1
Loans to Individuals	—	—	27	27	2
Total	$31	$ —	$ 1,055	$ 1,086	6

(1) These modifications may include an extension of the amortization period, interest rate reduction, and/or converting the loan to interest-only for a limited period of time.

Loans restructured as TDRs during the three months ended March 31, 2016 were modified with maturity extensions. Interest continues to be charged on principal balances outstanding during the extended term. Therefore, the financial effects of the recorded investment of loans restructured as TDRs during the three months ended March 31, 2016 and 2015 were not significant. 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 TDRs 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 months ended March 31, 2016, there were $1.4 million of TDRs in default. For the three months ended March 31, 2015, there were no material TDRs in default. Payment defaults for TDRs did not significantly impact the determination of the allowance for loan loss in either period presented.

At March 31, 2016 and 2015, there were no commitments to lend additional funds to borrowers whose terms had been modified in TDRs.

Table of Contents

Purchased Credit Impaired Loans

The following table presents the outstanding principal balance and carrying value for PCI loans for the periods presented (in thousands):

	March 31, 2016	December 31, 2015
Outstanding principal balance	$ 27,005	$ 27,644
Carrying amount	$ 18,480	$ 18,620

The following table presents the changes of the accretable yield during the periods for PCI loans (in thousands):

	Three Months Ended March 31,	
	2016	2015
Balance at beginning of period	$2,493	$1,820
Additions	—	—
Reclassifications from Nonaccretable Discount	443	—
Accretion	(594)	(524)
Balance at end of period	$2,342	$1,296

Table of Contents

7. Long-term Obligations

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

	March 31, 2016	December 31, 2015
FHLB Advances [1]	$561,990	$ 502,281
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	$622,301	$ 562,592

(1) At March 31, 2016, the weighted average cost of these advances was 1.17%. Long-term FHLB Advances have maturities ranging from April 2017 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 3.57085% through June 29, 2016 and adjusts quarterly at a rate equal to three-month LIBOR plus 294 basis points.

(4) This debt carried an adjustable rate of 1.9156% through April 29, 2016 and adjusts quarterly at a rate equal to three-month LIBOR plus 130 basis points.

(5) This debt carries an adjustable rate of 2.88385% through June 14, 2016 and adjusts quarterly at a rate equal to three-month LIBOR plus 225 basis points.

(6) This debt carries an adjustable rate of 2.4182% through May 22, 2016 and adjusts quarterly at a rate equal to three-month LIBOR plus 180 basis points.

During the fourth quarter of 2015 and continuing into the first quarter of 2016, we entered into various variable rate advance agreements with the FHLB. At March 31, 2016, these agreements were $190.0 million with rates ranging from one-month LIBOR plus 0.17% to one-month LIBOR plus 0.277%. In addition, we entered into various interest rate swap contracts that are treated as cash flow hedges under ASC 815 that effectively converted the variable rate advances to fixed interest rates ranging from 0.932% to 1.647% and ranging from four years to nine years. The cash flows of the swaps are expected to be effective in hedging the variability in expected future cash flows attributable to fluctuations in the one-month LIBOR interest rate. Proceeds were used for general corporate purposes. Refer to “Note 9 - Derivative Financial Instruments and Hedging Activities” in our consolidated financial statements included in this report for a detailed description of our hedging policy and methodology related to derivative instruments.

Table of Contents

8. Employee Benefit Plans

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

	Three Months Ended March 31,					
	Defined Benefit Pension Plan		Defined Benefit Pension Plan Acquired		Restoration Plan	
	2016	2015	2016	2015	2016	2015
Service cost	$368	$476	$—	$—	$47	$73
Interest cost	917	857	53	59	135	135
Expected return on assets	(1,354)	(1,422)	(67)	(73)	—	—
Net loss amortization	358	383	—	—	53	148
Prior service (credit) cost amortization	(6)	(6)	—	—	2	2
Special and contractual termination benefits	1,520	—	—	—	—	—
Net periodic benefit cost (income)	$1,803	$288	$(14)	$(14)	$237	$358

9. Derivative Financial Instruments and Hedging Activities

Our hedging policy allows the use of interest rate derivative instruments to manage our exposure to interest rate risk or hedge specified assets and liabilities. These instruments may include interest rate swaps and interest rate caps and floors. All derivative instruments are carried on the balance sheet at their estimated fair value and are recorded in other assets or other liabilities, as appropriate.

Derivative instruments may be designated as cash flow hedges of variable rate assets or liabilities, or as forecasted transactions. Derivative instruments designated as cash flow hedges are recorded in accumulated other comprehensive income to the extent they are effective. The amount recorded in other comprehensive income is reclassified to earnings in the same periods as the hedged cash flows impact earnings. The ineffective portion of changes in fair value is reported in current earnings.

During the fourth quarter of 2015 and continuing into the first quarter of 2016, we entered into certain interest rate swap contracts on specific variable-rate advance agreements with the FHLB having a total notional amount of $190.0 million at March 31, 2016. These interest rate swap contracts were designated as hedging instruments in cash flow hedges under ASC 815. The objective of the interest rate swap contracts is to manage the expected future cash flows on our $190.0 million of variable-rate advance agreements with the FHLB. The cash flows of the swap are expected to be effective in hedging the variability in expected future cash flows attributable to fluctuations in the one-month LIBOR interest rate.

At March 31, 2016, net derivative liabilities included $1.7 million of cash collateral paid to the counterparty related to instruments executed with the same counterparty under a master netting agreement.

The notional amounts of the derivative instruments represent the contractual cash flows pertaining to the underlying agreements. These amounts are not exchanged and are not reflected in the consolidated balance sheets. The fair value

of the interest rate swaps are presented at net in other assets and other liabilities when a right of offset exists, based on transactions with a single counterparty that are subject to a legally enforceable master netting agreement.

Table of Contents

The following tables present the notional and estimated fair value amount of derivative positions outstanding for the periods presented (in thousands):

	March 31, 2016			December 31, 2015		
		Estimated Fair Value			Estimated Fair Value	
	Notional Amount (1)	Asset Derivative	Liability Derivative	Notional Amount (1)	Asset Derivative	Liability Derivative
Derivatives designated as hedging instruments						
Interest rate contracts:						
Swaps-Cash Flow Hedge-receive floating/pay fixed	$190,000	$ 350	$ 2,594	$20,000	$ —	$ 1
Gross derivatives		350	2,594		—	1
Offsetting derivative assets/liabilities		(350)	(350)		—	—
Cash collateral received/posted		—	(1,740)		—	—
Net derivatives included in the consolidated balance sheets (2)		$ —	$ 504		$ —	$ 1

(1) Notional amounts, which represent the extent of involvement in the derivatives market, are used to determine the contractual cash flows required in accordance with the terms of the agreement. These amounts are typically not exchanged, significantly exceed amounts subject to credit or market risk and are not reflected in the consolidated balance sheets.

(2) Net derivative assets are included in "other assets" and net derivative liabilities are included in "other liabilities" on the consolidated balance sheets. Included in the fair value of net derivative assets and net derivative liabilities are credit valuation adjustments reflecting counterparty credit risk and our credit risk. The fair value of net derivative liabilities included credit valuation adjustments for our credit exposure of $350,000 at March 31, 2016. We had no credit exposure at December 31, 2015.

The summarized expected weighted average remaining maturity of the notional amount of interest rate swaps and the weighted average interest rates associated with the amounts expected to be received or paid on interest rate swap agreements are presented below (in thousands):

	March 31, 2016				December 31, 2015			
		Weighted Average				Weighted Average		
	Notional Amount	Remaining Maturity (in years)	Receive Rate (1)	Pay Rate	Notional Amount	Remaining Maturity (in years)	Receive Rate (1)	Pay Rate
Swaps-Cash Flow Hedge-receive floating/pay fixed								
Medium-and long-term debt designation	$190,000	5.9	0.44 %	1.36%	$20,000	4.9	0.29 %	1.53%

(1) Variable rates received on pay fixed swaps are based on one-month LIBOR rates in effect at March 31, 2016 and December 31, 2015.

10. Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to

measure the fair value of the asset or liability is not adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

Table of Contents

Valuation techniques including the market approach, the income approach and/or the cost approach are utilized to determine fair value. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Valuation policies and procedures are determined by our investment department and reported to our Asset/Liability Committee ("ALCO") for review. An entity must consider all aspects of nonperforming risk, including the entity's own credit standing, when measuring fair value of a liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. A fair value hierarchy for valuation inputs gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:
Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.
Level 3 Inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Level 3 assets recorded at fair value on a nonrecurring basis at March 31, 2016 and December 31, 2015, included loans for which a specific allowance was established based on the fair value of collateral and commercial real estate for which fair value of the properties was less than the cost basis. For both asset classes, the unobservable inputs were the additional adjustments applied by management to the appraised values to reflect such factors as non-current appraisals and revisions to estimated time to sell. These adjustments are determined based on qualitative judgments made by management on a case-by-case basis and are not quantifiable inputs, although they are used in the determination of fair value.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Certain financial assets are measured at fair value in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of fair value accounting or write-downs of individual assets. Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally coincides with our monthly and/or quarterly valuation process. There were no transfers between Level 1 and Level 2 during the three months ended March 31, 2016.

Securities Available for Sale – U.S. Treasury securities and other equity securities are reported at fair value utilizing Level 1 inputs. Other securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, we obtain fair value measurements from independent pricing services. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

We review the prices supplied by the independent pricing services for reasonableness and to ensure such prices are aligned with traditional pricing matrices. In addition, we obtain an understanding of their underlying pricing methodologies and their Statement on Standards for Attestation Engagements-Reporting on Controls of a Service

Organization (“SSAE 16”). We validate prices supplied by the independent pricing services by comparison to prices obtained from, in most cases, three additional third party sources. For securities where prices are outside a reasonable range, we further review those securities to determine what a reasonable price estimate is for that security, given available data.

Derivatives – Derivatives are reported at fair value utilizing Level 2 inputs. We obtain fair value measurements from three sources including an independent pricing service and the counterparty to the derivatives. The fair value measurements consider observable data that may include dealer quotes, market spreads, the U.S. Treasury yield curve, live trading levels, trade execution data, credit information and the derivatives’ terms and conditions, among other things. We review the prices supplied by the sources for reasonableness. In addition, we obtain a basic understanding of their underlying pricing methodology. We validate prices supplied by the sources by comparison to one another.

Table of Contents

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis, that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets and financial liabilities measured at fair value on a nonrecurring basis include the following at March 31, 2016 and December 31, 2015.

Foreclosed Assets – Foreclosed assets are initially recorded at fair value less costs to sell. The fair value measurements of foreclosed assets can include Level 2 measurement inputs such as real estate appraisals and comparable real estate sales information, in conjunction with Level 3 measurement inputs such as cash flow projections, qualitative adjustments, and sales cost estimates. As a result, the categorization of foreclosed assets is Level 3 of the fair value hierarchy. In connection with the measurement and initial recognition of certain foreclosed assets, we may recognize charge-offs through the allowance for loan losses.

Impaired Loans – Certain impaired loans may be reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on customized discounting criteria or appraisals. At March 31, 2016 and December 31, 2015, the impact of loans with specific reserves based on the fair value of the collateral was reflected in our allowance for loan losses.

Certain nonfinancial assets and nonfinancial liabilities measured at fair value on a recurring basis include reporting units measured at fair value and tested for goodwill impairment.

The following tables summarize assets measured at fair value on a recurring and nonrecurring basis segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

	As of March 31, 2016			
		Fair Value Measurements at the End of the Reporting Period Using		
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring fair value measurements				
Investment Securities:				
State and Political Subdivisions	$279,792	$—	$279,792	$ —
Other Stocks and Bonds	12,809	—	12,809	—
Other Equity Securities	6,100	6,100	—	—
Mortgage-backed Securities: [1]				
Residential	565,010	—	565,010	—
Commercial	468,670	—	468,670	—
Derivative assets:				
Interest rate swaps	350	—	350	—
Total asset recurring fair value measurements	$1,332,731	$6,100	$1,326,631	$ —
Derivative liabilities:				

Interest rate swaps	$2,594	$—	$2,594	$ —
Total liability recurring fair value measurements	$2,594	$—	$2,594	$ —
Nonrecurring fair value measurements				
Foreclosed assets	$350	$—	$—	$ 350
Impaired loans [2]	24,847	—	—	24,847
Total asset nonrecurring fair value measurements	$25,197	$—	$—	$ 25,197

Table of Contents

	As of December 31, 2015			
		Fair Value Measurements at the End of the Reporting Period Using		
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring fair value measurements				
Investment Securities:				
U.S. Treasury	$103,587	$103,587	$—	$ —
State and Political Subdivisions	244,246	—	244,246	—
Other Stocks and Bonds	12,790	—	12,790	—
Other Equity Securities	6,016	6,016	—	—
Mortgage-backed Securities: (1)				
Residential	588,502	—	588,502	—
Commercial	505,351	—	505,351	—
Total asset recurring fair value measurements	$1,460,492	$109,603	$1,350,889	$ —
Nonrecurring fair value measurements				
Foreclosed assets	$808	$—	$—	$ 808
Impaired loans (2)	24,283	—	—	24,283
Total asset nonrecurring fair value measurements	$25,091	$—	$—	$ 25,091

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

(2) Impaired loans represent collateral-dependent loans with a specific valuation allowance. Losses on these loans represent charge-offs which are netted against the allowance for loan losses.

Disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, is required when it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other estimation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Such techniques and assumptions, as they apply to individual categories of our financial instruments, are as follows:

Cash and cash equivalents - The carrying amount for cash and cash equivalents is a reasonable estimate of those assets' fair value.

Investment and mortgage-backed securities held to maturity - Fair values for these securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices for similar securities or estimates from independent pricing services.

FHLB stock and other investments - The carrying amount of FHLB stock and other investments is a reasonable estimate of those assets' fair value.

Loans receivable - For adjustable rate loans that reprice frequently and with no significant change in credit risk, the carrying amounts are a reasonable estimate of those assets' fair value. The fair value of fixed rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Nonperforming loans are estimated using discounted cash flow analyses or the underlying value of the collateral where applicable.

Loans held for sale – The fair value of loans held for sale is determined based on expected proceeds, which are based on sales contracts and commitments.

Deposit liabilities - The fair value of demand deposits, savings accounts, and certain money market deposits is the amount on demand at the reporting date, which is the carrying value. Fair values for fixed rate CDs are estimated using a discounted cash flow calculation that applies interest rates currently being offered for deposits of similar remaining maturities.

Table of Contents

Federal funds purchased and repurchase agreements - Federal funds purchased generally have original terms to maturity of one day and repurchase agreements generally have terms of less than one year, and therefore both are considered short-term borrowings. Consequently, their carrying value is a reasonable estimate of fair value.

FHLB advances - The fair value of these advances is estimated by discounting the future cash flows using rates at which advances would be made to borrowers with similar credit ratings and for the same remaining maturities.

Long-term debt - The carrying amount for the long-term debt is estimated by discounting future cash flows using estimated rates at which long-term debt would be made to borrowers with similar credit ratings and for the remaining maturities.

The following tables present our financial assets, financial liabilities, and unrecognized financial instruments measured on a nonrecurring basis at both their respective carrying amounts and estimated fair value (in thousands):

		Estimated Fair Value			
March 31, 2016	Carrying Amount	Total	Level 1	Level 2	Level 3
Financial Assets:					
Cash and cash equivalents	$68,454	$68,454	$68,454	$—	$ —
Investment securities:					
Held to maturity, at carrying value	383,322	399,530	—	399,530	—
Mortgage-backed securities:					
Held to maturity, at carrying value	401,257	418,578	—	418,578	—
FHLB stock and other investments, at cost	53,051	53,051	—	53,051	—
Loans, net of allowance for loan losses	2,421,432	2,404,287	—	—	2,404,287
Loans held for sale	4,971	4,971	—	4,971	—
Financial Liabilities:					
Retail deposits	$3,619,368	$3,615,409	$—	$3,615,409	$ —
Federal funds purchased and repurchase agreements	2,501	2,501	—	2,501	—
FHLB advances	819,135	815,742	—	815,742	—
Long-term debt	60,311	44,996	—	44,996	—

		Estimated Fair Value			
December 31, 2015	Carrying Amount	Total	Level 1	Level 2	Level 3
Financial Assets:					
Cash and cash equivalents	$80,975	$80,975	$80,975	$ —	$ —
Investment securities:					
Held to maturity, at carrying value	385,496	397,194	—	397,194	—
Mortgage-backed securities:					
Held to maturity, at carrying value	398,800	402,569	—		