SOUTHSIDE BANCSHARES INC
Form 10-Q
October 27, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________

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

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

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

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x
The number of shares of the issuer's common stock, par value $1.25, outstanding as of October 23, 2017 was 29,433,437 shares.

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

	September 30, 2017	December 31, 2016
ASSETS		
Cash and due from banks	$ 57,947	$ 59,363
Interest earning deposits	120,996	102,251
Federal funds sold	5,570	8,040
Total cash and cash equivalents	184,513	169,654
Securities available for sale, at estimated fair value	1,292,072	1,479,600
Securities held to maturity, at carrying value (estimated fair value of $928,507 and $944,282, respectively)	909,844	937,487
FHLB stock, at cost	61,845	61,084
Other investments	5,439	5,508
Loans held for sale	2,177	7,641
Loans:		
Loans	2,682,766	2,556,537
Less: Allowance for loan losses	(19,871)	(17,911)
Net Loans	2,662,895	2,538,626
Premises and equipment, net	107,099	106,003
Goodwill	91,520	91,520
Other intangible assets, net	3,379	4,608
Interest receivable	18,792	25,183
Deferred tax asset, net	21,842	28,891
Unsettled trades to sell securities	11,843	—
Bank owned life insurance	99,616	97,775
Other assets	11,554	10,187
Total assets	$ 5,484,430	$ 5,563,767
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Deposits:		
Noninterest bearing	$ 781,701	$ 704,013
Interest bearing	2,782,474	2,829,063
Total deposits	3,564,175	3,533,076
Short-term obligations:		
Federal funds purchased and repurchase agreements	9,083	7,097
FHLB advances	990,500	866,518
Total short-term obligations	999,583	873,615
Long-term obligations:		
FHLB advances	152,056	443,128
Subordinated notes, net of unamortized debt issuance costs	98,209	98,100
Long-term debt, net of unamortized debt issuance costs	60,240	60,236
Total long-term obligations	310,505	601,464
Unsettled trades to purchase securities	16,673	160
Other liabilities	37,471	37,178

Total liabilities	4,928,407	5,045,493
Off-balance-sheet arrangements, commitments and contingencies (Note 13)		
Shareholders’ equity:		
Common stock ($1.25 par value, 40,000,000 shares authorized, 32,256,777 shares issued at September 30, 2017 and 31,455,951 shares issued at December 31, 2016)	40,321	39,320
Paid-in capital	563,553	535,240
Retained earnings	25,677	30,098
Treasury stock, at cost (2,823,340 shares at September 30, 2017 and 2,913,064 shares at December 31, 2016)	(47,291)	(47,891)
Accumulated other comprehensive loss	(26,237)	(38,493)
Total shareholders’ equity	556,023	518,274
Total liabilities and shareholders’ equity	$ 5,484,430	$ 5,563,767

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Interest income				
Loans	$29,322	$25,740	$84,666	$79,738
Investment securities – taxable	58	251	702	572
Investment securities – tax-exempt	5,670	5,467	18,381	15,959
Mortgage-backed securities	10,567	9,399	31,430	28,156
FHLB stock and other investments	329	186	926	588
Other interest earning assets	527	89	1,265	220
Total interest income	46,473	41,132	137,370	125,233
Interest expense				
Deposits	5,420	3,604	14,839	10,375
Short-term obligations	3,382	1,122	7,927	2,724
Long-term obligations	2,711	2,476	8,940	7,210
Total interest expense	11,513	7,202	31,706	20,309
Net interest income	34,960	33,930	105,664	104,924
Provision for loan losses	960	1,631	3,404	7,715
Net interest income after provision for loan losses	34,000	32,299	102,260	97,209
Noninterest income				
Deposit services	5,476	5,335	15,845	15,519
Net gain on sale of securities available for sale	627	2,343	874	5,512
Gain on sale of loans	347	818	1,553	2,334
Trust income	873	867	2,662	2,591
Bank owned life insurance income	636	656	1,905	1,977
Brokerage services	561	551	1,790	1,661
Other	888	1,162	3,745	3,104
Total noninterest income	9,408	11,732	28,374	32,698
Noninterest expense				
Salaries and employee benefits	14,395	15,203	45,229	47,784
Occupancy expense	2,981	4,569	8,741	10,897
Advertising, travel & entertainment	487	588	1,618	1,995
ATM and debit card expense	1,024	868	2,840	2,316
Professional fees	996	1,148	2,985	3,964
Software and data processing expense	732	736	2,145	2,224
Telephone and communications	459	407	1,461	1,359
FDIC insurance	441	643	1,327	1,926
Other	3,492	4,263	10,056	11,180
Total noninterest expense	25,007	28,425	76,402	83,645
Income before income tax expense	18,401	15,606	54,232	46,262
Income tax expense	3,890	2,741	10,251	8,486
Net income	$14,511	$12,865	$43,981	$37,776

Earnings per common share – basic	$0.49	$0.48	$1.50	$1.40
Earnings per common share – diluted	$0.49	$0.48	$1.49	$1.39
Dividends paid per common share	$0.28	$0.24	$0.81	$0.71

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	$14,511	$12,865	$43,981	$37,776
Other comprehensive income:				
Securities available for sale and transferred securities:				
Change in net unrealized holding gains (losses) on available for sale securities during the period	344	(10,960)	18,450	33,031
Reclassification adjustment for amortization of unrealized losses on securities transferred to held to maturity	490	16	1,191	160
Reclassification adjustment for net gain on sale of available for sale securities, included in net income	(627)	(2,343)	(874)	(5,512)
Derivatives:				
Change in net unrealized (loss) gain on effective cash flow hedge interest rate swap derivatives	(236)	1,070	(2,084)	(5,125)
Change in net unrealized gains on interest rate swap derivatives terminated during the period	—	—	273	—
Reclassification adjustment for net loss on interest rate swap derivatives, included in net income	122	521	746	1,338
Reclassification adjustment for amortization of unrealized gains on terminated interest rate swap derivatives	(21)	—	(52)	—
Pension plans:				
Amortization of net actuarial loss, included in net periodic benefit cost	403	458	1,210	1,371
Amortization of prior service credit, included in net periodic benefit cost	(1)	(10)	(5)	(6)
Other comprehensive income (loss), before tax	474	(11,248)	18,855	25,257
Income tax (expense) benefit related to items of other comprehensive income	(166)	3,937	(6,599)	(8,840)
Other comprehensive income (loss), net of tax	308	(7,311)	12,256	16,417
Comprehensive income	$14,819	$5,554	$56,237	$54,193

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

	Common Stock	Paid In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2015	$34,832	$424,078	$41,527	$(37,692)	$ (18,683)	$444,062
Net income	—	—	37,776	—	—	37,776
Other comprehensive income	—	—	—	—	16,417	16,417
Issuance of common stock for dividend reinvestment plan (33,622 shares)	42	950	—	—	—	992
Purchase of common stock (443,426 shares)	—	—	—	(10,199)	—	(10,199)
Stock compensation expense	—	1,156	—	—	—	1,156
Tax benefits related to stock awards	—	79	—	—	—	79
Net issuance of common stock under employee stock plans (39,468 shares)	50	345	(49)	—	—	346
Cash dividends paid on common stock ($0.71 per share)	—	—	(18,069)	—	—	(18,069)
Stock dividend declared (1,252,353 shares)	1,565	33,200	(34,765)	—	—	—
Balance at September 30, 2016	$36,489	$459,808	$26,420	$(47,891)	$ (2,266)	$472,560
Balance at December 31, 2016	$39,320	$535,240	$30,098	$(47,891)	$ (38,493)	$518,274
Net income	—	—	43,981	—	—	43,981
Other comprehensive income	—	—	—	—	12,256	12,256
Issuance of common stock for dividend reinvestment plan (33,000 shares)	41	1,057	—	—	—	1,098
Stock compensation expense	—	1,393	—	—	—	1,393
Net issuance of common stock under employee stock plans (138,035 shares)	61	1,802	(73)	600	—	2,390
Cash dividends paid on common stock ($0.81 per share)	—	—	(23,369)	—	—	(23,369)
Stock dividend declared (719,515 shares)	899	24,061	(24,960)	—	—	—
Balance at September 30, 2017	$40,321	$563,553	$25,677	$(47,291)	$ (26,237)	$556,023

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

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

	Nine Months Ended September 30,	
	2017	2016
OPERATING ACTIVITIES:		
Net income	$43,981	$37,776
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and net amortization	7,251	6,612
Securities premium amortization (discount accretion), net	13,502	14,245
Loan (discount accretion) premium amortization, net	(818)	(2,113)
Provision for loan losses	3,404	7,715
Stock compensation expense	1,393	1,156
Deferred tax expense	453	1,916
Net tax benefit related to stock awards	—	(79)
Net gain on sale of securities available for sale	(874)	(5,512)
Net loss on premises and equipment	77	235
Gross proceeds from sales of loans held for sale	50,689	67,144
Gross originations of loans held for sale	(45,225)	(68,634)
Net (gain) loss on other real estate owned	(1)	224
Net gain on sale of customer receivables	—	(144)
Net change in:		
Interest receivable	6,391	5,242
Other assets	2,696	(2,094)
Interest payable	(923)	726
Other liabilities	(4,639)	2,182
Net cash provided by operating activities	77,357	66,597
INVESTING ACTIVITIES:		
Securities available for sale:		
Purchases	(371,555)	(761,900)
Sales	486,460	495,011
Maturities, calls and principal repayments	87,096	160,676
Securities held to maturity:		
Purchases	(1,521)	(29,725)
Maturities, calls and principal repayments	25,455	22,029
Proceeds from redemption of FHLB stock and other investments	114	3,644
Purchases of FHLB stock and other investments	(761)	(4,433)
Net loan originations	(127,240)	(66,633)
Proceeds from sales of customer receivables	—	3,314
Purchases of premises and equipment	(7,090)	(5,189)
Proceeds from sales of premises and equipment	8	120
Proceeds from sales of other real estate owned	134	1,918
Proceeds from sales of repossessed assets	341	767
Net cash provided by (used in) investing activities	91,441	(180,401)

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

	Nine Months Ended September 30, 2017	2016
FINANCING ACTIVITIES:		
Net change in deposits	$31,031	$126,748
Net increase in federal funds purchased and repurchase agreements	1,986	9,087
Proceeds from FHLB advances	2,366,476	6,548,551
Repayment of FHLB advances	(2,533,551)	(6,523,701)
Net proceeds from issuance of subordinated long-term debt	—	98,083
Tax benefit related to stock awards	—	79
Proceeds from stock option exercises	2,527	418
Cash paid to tax authority from stock option exercises	(137)	(72)
Purchase of common stock	—	(10,199)
Proceeds from the issuance of common stock for dividend reinvestment plan	1,098	992
Cash dividends paid	(23,369)	(18,069)
Net cash (used in) provided by financing activities	(153,939)	231,917
Net increase in cash and cash equivalents	14,859	118,113
Cash and cash equivalents at beginning of period	169,654	80,975
Cash and cash equivalents at end of period	$184,513	$199,088
SUPPLEMENTAL DISCLOSURES FOR CASH FLOW INFORMATION:		
Interest paid	$32,629	$19,583
Income taxes paid	$8,300	$5,700
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Loans transferred to other repossessed assets and real estate through foreclosure	$407	$5,434
Adjustment to pension liability	$(1,205)	$(1,365)
Stock dividend (2.5% and 5%, respectively)	$24,960	$34,765
Unsettled trades to purchase securities	$(16,673)	$(30,214)
Unsettled trades to sell securities	$11,843	$—

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

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

1. Summary of Significant Accounting and Reporting Policies

Basis of Presentation

In this report, the words “the Company,” “we,” “us,” and “our” refer to the combined entities of Southside Bancshares, Inc. and its subsidiaries. The words “Southside” and “Southside Bancshares” refer to Southside Bancshares, Inc. The words “Southside Bank” and “the Bank” refer to Southside Bank. “Omni” refers to OmniAmerican Bancorp, Inc., a bank holding company acquired by Southside on December 17, 2014.

The accompanying unaudited consolidated financial statements have been prepared in accordance with United States (“U.S.”) generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, not all information required by GAAP for complete financial statements is included in these interim statements. In the opinion of management, all adjustments necessary for a fair presentation of such financial statements have been included. Such adjustments consisted only of normal recurring items. The preparation of these consolidated financial statements in accordance with 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.

On May 4, 2017, our board of directors declared a 2.5% stock dividend to common stock shareholders of record as of May 30, 2017, which was paid on June 27, 2017. All share data has been adjusted to give retroactive recognition to stock dividends.

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, 2016.

Accounting Changes and Reclassifications

Certain prior period amounts have been reclassified to conform to current year presentation.

We adopted ASU 2016-09 “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting,” on January 1, 2017 which requires all income tax effects related to settlements of share-based payment awards be reported in earnings as an increase (or decrease) to income tax expense. Previously, income tax benefits at settlement of an award were reported as an increase (or decrease) to additional paid-in capital to the extent that those benefits were greater than (or less than) the income tax benefits recognized in earnings during the vesting period or exercise of the award. The requirement to report those income tax effects in earnings has been applied to settlements occurring on or after January 1, 2017, and the impact of applying that guidance reduced reported income tax expense by $213,000, or less than $0.01 on our diluted earnings per common share for the three months ended September 30, 2017, and $423,000, or $0.01 on our diluted earnings per common share for the nine months ended September 30, 2017. ASU 2016-09 also requires that all income tax-related cash flows resulting from share-based payments be reported as operating activities in the statement of cash flows. Previously, income tax benefits at settlement of an award were reported as a reduction to operating cash flows and an increase to financing cash flows to the extent that those benefits exceeded the income tax benefits reported in earnings during the vesting period or exercise of the award. We have elected to apply that change in cash flow on a prospective basis and therefore, prior periods have not been adjusted. ASU 2016-09 also requires the classification of employee taxes paid when an employer withholds shares for tax withholding purposes be classified as a financing activity in the statement of cash flow and be applied retrospectively. The requirement to report the employee taxes paid is reflected in prior period presentation in our consolidated statement of cash flows. In connection with the adoption of ASU 2016-09, we have also elected to recognize forfeitures as they occur.

Terminated Derivative Financial Instruments

In accordance with ASC Topic 815, if a hedging item is terminated prior to maturity for a cash settlement, the existing gain or loss within accumulated other comprehensive income (“AOCI”) will continue to be reclassified into earnings during the period or periods in which the hedged forecasted transaction affects earnings unless it is probable that the forecasted transaction will not occur by the end of the originally specified time period. If the forecasted transaction is deemed probable to not occur, the derivative gain or loss reported in AOCI shall be reclassified into earnings immediately. During the first quarter of 2017, we terminated two interest rate swap contracts designated as cash flow hedges of forecasted transactions. At the time of termination, we determined that the underlying hedged forecasted transactions were still probable of occurring. These transactions are reevaluated on a monthly basis thereafter, to determine if the hedged forecasted transactions are still probable of occurring. If at a subsequent evaluation, it is determined that the transactions will not occur, any related gains or losses recorded in AOCI are immediately recognized in earnings.

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The existing gain in AOCI related to the terminated interest rate swap contracts will be reclassified into earnings through straight-line accretion in the same periods the hedged forecasted transaction affects earnings.

Further information on our derivative instruments and hedging activities is included in "Note 10 - Derivative Financial Instruments and Hedging Activities."

For a description of our significant accounting and reporting policies, refer to "Note 1- Summary of Significant Accounting and Reporting Policies" in our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2016.

Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." This update states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update affects entities that enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," which defers the effective date of the previously issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) until the interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through cumulative adjustment. We anticipate adopting the new standard using the modified retrospective method beginning January 1, 2018. Our revenue consists of net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASU 2014-09, and noninterest income. We have evaluated the impact this guidance will have in relation to our noninterest income derived from contracts with our customers as it relates to deposit services, trust income, brokerage services, and merchant services (included in other noninterest income) which we have determined to be in the scope of ASU 2014-09. The adoption of ASU 2014-09 is not expected to have a material impact on our consolidated financial statements. We are continuing to evaluate the impact of the additional disclosures required by this guidance.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." ASU 2016-02 requires a lessee to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP which requires only capital leases to be recognized on the balance sheet, the new ASU 2016-02 will require both finance (formerly known as "capital") and operating leases to be recognized on the balance sheet. ASU 2016-02 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The guidance requires companies to apply the requirements in the year of adoption using a modified retrospective approach. We are currently evaluating the impact this guidance will have on our consolidated financial statements, and we anticipate our assessment to be completed during the fiscal year 2018.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." ASU 2016-13 introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments. ASU 2016-13 also modifies the impairment model for available for sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. ASU 2016-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The guidance requires companies to apply the requirements in the year of adoption through cumulative adjustment with some aspects of the update requiring a prospective transition approach. We are currently evaluating the potential impact of the pending adoption of ASU 2016-13 on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." ASU 2017-04 is intended to simplify goodwill impairment testing by eliminating the second step of the analysis which requires the calculation of the implied fair value of goodwill to measure a goodwill impairment charge. The update requires entities to compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for any amount by which the carrying amount exceeds the reporting unit’s fair value, to the extent that the loss recognized does not exceed the amount of goodwill allocated to that reporting unit. ASU 2017-04 is effective for annual and interim goodwill impairment tests performed in periods beginning after December 15, 2019. Early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017. The guidance requires companies to apply the requirements prospectively in the year of adoption. ASU 2017-04 is not expected to have a significant impact on our consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, “Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.” ASU 2017-07 requires employers to present the service cost component of net periodic postretirement benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. Only the service cost component will be eligible for

capitalization in assets. Employers are required to present the other components of the net periodic benefit cost separately from the line item that includes the service cost and outside of any subtotal of operating income, if one is presented. ASU 2017-07 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. We did not early adopt ASU 2017-07. The guidance requires companies to apply the requirements retrospectively to all prior periods presented. ASU 2017-07 is not expected to have a significant impact on our consolidated financial statements.
In March 2017, the FASB issued ASU 2017-08, "Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities." Under current GAAP, premiums on callable debt securities are generally amortized over the contractual life of the security. ASU 2017-08 requires the premium on callable debt securities to be amortized to the earliest call date. If the debt security is not called at the earliest call date, the holder of the debt security would be required to reset the effective yield on the debt security based on the payment terms required by the debt security. ASU 2017-08 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The guidance requires companies to apply the requirements on a modified retrospective basis through a cumulative adjustment directly to retained earnings as of the beginning of the period of adoption. We are currently evaluating the potential impact of the pending adoption of ASU 2017-08 on our consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, "Compensation - Stock Compensation (Subtopic 718): Scope of Modification Accounting." ASU 2017-09 clarifies when changes to terms or conditions of a share-based payment award must be accounted for as a modification. Under the new guidance, an entity will not apply modification accounting to a share-based payment award if all of the following are the same immediately before and after the change: (i) the fair value of the award, (ii) the vesting conditions of the award, and (iii) the classification of the award as either an equity or liability instrument. ASU 2017-09 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. We did not early adopt ASU 2017-09. The guidance requires companies to apply the requirements prospectively to awards modified on or after the adoption date. ASU 2017-09 is not expected to have a significant impact on our consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." ASU 2017-12 (i) expands hedge accounting for nonfinancial and financial risk components and amends measurement methodologies to more closely align hedge accounting with a company's risk management activities, (ii) decreases the complexity of preparing and understanding hedge results by eliminating the separate measurement and reporting of hedge ineffectiveness, (iii) enhances transparency, comparability, and understanding of hedge results through enhanced disclosures and changing the presentation of hedge results to align the effects of the hedging instrument and the hedged item, and (iv) reduces the cost and complexity of applying hedge accounting by simplifying the manner in which assessments of hedge effectiveness may be performed. ASU 2017-12 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The guidance requires companies to apply the requirements to existing hedging relationships on the date of adoption, and the effect of the adoption should be reflected as of the beginning of the fiscal year of adoption. We are currently evaluating the potential impact of the pending adoption of ASU 2017-12 on our consolidated financial statements.

2. Pending Acquisition

On June 12, 2017, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Diboll State Bancshares, Inc., a Texas corporation ("Diboll") and the holding company for First Bank & Trust East Texas, a Texas banking association based in Diboll, Texas. As of September 30, 2017, Diboll had $1.01 billion in assets and $908.7 million in deposits The Merger Agreement provides that, subject to the terms and conditions thereof, Diboll will merge with and into the Company, with the Company as the surviving corporation. On October 17, 2017, Diboll's shareholders approved the Merger Agreement and the merger at a special meeting of shareholders. The merger of Southside Bank and Diboll's subsidiary bank has previously received the approval of the Federal Deposit Insurance Corporation and the Texas Department of Banking. The merger is expected to close during the fourth quarter of 2017, subject to receipt of regulatory approval from the Federal Reserve Board and the satisfaction of other customary closing conditions.

Pursuant to the Merger Agreement, the Company will issue 5,535,000 shares of Company common stock and up to $25.0 million in cash for all outstanding shares of Diboll common stock, subject to adjustment pursuant to the terms of the Merger Agreement.

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3. Earnings Per Share

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