

MIDSOUTH BANCORP INC
Form 10-Q
November 06, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

OR

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 1-11826
MIDSOUTH BANCORP, INC.
(Exact name of registrant as specified in its charter)

Louisiana
(State or other jurisdiction of incorporation or
organization)

72-1020809
(I.R.S. Employer Identification No.)

102 Versailles Boulevard, Lafayette, Louisiana 70501
(Address of principal executive offices, including zip code)
(337) 237-8343
(Registrant's telephone number, including area code)

Indicate by checkmark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company.

Large accelerated filer Accelerated filer Non-accelerated filer Small reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

YES NO

As of November 6, 2015, there were 11,362,149 shares of the registrant's Common Stock, par value \$0.10 per share, outstanding.

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Part I – Financial Information

Item 1. Financial Statements.

MidSouth Bancorp, Inc. and Subsidiaries

Consolidated Balance Sheets

(dollars in thousands, except share data)

	September 30, 2015 (unaudited)	December 31, 2014 (audited)
Assets		
Cash and due from banks, including required reserves of \$8,782 and \$10,019, respectively	\$38,386	\$45,142
Interest-bearing deposits in banks	82,538	39,031
Federal funds sold	4,513	2,699
Securities available-for-sale, at fair value (cost of \$281,885 at September 30, 2015 and \$272,588 at December 31, 2014)	285,485	276,984
Securities held-to-maturity (fair value of \$122,488 at September 30, 2015 and \$141,593 at December 31, 2014)	121,043	141,201
Other investments	12,063	9,990
Loans	1,301,452	1,284,431
Allowance for loan losses	(18,939)	(11,226)
Loans, net	1,282,513	1,273,205
Bank premises and equipment, net	68,718	69,958
Accrued interest receivable	6,655	6,635
Goodwill	42,171	42,171
Intangibles	6,004	6,834
Cash surrender value of life insurance	13,548	13,659
Other real estate	4,661	4,234
Other assets	6,010	4,997
Total assets	\$1,974,308	\$1,936,740
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Non-interest-bearing	\$406,118	\$390,863
Interest-bearing	1,137,303	1,194,371
Total deposits	1,543,421	1,585,234
Securities sold under agreements to repurchase	92,085	62,098
Short-term Federal Home Loan Bank advances	70,000	25,000
Long-term Federal Home Loan Bank advances	25,958	26,277
Junior subordinated debentures	22,167	22,167
Other liabilities	6,713	6,952
Total liabilities	1,760,344	1,727,728
Commitments and contingencies		
Shareholders' equity:		
Series B Preferred stock, no par value; 5,000,000 shares authorized, 32,000 shares issued and outstanding at September 30, 2015 and December 31, 2014	32,000	32,000
Series C Preferred stock, no par value; 100,000 shares authorized, 91,256 shares issued and outstanding at September 30, 2015 and 93,680 shares issued and	9,126	9,368

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outstanding at December 31, 2014

Common stock, \$0.10 par value; 30,000,000 shares authorized, 11,361,839 and 11,340,736 shares issued and outstanding, respectively	1,136	1,149
Additional paid-in capital	110,482	112,744
Unearned ESOP shares	(1,155	) (250
Accumulated other comprehensive income	2,340	2,857
Treasury stock – 0 and 150,967 shares at September 30, 2015 and December 31, 2014, respectively	—	(3,295
Retained earnings	60,035	54,439
Total shareholders' equity	213,964	209,012
Total liabilities and shareholders' equity	\$1,974,308	\$1,936,740

See notes to unaudited consolidated financial statements.

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MidSouth Bancorp, Inc. and Subsidiaries
Consolidated Statements of Earnings (unaudited)
(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest income:				
Loans, including fees	\$17,992	\$18,273	\$54,314	\$53,525
Securities and other investments:				
Taxable	1,850	1,965	5,628	6,164
Nontaxable	536	652	1,679	2,007
Federal funds sold	1	2	5	4
Time and interest bearing deposits in other banks	40	15	112	42
Other investments	113	109	273	268
Total interest income	20,532	21,016	62,011	62,010
Interest expense:				
Deposits	883	859	2,751	2,588
Securities sold under agreements to repurchase	249	210	721	588
Other borrowings and payables	109	108	309	320
Junior subordinated debentures	150	327	451	994
Total interest expense	1,391	1,504	4,232	4,490
Net interest income	19,141	19,512	57,779	57,520
Provision for loan losses	3,800	1,175	10,900	2,925
Net interest income after provision for loan losses	15,341	18,337	46,879	54,595
Non-interest income:				
Service charges on deposits	2,231	2,556	6,488	7,385
Gain on sale of securities, net	—	—	1,243	128
ATM and debit card income	1,823	1,808	5,529	5,375
Income from death benefit on BOLI/executive officer life insurance	—	—	160	3,000
Other charges and fees	786	1,830	2,553	3,484
Total non-interest income	4,840	6,194	15,973	19,372
Non-interest expenses:				
Salaries and employee benefits	7,653	8,287	23,792	25,588
Occupancy expense	3,815	3,834	11,365	11,314
FDIC insurance	391	269	1,003	783
Other	4,705	5,467	13,696	14,997
Total non-interest expenses	16,564	17,857	49,856	52,682
Income before income taxes	3,617	6,674	12,996	21,285
Income tax expense	1,028	2,202	3,817	5,839
Net earnings	2,589	4,472	9,179	15,446
Dividends on preferred stock	172	174	517	524
Net earnings available to common shareholders	\$2,417	\$4,298	\$8,662	\$14,922
Earnings per share:				

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Basic	\$0.22	\$0.38	\$0.77	\$1.32
Diluted	\$0.21	\$0.37	\$0.75	\$1.28
Weighted average number of shares outstanding:				
Basic	11,312	11,314	11,321	11,283
Diluted	11,831	11,955	11,848	11,904
Dividends declared per common share	\$0.09	\$0.09	\$0.27	\$0.26
See notes to unaudited consolidated financial statements.				

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MidSouth Bancorp, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income (unaudited)

(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net earnings	\$2,589	\$4,472	\$9,179	\$15,446
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on securities available-for-sale:				
Unrealized holding gains (losses) arising during the year	1,717	(405	) 447	4,116
Less: reclassification adjustment for gains on sales of securities available-for-sale	—	—	(1,243	) (128
Total other comprehensive income (loss), before tax	1,717	(405	) (796	) 3,988
Income tax effect related to items of other comprehensive income (loss)	(601	) 142	279	(1,396
Total other comprehensive income (loss), net of tax	1,116	(263	) (517	) 2,592
Total comprehensive income	\$3,705	\$4,209	\$8,662	\$18,038
See notes to unaudited consolidated financial statements.				

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MidSouth Bancorp, Inc. and Subsidiaries
Consolidated Statement of Shareholders' Equity (unaudited)
For the Nine Months Ended September 30, 2015
(in thousands, except share and per share data)

	Preferred Stock Shares	Preferred Amount	Common Stock Shares	Common Amount	Additional Paid-in Capital	Unearned ESOP Shares	Accumulated Other Comprehensive Income	Treasury Stock	Retained Earnings	Total
Balance - December 31, 2014	125,680	\$41,368	11,491,703	\$1,149	\$112,744	\$(250)	\$2,857	\$(3,295)	\$54,439	\$209,012
Net earnings	—	—	—	—	—	—	—	—	9,179	9,179
Dividends on Series B and Series C preferred stock	—	—	—	—	—	—	—	—	(517)	(517)
Dividends on common stock, \$0.27 per share	—	—	—	—	—	—	—	—	(3,066)	(3,066)
Conversion of Series C preferred stock to common stock	(2,424)	(242)	13,448	1	241	—	—	—	—	—
Reclassification of treasury stock per the LBCA ⁽¹⁾	—	—	(150,967)	(15)	(3,280)	—	3,295	—	—	—
Increase in ESOP obligation, net of repayments	—	—	—	—	—	(905)	—	—	—	(905)
Exercise of stock options	—	—	7,655	1	98	—	—	—	—	99
Tax benefit resulting from distribution from Directors Deferred Compensation Plan	—	—	—	—	420	—	—	—	—	420
Stock option and restricted stock compensation expense	—	—	—	—	259	—	—	—	—	259
Change in accumulated other	—	—	—	—	—	—	(517)	—	—	(517)

comprehensive
income

Balance –

September 30,	123,256	\$41,126	11,361,839	\$1,136	\$110,482	\$(1,155)	\$2,340	\$—	\$60,035	\$213,964
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2015

See notes to unaudited consolidated financial statements.

⁽¹⁾ See Note 1 for an explanation of the elimination of treasury stock under the Louisiana Business Corporation Act.

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MidSouth Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (unaudited)
(in thousands)

	For the Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net earnings	\$9,179	\$15,446
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	4,652	4,518
Accretion of purchase accounting adjustments	(1,003	) (1,924
Provision for loan losses	10,900	2,925
Deferred tax (benefit) expense	(1,633	) 2,034
Amortization of premiums on securities, net	2,141	2,432
(Accretion) amortization of other investments	(1	) 4
Stock option expense	253	355
Restricted stock expense	6	—
Net gain on sale of investment securities	(1,243	) (128
Net gain on sale of other real estate owned	(13	) (1,081
Net write down of other real estate owned	111	31
Net (gain) loss on sale/disposal of premises and equipment	(8	) 232
Income recognized from death benefit on bank owned life insurance	(160) —
Change in accrued interest receivable	(20	) 45
Change in accrued interest payable	(48	) (240
Change in other assets & other liabilities, net	481	(2,006
Net cash provided by operating activities	23,594	22,643
Cash flows from investing activities:		
Proceeds from maturities and calls of securities available-for-sale	55,874	33,466
Proceeds from maturities and calls of securities held-to-maturity	19,299	10,778
Proceeds from sale of securities available-for-sale	40,277	22,153
Purchases of securities available-for-sale	(105,486) —
Purchases of securities held-to-maturity	—	(1,104
Proceeds from redemptions of other investments	—	150
Redemption of Capital Securities related to MidSouth Statutory Trust I	—	217
Proceeds from sale of other investments	898	—
Purchases of other investments	(2,970	) (567
Net change in loans	(20,669	) (111,329
Proceeds from bank owned life insurance death benefit	498	—
Purchases of premises and equipment	(3,439	) (4,265
Proceeds from sale of premises and equipment	35	743
Proceeds from sale of other real estate owned	857	3,315
Purchase of other real estate owned	(351) —
Net cash used in investing activities	(15,177	) (46,443
Cash flows from financing activities:		
Change in deposits	(41,728	) 2,244
Change in securities sold under agreements to repurchase	29,987	17,048
Borrowings on Federal Home Loan Bank advances	150,000	10,000

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Repayments of Federal Home Loan Bank advances	(105,047) (45)
Redemption of MidSouth Statutory Trust I	—	(7,217)
Repayments of notes payable	—	(1,000)
Purchase of treasury stock	—	(9)
Proceeds and tax benefit from exercise of stock options	99	611	
Tax benefit resulting from distribution from Directors Deferred Compensation Plan	420	—	
Payment of dividends on preferred stock	(519	) (530)
Payment of dividends on common stock	(3,064	) (2,818)
Net cash provided by financing activities	30,148	18,284	
Net increase (decrease) in cash and cash equivalents	38,565	(5,516)
Cash and cash equivalents, beginning of period	86,872	59,731	
Cash and cash equivalents, end of period	\$125,437	\$54,215	
Supplemental cash flow information:			
Interest paid	\$4,280	\$4,730	
Income taxes paid	5,180	5,815	
Noncash investing and financing activities:			
Transfer of loans to other real estate	1,031	317	
Change in accrued common stock dividends	3	121	
Change in accrued preferred stock dividends	(2	) (6)
Financed sales of other real estate	—	84	
Net change in loan to ESOP	(905) (267)

See notes to unaudited consolidated financial statements.

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MidSouth Bancorp, Inc. and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2015
(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements and notes thereto contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly, in accordance with accounting principles generally accepted in the United States of America (“GAAP”), the financial position of MidSouth Bancorp, Inc. (the “Company”) and its subsidiaries as of September 30, 2015 and the results of their operations and their cash flows for the periods presented. The interim financial information should be read in conjunction with the annual consolidated financial statements and the notes thereto included in the Company’s 2014 Annual Report on Form 10-K.

The results of operations for the nine-month period ended September 30, 2015 are not necessarily indicative of the results to be expected for the entire year.

Use of Estimates — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Summary of Significant Accounting Policies — The accounting and reporting policies of the Company conform with GAAP and general practices within the banking industry. There have been no material changes or developments in the application of accounting principles or in our evaluation of the accounting estimates and the underlying assumptions or methodologies that we believe to be Critical Accounting Policies and Estimates as disclosed in our 2014 Annual Report on Form 10-K.

Recent Accounting Pronouncements — ASU 2015-01, Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items was issued as part of the FASB's simplification initiative. ASU 2015-01 eliminates the concept of extraordinary items. The effective date of this Update is for fiscal years beginning on or after December 15, 2015 and interim periods within those annual periods. Adoption of this Update is not expected to have a material effect on the Company’s consolidated financial statements or the interim notes to the consolidated financial statements.

ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs was also issued as part of the FASB's simplification initiative. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Currently, debt issuance costs are presented as an asset on the balance sheet. The FASB notes within the ASU, capitalized debt issuance costs do not meet the definition of an asset and are more akin to a debt discount, thereby reducing the carrying amount of the proceeds received. The effective date of this Update is for fiscal years beginning on or after December 15, 2015 and interim periods within those annual periods. Adoption of this Update is not expected to have a material effect on the Company’s consolidated financial statements or the interim notes to the consolidated financial statements.

Louisiana Business Corporation Act — Effective January 1, 2015, companies incorporated under Louisiana law became subject to the Louisiana Business Corporation Act. Provisions of the Louisiana Business Corporation Act eliminate the concept of treasury stock. Rather, shares purchased by the Company constitute authorized but unissued shares. Accounting principles generally accepted in the United States of America state that accounting for treasury stock shall

conform to state law. The Company's consolidated financial statements as of September 30, 2015 reflect this change. The cost of shares purchased by the Company has been allocated to common stock and additional paid-in capital balances.

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2. Investment Securities

The portfolio of investment securities consisted of the following (in thousands):

	September 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Obligations of state and political subdivisions	\$36,500	\$979	\$48	\$37,431
GSE mortgage-backed securities	88,813	2,981	55	91,739
Collateralized mortgage obligations: residential	148,819	690	927	148,582
Collateralized mortgage obligations: commercial	5,653	9	45	5,617
Mutual funds	2,100	16	—	2,116
	\$281,885	\$4,675	\$1,075	\$285,485
December 31, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Government sponsored enterprises	\$10,339	\$—	\$112	\$10,227
Obligations of state and political subdivisions	43,079	1,555	29	44,605
GSE mortgage-backed securities	106,208	3,183	288	109,103
Collateralized mortgage obligations: residential	62,093	266	1,520	60,839
Collateralized mortgage obligations: commercial	24,462	190	107	24,545
Other asset-backed securities	24,041	321	19	24,343
Collateralized debt obligation	266	952	—	1,218
Mutual funds	2,100	4	—	2,104
	\$272,588	\$6,471	\$2,075	\$276,984
September 30, 2015				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
Obligations of state and political subdivisions	\$43,933	\$552	\$38	\$44,447
GSE mortgage-backed securities	58,420	1,212	82	59,550
Collateralized mortgage obligations: residential	11,284	—	250	11,034
Collateralized mortgage obligations: commercial	7,406	51	—	7,457
	\$121,043	\$1,815	\$370	\$122,488
December 31, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
Obligations of state and political subdivisions	\$45,914	\$267	\$192	\$45,989
GSE mortgage-backed securities	67,268	1,080	164	68,184

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Collateralized mortgage obligations: residential	12,709	—	479	12,230
Collateralized mortgage obligations: commercial	15,310	53	173	15,190
	\$ 141,201	\$ 1,400	\$ 1,008	\$ 141,593

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With the exception of two private-label collateralized mortgage obligations (“CMOs”) with a combined balance remaining of \$34,000 at September 30, 2015, all of the Company’s CMOs are government-sponsored enterprise (“GSE”) securities.

The amortized cost and fair value of debt securities at September 30, 2015 by contractual maturity are shown in the following table (in thousands) with the exception of other asset-backed securities, mortgage-backed securities, CMOs, and the collateralized debt obligation. Expected maturities may differ from contractual maturities for mortgage-backed securities and CMOs because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Available-for-sale:		
Due in one year or less	\$5,074	\$5,114
Due after one year through five years	19,498	20,120
Due after five years through ten years	9,540	9,832
Due after ten years	2,388	2,365
Mortgage-backed securities and collateralized mortgage obligations:		
Residential	237,632	240,321
Commercial	5,653	5,617
Mutual funds	2,100	2,116
	\$281,885	\$285,485
	Amortized Cost	Fair Value
Held-to-maturity:		
Due in one year or less	\$473	\$475
Due after one year through five years	2,923	2,960
Due after five years through ten years	11,105	11,273
Due after ten years	29,432	29,739
Mortgage-backed securities and collateralized mortgage obligations:		
Residential	69,704	70,584
Commercial	7,406	7,457
	\$121,043	\$122,488

Details concerning investment securities with unrealized losses are as follows (in thousands):

	September 30, 2015		September 30, 2015		Total	
	Securities with losses under 12 months		Securities with losses over 12 months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Available-for-sale:						
Obligations of state and political subdivisions	\$3,190	\$48	\$—	\$—	\$3,190	\$48
GSE mortgage-backed securities	15,860	45	3,754	10	19,614	55

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Collateralized mortgage obligations: residential	33,689	128	31,772	799	65,461	927
Collateralized mortgage obligations: commercial	—	—	3,073	45	3,073	45
	\$52,739	\$221	\$38,599	\$854	\$91,338	\$1,075

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	December 31, 2014		Securities with losses		Total	Gross Unrealized Loss
	Fair Value	Gross Unrealized Loss	under 12 months	over 12 months		
Available-for-sale:						
U.S. Government sponsored enterprises	\$4,973	\$32	\$5,254	\$80	\$10,227	\$112
Obligations of state and political subdivisions	2,029	29	—	—	2,029	29
GSE mortgage-backed securities	6,668	25	21,538	263	28,206	288
Collateralized mortgage obligations: residential	9,366	53	37,997	1,467	47,363	1,520
Collateralized mortgage obligations: commercial	—	—	3,747	107	3,747	107
Other asset-backed securities	6,401	19	—	—	6,401	19
	\$29,437	\$158	\$68,536	\$1,917	\$97,973	\$2,075
	September 30, 2015		Securities with losses		Total	Gross Unrealized Loss
	Fair Value	Gross Unrealized Loss	under 12 months	over 12 months		
Held-to-maturity:						
Obligations of state and political subdivisions	\$6,544	\$19	\$1,302	\$19	\$7,846	\$38
GSE mortgage-backed securities	—	—	7,309	82	7,309	82
Collateralized mortgage obligations: residential	—	—	11,034	250	11,034	250
	\$6,544	\$19	\$19,645	\$351	\$26,189	\$370
	December 31, 2014		Securities with losses		Total	Gross Unrealized Loss
	Fair Value	Gross Unrealized Loss	under 12 months	over 12 months		
Held-to-maturity:						
Obligations of state and political subdivisions	\$11,761	\$35	\$13,263	\$157	\$25,024	\$192
GSE mortgage-backed securities	—	—	8,142	164	8,142	164
Collateralized mortgage obligations: residential	—	—	12,230	479	12,230	479
Collateralized mortgage obligations: commercial	7,599	173	—	—	7,599	173
	\$19,360	\$208	\$33,635	\$800	\$52,995	\$1,008

Management evaluates each quarter whether unrealized losses on securities represent impairment that is other than temporary. For debt securities, the Company considers its intent to sell the securities or if it is more likely than not the Company will be required to sell the securities. If such impairment is identified, based upon the intent to sell or the more likely than not threshold, the carrying amount of the security is reduced to fair value with a charge to earnings. Upon the result of the aforementioned review, management

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then reviews for potential other than temporary impairment based upon other qualitative factors. In making this evaluation, management considers changes in market rates relative to those available when the security was acquired, changes in market expectations about the timing of cash flows from securities that can be prepaid, performance of the debt security, and changes in the market's perception of the issuer's financial health and the security's credit quality. If determined that a debt security has incurred other than temporary impairment, then the amount of the credit related impairment is determined. If a credit loss is evident, the amount of the credit loss is charged to earnings and the non-credit related impairment is recognized through other comprehensive income.

As of September 30, 2015, 42 securities had unrealized losses totaling 1.21% of the individual securities' amortized cost basis and 0.36% of the Company's total amortized cost basis. Of the 42 securities, 20 had been in an unrealized loss position for over twelve months at September 30, 2015. These 20 securities had an amortized cost basis and unrealized loss of \$59.4 million and \$1.2 million, respectively. The unrealized losses on debt securities at September 30, 2015 resulted from changing market interest rates over the yields available at the time the underlying securities were purchased. Management identified no impairment related to credit quality. At September 30, 2015, management had the intent and ability to hold impaired securities and no impairment was evaluated as other than temporary. As a result, no other than temporary impairment losses were recognized during the three months ended September 30, 2015.

During the nine months ended September 30, 2015, the Company sold 21 securities classified as available-for-sale at a net gain of \$1.2 million. Of the 21 securities sold, 11 were sold with gains totaling \$1.4 million and 10 securities were sold at a loss of \$135,000. During the nine months ended September 30, 2014, the Company sold 4 securities classified as available-for-sale at a net gain of \$128,000. All of the securities were sold at a gain.

Securities with an aggregate carrying value of approximately \$287.2 million and \$279.8 million at September 30, 2015 and December 31, 2014, respectively, were pledged to secure public funds on deposit and for other purposes required or permitted by law.

3. Credit Quality of Loans and Allowance for Loan Losses

The loan portfolio consisted of the following (in thousands):

	September 30, 2015	December 31, 2014
Commercial, financial and agricultural	\$482,452	\$467,147
Real estate - construction	74,279	68,577
Real estate – commercial	473,319	467,172
Real estate – residential	151,667	154,602
Installment loans to individuals	113,199	119,328
Lease financing receivable	4,790	4,857
Other	1,746	2,748
	1,301,452	1,284,431
Less allowance for loan losses	(18,939)	(11,226)
	\$1,282,513	\$1,273,205

The Company monitors loan concentrations and evaluates individual customer and aggregate industry leverage, profitability, risk rating distributions, and liquidity for each major standard industry classification segment. At September 30, 2015, one industry segment concentration, the oil and gas industry, constituted more than 10% of the loan portfolio. The Company's exposure in the oil and gas industry, including related service and manufacturing industries, totaled approximately \$295.6 million, or 22.7% of total loans. Additionally, the Company's exposure to loans secured by commercial real estate is monitored. At September 30, 2015, loans secured by commercial real

estate (including commercial construction, farmland and multifamily loans) totaled approximately \$529.0 million. Of the \$529.0 million, \$473.3 million represent CRE loans, 53% of which are secured by owner-occupied commercial properties. Of the \$529.0 million in loans secured by commercial real estate, \$20.0 million, or 3.8%, were on nonaccrual status at September 30, 2015.

Allowance for Loan Losses

The allowance for loan losses is a valuation account available to absorb probable losses on loans. All losses are charged to the allowance for loan losses when the loss actually occurs or when a determination is made that a loss is likely to occur. Recoveries

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are credited to the allowance for loan losses at the time of recovery. Quarterly, the probable level of losses in the existing portfolio is estimated through consideration of various factors. Based on these estimates, the allowance for loan losses is increased by charges to earnings and decreased by charge offs (net of recoveries).

The allowance is composed of general reserves and specific reserves. General reserves are determined by applying loss percentages to segments of the portfolio. The loss percentages are based on each segment's historical loss experience, generally over the past twelve to eighteen months, and adjustment factors derived from conditions in the Company's internal and external environment. All loans considered to be impaired are evaluated on an individual basis to determine specific reserve allocations in accordance with GAAP. Loans for which specific reserves are provided are excluded from the calculation of general reserves.

Loans acquired in business combinations are initially recorded at fair value, which includes an estimate of credit losses expected to be realized over the remaining lives of the loans, and therefore no corresponding allowance for loan losses is recorded for these loans at acquisition. Methods utilized to estimate any subsequently required allowance for loan losses for acquired loans not deemed credit-impaired at acquisition are similar to originated loans; however, the estimate of loss is based on the unpaid principal balance and then compared to any remaining unaccreted purchase discount. To the extent that the calculated loss is greater than the remaining unaccreted purchase discount, an allowance is recorded for such difference.

The Company has an internal loan review department that is independent of the lending function to challenge and corroborate the loan grade assigned by the lender and to provide additional analysis in determining the adequacy of the allowance for loan losses.

A rollforward of the activity within the allowance for loan losses by loan type and recorded investment in loans for the nine months ended September 30, 2015 and 2014 is as follows (in thousands):

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	September 30, 2015							
	Real Estate							
	Coml, Fin, and Agric	Constru-ctio	Commercial	Residential	Installment loans to individuals	Lease financing receivable	Other	Total
Allowance for loan losses:								
Beginning balance	\$5,729	\$954	\$2,402	\$810	\$1,311	\$16	\$4	\$11,226
Charge-offs	(2,310)	(76)	(169)	(45)	(883)	—	—	(3,483)
Recoveries	185	1	20	10	80	—	—	296
Provision	8,016	(62)	2,107	(104)	923	13	7	10,900
Ending balance	\$11,620	\$817	\$4,360	\$671	\$1,431	\$29	\$11	\$18,939
Ending balance: individually evaluated for impairment	\$2,569	\$26	\$1,739	\$147	\$216	\$—	\$—	\$4,697
Ending balance: collectively evaluated for impairment	\$9,051	\$791	\$2,621	\$524	\$1,215	\$29	\$11	\$14,242
Loans:								
Ending balance	\$482,452	\$74,279	\$473,319	\$151,667	\$113,199	\$4,790	\$	