SOUTHSIDE BANCSHARES INC
Form 10-Q/A
March 07, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A
Amendment No. 1

(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, 2013

OR

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

For the transition period from ____________ to ____________

Commission file number 0-12247
SOUTHSIDE BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

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

903-531-7111
(Registrant's telephone number, including area code)

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

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

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

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

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

The number of shares of the issuer's common stock, par value $1.25, outstanding as of April 30, 2013 was 17,842,463 shares.

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Explanatory Note

This Amendment No. 1 on Form 10-Q/A amends the Quarterly Report on Form 10-Q for the period ended March 31, 2013, which was originally filed with the Securities and Exchange Commission (the "SEC") on May 7, 2013 (the "Original Filing"). This amendment is being filed to reflect (i) the restatement of the quarterly results of Southside Bancshares, Inc. (the "Company"), as discussed in Note 2 to the unaudited consolidated financial statements contained herein, and (ii) other information related to such restated financial information. In addition, this amendment is being filed to report the notice of resignation received from Michael L. Coogan, one of our named executive officers, during the first quarter of 2013. Except for Items 1, 2 and 4 of Part I and Items 5 and 6 of Part II, no other information included in the Original Filing is amended by this Form 10-Q/A.

During the preparation of the Form 10-K for the year ended December 31, 2013 (the "2013 Form 10-K"), the Company determined that in periods prior to December 31, 2013, it incorrectly accounted for the recognition of interest income on its municipal bonds purchased at a premium as a result of amortizing the premium to the earliest call date instead of amortizing the premium to maturity as prescribed pursuant to GAAP. Therefore, the Company determined the municipal bonds purchased at a premium should be re-amortized to maturity.

The Company evaluated the effect of this error and concluded that it was immaterial to any of the previously issued consolidated financial statements except for the unaudited consolidated financial statements included in the Company's Quarterly Reports on Form 10-Q for the periods ended March 31, June 30, and September 30, 2013. Accordingly, on February 10, 2014, the Company filed a Form 8-K reporting that the Audit Committee of the Board of Directors of the Company determined based on the recommendation of management, that the Company should restate its unaudited consolidated financial statements in each of these Quarterly Reports on Form 10-Q. In addition, the Company will record, in the fourth quarter of 2013, the immaterial cumulative effect of the error relating to prior years, which will increase net income by approximately $1.1 million for the year ended December 31, 2013.

See Note 2 – Restatement to Previously Issued Financial Statements contained in the Notes to Financial Statements included in this Form 10-Q/A which further describes the effect of this restatement.

Pursuant to Rule 12b-15 of the Securities Exchange Act of 1934, as amended, this Form 10-Q/A includes new certifications by our principal executive officer and principal financial officer under Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. Except for the items noted above, no other information included in the Original Filing is being amended by this Form 10-Q/A. This Form 10-Q/A continues to speak as of the date of the Original Filing and we have not updated the filing to reflect events occurring subsequent to the date of the Original Filing other than those associated with the restatement of the Company's financial statements. Accordingly, this Form 10-Q/A should be read in conjunction with the Company's filings with the SEC subsequent to the Original Filing, including any amendments to those filings.

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

| | March 31, 2013 (Restated) | December 31, 2012 |
|---|---|---|
| ASSETS | | |
| Cash and due from banks | $42,992 | $47,312 |
| Interest earning deposits | 12,126 | 103,318 |
| Total cash and cash equivalents | 55,118 | 150,630 |
| Investment securities: | | |
| Available for sale, at estimated fair value | 685,794 | 617,707 |
| Held to maturity, at amortized cost | 1,009 | 1,009 |
| Mortgage-backed and related securities: | | |
| Available for sale, at estimated fair value | 905,107 | 806,360 |
| Held to maturity, at amortized cost | 234,245 | 245,538 |
| FHLB stock, at cost | 25,415 | 27,889 |
| Other investments, at cost | 2,064 | 2,064 |
| Loans held for sale | 3,138 | 3,601 |
| Loans: | | |
| Loans | 1,281,647 | 1,262,977 |
| Less: Allowance for loan losses | (18,542) | (20,585) |
| Net Loans | 1,263,105 | 1,242,392 |
| Premises and equipment, net | 49,985 | 50,075 |
| Goodwill | 22,034 | 22,034 |
| Other intangible assets, net | 283 | 324 |
| Interest receivable | 13,610 | 18,936 |
| Deferred tax asset | 6,388 | 4,120 |
| Unsettled trades to sell securities | 1,857 | — |
| Other assets | 43,131 | 44,724 |
| TOTAL ASSETS | $3,312,283 | $3,237,403 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Deposits: | | |
| Noninterest bearing | $546,143 | $595,093 |
| Interest bearing | 1,791,094 | 1,756,804 |
| Total deposits | 2,337,237 | 2,351,897 |
| Short-term obligations: | | |
| Federal funds purchased and repurchase agreements | 857 | 984 |
| FHLB advances | 163,159 | 150,985 |
| Other obligations | 219 | 219 |
| Total short-term obligations | 164,235 | 152,188 |
| Long-term obligations: | | |
| FHLB advances | 389,804 | 369,097 |
| Long-term debt | 60,311 | 60,311 |
| Total long-term obligations | 450,115 | 429,408 |
| Unsettled trades to purchase securities | 71,757 | 10,047 |

| | | |
|---|---|---|
| Other liabilities | 33,041 | 36,100 |
| TOTAL LIABILITIES | 3,056,385 | 2,979,640 |
| | | |
| Off-Balance-Sheet Arrangements, Commitments and Contingencies (Note 11) | | |
| | | |
| Shareholders' equity: | | |
| Common stock ($1.25 par, 40,000,000 shares authorized, 20,312,101 shares issued in 2013 (including 851,404 shares declared on March 28, 2013 as a stock dividend) and 19,446,187 shares issued in 2012) | 25,390 | 24,308 |
| Paid-in capital | 212,151 | 195,602 |
| Retained earnings | 59,237 | 70,708 |
| Treasury stock (2,469,638 and 2,379,338 shares at cost) | (37,692) | (35,793) |
| Accumulated other comprehensive (loss) income | (3,188) | 2,938 |
| TOTAL SHAREHOLDERS' EQUITY | 255,898 | 257,763 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $3,312,283 | $3,237,403 |

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

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| Interest income | (Restated) | |
| Loans | $17,665 | $16,770 |
| Investment securities – taxable | 364 | 31 |
| Investment securities – tax-exempt | 4,488 | 2,667 |
| Mortgage-backed and related securities | 3,936 | 12,163 |
| FHLB stock and other investments | 65 | 79 |
| Other interest earning assets | 43 | 6 |
| Total interest income | 26,561 | 31,716 |
| Interest expense | | |
| Deposits | 2,070 | 3,395 |
| Short-term obligations | 1,250 | 1,592 |
| Long-term obligations | 1,781 | 2,733 |
| Total interest expense | 5,101 | 7,720 |
| Net interest income | 21,460 | 23,996 |
| Provision for loan losses | 492 | 3,052 |
| Net interest income after provision for loan losses | 20,968 | 20,944 |
| Noninterest income | | |
| Deposit services | 3,753 | 3,748 |
| Gain on sale of securities available for sale | 4,345 | 5,972 |
| Loss on sale of securities carried at fair value through income | — | (485) |
| Total other-than-temporary impairment losses | (52) | — |
| Portion of loss recognized in other comprehensive income (before taxes) | 10 | (141) |
| Net impairment losses recognized in earnings | (42) | (141) |
| FHLB advance option impairment charges | — | (472) |
| Gain on sale of loans | 319 | 131 |
| Trust income | 720 | 677 |
| Bank owned life insurance income | 254 | 266 |
| Other | 891 | 1,111 |
| Total noninterest income | 10,240 | 10,807 |
| Noninterest expense | | |
| Salaries and employee benefits | 13,209 | 11,833 |
| Occupancy expense | 1,871 | 1,758 |
| Advertising, travel & entertainment | 641 | 604 |
| ATM and debit card expense | 381 | 279 |
| Director fees | 264 | 268 |
| Supplies | 250 | 159 |
| Professional fees | 640 | 691 |
| Telephone and communications | 451 | 406 |
| FDIC insurance | 421 | 470 |

| | | |
|---|---|---|
| Other | 2,191 | 2,054 |
| Total noninterest expense | 20,319 | 18,522 |
| | | |
| Income before income tax expense | 10,889 | 13,229 |
| Provision for income tax expense | 1,847 | 3,090 |
| Net income | $9,042 | $10,139 |
| Earnings per common share – basic | $0.51 | $0.56 |
| Earnings per common share – diluted | $0.51 | $0.56 |
| Dividends paid per common share | $0.20 | $0.18 |

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

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2013 (Restated) | 2012 |
| Net income | $9,042 | $10,139 |
| Other comprehensive income (loss): | | |
| Unrealized holding losses on available for sale securities during the period | (5,744) | (4,886) |
| Noncredit portion of other-than-temporary impairment losses on the AFS securities | (10) | 141 |
| Reclassification adjustment for gain on sale of available for sale securities included in net income | (4,345) | (5,972) |
| Reclassification of other-than-temporary impairment charges on available for sale securities included in net income | 42 | 141 |
| Amortization of net actuarial loss, included in net periodic benefit cost | 643 | 499 |
| Amortization of prior service credit, included in net periodic benefit cost | (11) | (10) |
| Other comprehensive loss, before tax | (9,425) | (10,087) |
| Income tax benefit related to other items of comprehensive income | 3,299 | 3,531 |
| Other comprehensive loss, net of tax | (6,126) | (6,556) |
| Comprehensive income | $2,916 | $3,583 |

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

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SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(UNAUDITED)
(in thousands, except share and per share data)

| | Common Stock | Paid In Capital | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income (Loss) | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| Balance at December 31, 2011 | $23,146 | $176,791 | $72,646 | $(28,377) | $14,721 | $258,927 |
| Net Income | | | 10,139 | | | 10,139 |
| Other comprehensive loss | | | | | (6,556) | (6,556) |
| Issuance of common stock (14,496 shares) | 18 | 282 | | | | 300 |
| Stock compensation expense | | 39 | | | | 39 |
| Cash dividends paid on common stock ($0.18 per share) | | | (2,970) | | | (2,970) |
| Stock dividend declared | 1,035 | 16,441 | (17,476) | | | — |
| Balance at March 31, 2012 | $24,199 | $193,553 | $62,339 | $(28,377) | $8,165 | $259,879 |
| | | | | | | |
| Balance at December 31, 2012 | $24,308 | $195,602 | $70,708 | $(35,793) | $2,938 | $257,763 |
| Net Income (Restated) | | | 9,042 | | | 9,042 |
| Other comprehensive loss (Restated) | | | | | (6,126) | (6,126) |
| Issuance of common stock (14,361 shares) | 18 | 288 | | | | 306 |
| Purchase of common stock (90,300 shares) | | | | (1,899) | | (1,899) |
| Stock compensation expense | | 207 | | | | 207 |
| Net issuance of common stock under employee stock plans | | 62 | (62) | | | — |
| Cash dividends paid on common stock ($0.20 per share) | | | (3,395) | | | (3,395) |
| Stock dividend declared | 1,064 | 15,992 | (17,056) | | | — |
| Balance at March 31, 2013 (Restated) | $25,390 | $212,151 | $59,237 | $(37,692) | $(3,188) | $255,898 |

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)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| OPERATING ACTIVITIES: | (Restated) | |
| Net income | $9,042 | $10,139 |
| Adjustments to reconcile net income to net cash provided by operations: | | |
| Depreciation | 895 | 870 |
| Amortization of premium | 8,543 | 10,366 |
| Accretion of discount and loan fees | (1,363) | (1,129) |
| Provision for loan losses | 492 | 3,052 |
| Stock compensation expense | 207 | 39 |
| Deferred tax expense (benefit) | 1,031 | (2,880) |
| Loss on sale of securities carried at fair value through income | — | 485 |
| Gain on sale of securities available for sale | (4,345) | (5,972) |
| Net other-than-temporary impairment losses | 42 | 141 |
| FHLB advance option impairment charges | — | 472 |
| Gain on sale of other real estate owned | (21) | — |
| Net change in: | | |
| Interest receivable | 5,326 | 5,491 |
| Other assets | 895 | 991 |
| Interest payable | (244) | (289) |
| Other liabilities | (2,183) | 3,227 |
| Loans held for sale | 463 | 1,650 |
| Net cash provided by operating activities | 18,780 | 26,653 |
| | | |
| INVESTING ACTIVITIES: | | |
| Securities held to maturity: | | |
| Purchases | (42,898) | — |
| Maturities, calls and principal repayments | 57,275 | 15,365 |
| Securities available for sale: | | |
| Purchases | (448,973) | (618,587) |
| Sales | 237,318 | 127,298 |
| Maturities, calls and principal repayments | 87,694 | 58,500 |
| Securities carried at fair value through income: | | |
| Purchases | — | (57,606) |
| Sales | — | 664,224 |
| Maturities, calls and principal repayments | — | 24,872 |
| Proceeds from redemption of FHLB stock | 5,242 | 8,533 |
| Purchases of FHLB stock and other investments | (2,768) | (7,071) |
| Net increase in loans | (21,524) | (55,281) |
| Purchases of premises and equipment | (805) | (656) |
| Proceeds from sales of other real estate owned | 266 | — |
| Proceeds from sales of repossessed assets | 1,778 | 1,002 |
| Net cash (used in) provided by investing activities | (127,395) | 160,593 |

(continued)

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

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

SUPPLEMENTAL DISCLOSURES FOR CASH FLOW INFORMATION:

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

SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:

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

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

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SOUTHSIDE BANCSHARES, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

1. Basis of Presentation

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

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

The consolidated balance sheet as of March 31, 2013, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows and notes to the financial statements for the three-month periods ended March 31, 2013 and 2012 are unaudited; in the opinion of management, all adjustments necessary for a fair statement of such financial statements have been included. Such adjustments consisted only of normal recurring items. All significant intercompany accounts and transactions are eliminated in consolidation. The preparation of these consolidated financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires the use of management’s estimates. These estimates are subjective in nature and involve matters of judgment. Actual amounts could differ from these estimates.

Interim results are not necessarily indicative of results for a full year. These financial statements should be read in conjunction with the financial statements and notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2012. For a description of our significant accounting and reporting policies, refer to Note 1 of the Notes to Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2012. Additionally, we add the following to our significant accounting and reporting policies: For securities purchased at a premium or discount the recognition of interest income on an individual security is accounted for by amortizing the premium or discount to the maturity of that security.

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

Accounting Pronouncements

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

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

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2. Restatement of Previously Issued Financial Statements

During the preparation of the 2013 Form 10-K, we determined that in periods prior to December 31, 2013, we incorrectly accounted for the recognition of interest income on our municipal bonds purchased at a premium based on amortizing the premium to the earliest call date instead of amortizing the premium to maturity as prescribed pursuant to GAAP. These municipal bonds included bonds classified as available for sale and held to maturity. As a result, we determined the municipal bonds purchased at a premium should be re-amortized to maturity.

We evaluated the effect of this error and concluded that it was immaterial to any of the previously issued consolidated financial statements except for the unaudited consolidated financial statements included in our Quarterly Reports on Form 10-Q for the periods ended March 31, June 30, and September 30, 2013. Accordingly, on February 10, 2014, we filed a Form 8-K reporting that the Audit Committee of the Board of Directors of the Company determined based on the recommendation of management, that the Company should restate its unaudited consolidated financial statements in each of these Quarterly Reports on Form 10-Q. In addition, we will record, in the fourth quarter of 2013, the immaterial cumulative effect of the error relating to prior years, which will increase net income by approximately $1.1 million for the year ended December 3l, 2013.

The aggregate net income resulting from the change in the amortization method for municipal securities purchased at a premium to maturity from the earliest call date for the first quarter of 2013 was $517,000, which should have been recorded during the first quarterly period of 2013.

The correction of the error resulted in an increase in net income of $517,000 for the three months ended March 31, 2013 resulting in net income on a restated basis of $9.0 million for that period.

A summary of the adjustments made and their effect on the financial statements is presented below (dollars in thousands):

| Consolidated Balance Sheet (unaudited) | As of March 31, 2013 As Originally Reported | Corrections | As Restated |
|---|---|---|---|
| Investment securities: | | | |
| Held to maturity, at amortized cost (1) | $1,008 | $1 | $1,009 |
| Deferred tax asset (4) | 6,148 | 240 | 6,388 |
| Other assets (5) | 43,186 | (55) | 43,131 |
| Total assets | 3,312,097 | 186 | 3,312,283 |
| Retained earnings (2) | 58,720 | 517 | 59,237 |
| Accumulated other comprehensive loss (3) | (2,857) | (331) | (3,188) |
| Total shareholders’ equity | 255,712 | 186 | 255,898 |
| Total liabilities and shareholders' equity | 3,312,097 | 186 | 3,312,283 |

“As Originally Reported” reflects balances reported in the March 31, 2013 Form 10-Q filed on May 7, 2013.

“Corrections” reflect changes to the originally reported balances and are described below.

“As Restated” reflects the final restated balances.

Balance Sheet Corrections:

(1) The increase in investment securities held to maturity for the three months ended March 31, 2013 reflects the reduction in amortization expense that resulted in an increase in book value.

(2) Retained earnings increased due to the decrease in amortization expense associated with amortizing our municipal securities purchased at a premium to the maturity of the security. The increase was partially offset by a reduction in the gain on the sale of available for sale municipal securities sold during the period due to the increase in book value of the securities sold during the three months ended March 31, 2013.

(3)

Accumulated other comprehensive loss increased as a result of an increase in the unrealized loss on the available for sale securities due to an increase in the book value of the municipal securities resulting from a decrease in amortization at March 31, 2013.

(4) The correction to the deferred tax asset occurred as a result of recording the increase in the unrealized loss on available for sale securities for the municipal securities. In addition, deferred taxes changed as a result of the additional alternative minimum tax recorded as a result of recording the additional tax-exempt interest income.

(5) The correction of other assets relates to a decrease in taxes receivable as a result of recording the additional alternative minimum tax.

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| Consolidated Statement of Income (unaudited) | For the Three Months Ended March 31, 2013 (in thousands) As Originally Reported | Corrections | As Restated |
|---|---|---|---|
| Investment securities - tax-exempt (1) | $3,958 | $530 | $4,488 |
| Total interest income | 26,031 | 530 | 26,561 |
| Net interest income | 20,930 | 530 | 21,460 |
| Net interest income after provision for loan losses | 20,438 | 530 | 20,968 |
| Gain on sale of securities available for sale (2) | 4,365 | (20) | 4,345 |
| Total noninterest income | 10,260 | (20) | 10,240 |
| Income before income tax expense | 10,379 | 510 | 10,889 |
| Provision for income tax expense (3) | 1,854 | (7) | 1,847 |
| Net income | 8,525 | 517 | 9,042 |
| Earnings per common share – basic | 0.48 | 0.03 | 0.51 |
| Earnings per common share – diluted | 0.48 | 0.03 | 0.51 |

"As Originally Reported" reflects balances reported in the March 31, 2013 Form 10-Q filed on May 7, 2013.
"Corrections" reflect changes to the originally reported balances and are described below.
"As Restated" reflects the final restated balances.
Income Statement Corrections:

(1) The correction to investment securities - tax-exempt is a result of the reduction in tax-free amortization due to amortizing our municipal securities purchased at a premium to the maturity of the security.

(2) The decrease in the gain on sale of securities available for sale is a result of the increase in book value on the municipal securities due to the decrease in amortization expense as a result of changing the amortization method to maturity from the earliest call date.

(3) The change in provision for income tax expense is a direct result of the tax benefit associated with the decrease in the gain on sale of available for sale securities.

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| Consolidated Statement of Comprehensive Income (unaudited) | As of and For the Three Months Ended March 31, 2013 (in thousands) | | |
|---|---|---|---|
| | As Originally Reported | Corrections | As Restated |
| Net income | $8,525 | $517 | $9,042 |
| Unrealized holding losses on available for sale securities during the period | (5,215) | (529) | (5,744) |
| Reclassification adjustment for gain on sale of available for sale securities included in net income | (4,365) | 20 | (4,345) |
| Other comprehensive loss, before tax | (8,916) | (509) | (9,425) |
| Income tax benefit related to other items of comprehensive income | 3,121 | 178 | 3,299 |
| Other comprehensive loss, net of tax | (5,795) | (331) | (6,126) |
| Comprehensive income | 2,730 | 186 | 2,916 |
| Consolidated Statement of Changes in Equity (unaudited) | | | |
| Retained earnings: | | | |
| Net income | 8,525 | 517 | 9,042 |
| Balance, at March 31, 2013 | 58,720 | 517 | 59,237 |
| Accumulated other comprehensive loss: | | | |
| Other comprehensive loss | (5,795) | (331) | (6,126) |
| Balance, at March 31, 2013 | (2,857) | (331) | (3,188) |
| Total shareholders' equity | 255,712 | 186 | 255,898 |
| Consolidated Statement of Cash Flow (unaudited) | | | |
| Operating Activities: | | | |
| Net income | 8,525 | 517 | 9,042 |
| Amortization of premium | 9,073 | (530) | 8,543 |
| Deferred tax expense (benefit) | 1,093 | (62) | 1,031 |
| Gain on sale of securities available for sale | (4,365) | 20 | (4,345) |
| Other assets | 840 | 55 | 895 |

“As Originally Reported” reflects balances reported in the March 31, 2013 Form 10-Q filed on May 7, 2013.
“Corrections” reflect changes to the originally reported balances.
“As Restated” reflects the final restated balances.

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3. Earnings Per Share - (2013 Restated)

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| Basic and Diluted Earnings: | | |
| Net income | $9,042 | $10,139 |
| Basic weighted-average shares outstanding | 17,857 | 18,191 |
| Add: Stock options | 20 | 13 |
| Diluted weighted-average shares outstanding | 17,877 | 18,204 |
| Basic Earnings Per Share: | $0.51 | $0.56 |
| Diluted Earnings Per Share: | $0.51 | $0.56 |

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

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4. Accumulated Other Comprehensive (Loss) Income - (2013 Restated)

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

| | Three Months Ended March 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Unrealized Gains (Losses) on Securities | | Pension Plans | | |
| | Other | OTTI | Net Prior Service (Cost) Credit | Net Gain (Loss) | Total |
| Balance, January 1, 2013, net of tax | $30,500 | $(1,140) | $248 | $(26,670) | $2,938 |
| Other comprehensive loss (income): | | | | | |
| Other comprehensive (loss) gain before reclassifications | (5,356) | (398) | — | — | (5,754) |
| Reclassified from accumulated other comprehensive income | (4,345) | 42 | (11) | 643 | (3,671) |
| Income tax benefit | 3,395 | 125 | 4 | (225) | 3,299 |
| Net current-period other comprehensive loss, net of tax | (6,306) | (231) | (7) | 418 | (6,126) |
| Balance, March 31, 2013, net of tax | $24,194 | $(1,371) | $241 | $(26,252) | $(3,188) |

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

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| Unrealized holding gains arising during period: | | |
| Realized gain on sale of securities (1) | $4,345 | $5,972 |
| Impairment losses (2) | (42) | (141) |
| Total before tax | 4,303 | 5,831 |
| Tax expense | (1,506) | (2,041) |
| Net of tax | $2,797 | $3,790 |
| | | |
| Amortization of defined benefit pension items: | | |
| Net loss (3) | $(643) | $(499) |
| Prior service credit (3) | 11 | 10 |
| Total before tax | (632) | (489) |
| Tax expense | 221 | 171 |
| Net of tax | $(411) | $(318) |
| Total reclassifications for the period, net of tax | $2,386 | $3,472 |

(1) Listed as Gain on sale of securities available for sale on the Statements of Income.
(2) Listed as Net impairment losses recognized in earnings on the Statements of Income.
(3) These accumulated other comprehensive income components are included in the computation of net periodic pension cost presented in “Note 8 - Employee Benefit Plans.”

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5. Securities - (2013 Restated)

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

| | March 31, 2013 | | | | |
|---|---|---|---|---|---|
| AVAILABLE FOR SALE: | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses OTTI | Other | Estimated Fair Value |
| Investment Securities: | | | | | |
| U.S. Government Agency Debentures | $39,215 | $— | $— | $499 | $38,716 |
| State and Political Subdivisions | 612,876 | 22,072 | — | 1,715 | 633,233 |
| Other Stocks and Bonds | 15,767 | 188 | 2,110 | — | 13,845 |
| Mortgage-backed Securities: (1) | | | | | |
| Residential | 654,539 | 17,730 | — | 568 | 671,701 |
| Commercial | 233,254 | 673 | — | 521 | 233,406 |
| Total | $1,555,651 | $40,663 | $2,110 | $3,303 | $1,590,901 |

| | March 31, 2013 | | | | |
|---|---|---|---|---|---|
| HELD TO MATURITY: | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses OTTI | Other | Estimated Fair Value |
| Investment Securities: | | | | | |
| State and Political Subdivisions | $1,009 | $148 | $— | $— | $1,157 |
| Mortgage-backed Securities: (1) | | | | | |
| Residential | 186,966 | 7,074 | — | 18 | 194,022 |
| Commercial | 47,279 | 58 | — | 152 | 47,185 |
| Total | $235,254 | $7,280 | $— | $170 | $242,364 |

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

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

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

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

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

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

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

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

| | Less Than 12 Months | | More Than 12 Months | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| As of March 31, 2013: | | | | | | |
| Available for Sale | | | | | | |
| U.S. Government Agency Debentures | $38,716 | $499 | $— | $— | $38,716 | $499 |
| State and Political Subdivisions | 190,967 | 1,690 | 571 | 25 | 191,538 | 1,715 |
| Other Stocks and Bonds | — | — | 592 | 2,110 | 592 | 2,110 |
| Mortgage-backed Securities | 258,567 | 1,071 | 2,323 | 18 | 260,890 | 1,089 |
| Total | $488,250 | $3,260 | $3,486 | $2,153 | $491,736 | $5,413 |
| Held to Maturity | | | | | | |
| Mortgage-backed Securities | $38,276 | $170 | $— | $— | $38,276 | $170 |
| Total | $38,276 | $170 | $— | $— | $38,276 | $170 |
| As of December 31, 2012: | | | | | | |
| Available for Sale | | | | | | |
| U.S. Government Agency Debentures | $60,863 | $598 | $— | $— | $60,863 | $598 |
| State and Political Subdivisions | 49,548 | 316 | — | — | 49,548 | 316 |
| Other Stocks and Bonds | 4,856 | 1 | 990 | 1,754 | 5,846 | 1,755 |
| Mortgage-backed Securities | 260,909 | 967 | 3,122 | 32 | 264,031 | 999 |
| Total | $376,176 | $1,882 | $4,112 | $1,786 | $380,288 | $3,668 |
| Held to Maturity | | | | | | |
| Mortgage-backed Securities | $3,251 | $47 | $— | $— | $3,251 | $47 |
| Total | $3,251 | $47 | $— | $— | $3,251 | $47 |

When it is determined that a decline in fair value of Held to Maturity ("HTM") and Available for Sale ("AFS") securities is other-than-temporary, the carrying value of the security is reduced to its estimated fair value, with a corresponding charge to earnings for the credit portion and to other comprehensive income for the noncredit portion . In estimating other-than-temporary impairment losses, management considers, among other things, the length of time and the extent to which the fair value has been less than cost and the financial condition and near-term prospects of the issuer. Additionally, we do not currently intend to sell the securities and it is not more likely than not that we will be required to sell the securities before the anticipated recovery of their amortized cost basis.

The turmoil in the capital markets had a significant impact on our estimate of fair value for certain of our securities. We believe the fair values are reflective of illiquidity and credit impairment. At March 31, 2013, we have in AFS Other Stocks and Bonds, $2.7 million amortized cost basis in pooled trust preferred securities ("TRUPs"). Those securities are structured products with cash flows dependent upon securities issued by U.S. financial institutions, including banks and insurance companies. Our estimate of fair value at March 31, 2013 for the TRUPs is approximately $592,000 and reflects the market illiquidity. With the exception of the TRUPs, to the best of management's knowledge and based on our consideration of the qualitative factors associated with each security, there were no securities in our investment and mortgage-backed securities portfolio at March 31, 2013 with an other-than-temporary impairment.

Given the facts and circumstances associated with the TRUPs we performed detailed cash flow modeling for each TRUP using an industry-accepted cash flow model. Prior to loading the required assumptions into the model we reviewed the financial condition of each of the underlying issuing banks within the TRUP collateral pool that had not deferred or defaulted as of March 31, 2013. Management's best estimate of a deferral assumption was assigned to each issuing bank based on the category in which it fell. Our analysis of the underlying cash flows contemplated various default, deferral and recovery scenarios to arrive at our best estimate of cash flows. Based on that detailed analysis, we have concluded that the other-than-temporary impairment, which

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captures the credit component, was estimated at $3.3 million at March 31, 2013 and December 31, 2012. The noncredit charge to other comprehensive income was estimated at $2.1 million and $1.8 million at March 31, 2013 and December 31, 2012, respectively. The carrying amount of the TRUPs was written down with $75,000 and $3.0 million recognized in earnings for the years ended December 31, 2010 and 2009, respectively. There was no write-down recognized in earnings during 2011 but there was an additional write-down of the TRUPs recognized in earnings in the amount of approximately $181,000 during 2012. For the three months ended March 31, 2013 and 2012, the additional write-down recognized in earnings was approximately $42,000 and $141,000, respectively. The cash flow model assumptions represent management's best estimate and consider a variety of qualitative factors, which include, among others, the credit rating downgrades, the severity and duration of the mark-to-market loss, and the structural nuances of each TRUP. Management believes that the detailed review of the collateral and cash flow modeling support the conclusion that the TRUPs had an other-than-temporary impairment at March 31, 2013. We will continue to update our assumptions and the resulting analysis each reporting period to reflect changing market conditions. Additionally, we do not currently intend to sell the TRUPs and it is not more likely than not that we will be required to sell the TRUPs before the anticipated recovery of their amortized cost basis.

The table below provides more detail on the TRUPs at March 31, 2013 (in thousands):

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

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

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

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| U.S. Treasury | $17 | $— |
| U.S. Government Agency Debentures | 212 | — |
| State and Political Subdivisions | 4,578 | 2,674 |
| Other Stocks and Bonds | 45 | 24 |
| Mortgage-backed Securities | 3,936 | 12,163 |
| Total interest income on securities | $8,788 | $14,861 |

There were no securities transferred from AFS to HTM during the three months ended March 31, 2013 or 2012. There were no sales from the HTM portfolio during the three months ended March 31, 2013 or 2012. There were $235.3 million and $246.5 million of securities classified as HTM at March 31, 2013 and December 31, 2012, respectively.

Of the $4.3 million in net securities gains from the AFS portfolio for the three months ended March 31, 2013, there were $5.5 million in realized gains and approximately $1.2 million in realized losses.  Of the $6.0 million in net securities gains from the AFS portfolio for the three months ended March 31, 2012, there were $6.0 million in realized gains and approximately $3,000 in realized losses.

The amortized cost and fair value of securities at March 31, 2013, are presented below by contractual maturity.  Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.  Mortgage-backed securities

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are presented in total by category due to the fact that mortgage-backed securities typically are issued with stated principal amounts, and the securities are backed by pools of mortgages that have loans with varying maturities. The characteristics of the underlying pool of mortgages, such as fixed-rate or adjustable-rate, as well as prepayment risk, are passed on to the security holder. The term of a mortgage-backed pass-through security thus approximates the term of the underlying mortgages and can vary significantly due to prepayments.

| | March 31, 2013 | |
|---|---|---|
| | Amortized Cost | Fair Value |
| Available for sale securities: | (in thousands) | |
| Investment Securities | | |
| Due in one year or less | $3,161 | $3,174 |
| Due after one year through five years | 29,695 | 30,248 |
| Due after five years through ten years | 142,336 | 145,638 |
| Due after ten years | 492,666 | 506,734 |
| | 667,858 | 685,794 |
| Mortgage-backed securities | 887,793 | 905,107 |
| Total | $1,555,651 | $1,590,901 |

| | March 31, 2013 | |
|---|---|---|
| | Amortized Cost | Fair Value |
| Held to maturity securities: | (in thousands) | |
| Investment Securities | | |
| Due in one year or less | $— | $— |
| Due after one year through five years | — | — |
| Due after five years through ten years | — | — |
| Due after ten years | 1,009 | 1,157 |
| | 1,009 | 1,157 |
| Mortgage-backed securities | 234,245 | 241,207 |
| Total | $235,254 | $242,364 |

Investment and mortgage-backed securities with book values of $934.5 million and $945.7 million were pledged as of March 31, 2013 and December 31, 2012, respectively, to collateralize Federal Home Loan Bank (“FHLB”) advances, repurchase agreements, and public funds or for other purposes as required by law.

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

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6. Loans and Allowance for Probable Loan Losses

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

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| Real Estate Loans: | | |
| Construction | $119,326 | $113,744 |
| 1-4 Family residential | 376,421 | 368,845 |
| Other | 242,571 | 236,760 |
| Commercial loans | 160,831 | 160,058 |
| Municipal loans | 215,869 | 220,947 |
| Loans to individuals | 166,629 | 162,623 |
| Total loans | 1,281,647 | 1,262,977 |
| Less: Allowance for loan losses | 18,542 | 20,585 |
| Net loans | $1,263,105 | $1,242,392 |

Allowance for Loan Losses

The allowance for loan losses is based on the most current review of the loan portfolio and is validated by multiple processes. First, the bank utilizes historical data to establish general reserve amounts for each class of loans. Previously, a review of data for one year was used to establish a general reserve. Beginning in the fourth quarter of 2012, an average three-year history of annualized net charge-offs against the average portfolio balance for that time period is utilized. The historical charge-off figure is further adjusted through qualitative factors that include general trends in past dues, nonaccruals and classified loans to more effectively and promptly react to both positive and negative movements. Management feels this change in methodology is appropriate to accurately estimate the bank's inherent losses in the current fragile economic climate. Second, our lenders have the primary responsibility for identifying problem loans and estimating necessary reserves based on customer financial stress and underlying collateral. These recommendations are reviewed by the senior lender, the Special Assets department, and the Loan Review department. Third, the Loan Review department does independent reviews of the portfolio on an annual basis. The Loan Review department follows a board-approved annual loan review scope. The loan review scope encompasses a number of metrics that takes into consideration the size of the loan, the type of credit extended, the seasoning of the loan along with the performance of the loan. The loan review scope as it relates to size, focuses more on larger dollar loan relationships, typically, for example, aggregate debt of $500,000 or greater. The loan review officer also tracks specific reserves for loans by type compared to general reserves to determine trends in comparative reserves as well as losses not reserved for prior to charge-off to determine the effectiveness of the specific reserve process.

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

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

Industry and our own experience indicates that a portion of our loans will become delinquent and a portion of the loans will require partial or full charge-off. Regardless of the underwriting criteria utilized, losses may be experienced as a result of various factors beyond our control, including, among other things, changes in market conditions affecting the value of properties used as collateral for loans and problems affecting the credit of the borrower and the ability of the borrower to make payments on the loan. Our determination of the appropriateness of the allowance for loan losses is based on various considerations, including an analysis of

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the risk characteristics of various classifications of loans, previous loan loss experience, specific loans which would have loan loss potential, delinquency trends, estimated fair value of the underlying collateral, current economic conditions, the views of the bank regulators (who have the authority to require additional allowances in accordance with GAAP), and geographic and industry loan concentration.

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

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

Credit Quality Indicators

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

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

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

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

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

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

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

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

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

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

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

The following tables detail activity in the Allowance for Loan Losses by portfolio segment for the periods presented (in thousands):

| | Three Months Ended March 31, 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Real Estate | | | | | | | |
| | Construction | 1-4 Family Residential | Other | Commercial Loans | Municipal Loans | Loans to Individuals | Unallocated | Total |
| Balance at beginning of period | $2,355 | $3,545 | $2,290 | $3,158 | $633 | $7,373 | $1,231 | $20,585 |
| Provision (reversal) for loan losses | (125) | 167 | (247) | (290) | (12) | 1,344 | (345) | 492 |
| Loans charged off | — | (228) | (46) | (71) | — | (2,807) | — | (3,152) |
| Recoveries of loans charged off | 17 | 4 | 5 | 50 | — | 541 | — | 617 |
| Balance at end of period | $2,247 | $3,488 | $2,002 | $2,847 | $621 | $6,451 | $886 | $18,542 |

| | Three Months Ended March 31, 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Real Estate | | | | | | | |
| | Construction | 1-4 Family Residential | Other | Commercial Loans | Municipal Loans | Loans to Individuals | Unallocated | Total |
| Balance at beginning of period | $2,620 | $1,957 | $3,051 | $2,877 | $619 | $6,244 | $1,172 | $18,540 |
| Provision (reversal) for loan losses | 49 | 339 | 12 | 355 | (11) | 2,311 | (3) | 3,052 |
| Loans charged off | (8) | (11) | — | (88) | — | (2,123) | — | (2,230) |
| Recoveries of loans charged off | 21 | 5 | 2 | 198 | — | 486 | — | 712 |
| Balance at end of period | $2,682 | $2,290 | $3,065 | $3,342 | $608 | $6,918 | $1,169 | $20,074 |

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

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| | As of March 31, 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Real Estate | | | | | | | |
| | Construction | 1-4 Family Residential | Other | Commercial Loans | Municipal Loans | Loans to Individuals | Unallocated | Total |
| Ending balance – individually evaluated for impairment | $81 | $216 | $147 | $492 | $— | $131 | $— | $1,067 |
| Ending balance – collectively evaluated for impairment | 2,166 | 3,272 | 1,855 | 2,355 | 621 | 6,320 | 886 | 17,475 |
| Balance at end of period | $2,247 | $3,488 | $2,002 | $2,847 | $621 | $6,451 | $886 | $18,542 |

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

The following table details activity of the Reserve for Unfunded Loan Commitments for the periods presented (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| Reserve For Unfunded Loan Commitments: | | |
| Balance at beginning of period | $5 | $26 |
| Provision (reversal) for losses on unfunded loan commitments | — | — |
| Balance at end of period | $5 | $26 |

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

| | Real Estate | | | | | | |
|---|---|---|---|---|---|---|---|
| March 31, 2013 | Construction | 1-4 Family Residential | Other | Commercial Loans | Municipal Loans | Loans to Individuals | Total |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Loans individually evaluated for impairment | $1,547 | $3,236 | $2,005 | $2,001 | $— | $464 | $9,253 |
| Loans collectively evaluated for impairment | 117,779 | 373,185 | 240,566 | 158,830 | 215,869 | 166,165 | 1,272,394 |
| Total ending loan balance | $119,326 | $376,421 | $242,571 | $160,831 | $215,869 | $166,629 | $1,281,647 |

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

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

| March 31, 2013 | Pass | Pass Watch | Special Mention | Substandard | Doubtful | Loss | Total |
|---|---|---|---|---|---|---|---|
| Real Estate Loans: | | | | | | | |
| Construction | $112,100 | $— | $3,654 | $3,502 | $70 | $— | $119,326 |
| 1-4 Family residential | 366,677 | 1,776 | 1,491 | 5,380 | 1,097 | — | 376,421 |
| Other | 231,700 | 2,663 | 5,024 | 3,076 | 108 | — | 242,571 |
| Commercial loans | 154,549 | 894 | 12 | 4,561 | 815 | — | 160,831 |
| Municipal loans | 215,514 | — | — | 355 | — | — | 215,869 |
| Loans to individuals | 165,629 | 69 | 4 | 617 | 304 | 6 | 166,629 |
| Total | $1,246,169 | $5,402 | $10,185 | $17,491 | $2,394 | $6 | $1,281,647 |

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

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

| | At March 31, 2013 | At December 31, 2012 |
|---|---|---|
| Nonaccrual loans | $8,570 | $10,314 |
| Accruing loans past due more than 90 days | 2 | 15 |
| Restructured loans | 3,317 | 2,998 |
| Other real estate owned | 584 | 686 |
| Repossessed assets | 108 | 704 |
| Total Nonperforming Assets | $12,581 | $14,717 |

Nonaccrual and Past Due Loans

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

Loans are considered impaired if, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement.  The measurement of impaired loans is generally based on the present value of the expected future cash flows discounted at the historical effective

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

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

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

| | March 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | Nonaccrual | Accruing Loans Past Due More Than 90 Days | Nonaccrual | Accruing Loans Past Due More Than 90 Days |
| Real Estate Loans: | | | | |
| Construction | $1,505 | $— | $2,416 | $— |
| 1-4 Family residential | 2,155 | — | 2,001 | — |
| Other | 776 | — | 1,357 | — |
| Commercial loans | 1,738 | — | 1,812 | — |
| Loans to individuals | 2,396 | 2 | 2,728 | 15 |
| Total | $8,570 | $2 | $10,314 | $15 |

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

| | March 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | Greater than 90 Days Past Due | Total Past Due | Loans Not Past Due | Total |
| Real Estate Loans: | | | | | | |
| Construction | $352 | $— | $1,505 | $1,857 | $117,469 | $119,326 |
| 1-4 Family residential | 4,913 | 127 | 2,155 | 7,195 | 369,226 | 376,421 |
| Other | 634 | 11 | 776 | 1,421 | 241,150 | 242,571 |
| Commercial loans | 785 | 34 | 1,738 | 2,557 | 158,274 | 160,831 |
| Municipal loans | 355 | — | — | 355 | 215,514 | 215,869 |
| Loans to individuals | 4,122 | 578 | 2,398 | 7,098 | 159,531 | 166,629 |
| Total | $11,161 | $750 | $8,572 | $20,483 | $1,261,164 | $1,281,647 |

| | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | Greater than 90 Days Past Due | Total Past Due | Loans Not Past Due | Total |
| Real Estate Loans: | | | | | | |
| Construction | $1,589 | $— | $2,416 | $4,005 | $109,739 | $113,744 |
| 1-4 Family residential | 4,450 | 977 | 2,001 | 7,428 | 361,417 | 368,845 |
| Other | 1,639 | 273 | 1,357 | 3,269 | 233,491 | 236,760 |
| Commercial loans | 769 | 175 | 1,812 | 2,756 | 157,302 | 160,058 |
| Municipal loans | 709 | — | — | 709 | 220,238 | 220,947 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Loans to individuals | 5,908 | 1,191 | 2,743 | 9,842 | 152,781 | 162,623 |
| Total | $15,064 | $2,616 | $10,329 | $28,009 | $1,234,968 | $1,262,977 |

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

| | Three Months Ended March 31, 2013 | | | March 31, 2012 | | |
|---|---|---|---|---|---|---|
| | Average Recorded Investment | Interest Income Recognized | Accruing Interest at Original Contracted Rate | Average Recorded Investment | Interest Income Recognized | Accruing Interest at Original Contracted Rate |
| Real Estate Loans: | | | | | | |
| Construction | $2,194 | $— | $40 | $3,793 | $3 | $68 |
| 1-4 Family residential | 3,034 | 8 | 35 | 2,799 | 28 | 43 |
| Other | 2,379 | 11 | 36 | 1,534 | 7 | 31 |
| Commercial loans | 2,050 | 2 | 30 | 1,922 | 1 | 27 |
| Loans to individuals | 3,379 | 64 | 179 | 3,105 | 31 | 88 |
| Total | $13,036 | $85 | $320 | $13,153 | $70 | $257 |

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

| March 31, 2013 | Unpaid Contractual Principal Balance | Recorded Investment With No Allowance | Recorded Investment With Allowance | Total Recorded Investment | Related Allowance for Loan Losses |
|---|---|---|---|---|---|
| Real Estate Loans: | | | | | |
| Construction | $2,602 | $— | $1,547 | $1,547 | $81 |
| 1-4 Family residential | 3,392 | — | 3,236 | 3,236 | 216 |
| Other | 2,490 | — | 2,005 | 2,005 | 147 |
| Commercial loans | 2,202 | — | 2,001 | 2,001 | 492 |
| Loans to individuals | 3,313 | — | 3,066 | 3,066 | 1,400 |
| Total | $13,999 | $— | $11,855 | $11,855 | $2,336 |

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

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

Troubled Debt Restructurings

The restructuring of a loan is considered a TDR if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses. We reassessed all loan modifications occurring since January 1, 2011 for identification as TDRs.

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The following tables set forth the Recorded Investment in Loans Modified for the periods presented (dollars in thousands):

| | Three Months Ended March 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Extend Amortization Period | Interest Rate Reductions | Principal Forgiveness | Combination (1) | Total Modifications | Number of Contracts |
| Real Estate Loans: | | | | | | |
| Construction | $42 | $— | $— | $— | $42 | 1 |
| 1-4 Family residential | 365 | — | — | — | 365 | 4 |
| Commercial loans | 295 | — | — | 23 | 318 | 4 |
| Loans to individuals | — | — | — | 6 | 6 | 9 |
| Total | $702 | $— | $— | $29 | $731 | 18 |

| | Three Months Ended March 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Extend Amortization Period | Interest Rate Reductions | Principal Forgiveness | Combination (1) | Total Modifications | Number of Contracts |
| Real Estate Loans: | | | | | | |
| 1-4 Family residential | $228 | $38 | $— | $— | $266 | 3 |
| Commercial loans | 221 | 46 | — | — | 267 | 3 |
| Loans to individuals | 4 | — | 8 | 2 | 14 | 5 |
| Total | $453 | $84 | $8 | $2 | $547 | 11 |

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

The majority of loans restructured as TDRs during the three months ended March 31, 2013 and March 31, 2012 were modified to extend the maturity. Interest continues to be charged on principal balances outstanding during the term extended. Therefore, the financial effects of the recorded investment of loans restructured as TDRs during the three months ended March 31, 2013 and March 31, 2012 were insignificant. The loans identified as TDRs were previously reported as impaired loans prior to restructuring and therefore the modification did not impact our determination of the allowance for loan losses.

On an ongoing basis, the performance of the restructured loans is monitored for subsequent payment default. Payment default for TDRs is recognized when the borrower is 90 days or more past due. For the three months ended March 31, 2013, one loan classified as “Real Estate - Other” modified as an extension of terms totaling $83,000 was in payment default. This default did not significantly impact the determination of the allowance for loan loss. For the three months ended March 31, 2012, there were no defaults on loans that were modified as TDRs.

At March 31, 2013 and March 31, 2012, there were no commitments to lend additional funds to borrowers whose terms had been modified in TDRs.

7. Long-term Obligations

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

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| FHLB Advances (1) | $389,804 | $369,097 |
| | | |
| Long-term Debt (2) | | |
| Southside Statutory Trust III Due 2033 (3) | 20,619 | 20,619 |
| Southside Statutory Trust IV Due 2037 (4) | 23,196 | 23,196 |
| Southside Statutory Trust V Due 2037 (5) | 12,887 | 12,887 |
| Magnolia Trust Company I Due 2035 (6) | 3,609 | 3,609 |
| Total Long-term Debt | 60,311 | 60,311 |
| Total Long-term Obligations | $450,115 | $429,408 |

(1) At March 31, 2013, the weighted average cost of these advances was 1.52%. Long-term FHLB Advances have maturities ranging from June 2014 through July 2028.

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

(3) This debt carries an adjustable rate of 3.2236% through June 29, 2013 and adjusts quarterly at a rate equal to three-month LIBOR plus 294 basis points.

(4) This debt carries an adjustable rate of 1.6015% through April 29, 2013 and adjusts quarterly at a rate equal to three-month LIBOR plus 130 basis points.

(5) This debt carries an adjustable rate of 2.5301% through June 16, 2013 and adjusts quarterly at a rate equal to three-month LIBOR plus 225 basis points.

(6) This debt carries an adjustable rate of 2.0881% through May 22, 2013 and adjusts quarterly at a rate equal to three-month LIBOR plus 180 basis points.

During 2010 and 2011, we entered into the option to fund between one and a half and two years forward from the advance commitment date $200 million par in long-term advance commitments from the FHLB at the rates on the date the option was purchased. During the year ended December 31, 2012, $150 million par of long-term advance commitments expired unexercised. During the three months ended March 31, 2013, the remaining $50 million par of long-term advance commitments expired unexercised. For the three months ended March 31, 2012, we recorded impairment charges of $472,000 in our income statement. At December 31, 2012, the FHLB advance option fees were fully impaired. At March 31, 2013, there were no remaining FHLB advance option fees recorded on our balance sheet.

8. Employee Benefit Plans

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

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | Defined Benefit Pension | Restoration Plan | Defined Benefit Pension | Restoration Plan |

| | | | | |
|---|---|---|---|---|
| | Plan | | Plan | |
| Service cost | $556 | $51 | $465 | $50 |
| Interest cost | 785 | 99 | 763 | 99 |
| Expected return on assets | (1,198) | — | (1,029) | — |
| Net loss recognition | 545 | 98 | 415 | 84 |
| Prior service credit amortization | (11) | — | (10) | — |
| Net periodic benefit cost | $677 | $248 | $604 | $233 |

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Employer Contributions.  As of March 31, 2013, contributions of $5.0 million and $20,000 have been made to our defined benefit and restoration plans, respectively. We do not expect further contributions to the defined benefit plan during 2013.

9.  Share-based Incentive Plans

2009 Incentive Plan

On April 16, 2009, our shareholders approved the Southside Bancshares, Inc. 2009 Incentive Plan (the "2009 Incentive Plan"), which is a stock-based incentive compensation plan.  A total of 1,276,283 shares of our common stock were reserved and available for issuance pursuant to awards granted under the 2009 Incentive Plan.  Under the 2009 Incentive Plan, we were authorized to grant nonqualified stock options ("NQSOs"), restricted stock units ("RSUs"), or any combination thereof to certain officers.  During the first three months of 2013 and 2012, there were no grants of RSUs or NQSOs pursuant to the 2009 Incentive Plan.

As of March 31, 2013, there were 357,509 unvested awards outstanding.  For the three months ended March 31, 2013, there was share-based compensation expense of $207,000 and income tax benefit relating to the stock compensation expense of $72,000. As of March 31, 2012, there were 188,377 unvested awards outstanding.  There was share-based compensation expense and income tax benefit for the three months ended March 31, 2012, of $39,000 and $14,000, respectively.

As of March 31, 2013 and 2012, there was $2.0 million and $1.0 million of unrecognized compensation cost related to the unvested awards outstanding, respectively. The remaining cost is expected to be recognized over a weighted-average period of 2.68 years.

The NQSOs have contractual terms of 10 years and vest in equal annual installments over three- and four-year periods.

The fair value of each RSU is the ending stock price on the date of grant.  The RSUs vest in equal annual installments over three- and four-year periods.

Each award is evidenced by an award agreement that specifies the exercise price, if applicable, the duration of the award, the number of shares to which the award pertains, and such other provisions as the Board determines.

Shares issued in connection with stock compensation awards are issued from authorized shares and not from treasury shares.  During the three months ended March 31, 2013, no shares were issued. For the three months ended March 31, 2012, 1,716 shares were issued in connection with stock compensation awards from available authorized shares.

There was no activity in our share-based plan for the three months ended March 31, 2013. The following table presents our RSUs and NQSOs outstanding as of March 31, 2013.

| | | Restricted Stock Units Outstanding | | Stock Options Outstanding | | |
|---|---|---|---|---|---|---|
| | Shares Available for Grant | Number of Shares | Weighted-Average Grant-Date Fair Value | Number of Shares | Weighted-Average Exercise Price | Weighted-Average Grant-Date Fair Value |
| Balance, March 31, 2013 | 867,057 | 50,178 | $18.93 | 349,685 | $18.82 | $5.45 |

Other information regarding options outstanding and exercisable as of March 31, 2013 is as follows:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number of Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life in Years | Number of Shares | Weighted-Average Exercise Price |
| $17.41 - 19.94 | 349,685 | $18.82 | 8.83 | 42,354 | $17.41 |
| Total | 349,685 | $18.82 | 8.83 | 42,354 | $17.41 |

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The total intrinsic value (i.e., the amount by which the fair value of the underlying common stock exceeds the exercise price of a stock option on exercise date) of outstanding stock options and exercisable stock options was $417,000 and $110,000 at March 31, 2013, respectively.

There were no stock options exercised during the three months ended March 31, 2013. The total intrinsic value and cash received related to stock options exercised during the three months ended March 31, 2012, was $18,000 and $16,000, respectively. There was no tax benefit realized related to the stock options exercised during the three months ended March 31, 2012.

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 shall not be 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.

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.

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.

Securities Available for Sale – U.S. Treasury 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.

Securities Carried at Fair Value through Income – U.S. Treasury 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 quarterly 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, two and in some 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.

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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, 2013.

Loans Held for Sale - These loans are reported at the lower of cost or fair value. Fair value is determined based on expected proceeds, which are based on sales contracts and commitments and are considered Level 2 inputs. At March 31, 2013 and December 31, 2012, based on our estimates of fair value, no valuation allowance was recognized.

Foreclosed Assets – Foreclosed assets are initially carried 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, sales cost estimates, etc. 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, 2013 and December 31, 2012, 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 in the first step of a goodwill impairment test. Certain nonfinancial assets measured at fair value on a nonrecurring basis include nonfinancial assets and nonfinancial liabilities measured at fair value in the second step of a goodwill impairment test, as well as intangible assets and other nonfinancial long-lived assets (such as real estate owned) that are measured at fair value in the event of an 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):

| | At or For the Three Months Ended March 31, 2013 | | | | |
|---|---|---|---|---|---|
| | | 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) | Total Gains (Losses) |
| Recurring fair value measurements | | | | | |
| Investment Securities: | | | | | |
| U.S. Government Agency Debentures | $38,716 | $— | $38,716 | $— | $— |
| State and Political Subdivisions | 633,233 | — | 633,233 | — | — |
| Other Stocks and Bonds | 13,845 | — | 13,253 | 592 | (42) |
| Mortgage-backed Securities: (1) | | | | | |
| Residential | 671,701 | — | 671,701 | — | — |

| | | | | | |
|---|---|---|---|---|---|
| Commercial | 233,406 | — | 233,406 | — | — |
| Total recurring fair value measurements | $1,590,901 | $— | $1,590,309 | $592 | $(42) |
| | | | | | |
| Nonrecurring fair value measurements | | | | | |
| Foreclosed assets (2) | $692 | $— | $— | $692 | $(234) |
| Impaired loans (3) | 9,519 | — | — | 9,519 | (55) |
| Total nonrecurring fair value measurements | $10,211 | $— | $— | $10,211 | $(289) |

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| | At or For the Year Ended December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | | 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) | Total Gains (Losses) |
| Recurring fair value measurements | | | | | |
| Investment Securities: | | | | | |
| U.S. Government Agency Debentures | $60,863 | $— | $60,863 | $— | $— |
| State and Political Subdivisions | 545,688 | — | 545,688 | — | — |
| Other Stocks and Bonds | 11,156 | — | 10,166 | 990 | (181) |
| Mortgage-backed Securities: (1) | | | | | |
| Residential | 806,360 | — | 806,360 | — | — |
| Total recurring fair value measurements | $1,424,067 | $— | $1,423,077 | $990 | $(181) |
| | | | | | |
| Nonrecurring fair value measurements | | | | | |
| Foreclosed assets (2) | $1,390 | $— | $— | $1,390 | $(752) |
| Impaired loans (3) | 10,557 | — | — | 10,557 | (81) |
| Total nonrecurring fair value measurements | $11,947 | $— | $— | $11,947 | $(833) |

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

(2) Losses represent related losses on foreclosed properties that were written down subsequent to their initial classification as foreclosed properties.

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

The following table presents additional information about financial assets and liabilities measured at fair value on a recurring basis and for which we have utilized Level 3 inputs to determine fair value (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| Other Stocks and Bonds | | |
| Balance at Beginning of Period | $990 | $499 |
| | | |
| Total gains or losses (realized/unrealized): | | |
| Included in earnings | (42) | (141) |
| Included in other comprehensive income (loss) | (356) | 300 |
| Purchases | — | — |
| Issuances | — | — |
| Settlements | — | — |
| Transfers in and/or out of Level 3 | — | — |

| | | |
|---|---|---|
| Balance at End of Period | $592 | $658 |
| The amount of total gains or losses for the periods included in earnings attributable to the change in unrealized gains or losses relating to assets still held at reporting date | $(42) | $(141) |

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The following table presents income statement classification of realized and unrealized gains and losses due to changes in fair value recorded in earnings for the period presented for recurring Level 3 assets, as shown in the previous tables (in thousands):

| | Three Months Ended March 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Net Securities Gains (Losses) | | Other Noninterest Income (Loss) | | Total | |
| Securities Available for Sale | Realized | Unrealized | Realized | Unrealized | Realized | Unrealized |
| Investment securities: | | | | | | |
| Other stocks and bonds | $— | $— | $(42) | $— | $(42) | $— |

The following table presents quantitative information related to the significant unobservable inputs utilized in our Level 3 recurring fair value measurements as of March 31, 2013. No liabilities were recorded as Level 3 at March 31, 2013 (in thousands):

| Securities Available for Sale | As of March 31, 2013 | | | |
|---|---|---|---|---|
| Investment securities: | Fair Value | Valuation Techniques | Unobservable Input | Range of Inputs |
| Other stocks and bonds | $592 | Discounted Cash Flows | Constant prepayment rate | 1% - 2 |
| | | | Discount Rate | Libor + 14% - 15 |
| | | | Loss Severity | 25% - 100 |

The significant unobservable inputs used in the fair value measurement of our trust preferred securities ("TRUPS") included the credit rating downgrades, the severity and duration of the mark-to-market loss, and the structural nuances of each TRUP. Our analysis of the underlying cash flows contemplated various default, deferral and recovery scenarios to arrive at our best estimate of cash flows. Significant increases (decreases) in any of those inputs would result in a significant lower (higher) fair value.

Level 3 assets recorded at fair value on a nonrecurring basis at March 31, 2013, included loans for which a specific allowance was established based on the fair value of collateral and other 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.

We reported at fair value through income mortgage-backed securities with embedded derivatives and those purchased at a significant premium, which we defined as greater than 111.111% as opposed to bifurcating the embedded derivative and valuing it on a stand-alone basis, as these embedded derivatives are not readily identifiable and measurable and as such cannot be bifurcated. At March 31, 2013 and 2012, we had no securities carried at fair value through income. During the first quarter of 2012, we sold all of our securities carried at fair value through income. The sale of these securities resulted in a loss on sale of securities carried at fair value through income of $485,000 for the three months ended March 31, 2012.

Assets and liabilities accounted for under the fair value election are initially measured at fair value with subsequent changes in fair value recognized in earnings. Disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet is required, for which 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 amounts for cash and cash equivalents is a reasonable estimate of those assets' fair value.

Investment and mortgage-backed and related securities - 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.

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FHLB stock and other investments - The carrying amount of FHLB stock 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.

Deposit liabilities - The fair value of demand deposits, savings accounts, and certain money market deposits is the amount on demand at the reporting date, that 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.

Federal funds purchased and repurchase agreements - Federal funds purchased and repurchase agreements generally have an original term to maturity of one day and thus 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 at both their respective carrying amounts and fair value (in thousands):

| | | Estimated Fair Value | | | |
|---|---|---|---|---|---|
| March 31, 2013 | Carrying Amount | Total | Level 1 | Level 2 | Level 3 |
| Financial Assets: | | | | | |
| Cash and cash equivalents | $55,118 | $55,118 | $55,118 | $— | $— |
| Investment securities: | | | | | |
| Held to maturity, at amortized cost (Restated) | 1,009 | 1,157 | — | 1,157 | — |
| Mortgage-backed and related securities: | | | | | |
| Held to maturity, at amortized cost | 234,245 | 241,207 | — | 241,207 | — |
| FHLB stock and other investments, at cost | 27,479 | 27,479 | — | 27,479 | — |
| Loans, net of allowance for loan losses | 1,263,105 | 1,274,552 | — | — | 1,274,552 |
| Loans held for sale | 3,138 | 3,138 | — | 3,138 | — |
| Financial Liabilities: | | | | | |
| Retail deposits | $2,337,237 | $2,338,788 | $— | $2,338,788 | $— |
| Federal funds purchased and repurchase agreements | 857 | 857 | — | 857 | — |
| FHLB advances | 552,963 | 551,156 | — | 551,156 | — |
| Long-term debt | 60,311 | 43,563 | — | 43,563 | — |

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| | | Estimated Fair Value | | | |
|---|---|---|---|---|---|
| December 31, 2012 | Carrying Amount | Total | Level 1 | Level 2 | Level 3 |
| Financial Assets: | | | | | |
| Cash and cash equivalents | $150,630 | $150,630 | $150,630 | $— | $— |
| Investment securities: | | | | | |
| Held to maturity, at amortized cost | 1,009 | 1,137 | — | 1,137 | — |
| Mortgage-backed and related securities: | | | | | |
| Held to maturity, at amortized cost | 245,538 | 254,261 | — | 254,261 | — |
| FHLB stock and other investments, at cost | 29,953 | 29,953 | — | 29,953 | — |
| Loans, net of allowance for loan losses | 1,242,392 | 1,235,511 | — | — | 1,235,511 |
| Loans held for sale | 3,601 | 3,601 | — | 3,601 | — |
| Financial Liabilities: | | | | | |
| Retail deposits | $2,351,897 | $2,353,613 | $— | $2,353,613 | $— |
| Federal funds purchased and repurchase agreements | 984 | 984 | — | 984 | — |
| FHLB advances | 520,082 | 520,488 | — | 520,488 | — |
| Long-term debt | 60,311 | 49,507 | — | 49,507 | — |

As discussed earlier, the fair value estimate of financial instruments for which quoted market prices are unavailable is dependent upon the assumptions used. Consequently, those estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Accordingly, the aggregate fair value amounts presented in the above fair value table do not necessarily represent their underlying value.

The estimated fair value of our commitments to extend credit, credit card arrangements and letters of credit, estimated using Level 3 inputs, was not material at March 31, 2013 or December 31, 2012.

11. Off-Balance-Sheet Arrangements, Commitments and Contingencies

Financial Instruments with Off-Balance-Sheet-Risk. In the normal course of business, we are a party to certain financial instruments, with off-balance-sheet risk, to meet the financing needs of our customers. These off-balance-sheet instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount reflected in the financial statements. The contract or notional amounts of these instruments reflect the extent of involvement and exposure to credit loss that we have in these particular classes of financial instruments.

Commitments to extend credit are agreements to lend to a customer provided that the terms established in the contract are met. Commitments generally have fixed expiration dates and may require payment of fees. Since some commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan commitments to customers.

We had outstanding unused commitments to extend credit of $141.6 million and $132.8 million at March 31, 2013 and December 31, 2012, respectively. Each commitment has a maturity date and the commitment expires on that date with the exception of credit card and ready reserve commitments, which have no stated maturity date. Unused commitments for credit card and ready reserve at March 31, 2013 and December 31, 2012 were $13.1 million and $13.0 million, respectively, and are reflected in the due after one year category. We had outstanding standby letters of credit of $5.7 million and $5.6 million at March 31, 2013 and December 31, 2012, respectively.

The scheduled maturities of unused commitments were as follows (in thousands):

| | At March 31, 2013 | At December 31, 2012 |
|---|---|---|
| Unused commitments: | | |
| Due in one year or less | $93,542 | $84,756 |
| Due after one year | 48,107 | 48,061 |
| Total | $141,649 | $132,817 |

We apply the same credit policies in making commitments and standby letters of credit as we do for on-balance-sheet instruments. We evaluate each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, upon extension of credit is based on management's credit evaluation of the borrower. Collateral held varies but may include cash or cash equivalents, negotiable instruments, real estate, accounts receivable, inventory, oil, gas and mineral interests, property, plant and equipment.

Lease Commitments. We lease certain branch facilities and office equipment under operating leases. It is expected that certain leases will be renewed, or equipment replaced with new leased equipment, as these leases expire.

Securities. In the normal course of business we buy and sell securities. There were $71.8 million and $10.0 million of unsettled trades to purchase at March 31, 2013 and December 31, 2012, respectively. There were $1.9 million of unsettled trades to sell securities at March 31, 2013. There were no unsettled trades to sell securities as of December 31, 2012.

Deposits. There were no unsettled issuances of brokered CDs at March 31, 2013 or December 31, 2012.

Litigation. We are involved with various litigation in the normal course of business.  Management, after consulting with our legal counsel, believes that any liability resulting from litigation will not have a material effect on the financial position and results of operations and our liquidity.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

T he following is a discussion of the consolidated financial condition, changes in financial condition, and results of our operations, and should be read and reviewed in conjunction with the financial statements, and the notes thereto, in this Quarterly Report on Form 10-Q/A and in our Annual Report on Form 10-K for the year ended December 31, 2012 .

We reported a decrease in net income for the three months ended March 31, 2013 compared to the same period in 2012 . Net income for the three months ended March 31, 2013 was $9.0 million on a restated basis, compared to $10.1 million for the same period in 2012 .

As more fully described in Note 2 of the Notes to Financial Statements, certain financial statement components for the three months ended March 31, 2013 have been restated to reflect the recognition of interest income on our municipal securities purchased at a premium based on amortizing the premium to the maturity of the security. Throughout this discussion we will footnote tables that have been restated for the three months ended March 31, 2013 to reflect the impact of this restatement and we have updated our discussion to discuss changes between periods when comparing the restated amounts.

Forward Looking Statements

Certain statements of other than historical fact that are contained in this document and in written material, press releases and oral statements issued by or on behalf of Southside Bancshares, Inc., a bank holding company, may be considered to be “forward-looking statements” within the meaning of and subject to the protections of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are not guarantees of future performance, nor should they be relied upon as representing management’s views as of any subsequent date. These statements may include words such as “expect,” “estimate,” “project,” “anticipate,” “appear,” “believe,” “could,” “should,” “m “probability,” “risk,” “target,” “objective,” “plans,” “potential,” and similar expressions. Forward-looking statements are statements with respect to our beliefs, plans, expectations, objectives, goals, anticipations, assumptions, estimates, intentions and future performance, and are subject to significant known and unknown risks and uncertainties, which could cause our actual results to differ materially from the results discussed in the forward-looking statements. For example, discussions of the effect of our expansion, trends in asset quality, and earnings from growth, and certain market risk disclosures are based upon information presently available to management and are dependent on choices about key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual income gains and losses could materially differ from those that have been estimated. Other factors that could cause actual results to differ materially from forward-looking statements include, but are not limited to, the following:

- general economic conditions, either globally, nationally, in the State of Texas, or in the specific markets in which we operate, including, without limitation, the deterioration of the commercial real estate, residential real estate, construction and development, credit and liquidity markets, which could cause an adverse change in our net interest margin, or a decline in the value of our assets, which could result in realized losses;
- legislation, regulatory changes or changes in monetary or fiscal policy that adversely affect the businesses in which we are engaged, including the impact of the Dodd-Frank Act, the Federal Reserve’s actions with respect to interest rates and other regulatory responses to current economic conditions;
- adverse changes in the status or financial condition of the Government-Sponsored Enterprises (the “GSEs”) impacting the GSEs’ guarantees or ability to pay or issue debt;