SOUTHSIDE BANCSHARES INC
Form 10-Q
November 06, 2015

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 September 30, 2015
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 November 4, 2015 was 25,372,528 shares.

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

	September 30, 2015	December 31, 2014
ASSETS		
Cash and due from banks	$52,311	$64,001
Interest earning deposits	19,583	20,654
Total cash and cash equivalents	71,894	84,655
Investment securities:		
Available for sale, at estimated fair value	301,627	306,706
Held to maturity, at carrying value (estimated fair value of $395,401 and $400,248, respectively)	386,385	388,823
Mortgage-backed securities:		
Available for sale, at estimated fair value	1,073,368	1,142,002
Held to maturity, at carrying value (estimated fair value of $397,572 and $261,339, respectively)	385,529	253,496
FHLB stock, at cost	43,446	39,942
Other investments	5,446	3,929
Loans held for sale	4,883	2,899
Loans:		
Loans	2,239,146	2,181,133
Less: Allowance for loan losses	(18,402)	(13,292)
Net Loans	2,220,744	2,167,841
Premises and equipment, net	109,087	112,860
Goodwill	91,520	91,372
Other intangible assets, net	7,090	8,844
Interest receivable	17,143	22,436
Deferred tax asset	14,952	12,707
Unsettled trades to sell securities	—	57,202
Bank owned life insurance	94,303	92,384
Other assets	10,058	19,163
TOTAL ASSETS	$4,837,475	$4,807,261
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	$681,618	$661,014
Interest bearing	2,646,259	2,713,403
Total deposits	3,327,877	3,374,417
Short-term obligations:		
Federal funds purchased and repurchase agreements	2,270	4,237
FHLB advances	442,738	297,368
Total short-term obligations	445,008	301,605
Long-term obligations:		
FHLB advances	498,556	600,052
Long-term debt	60,311	60,311

Total long-term obligations	558,867	660,363
Unsettled trades to purchase securities	21,783	5,982
Other liabilities	36,792	39,651
TOTAL LIABILITIES	4,390,327	4,382,018
Off-Balance-Sheet Arrangements, Commitments and Contingencies (Note 12)		
Shareholders' equity:		
Common stock ($1.25 par, 40,000,000 shares authorized, 27,842,166 shares issued at September 30, 2015 and 26,578,127 shares issued at December 31, 2014)	34,803	33,223
Paid-in capital	423,167	389,886
Retained earnings	37,783	55,396
Treasury stock (2,469,638 shares at cost)	(37,692)	(37,692)
Accumulated other comprehensive loss	(10,913)	(15,570)
TOTAL SHAREHOLDERS' EQUITY	447,148	425,243
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$4,837,475	$4,807,261

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest income				
Loans	$23,787	$17,168	$71,590	$53,836
Investment securities – taxable	475	210	1,171	476
Investment securities – tax-exempt	5,551	6,325	17,060	18,304
Mortgage-backed securities	8,318	6,070	24,446	21,309
FHLB stock and other investments	65	36	223	144
Other interest earning assets	15	31	78	96
Total interest income	38,211	29,840	114,568	94,165
Interest expense				
Deposits	2,485	1,876	7,507	5,976
Short-term obligations	354	226	650	353
Long-term obligations	2,087	2,018	6,430	6,368
Total interest expense	4,926	4,120	14,587	12,697
Net interest income	33,285	25,720	99,981	81,468
Provision for loan losses	2,276	4,868	6,392	11,651
Net interest income after provision for loan losses	31,009	20,852	93,589	69,817
Noninterest income				
Deposit services	5,213	3,860	15,122	11,292
Net gain on sale of securities available for sale	875	1,151	3,456	1,660
Impairment of investment in SFG Finance, LLC	—	(2,239)	—	(2,239)
Gain on sale of loans	305	108	1,504	269
Trust income	835	798	2,548	2,340
Bank owned life insurance income	661	320	1,983	941
Other	1,227	1,021	3,970	3,077
Total noninterest income	9,116	5,019	28,583	17,340
Noninterest expense				
Salaries and employee benefits	15,733	12,798	50,801	38,992
Occupancy expense	3,071	1,773	9,123	5,313
Advertising, travel & entertainment	642	489	1,982	1,637
ATM and debit card expense	617	327	2,046	946
Professional fees	825	1,132	2,360	3,363
Software and data processing expense	819	543	3,087	1,530
Telephone and communications	534	292	1,606	890
FDIC insurance	624	437	1,891	1,319
Other	3,527	2,226	11,130	6,635
Total noninterest expense	26,392	20,017	84,026	60,625
Income before income tax expense	13,733	5,854	38,146	26,532
Income tax expense (benefit)	1,971	(243)	5,841	1,754
Net income	$11,762	$6,097	$32,305	$24,778
Earnings per common share – basic	$0.46	$0.31	$1.27	$1.25

Earnings per common share – diluted	$0.46	$0.31	$1.27	$1.25
Dividends paid per common share	$0.23	$0.22	$0.69	$0.64

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$11,762	$6,097	$32,305	$24,778
Other comprehensive income:				
Net unrealized holding gains on available for sale securities during the period	13,446	2,751	8,051	21,070
Change in net unrealized loss on securities transferred to held to maturity	220	282	746	836
Reclassification adjustment for net gain on sale of available for sale securities, included in net income	(875)	(1,151)	(3,456)	(1,660)
Amortization of net actuarial loss, included in net periodic benefit cost	691	260	1,836	781
Amortization of prior service credit, included in net periodic benefit cost	(4)	(3)	(12)	(10)
Other comprehensive income, before tax	13,478	2,139	7,165	21,017
Income tax expense related to other items of comprehensive income	(4,718)	(862)	(2,508)	(7,469)
Other comprehensive income, net of tax	8,760	1,277	4,657	13,548
Comprehensive income	$20,522	$7,374	$36,962	$38,326

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

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, 2013	$25,483	$214,091	$78,673	$(37,692)	$(21,037)	$259,518
Net income	—	—	24,778	—	—	24,778
Other comprehensive income	—	—	—	—	13,548	13,548
Issuance of common stock (26,894 shares)	34	763	—	—	—	797
Stock compensation expense	—	842	—	—	—	842
Tax benefits related to stock awards	—	249	—	—	—	249
Net issuance of common stock under employee stock plans	90	1,025	(112)	—	—	1,003
Cash dividends paid on common stock ($0.64 per share)	—	—	(11,865)	—	—	(11,865)
Impairment of investment in SFG Finance, LLC.	—	2,239	—	—	—	2,239
Stock dividend declared	1,124	24,941	(26,065)	—	—	—
Balance at September 30, 2014	$26,731	$244,150	$65,409	$(37,692)	$(7,489)	$291,109
Balance at December 31, 2014	$33,223	$389,886	$55,396	$(37,692)	$(15,570)	$425,243
Net income	—	—	32,305	—	—	32,305
Other comprehensive income	—	—	—	—	4,657	4,657
Issuance of common stock (33,948 shares)	42	894	—	—	—	936
Stock compensation expense	—	981	—	—	—	981
Tax benefits related to stock awards	—	61	—	—	—	61
Net issuance of common stock under employee stock plans	26	182	(39)	—	—	169
Cash dividends paid on common stock ($0.69 per share)	—	—	(17,204)	—	—	(17,204)
Stock dividend declared	1,512	31,163	(32,675)	—	—	—
Balance at September 30, 2015	$34,803	$423,167	$37,783	$(37,692)	$(10,913)	$447,148

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

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

	Nine Months Ended September 30, 2015	2014
OPERATING ACTIVITIES:		
Net income	$32,305	$24,778
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	6,467	2,591
Securities premium amortization (discount accretion), net	16,895	14,099
Accretion of loan (discounts) premium amortization, net	(2,065)	(1,404)
Provision for loan losses	6,392	11,651
Stock compensation expense	981	842
Deferred tax benefit	(2,714)	(2,322)
Tax benefit related to stock awards	(61)	(253)
Net gain on sale of securities available for sale	(3,456)	(1,660)
Impairment of investment in SFG Finance, LLC.	—	2,239
Net loss on premises and equipment	211	14
Net loss on other real estate owned	387	65
Net change in:		
Interest receivable	5,293	7,752
Other assets	2,124	(2,185)
Interest payable	28	(69)
Other liabilities	(1,064)	4,943
Loans originated for sale	(1,984)	(533)
Net cash provided by operating activities	59,739	60,548
INVESTING ACTIVITIES:		
Securities held to maturity:		
Purchases	(80,714)	—
Maturities, calls and principal repayments	17,994	18,883
Securities available for sale:		
Purchases	(697,879)	(538,361)
Sales	543,456	529,054
Maturities, calls and principal repayments	226,125	214,296
Proceeds from redemption of FHLB stock	8,603	11,437
Purchases of FHLB stock and other investments	(12,248)	(1,841)
Net loans originated	(58,658)	(142,523)
Purchases of premises and equipment	(2,524)	(4,280)
Proceeds from sales of premises and equipment	10	8
Proceeds from sales of other real estate owned	634	275
Proceeds from sales of repossessed assets	2,008	5,158
Net cash (used in) provided by investing activities	(53,193)	92,106

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

	Nine Months Ended September 30,	
	2015	2014
FINANCING ACTIVITIES:		
Net change in deposits	(45,588)	(84,327)
Net (decrease) increase in federal funds purchased and repurchase agreements	(1,967)	1,257
Proceeds from FHLB advances	13,860,663	6,485,983
Repayment of FHLB advances	(13,816,377)	(6,530,965)
Tax benefit related to stock awards	61	253
Net issuance of common stock under employee stock plan	169	1,003
Proceeds from the issuance of common stock	936	797
Cash dividends paid	(17,204)	(11,865)
Net cash used in financing activities	(19,307)	(137,864)
Net (decrease) increase in cash and cash equivalents	(12,761)	14,790
Cash and cash equivalents at beginning of period	84,655	54,431
Cash and cash equivalents at end of period	$71,894	$69,221
SUPPLEMENTAL DISCLOSURES FOR CASH FLOW INFORMATION:		
Interest paid	$14,558	$12,766
Income taxes paid	$5,250	$4,300
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Loans transferred to other repossessed assets and real estate through foreclosure	$1,453	$4,581
Loans transferred to held for sale from held for investment	$—	$74,752
Transfer of available for sale securities to held to maturity securities	$57,724	$—
Adjustment to pension liability	$(1,824)	$(771)
5% stock dividend	$32,675	$26,065
Unsettled trades to purchase securities	$(21,783)	$(15,224)
Unsettled trades to sell securities	$—	$5,120

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

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

1. Summary of Significant Accounting and Reporting Policies

Basis of Presentation

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. “OABC” and “Omni” refer to OmniAmerican Bancorp, Inc. and its subsidiaries. “SFG” refers to SFG Finance, LLC (formerly Southside Financial Group, LLC), which was a wholly-owned subsidiary of the Bank and was dissolved in April 2015.

The consolidated balance sheet as of September 30, 2015, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows and notes to the financial statements for the three- and nine-month periods ended September 30, 2015 and 2014 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, 2014.

On April 13, 2015, our board of directors declared a 5% stock dividend to common stock shareholders of record as of April 27, 2015, which was paid on May 14, 2015. All share data has been adjusted to give retroactive recognition to this stock dividend.

Goodwill

The Company evaluates goodwill for impairment on an annual basis or on an interim basis if events or changes in circumstances indicate that the fair value of the asset has decreased below its carrying value. During the three months ended September 30, 2015, the Company changed its annual goodwill impairment testing date from December 31 to October 1. The Company believes this new date is preferable as it provides additional time prior to the Company's year-end to complete the annual goodwill impairment test, especially given recent acquisitions and potential future growth. This change does not accelerate, delay, avoid, or cause an impairment charge, nor does this change result in adjustments to previously issued financial statements. There were no impairments of goodwill during the three and nine months ended September 30, 2015 or 2014.

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, 2014.

Accounting Pronouncements

In January 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-04, “Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.” This update clarifies that an in-substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of the residential real estate property collateralizing a consumer mortgage loan, upon either: (i) the creditor obtaining legal title to the property upon completion of the foreclosure; or (ii) the borrower conveying all interest in the property to

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the creditor to satisfy the loan through completion of a deed-in-lieu of foreclosure or through a similar legal agreement. ASU 2014-04 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2014. The adoption of this guidance did not have a significant impact on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." This update states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update affects entities that enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards. In August 2015, FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," which effectively delayed the adoption date by one year. We are required to adopt ASU 2014-09 in the first quarter of fiscal 2018 and early adoption is permitted. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. We have not yet selected a transition method nor have we determined the impact of adoption on our consolidated financial statements.

In June 2014, the FASB issued ASU 2014-11, "Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures." This update aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements by accounting for these transactions as secured borrowings. This update also requires a new disclosure for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return of the transferred financial assets throughout the term of the transaction. ASU 2014-11 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2014. The adoption of this guidance did not have a significant impact on our consolidated financial statements.

In August 2014, the FASB issued ASU 2014-14, "Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure." This update affects creditors that hold government-guaranteed mortgage loans, including those guaranteed by the Federal Housing Administration (FHA) of the U.S. Department of Housing and Urban Development (HUD), and the U.S. Department of Veterans Affairs (VA). The update requires that, upon foreclosure, a guaranteed mortgage loan be derecognized and a separate other receivable be recognized when specific criteria are met. ASU 2014-14 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2014. The adoption of this guidance did not have a significant impact on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40) – Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." ASU 2015-05 affects the accounting for fees paid by a customer in cloud computing arrangements such as (i) software as a service, (ii) platform as a service (iii) infrastructure as a service and (iv) other similar hosting arrangements. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. ASU 2015-05 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. The adoption of this guidance is not expected to have a significant impact on our consolidated financial statements.

In May 2015, the FASB issued ASU 2015-07, "Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share." ASU 2015-07 eliminates the current requirement to categorize within the fair value hierarchy investments whose fair values are measured at net asset value ("NAV"). Instead, entities will be required to disclose the fair values of such investments so that financial statement users can reconcile amounts reported in the fair value hierarchy table and the amounts reported on the balance sheet. ASU 2015-07 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. The adoption of this guidance is not expected to have a significant impact on our consolidated financial statements.

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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 operations of Omni were merged into ours as of the date of the acquisition.

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. The purchase price allocation related to the Omni acquisition remains preliminary and is subject to final determination and valuation of the fair value of assets acquired and liabilities assumed. Subsequent to filing our Annual Report on Form 10-K for the year ended December 31, 2014, we continued to evaluate the assets and liabilities assumed. This evaluation resulted in adjustments to goodwill, consisting primarily of a $1.4 million adjustment to the fair value of Visa Class B stock included in other investments on the consolidated balance sheets, not previously recorded, which upon the filing of the short-period Federal Income Tax return for Omni and its subsidiaries and other immaterial adjustments was partially offset by a $1.0 million decrease to taxes receivable included in other assets on the consolidated balance sheets. The impact of the adjustments to goodwill, net of deferred tax, is reflected below. 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, 2014.

The following table reflects the changes in the carrying amount of our goodwill for the nine months ended September 30, 2015 (in thousands):

	Goodwill
Balance as of December 31, 2014	$91,372
Plus: measurement period adjustments	148
Balance as of September 30, 2015	$91,520

In connection with the integration of Omni into our operations, certain loans acquired have been reclassified as of December 31, 2014 to be consistent with our current classification methodology, see “Note 6 - Loans and Allowance for Probable Loan Losses” and “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Composition of Loans” in this Quarterly Report on Form 10-Q.

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3. 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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Basic and Diluted Earnings:				
Net income	$11,762	$6,097	$32,305	$24,778
Basic weighted-average shares outstanding	25,360	19,809	25,340	19,782
Add: Stock awards	85	106	84	99
Diluted weighted-average shares outstanding	25,445	19,915	25,424	19,881
Basic Earnings Per Share:	$0.46	$0.31	$1.27	$1.25
Diluted Earnings Per Share:	$0.46	$0.31	$1.27	$1.25

For the three- and nine-month periods ended September 30, 2015, there were approximately 58,000 and 27,000 anti-dilutive shares, respectively. For the three- and nine-month periods ended September 30, 2014, there were approximately 3,000 and 15,000 anti-dilutive shares, respectively.

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4. Accumulated Other Comprehensive (Loss) Income

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

	Three Months Ended September 30, 2015			
	Unrealized Gains (Losses) on Securities	Pension Plans		
	Other	Net Prior Service (Cost) Credit	Net Gain (Loss)	Total
Beginning balance, net of tax	$1,396	$2	$(21,071)	$(19,673)
Other comprehensive income before reclassifications	13,666	—	—	13,666
Reclassified to income	(875)	(4)	691	(188)
Income tax (expense) benefit	(4,477)	1	(242)	(4,718)
Net current-period other comprehensive income (loss), net of tax	8,314	(3)	449	8,760
Ending balance, net of tax	$9,710	$(1)	$(20,622)	$(10,913)

	Nine Months Ended September 30, 2015			
	Unrealized Gains (Losses) on Securities	Pension Plans		
	Other	Net Prior Service (Cost) Credit	Net Gain (Loss)	Total
Beginning balance, net of tax	$6,238	$7	$(21,815)	$(15,570)
Other comprehensive income before reclassifications	8,797	—		8,797
Reclassified to income	(3,456)	(12)	1,836	(1,632)
Income tax (expense) benefit	(1,869)	4	(643)	(2,508)
Net current-period other comprehensive income (loss), net of tax	3,472	(8)	1,193	4,657
Ending balance, net of tax	$9,710	$(1)	$(20,622)	$(10,913)

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	Three Months Ended September 30, 2014			
	Unrealized Gains (Losses) on Securities	Pension Plans		
	Other	Net Prior Service (Cost) Credit	Net Gain (Loss)	Total
Beginning balance, net of tax	$3,281	$(17)	$(12,030)	$(8,766)
Other comprehensive income before reclassifications	3,033	—	—	3,033
Reclassified to income	(1,151)	(3)	260	(894)
Income tax (expense) benefit	(589)	2	(275)	(862)
Net current-period other comprehensive income (loss), net of tax	1,293	(1)	(15)	1,277
Ending balance, net of tax	$4,574	$(18)	$(12,045)	$(7,489)

	Nine Months Ended September 30, 2014			
	Unrealized Gains (Losses) on Securities	Pension Plans		
	Other	Net Prior Service (Cost) Credit	Net Gain (Loss)	Total
Beginning balance, net of tax	$(8,656)	$(12)	$(12,369)	$(21,037)
Other comprehensive income before reclassifications	21,906	—	—	21,906
Reclassified to income	(1,660)	(10)	781	(889)
Income tax (expense) benefit	(7,016)	4	(457)	(7,469)
Net current-period other comprehensive income (loss), net of tax	13,230	(6)	324	13,548
Ending balance, net of tax	$4,574	$(18)	$(12,045)	$(7,489)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Unrealized gains and losses on available for sale securities:				
Realized net gain on sale of securities (1)	$875	$1,151	$3,456	$1,660
Tax expense	(307)	(386)	(1,210)	(564)
Net of tax	568	765	2,246	1,096
Amortization of pension plan:				
Net actuarial loss (2)	$(691)	$(260)	$(1,836)	$(781)
Prior service credit (2)	4	3	12	10
Total before tax	(687)	(257)	(1,824)	(771)
Tax benefit	241	82	639	262
Net of tax	(446)	(175)	(1,185)	(509)
Total reclassifications for the period, net of tax	$122	$590	$1,061	$587

(1) Listed as net gain on sale of securities available for sale on the consolidated statements of income.
(2) These accumulated other comprehensive income components are included in the computation of net periodic pension cost presented in “Note 8 - Employee Benefit Plans.”

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5. Securities

The amortized cost, gross unrealized gains and losses, carrying value, and estimated fair value of investment and mortgage-backed securities as of September 30, 2015 and December 31, 2014 are reflected in the tables below (in thousands):

	September 30, 2015						
		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:							
U.S. Treasury	$9,971	$115	$—	$10,086	$—	$—	$10,086
U.S. Government Agency Debentures	4,849	95	—	4,944	—	—	4,944
State and Political Subdivisions	261,987	7,113	1,449	267,651	—	—	267,651
Other Stocks and Bonds	12,769	94	—	12,863	—	—	12,863
Other Equity Securities	6,055	28	—	6,083	—	—	6,083
Mortgage-backed Securities: (1)							
Residential	612,400	13,880	157	626,123	—	—	626,123
Commercial	442,983	4,880	618	447,245	—	—	447,245
Total	$1,351,014	$26,205	$2,224	$1,374,995	$—	$—	$1,374,995
HELD TO MATURITY							
Investment Securities:							
State and Political Subdivisions	$390,904	$4,913	$9,432	$386,385	$10,515	$1,499	$395,401
Mortgage-backed Securities: (1)							
Residential	34,803	—	55	34,748	2,415	—	37,163
Commercial	355,249	1,274	5,742	350,781	9,699	71	360,409
Total	$780,956	$6,187	$15,229	$771,914	$22,629	$1,570	$792,973

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	December 31, 2014						
		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:							
U.S. Treasury	$14,883	$30	$7	$14,906	$—	$—	$14,906
U.S. Government Agency Debentures	4,835	—	7	4,828	—	—	4,828
State and Political Subdivisions	260,535	8,055	906	267,684	—	—	267,684
Other Stocks and Bonds	13,086	153	—	13,239	—	—	13,239
Other Equity Securities	6,061	—	12	6,049	—	—	6,049
Mortgage-backed Securities:(1)							
Residential	952,481	12,624	807	964,298	—	—	964,298
Commercial	176,112	1,743	151	177,704	—	—	177,704
Total	$1,427,993	$22,605	$1,890	$1,448,708	$—	$—	$1,448,708
HELD TO MATURITY							
Investment Securities:							
State and Political Subdivisions	$393,525	$5,168	$9,870	$388,823	$12,181	$756	$400,248
Mortgage-backed Securities:(1)							
Residential	52,287	—	70	52,217	2,871	—	55,088
Commercial	207,624	—	6,345	201,279	5,461	489	206,251
Total	$653,436	$5,168	$16,285	$642,319	$20,513	$1,245	$661,587

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

From time to time, the Company 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.

During the second quarter of 2015, the Company transferred commercial mortgage-backed securities with a fair value of $57.7 million from AFS to HTM. The unrealized gain on the securities transferred from AFS to HTM was $1.3 million ($864,000, net of tax) at the date of transfer based on the fair value of the securities on the transfer date.

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The following table represents the unrealized loss on securities as of September 30, 2015 and December 31, 2014 (in thousands):

	As of September 30, 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:						
State and Political Subdivisions	$45,805	$611	$26,843	$838	$72,648	$1,449
Mortgage-backed Securities:						
Residential	63,028	147	3,413	10	66,441	157
Commercial	115,819	618	—	—	115,819	