MIDSOUTH BANCORP INC
Form 10-Q
May 10, 2016

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 March 31, 2016
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	72 –1020809
(State or other jurisdiction of incorporation or organization)	(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 May 10, 2016, there were 11,362,150 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)

	March 31, 2016 (unaudited)	December 31, 2015 (audited)
Assets		
Cash and due from banks, including required reserves of $7,155 and $8,522, respectively	$32,942	$37,170
Interest-bearing deposits in banks	77,043	48,331
Federal funds sold	2,425	3,700
Securities available-for-sale, at fair value (cost of $298,564 at March 31, 2016 and $317,375 at December 31, 2015)	302,151	318,159
Securities held-to-maturity (fair value of $115,631 at March 31, 2016 and $117,698 at December 31, 2015)	113,623	116,792
Other investments	11,195	11,188
Loans	1,250,049	1,263,645
Allowance for loan losses	(20,347)	(19,011)
Loans, net	1,229,702	1,244,634
Bank premises and equipment, net	68,482	69,105
Accrued interest receivable	6,729	6,594
Goodwill	42,171	42,171
Intangibles	5,451	5,728
Cash surrender value of life insurance	13,690	13,622
Other real estate	3,908	4,187
Other assets	7,039	6,352
Total assets	$1,916,551	$1,927,733
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Non-interest-bearing	$383,684	$374,261
Interest-bearing	1,174,519	1,176,589
Total deposits	1,558,203	1,550,850
Securities sold under agreements to repurchase	87,879	85,957
Short-term Federal Home Loan Bank advances	—	25,000
Long-term Federal Home Loan Bank advances	25,744	25,851
Junior subordinated debentures	22,167	22,167
Other liabilities	6,704	4,771
Total liabilities	1,700,697	1,714,596
Commitments and contingencies		
Shareholders' equity:		
Series B Preferred stock, no par value; 5,000,000 shares authorized, 32,000 shares issued and outstanding at March 31, 2016 and December 31, 2015	32,000	32,000
Series C Preferred stock, no par value; 100,000 shares authorized, 91,200 shares issued and outstanding at March 31, 2016 and December 31, 2015	9,120	9,120
	1,136	1,136

Common stock, $0.10 par value; 30,000,000 shares authorized, 11,362,150 shares issued and outstanding at March 31, 2016 and December 31, 2015		
Additional paid-in capital	110,958	110,771
Unearned ESOP shares	(1,284)	(1,093)
Accumulated other comprehensive income	2,331	509
Retained earnings	61,593	60,694
Total shareholders’ equity	215,854	213,137
Total liabilities and shareholders’ equity	$1,916,551	$1,927,733

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 March 31,	
	2016	2015
Interest income:		
Loans, including fees	$17,123	$18,054
Securities and other investments:		
Taxable	2,036	1,925
Nontaxable	458	584
Federal funds sold	5	2
Time and interest bearing deposits in other banks	94	37
Other investments	88	79
Total interest income	19,804	20,681
Interest expense:		
Deposits	907	947
Securities sold under agreements to repurchase	233	230
Other borrowings and payables	113	97
Junior subordinated debentures	167	150
Total interest expense	1,420	1,424
Net interest income	18,384	19,257
Provision for loan losses	2,800	6,000
Net interest income after provision for loan losses	15,584	13,257
Non-interest income:		
Service charges on deposits	2,313	2,332
Gain on sale of securities, net	—	115
ATM and debit card income	1,609	1,629
Other charges and fees	565	765
Total non-interest income	4,487	4,841
Non-interest expenses:		
Salaries and employee benefits	7,990	7,942
Occupancy expense	3,597	3,685
ATM and debit card expense	785	663
Data processing	458	457
FDIC insurance	429	281
Legal and professional fees	383	345
Other	3,117	2,788
Total non-interest expenses	16,759	16,161
Income before income taxes	3,312	1,937
Income tax expense	963	446
Net earnings	2,349	1,491
Dividends on preferred stock	427	173
Net earnings available to common shareholders	$1,922	$1,318

Earnings per share:		
Basic	$0.17	$0.12
Diluted	$0.17	$0.12
Weighted average number of shares outstanding:		
Basic	11,262	11,318
Diluted	11,262	11,351
Dividends declared per common share	$0.09	$0.09

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 March 31,	
	2016	2015
Net earnings	$2,349	$1,491
Other comprehensive income, net of tax:		
Unrealized gains on securities available-for-sale:		
Unrealized holding gains arising during the year	2,802	1,701
Less: reclassification adjustment for gains on sales of securities available-for-sale	—	(115)
Total other comprehensive income, before tax	2,802	1,586
Income tax effect related to items of other comprehensive income	(980)	(555)
Total other comprehensive income, net of tax	1,822	1,031
Total comprehensive income	$4,171	$2,522

See notes to unaudited consolidated financial statements.

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MidSouth Bancorp, Inc. and Subsidiaries
Consolidated Statement of Shareholders' Equity (unaudited)
For the Three Months Ended March 31, 2016
(in thousands, except share and per share data)

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Unearned ESOP Shares	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance - December 31, 2015	123,200	$41,120	11,362,150	$1,136	$110,771	$(1,093)	$ 509	$60,694	$213,137
Net earnings	—	—	—	—	—	—	—	2,349	2,349
Dividends on Series B and Series C preferred stock	—	—	—	—	—	—	—	(427)	(427)
Dividends on common stock, $0.09 per share	—	—	—	—	—	—	—	(1,023)	(1,023)
Increase in ESOP obligation, net of repayments	—	—	—	—	—	(191)	—	—	(191)
Tax benefit resulting from distribution from Directors Deferred Compensation Plan	—	—	—	—	39	—	—	—	39
Stock option and restricted stock compensation expense	—	—	—	—	97	—	—	—	97
ESOP compensation expense					(36)				(36)
Tax benefit for dividends paid to the ESOP					87				87
Change in accumulated other comprehensive income	—	—	—	—	—	—	1,822	—	1,822
Balance – March 31, 2016	123,200	$41,120	11,362,150	$1,136	$110,958	$(1,284)	$ 2,331	$61,593	$215,854

See notes to unaudited consolidated financial statements.

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

	For the Three Months Ended March 31, 2016	2015
Cash flows from operating activities:		
Net earnings	$2,349	$1,491
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	1,512	1,555
Accretion of purchase accounting adjustments	(288)	(189)
Provision for loan losses	2,800	6,000
Deferred tax benefit	(503)	(1,951)
Amortization of premiums on securities, net	681	633
Stock option expense	84	85
Restricted stock expense	13	—
Excess of book value over market value of ESOP shares released	(36)	—
Net gain on sale of investment securities	—	(115)
Net loss (gain) on sale of other real estate owned	24	(50)
Net write down of other real estate owned	120	29
Net gain on sale/disposal of premises and equipment	(14)	(1)
Change in accrued interest receivable	(135)	(106)
Change in accrued interest payable	(9)	(4)
Change in other assets & other liabilities, net	454	1,684
Net cash provided by operating activities	7,052	9,061
Cash flows from investing activities:		
Proceeds from maturities and calls of securities available-for-sale	18,379	17,988
Proceeds from maturities and calls of securities held-to-maturity	2,919	3,326
Proceeds from sale of securities available-for-sale	—	34,509
Purchases of securities available-for-sale	—	(73,853)
Proceeds from sale of other investments	—	349
Purchases of other investments	(7)	(3)
Net change in loans	12,293	(28,461)
Purchases of premises and equipment	(915)	(1,362)
Proceeds from sale of premises and equipment	40	4
Proceeds from sale of other real estate owned	245	532
Net cash provided by (used in) investing activities	32,954	(46,971)
Cash flows from financing activities:		
Change in deposits	7,366	30,901
Change in securities sold under agreements to repurchase	1,922	25,248
Borrowings on Federal Home Loan Bank advances	25,000	25,000
Repayments of Federal Home Loan Bank advances	(50,017)	(25,015)
Proceeds and tax benefit from exercise of stock options	—	80
Tax benefit resulting from distribution from Directors Deferred Compensation Plan	39	420
Tax benefit for dividends paid to ESOP	87	—
Payment of dividends on preferred stock	(171)	(174)
Payment of dividends on common stock	(1,023)	(1,020)

Net cash (used in) provided by financing activities	(16,797)	55,440
Net increase in cash and cash equivalents	23,209	17,530
Cash and cash equivalents, beginning of period	89,201	86,872
Cash and cash equivalents, end of period	$112,410	$104,402
Supplemental cash flow information:		
Interest paid	$1,429	$1,427
Noncash investing and financing activities:		
Transfer of loans to other real estate	110	866
Change in accrued common stock dividends	—	1
Change in accrued preferred stock dividends	256	—
Net change in loan to ESOP	(191)	(268)

See notes to unaudited consolidated financial statements.

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MidSouth Bancorp, Inc. and Subsidiaries
Notes to Interim Consolidated Financial Statements
March 31, 2016
(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 March 31, 2016 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 2015 Annual Report on Form 10-K.

The results of operations for the three-month period ended March 31, 2016 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 2015 Annual Report on Form 10-K.

Recent Accounting Pronouncements — ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities is the first ASU issued under the FASB's financial instruments project. ASU 2016-01 primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The guidance in this ASU requires all equity securities with readily determinable fair values to be measured at fair value on the balance sheet, with changes in fair value recorded through earnings. For financial liabilities that are measured at fair value in accordance with the fair value option, the guidance requires changes in the fair value of a financial liabilities attributable to a change in instrument-specific credit risk to be recorded separately in other comprehensive income. This ASU eliminates the requirement to disclose the methods and significant assumptions used to estimate fair value. It does require public entities to use the exit price when measuring the fair value of financial instruments measured at amortized cost for disclosure purposes In addition, the new guidance requires financial assets and financial liabilities to be presented separately in the notes to the financial statements, grouped by measurement category and form of financial asset. The effective date of this Update is for fiscal years beginning on or after December 15, 2017. The Company is evaluating the impact, if any, that ASU 2016-01 will have on its financial position, results of operations, and its financial statement disclosures.

ASU 2016-02, Leases (Topic 842) was issued with the intention of improving financial reporting about leasing transactions. Under the new guidance, a lessee will be required 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 guidance in the ASU will require both types of leases to be recognized on the balance sheet. The ASU also will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The effective date of this Update is for fiscal years beginning on or after December 15, 2018. The Company is evaluating the impact that ASU 2016-02 will have on its financial position, results of operations, and its financial statement disclosures.

ASU 2016-09, Compensation - Stock Compensation (Topic 718) was issued as part of the FASB's simplification initiative. Under the new guidance, several aspects of the accounting for share-based payment award transactions are simplified, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. The effective date of this Update is for fiscal years beginning on or after December 15, 2016. The Company is evaluating the impact that ASU 2016-09 will have on its financial position, results of operations, and its financial statement disclosures.

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2. Investment Securities

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

	March 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Obligations of state and political subdivisions	$23,624	$ 625	$ 10	$24,239
GSE mortgage-backed securities	81,030	2,890	24	83,896
Collateralized mortgage obligations: residential	187,859	871	744	187,986
Collateralized mortgage obligations: commercial	3,951	—	43	3,908
Mutual funds	2,100	22	—	2,122
	$298,564	$ 4,408	$ 821	$302,151

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Obligations of state and political subdivisions	$30,750	$ 770	$ 27	$31,493
GSE mortgage-backed securities	84,946	2,321	229	87,038
Collateralized mortgage obligations: residential	194,067	297	2,276	192,088
Collateralized mortgage obligations: commercial	5,512	1	65	5,448
Mutual funds	2,100	—	8	2,092
	$317,375	$ 3,389	$ 2,605	$318,159

	March 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
Obligations of state and political subdivisions	$43,430	$ 935	$ 4	$44,361
GSE mortgage-backed securities	53,423	1,256	12	54,667
Collateralized mortgage obligations: residential	10,429	—	193	10,236
Collateralized mortgage obligations: commercial	6,341	26	—	6,367
	$113,623	$ 2,217	$ 209	$115,631

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
Obligations of state and political subdivisions	$43,737	$ 697	$ 6	$44,428
GSE mortgage-backed securities	55,696	705	131	56,270
Collateralized mortgage obligations: residential	10,803	—	361	10,442
Collateralized mortgage obligations: commercial	6,556	2	—	6,558
	$116,792	$ 1,404	$ 498	$117,698

With the exception of two private-label collateralized mortgage obligations ("CMOs") with a combined balance remaining of $23,000 at March 31, 2016, all of the Company's CMOs are government-sponsored enterprise ("GSE") securities.

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The amortized cost and fair value of debt securities at March 31, 2016 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	$ 2,249	$ 2,276
Due after one year through five years	17,887	18,379
Due after five years through ten years	2,871	2,973
Due after ten years	617	611
Mortgage-backed securities and collateralized mortgage obligations:		
Residential	268,889	271,882
Commercial	3,951	3,908
Mutual funds	2,100	2,122
	$ 298,564	$ 302,151

	Amortized Cost	Fair Value
Held-to-maturity:		
Due in one year or less	$ 479	$ 479
Due after one year through five years	3,454	3,501
Due after five years through ten years	11,390	11,691
Due after ten years	28,107	28,690
Mortgage-backed securities and collateralized mortgage obligations:		
Residential	63,852	64,903
Commercial	6,341	6,367
	$ 113,623	$ 115,631

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

	March 31, 2016 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	$ 597	$ 4	$ 610	$ 6	$ 1,207	$ 10
GSE mortgage-backed securities	11,054	24	—	—	11,054	24
Collateralized mortgage obligations: residential	56,918	269	26,003	475	82,921	744
Collateralized mortgage obligations: commercial	1,236	2	2,673	41	3,909	43
	$ 69,805	$ 299	$ 29,286	$ 522	$ 99,091	$ 821

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	December 31, 2015					
	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	$1,192	$ 27	$—	$ —	$1,192	$ 27
GSE mortgage-backed securities	21,607	229	—	—	21,607	229
Collateralized mortgage obligations: residential	140,999	1,207	30,029	1,069	171,028	2,276
Collateralized mortgage obligations: commercial	—	—	2,946	65	2,946	65
Other asset-backed securities	2,092	8	—	—	2,092	8
	$165,890	$ 1,471	$32,975	$ 1,134	$198,865	$ 2,605

	March 31, 2016					
	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
Held-to-maturity:						
Obligations of state and political subdivisions	$—	$ —	$505	$ 4	$505	$ 4
GSE mortgage-backed securities	6,915	12	—	—	6,915	12
Collateralized mortgage obligations: residential	—	—	10,235	193	10,235	193
	$6,915	$ 12	$10,740	$ 197	$17,655	$ 209

	December 31, 2015					
	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
Held-to-maturity:						
Obligations of state and political subdivisions	$541	$ 1	$505	$ 5	$1,046	$ 6
GSE mortgage-backed securities	—	—	7,021	131	7,021	131
Collateralized mortgage obligations: residential	—	—	10,442	361	10,442	361
	$541	$ 1	$17,968	$ 497	$18,509	$ 498

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 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.

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As of March 31, 2016, 32 securities had unrealized losses totaling 0.87% of the individual securities' amortized cost basis and 0.25% of the Company's total amortized cost basis. Of the 32 securities, 15 had been in an unrealized loss position for over twelve months at March 31, 2016. These 15 securities had an amortized cost basis and unrealized loss of $40.7 million and $719,000, respectively. The unrealized losses on debt securities at March 31, 2016 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 March 31, 2016, 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 March 31, 2016.

During the three months ended March 31, 2016, the Company did not sell any securities. During the three months ended March 31, 2015, the Company sold 18 securities classified as available-for-sale at a net gain of $115,000. Of the 18 securities sold, 8 were sold with gains totaling $250,000 and 10 securities were sold at a loss of $135,000.

Securities with an aggregate carrying value of approximately $321.1 million and $285.4 million at March 31, 2016 and December 31, 2015, 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):

	March 31, 2016	December 31, 2015
Commercial, financial and agricultural	$441,160	$454,028
Real estate - construction	84,790	74,952
Real estate – commercial	467,648	471,141
Real estate – residential	149,961	149,064
Installment loans to individuals	103,181	111,009
Lease financing receivable	1,590	1,968
Other	1,719	1,483
	1,250,049	1,263,645
Less allowance for loan losses	(20,347)	(19,011)
	$1,229,702	$1,244,634

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 March 31, 2016, 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 $252.5 million, or 20.2% of total loans. Additionally, the Company's exposure to loans secured by commercial real estate is monitored. At March 31, 2016, loans secured by commercial real estate (including commercial construction, farmland and multifamily loans) totaled approximately $532.5 million. Of the $532.5 million, $467.6 million represent CRE loans, 54% of which are secured by owner-occupied commercial properties. Of the $532.5 million in loans secured by commercial real estate, $26.0 million, or 4.9%, were on nonaccrual status at March 31, 2016.

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 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

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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 three months ended March 31, 2016 and 2015 is as follows (in thousands):

	March 31, 2016							
		Real Estate						
	Coml, Fin, and Agric	Constru-ction	Commercial	Residential	Installment loans to individuals	Lease financing receivable	Other	Total
Allowance for loan losses:								
Beginning balance	$11,268	$819	$4,614	$816	$1,468	$14	$12	$19,011
Charge-offs	(1,307)	—	—	(4)	(283)	—	—	(1,594)
Recoveries	26	—	76	3	25	—	—	130
Provision	2,194	(420)	861	(170)	336	(3)	2	2,800
Ending balance	$12,181	$399	$5,551	$645	$1,546	$11	$14	$20,347
Ending balance: individually evaluated for impairment	$1,021	$—	$2,586	$267	$278	$—	$—	$4,152
Ending balance: collectively evaluated for impairment	$11,160	$399	$2,965	$378	$1,268	$11	$14	$16,195
Loans:								
Ending balance	$441,160	$84,790	$467,648	$149,961	$103,181	$1,590	$1,719	$1,250,049
Ending balance: individually evaluated for impairment	$29,097	$35	$27,511	$2,230	$506	$—	$—	$59,379
Ending balance: collectively evaluated for impairment	$412,063	$84,755	$439,530	$147,653	$102,675	$1,590	$1,719	$1,189,985
Ending balance: loans acquired with deteriorated credit quality	$—	$—	$607	$78	$—	$—	$—	$685

	March 31, 2015							
		Real Estate						
	Coml, Fin, and Agric	Constr-uction	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	(1,001)	(6)	—	(2)	(323)	—	—	(1,332)
Recoveries	132	—	6	2	26	—	—	166
Provision	5,523	3	202	7	260	4	1	6,000
Ending balance	$10,383	$951	$2,610	$817	$1,274	$20	$5	$16,060
Ending balance: individually evaluated for impairment	$737	$—	$645	$57	$206	$—	$—	$1,645
Ending balance: collectively evaluated for impairment	$9,646	$951	$1,965	$760	$1,068	$20	$5	$14,415
Loans:								
Ending balance	$484,508	$76,964	$471,737	$153,647	$115,284	$6,350	$2,439	$1,310,929
Ending balance: individually evaluated for impairment	$2,427	$477	$7,977	$1,471	$405	$—	$—	$12,757
Ending balance: collectively evaluated for impairment	$482,081	$76,487	$463,106	$152,087	$114,879	$6,350	$2,439	$1,297,429
Ending balance: loans acquired with deteriorated credit quality	$—	$—	$654	$89	$—	$—	$—	$743

Non-Accrual and Past Due Loans

Loans are considered past due if the required principal and interest payment have not been received as of the date such payments were due. Loans are placed on non-accrual status when, in management's opinion, the probability of collection of interest is deemed insufficient to warrant further accrual. For loans placed on non-accrual status, the accrual of interest is discontinued and subsequent payments received are applied to the principal balance. Interest income is recorded after principal has been satisfied and as payments are received. Non-accrual loans may be returned to accrual status if all principal and interest amounts contractually owed are reasonably assured of repayment within a reasonable period and there is a period of at least six months to one year of repayment performance by the borrower depending on the contractual payment terms.

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An age analysis of past due loans (including both accruing and non-accruing loans) is as follows (in thousands):

	March 31, 2016						
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans	Recorded Investment > 90 days and Accruing
Commercial, financial, and agricultural	$6,021	$1,922	$24,116	$32,059	$409,101	$441,160	$ 204
Commercial real estate - construction	260	—	11	271	64,549	64,820	—
Commercial real estate - other	10,754	—	16,275	27,029	440,619	467,648	—
Residential - construction	1,468	—	—	1,468	18,502	19,970	—
Residential - prime	1,046	97	1,625	2,768	147,193	149,961	—
Consumer - credit card	37	17	16	70	5,648	5,718	16
Consumer - other	625	306	478	1,409	96,054	97,463	38
Lease financing receivable	—	—	—	—	1,590	1,590	—
Other loans	66	3	—	69	1,650	1,719	—
	$20,277	$2,345	$42,521	$65,143	$1,184,906	$1,250,049	$ 258

	December 31, 2015						
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans	Recorded Investment > 90 days and Accruing
Commercial, financial, and agricultural	$1,362	$2,317	$25,696	$29,375	$424,653	$454,028	$ 59
Commercial real estate - construction	1,047	—	12	1,059	55,839	56,898	—
Commercial real estate - other	1,164	514	19,512	21,190	449,951	471,141	—
Residential - construction	—	—	—	—	18,054	18,054	—
Residential - prime	1,703	367	1,563	3,633	145,431	149,064	19
Consumer - credit card	38	25	22	85	5,970	6,055	22
Consumer - other	984	219	387	1,590	103,364	104,954	47
Lease financing receivable	—	—	—	—	1,968	1,968	—
Other loans	101	4	—	105	1,378	1,483	—
	$6,399	$3,446	$47,192	$57,037	$1,206,608	$1,263,645	$ 147

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Non-accrual loans are as follows (in thousands):

	March 31, 2016	December 31, 2015
Commercial, financial, and agricultural	$ 24,900	$ 27,705
Commercial real estate – construction	35	37
Commercial real estate - other	25,951	19,907
Residential - construction	—	—
Residential - prime	2,322	1,998
Consumer - credit card	—	—
Consumer - other	506	404
Lease financing receivable	—	—
Other	—	—
	$ 53,714	$ 50,051

The amount of interest that would have been recorded on non-accrual loans, had the loans not been classified as non-accrual, totaled approximately $757,000 and $342,000 for the three months ended March 31, 2016 and 2015, respectively. Interest actually received on non-accrual loans subsequent to their transfer to non-accrual status totaled at March 31, 2016 and 2015 was $59,000 and $11,000, respectively.

Impaired Loans

Loans are considered impaired when, based upon current information, it is probable the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. All loans classified as special mention, substandard, or doubtful, based on credit risk rating factors, are reviewed to determine whether impairment testing is appropriate. An allowance for each impaired loan is calculated based on the present value of expected future cash flows discounted at the loan's effective interest rate or at the loan's observable market price or the fair value of the collateral if the loan is collaterally dependent. All impaired loans are reviewed, at a minimum, on a quarterly basis. Existing valuations are reviewed to determine if additional discounts or new appraisals are required. After this review, when comparing the resulting collateral valuation to the outstanding loan balance, if the discounted collateral value exceeds the loan balance no specific allocation is reserved. Acquired impaired loans are generally not subject to individual evaluation for impairment and are not reported with impaired loans or troubled debt restructurings, even if they would otherwise qualify for such treatment.

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Loans that are individually evaluated for impairment are as follows (in thousands):

	March 31, 2016				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial, financial, and agricultural	$26,064	$26,328	$ —	$ 24,297	$ 267
Commercial real estate – construction	35	35	—	36	—
Commercial real estate – other	7,564	7,564	—	6,725	45
Residential – prime	1,181	1,201	—	1,273	10
Consumer – other	24	24	—	29	—
Subtotal:	34,868	35,152	—	32,360	322
With an allowance recorded:					
Commercial, financial, and agricultural	3,033	3,033	1,021	4,111	374
Commercial real estate – other	19,947	19,947	2,586	16,976	208
Residential – prime	1,049	1,049	267	794	7
Consumer – other	482	496	278	426	5
Subtotal:	24,511	24,525	4,152	22,307	594
Totals:					
Commercial	56,643	56,907	3,607	52,145	894
Residential	2,230	2,250	267	2,067	17
Consumer	506	520	278	455	5
Grand total:	$59,379	$59,677	$ 4,152	$ 54,667	$ 916

	December 31, 2015				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial, financial, and agricultural	$22,529	$22,793	$ —	$ 11,484	$ 745
Commercial real estate – construction	37	37	—	45	—
Commercial real estate – other	5,886	5,886	—	3,903	97
Residential – prime	1,365	1,385	—	954	17
Consumer – other	34	34	—	56	—
Subtotal:	29,851	30,135	—	16,442	859
With an allowance recorded:					
Commercial, financial, and agricultural	5,189	6,373	961	3,704	138
Commercial real estate – other	14,004	14,004	1,585	9,236	161
Residential – prime	538	538	160	533	7
Consumer – other	370	384	221	334	8
Subtotal:	20,101	21,299	2,927	13,807	314
Totals:					
Commercial	47,645	49,093	2,546	28,372	1,141
Residential	1,903	1,923	160	1,487	24
Consumer	404	418	221	390	8
Grand total:	$49,952	$51,434	$ 2,927	$ 30,249	$ 1,173

Credit Quality

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The Company manages credit risk by observing written underwriting standards and lending policy established by the Board of Directors and management to govern all lending activities. The risk management program requires that each individual loan officer review his or her portfolio on a quarterly basis and assign recommended credit ratings on each loan. These efforts are supplemented by independent reviews performed by a loan review officer and other validations performed by the internal audit department. The results of the reviews are reported directly to the Audit Committee of the Board of Directors.

Loans can be classified into the following three risk rating grades: pass, special mention, and substandard/doubtful. Factors considered in determining a risk rating grade include debt service capacity, capital structure/liquidity, management, collateral quality, industry risk, company trends/operating performance, repayment source, revenue diversification/customer concentration, quality of financial information, and financing alternatives. Pass grade signifies the highest quality of loans to loans with reasonable credit risk, which may include borrowers with marginally adequate financial performance, but have the ability to repay the debt. Special mention loans have potential weaknesses that warrant extra attention from the loan officer and other management personnel, but still have the ability to repay the debt. Substandard classification includes loans with well-defined weaknesses with risk of potential loss. Loans classified as doubtful are considered to have little recovery value and are charged off.

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The following tables present the classes of loans by risk rating (in thousands):

Commercial Credit Exposure Credit Risk Profile by Creditworthiness Category	March 31, 2016				
	Commercial, financial, and agricultural	Commercial real estate - construction	Commercial real estate - other	Total	% of Total
Pass	$368,557	$ 64,602	$ 406,237	$839,396	86.22 %
Special mention	24,933	99	24,759	49,791	5.11 %
Substandard	47,466	119	36,652	84,237	8.65 %
Doubtful	204	—	—	204	0.02 %
	$441,160	$ 64,820	$ 467,648	$973,628	100.00 %

Residential Credit Exposure Credit Risk Profile by Creditworthiness Category	Residential - construction	Residential - prime	Total	% of Total
Pass	$ 19,970	$ 145,302	$165,272	97.26 %
Special mention	—	1,122	1,122	0.66 %
Substandard	—	3,537	3,537	2.08 %
	$ 19,970	$ 149,961	$169,931	100.00 %

Consumer and Commercial Credit Exposure Credit Risk Profile Based on Payment Activity	Consumer - credit card	Consumer - other	Lease financing receivable	Other	Total	% of Total
Performing	$ 5,702	$96,919	$ 1,590	$ 1,719	$105,930	99.47 %
Nonperforming	16	544	—	—	560	0.53 %
	$ 5,718	$97,463	$ 1,590	$ 1,719	$106,490	100.00 %

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December 31, 2015

Commercial Credit Exposure
Credit Risk Profile by
Creditworthiness Category

	Commercial, financial, and agricultural	Commercial real estate - construction	Commercial real estate - other	Total	% of Total
Pass	$ 383,897	$ 56,740	$ 412,141	$852,778	86.84 %
Special mention	32,506	34	28,217	60,757	6.18 %
Substandard	37,353	124	30,783	68,260	6.95 %
Doubtful	272	—	—	272	0.03 %
	$ 454,028	$ 56,898	$ 471,141	$982,067	100.00%

Residential Credit Exposure
Credit Risk Profile by
Creditworthiness Category

	Residential - construction	Residential - prime	Total	% of Total
Pass	$ 18,054	$ 144,704	$162,758	97.39 %
Special mention	—	1,225	1,225	0.73 %
Substandard	—	3,135	3,135	1.88 %
	$ 18,054	$ 149,064	$167,118	100.00%

Consumer and Commercial Credit Exposure
Credit Risk Profile Based on
Payment Activity

	Consumer - credit card	Consumer - other	Lease financing receivable	Other	Total	% of Total
Performing	$6,033	$ 104,503	$ 1,968	$ 1,483	$113,987	99.59 %
Nonperforming	22	451	—	—	473	0.41 %
	$6,055	$ 104,954	$ 1,968	$ 1,483	$114,460	100.00%

Troubled Debt Restructurings

A troubled debt restructuring ("TDR") is a restructuring of a debt made by the Company to a debtor for economic or legal reasons related to the debtor's financial difficulties that it would not otherwise consider. The Company grants the concession in an attempt to protect as much of its investment as possible.

Information about the Company's TDRs is as follows (in thousands):

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	March 31, 2016			
	Current	Past Due Greater Than 30 Days	Nonaccrual TDRs	Total TDRs
Commercial, financial and agricultural	$16	$3,943	$ 20,708	$24,667
Real estate - commercial	1,716	—	—	1,716
	$1,732	$3,943	$ 20,708	$26,383

	December 31, 2015			
	Current	Past Due Greater Than 30 Days	Nonaccrual TDRs	Total TDRs
Commercial, financial and agricultural	$16	$—	$ 20,865	$20,881
Real estate - commercial	—	148	—	148
	$16	$148	$ 20,865	$21,029

During the three months ended March 31, 2016, one loan relationship with a pre-modification balance of $5.5 million was identified as a TDR after conversion of the loans to interest only for a limited amount of time. Subsequent to its conversion to TDR status, this one relationship totaling $5.5 million defaulted on the modified terms during the three months ended March 31, 2016. During the three months ended March 31, 2015, there were no loans identified as a TDR, and there were no defaults on any loans that were modified as TDRs during the preceding twelve months. For purposes of the determination of an allowance for loan losses on these TDRs, as an identified TDR, the Company considers a loss probable on the loan and, as a result is reviewed for specific impairment in accordance with the Company's allowance for loan loss methodology. If it is determined losses are probable on such TDRs, either because of delinquency or other credit quality indicator, the Company establishes specific reserves for these loans. As of March 31, 2016, there were no commitments to lend additional funds to debtors owing sums to the Company whose terms have been modified in TDRs.

4. Intangibles

A summary of core deposit intangible assets as of March 31, 2016 and December 31, 2015 is as follows (in thousands):

	March 31, 2016	December 31, 2015
Gross carrying amount	$11,674	$ 11,674
Less accumulated amortization	(6,223)	(5,946