MIDSOUTH BANCORP INC
Form 10-Q
May 10, 2018

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, 2018
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 of 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, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company

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.

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, 2018, there were 16,603,511 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, 2018 (unaudited)	December 31, 2017 (audited)
Assets		
Cash and due from banks, including required reserves of $7,991 and $6,741, respectively	$18,037	$34,775
Interest-bearing deposits in banks	192,130	114,839
Federal funds sold	1,319	3,350
Securities available-for-sale, at fair value (cost of $301,411 at March 31, 2018 and $312,584 at December 31, 2017)	293,970	309,191
Securities held-to-maturity (fair value of $72,307 at March 31, 2018 and $80,920 at December 31, 2017)	73,255	81,052
Other investments	12,896	12,214
Loans held for sale	1,117	15,737
Loans	1,137,255	1,183,426
Allowance for loan losses	(25,371)	(26,888)
Loans, net	1,111,884	1,156,538
Bank premises and equipment, net	57,848	59,057
Accrued interest receivable	7,887	8,283
Goodwill	42,171	42,171
Intangibles	3,238	3,515
Cash surrender value of life insurance	14,948	14,896
Other real estate	1,803	2,001
Assets held for sale	3,995	3,995
Other assets	21,257	19,538
Total assets	$1,857,755	$1,881,152
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Non-interest-bearing	$427,504	$416,547
Interest-bearing	1,076,433	1,063,142
Total deposits	1,503,937	1,479,689
Securities sold under agreements to repurchase	33,026	67,133
Short-term Federal Home Loan Bank advances	27,500	40,000
Long-term Federal Home Loan Bank advances	10,016	10,021
Junior subordinated debentures	22,167	22,167
Other liabilities	10,272	8,127
Total liabilities	1,606,918	1,627,137
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, 2018 and December 31, 2017	32,000	32,000
	8,987	8,987

Series C Preferred stock, no par value; 100,000 shares authorized, 89,875 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively		
Common stock, $0.10 par value; 30,000,000 shares authorized, 16,621,811 and 16,548,829 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	1,662	1,655
Additional paid-in capital	168,765	168,412
Unearned ESOP shares	(906)	(937)
Accumulated other comprehensive loss	(4,782)	(1,828)
Retained earnings	45,111	45,726
Total shareholders’ equity	250,837	254,015
Total liabilities and shareholders’ equity	$1,857,755	$1,881,152

See notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31,	
	2018	2017
Interest income:		
Loans, including fees	$16,015	$16,622
Securities and other investments:		
Taxable	2,047	2,327
Nontaxable	316	407
Federal funds sold	18	6
Time and interest bearing deposits in other banks	514	85
Other investments	87	84
Total interest income	18,997	19,531
Interest expense:		
Deposits	1,238	935
Securities sold under agreements to repurchase	40	234
Short-term FHLB advances	84	—
Long-term FHLB advances	45	88
Junior subordinated debentures	220	208
Total interest expense	1,627	1,465
Net interest income	17,370	18,066
Provision for loan losses	—	2,800
Net interest income after provision for loan losses	17,370	15,266
Non-interest income:		
Service charges on deposits	2,206	2,480
Gain on sale of securities, net	—	6
ATM and debit card income	1,784	1,703
Other charges and fees	839	855
Total non-interest income	4,829	5,044
Non-interest expenses:		
Salaries and employee benefits	7,719	8,689
Occupancy expense	3,190	3,624
ATM and debit card expense	576	721
Data processing	665	621
FDIC insurance	430	397
Legal and professional fees	5,703	385
Loss on transfer of loans to held for sale	875	—
Other	2,715	2,793
Total non-interest expenses	21,873	17,230
Income before income tax expense (benefit)	326	3,080
Income tax (benefit) expense	(34)	589
Net earnings	360	2,491

Dividends on preferred stock	810	811
Net (loss) earnings available to common shareholders	$(450)	$1,680
(Loss) earnings per share:		
Basic	$(0.03)	$0.15
Diluted	$(0.03)	$0.15
Weighted average number of shares outstanding:		
Basic	16,495	11,264
Diluted	16,500	11,282
Dividends declared per common share	$0.01	$0.09

See notes to unaudited consolidated financial statements.

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MidSouth Bancorp, Inc. and Subsidiaries
Consolidated Statements of Comprehensive (Loss) Income (unaudited)
(in thousands)

	Three Months Ended March 31,	
	2018	2017
Net earnings	$360	$2,491
Other comprehensive (loss) income, net of tax:		
Unrealized (losses) gains on securities available-for-sale:		
Unrealized holding (losses) gains arising during the year	(4,048)	820
Less: reclassification adjustment for gains on sales of securities available-for-sale	—	(6)
Net change in unrealized (losses) gains on securities available-for-sale	(4,048)	814
Unrealized gain on derivative instruments designated as cash flow hedges:		
Unrealized holding gains on derivatives arising during the period	349	13
Less: reclassification adjustment for gains on derivative instruments	(40)	—
Net change in unrealized gain on derivative instruments	309	13
Total other comprehensive (loss) income, before tax	(3,739)	827
Income tax effect related to items of other comprehensive (loss) income	785	(290)
Total other comprehensive (loss) income, net of tax	(2,954)	537
Total comprehensive (loss) income	$(2,594)	$3,028

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, 2018
(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 Loss	Retained Earnings	Total
Balance - December 31, 2017	121,875	$40,987	16,548,829	$1,655	$168,412	$(937)	$(1,828)	$45,726	$254,015
Net earnings	—	—	—	—	—	—	—	360	360
Dividends on Series B and Series C preferred stock	—	—	—	—	—	—	—	(810)	(810)
Dividends on common stock, $0.01 per share	—	—	—	—	—	—	—	(165)	(165)
Restricted stock grant	—	—	52,278	5	(5)	—	—	—	—
Restricted stock forfeitures	—	—	(12,375)	(1)	1	—	—	—	—
ESOP shares released for allocation	—	—	—	—	—	31	—	—	31
ESOP compensation expense	—	—	—	—	10	—	—	—	10
Exercise of stock options	—	—	33,079	3	426	—	—	—	429
Stock option and restricted stock compensation expense	—	—	—	—	(79)	—	—	—	(79)
Change in accumulated other comprehensive loss	—	—	—	—	—	—	(2,954)	—	(2,954)
Balance – March 31, 2018	121,875	$40,987	16,621,811	$1,662	$168,765	$(906)	$(4,782)	$45,111	$250,837

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,	
	2018	2017
Cash flows from operating activities:		
Net earnings	$360	$2,491
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	1,205	1,493
Accretion of purchase accounting adjustments	162	2
Provision for loan losses	—	2,800
Deferred tax expense (benefit)	1,614	(222)
Amortization of premiums on securities, net	705	686
Stock-based compensation expense	(79)	81
Net excess tax benefit from stock-based compensation	18	333
ESOP compensation expense	10	27
Net gain on sale of investment securities	—	(6)
Proceeds from sale of loans held for sale	14,514	—
Net gain on sale of other real estate owned	(1)	(8)
Net write down of other real estate owned	48	23
Loss on transfer of loans to held for sale	875	—
Net loss (gain) on sale/disposal of premises and equipment	55	(12)
Change in accrued interest receivable	396	60
Change in accrued interest payable	(28)	(11)
Change in other assets & other liabilities, net	(136)	510
Net cash provided by operating activities	19,718	8,247
Cash flows from investing activities:		
Proceeds from maturities and calls of securities available-for-sale	12,272	14,631
Proceeds from maturities and calls of securities held-to-maturity	7,583	5,865
Proceeds from sale of securities available-for-sale	410	6,462
Proceeds from sale of security held-to-maturity	—	887
Purchases of securities available-for-sale	(2,000)	(36,672)
Purchases of other investments	(682)	(7)
Net change in loans	44,026	9,687
Purchases of premises and equipment	(275)	(887)
Proceeds from sale of premises and equipment	224	144
Proceeds from sale of other real estate owned	151	612
Net cash provided by investing activities	61,709	722
Cash flows from financing activities:		
Change in deposits	24,248	(6,486)
Change in securities sold under agreements to repurchase	(34,107)	(4,654)
Borrowings on Federal Home Loan Bank advances	82,500	—
Repayments of Federal Home Loan Bank advances	(95,000)	(17)
Proceeds from exercise of stock options	429	266
Payment of dividends on preferred stock	(810)	(811)

Payment of dividends on common stock	(165)	(1,024)
Net cash used by financing activities	(22,905)	(12,726)
Net increase (decrease) in cash and cash equivalents	58,522	(3,757)
Cash and cash equivalents, beginning of period	152,964	82,228
Cash and cash equivalents, end of period	$211,486	$78,471
Supplemental cash flow information:		
Interest paid	$1,654	$1,476
Income taxes paid	—	—
Noncash investing and financing activities:		
Transfer of loans to other real estate	—	95
Transfer of loans to held for sale	221	—
Change in accrued common stock dividends	1	1
Change in unrealized gains/losses on securities available-for-sale, net of tax	(3,198)	529
Change in unrealized gains on derivative instruments, net of tax	244	8
Net change in loan to ESOP	31	109

See notes to unaudited consolidated financial statements.

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MidSouth Bancorp, Inc. and Subsidiaries
Notes to Interim Consolidated Financial Statements
March 31, 2018
(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, 2018 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 2017 Annual Report on Form 10-K.

The results of operations for the three-month period ended March 31, 2018 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 2017 Annual Report on Form 10-K.

Recent Accounting Pronouncements — ASU 2018-03, Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities was issued to clarify certain aspects of the guidance on recognizing and measuring financial assets and liabilities in ASU 2016-01:

- Clarification regarding the ability to discontinue application of the measurement alternative for equity securities without a readily determinable fair value
- Clarification of the measurement date for fair value adjustments to the carrying amount of equity securities without a readily determinable fair value for which the measurement alternative is elected
- Clarification of the unit of account for fair value adjustments to forward contracts and purchased options on equity securities without a readily determinable fair value for which the measurement alternative is expected to be elected
- Presentation requirements for certain hybrid financial liabilities for which the fair value option is elected
- Measurement of financial liabilities denominated in a foreign currency for which the fair value option is elected
- Transition guidance for equity securities without a readily determinable fair value

The effective date of this Update is for fiscal years beginning on or after December 15, 2017 and for interim periods within those fiscal years beginning after June 15, 2018. Public business entities with fiscal years beginning between December 15, 2017 and June 15, 2018 are not required to adopt the amendments until interim periods beginning after June 15, 2018. Adoption of this Update is not expected to have a material effect on the Company's financial position, results of operations or its financial statement disclosures.

Adoption of New Accounting Standards — In May 2014, the FASB issued ASU 2014-09 - Revenue from Contracts with Customers, which created a new principle-based framework to determine when and how an entity recognizes revenue from its customer contracts. FASB has established a core principle for recognizing revenue within the new rules, which states that revenue should only be recorded when services are provided or goods are transferred to customers at the agreed price. The majority of our revenue-generating transactions are not subject to ASC Topic 606, including revenue generated from financial instruments, such as our loans, letters of credit and investment securities, as these activities are subject to other GAAP discussed elsewhere within our disclosures. Description of our revenue-generating activities that are within the scope of ASC Topic 606, which are presented in our income statements as components of non-interest income are as follows:

- Service charges on deposits - We collect service charges on most of our non-maturity deposits accounts on a monthly basis. Our fee earned is collected monthly when a particular cycle for a non-maturity deposit account closes. Each cycle is monthly and the fee earned is for our service for the month just closed. Our performance obligations are to process transactions, pay interest (on interest-bearing accounts), collect deposits, and allow access to on-line banking applications and other services ancillary to a banking relationship. Each month when our fee is charged, our obligation is complete. The contract-relationship is a month to month obligation - i.e. our obligation to perform these services would end if the customer closes their deposit account with MidSouth.

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- ATM and debit card income - ATM fees primarily consist of surcharges assessed to our customers for using a non-Bank ATM or a non-Bank customer using our ATM. Debit card income represents revenues earned from interchange fees, which are earned on debit card transactions conducted with payment networks. Such fees are generally recognized concurrently with the delivery of services on a daily basis.

2. Investment Securities

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

	March 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Obligations of state and political subdivisions	$20,943	$ 75	$ 825	$20,193
GSE mortgage-backed securities	55,926	561	976	55,511
Collateralized mortgage obligations: residential	194,647	103	6,743	188,007
Collateralized mortgage obligations: commercial	2,230	—	47	2,183
Mutual funds	2,100	—	74	2,026
Corporate debt securities	25,565	579	94	26,050
	$301,411	$ 1,318	$ 8,759	$293,970

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Obligations of state and political subdivisions	$23,042	$ 209	$ 442	$22,809
GSE mortgage-backed securities	58,620	825	321	59,124
Collateralized mortgage obligations: residential	202,573	90	4,508	198,155
Collateralized mortgage obligations: commercial	2,274	—	34	2,240
Mutual funds	2,100	—	39	2,061
Corporate debt securities	23,975	837	10	24,802
	$312,584	$ 1,961	$ 5,354	$309,191

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	March 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
Obligations of state and political subdivisions	$30,550	$ 162	$ 113	$30,599
GSE mortgage-backed securities	33,930	—	598	33,332
Collateralized mortgage obligations: residential	7,120	—	387	6,733
Collateralized mortgage obligations: commercial	1,655	—	12	1,643
	$73,255	$ 162	$ 1,110	$72,307

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
Obligations of state and political subdivisions	$35,908	$ 265	$ 22	$36,151
GSE mortgage-backed securities	35,751	171	219	35,703
Collateralized mortgage obligations: residential	7,450	—	321	7,129
Collateralized mortgage obligations: commercial	1,943	—	6	1,937
	$81,052	$ 436	$ 568	$80,920

With the exception of one private-label collateralized mortgage obligations (“CMOs”) with a balance remaining of $7,000 at March 31, 2018, all of the Company’s CMOs are government-sponsored enterprise (“GSE”) securities.

The following table presents the amortized cost and fair value of debt securities at March 31, 2018 by contractual maturity (in thousands). Actual maturities will differ from contractual maturities because of rights to call or repay obligations with or without penalties and scheduled and unscheduled principal payments on mortgage-backed securities and collateralized mortgage obligations.

	Amortized Cost	Fair Value
Available-for-sale:		
Due in one year or less	$—	$—
Due after one year through five years	7,124	7,116
Due after five years through ten years	43,042	43,443
Due after ten years	249,145	241,385
	$299,311	$291,944

	Amortized Cost	Fair Value
Held-to-maturity:		
Due in one year or less	$1,392	$1,389
Due after one year through five years	5,061	5,023
Due after five years through ten years	45,316	44,731
Due after ten years	21,486	21,164
	$73,255	$72,307

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

	March 31, 2018 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	$1,622	$ 28	$12,343	$ 797	$13,965	$ 825
GSE mortgage-backed securities	35,985	791	5,568	185	41,553	976
Collateralized mortgage obligations: residential	54,829	1,208	130,399	5,535	185,228	6,743
Collateralized mortgage obligations: commercial	—	—	2,183	47	2,183	47
Mutual funds	2,026	74	—	—	2,026	74
Corporate debt securities	4,496	94	—	—	4,496	94
	$98,958	$ 2,195	$150,493	$ 6,564	$249,451	$ 8,759

	December 31, 2017 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	$596	$ 5	$12,716	$ 437	$13,312	$ 442
GSE mortgage-backed securities	29,725	224	5,858	97	35,583	321
Collateralized mortgage obligations: residential	57,665	548	137,598	3,960	195,263	4,508
Collateralized mortgage obligations: commercial	—	—	2,240	34	2,240	34
Mutual funds	2,061	39	—	—	2,061	39
Corporate debt securities	2,990	10	—	—	2,990	10
	$93,037	$ 826	$158,412	$ 4,528	$251,449	$ 5,354

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	March 31, 2018					
	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	$9,893	$ 113	$—	$ —	$9,893	$ 113
GSE mortgage-backed securities	$28,673	$ 380	$4,658	$ 218	$33,331	$ 598
Collateralized mortgage obligations: residential	$—	$ —	$6,734	$ 387	$6,734	$ 387
Collateralized mortgage obligations: commercial	1,643	12	—	—	1,643	12
	$40,209	$ 505	$11,392	$ 605	$51,601	$ 1,110

	December 31, 2017					
	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	$6,340	$ 22	$—	$ —	$6,340	$ 22
GSE mortgage-backed securities	11,201	89	4,961	130	16,162	219
Collateralized mortgage obligations: residential	—	—	7,129	321	7,129	321
Collateralized mortgage obligations: commercial	1,937	6	—	—	1,937	6
	$19,478	$ 117	$12,090	$ 451	$31,568	$ 568

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. For equity securities, management reviews the near term prospects of the issuer, the nature and cause of the unrealized loss, the severity and duration of the impairments and other factors when determining if an unrealized loss is other than temporary. 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 March 31, 2018, 106 securities had unrealized losses totaling 3.17% of the individual securities' amortized cost basis and 2.63% of the Company's total amortized cost basis. Of the 106 securities, 45 had been in an unrealized loss position for over twelve months at March 31, 2018. These 45 securities had an amortized cost basis and unrealized loss of $169.1 million and $7.2 million, respectively. The unrealized losses on debt securities at March 31, 2018 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, 2018, 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, 2018.

During the three months ended March 31, 2018, the Company sold 1 security classified as available-for-sale. The security was sold at book value; therefore, no gain or loss was recorded on the transaction. During the three months ended March 31, 2017, the Company sold 10 securities classified as available-for-sale and 1 security classified as held-to-maturity. Of the available-for-sale securities, 7 securities were sold with gains totaling $108,000 and 3 securities were sold at a loss of $109,000 for a net loss of $1,000. The decision

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to sell the 1 held-to-maturity security, which was sold at a gain of $7,000, was based on the pre-refunding of the bond which would accelerate the maturity of the bond by 15 years with an anticipated call date within six months.

Securities with an aggregate carrying value of approximately $187.0 million and $177.9 million at March 31, 2018 and December 31, 2017, 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, 2018	December 31, 2017
Commercial, financial and agricultural	$401,048	$435,207
Real estate – construction	94,679	90,287
Real estate – commercial	438,779	448,406
Real estate – residential	145,671	146,751
Installment loans to individuals	50,888	56,398
Lease financing receivable	692	732
Other	5,498	5,645
	1,137,255	1,183,426
Less allowance for loan losses	(25,371)	(26,888)
	$1,111,884	$1,156,538

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, 2018, 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 $172.8 million, or 15.2% of total loans. Additionally, the Company's exposure to loans secured by commercial real estate is monitored. At March 31, 2018, loans secured by commercial real estate (including commercial construction, farmland and multifamily loans) totaled approximately $502.5 million, 54% of which are secured by owner-occupied commercial properties. Of the $502.5 million in loans secured by commercial real estate, $26.2 million, or 5.2%, were on nonaccrual status at March 31, 2018.

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 three to five years, 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. Additionally, the Company utilizes the services of a third party to supplement its loan review efforts.

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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, 2018 and 2017 is as follows (in thousands):

	March 31, 2018							
		Real Estate						
	Coml, Fin, and Agric	Construction	Commercial	Residential	Installment loans to individuals	Lease financing receivable	Other	Total
Allowance for loan losses:								
Beginning balance	$20,577	$596	$3,893	$837	$957	$ 3	$25	$26,888
Charge-offs	(1,524)	(2)	(86)	(3)	(221)	—	—	(1,836)
Recoveries	276	—	6	1	36	—	—	319
Provision	(264)	159	(106)	64	146	—	1	—
Ending balance	$19,065	$753	$3,707	$899	$918	$ 3	$26	$25,371
Ending balance: individually evaluated for impairment	$5,968	$94	$76	$20	$6	$ —	$—	$6,164
Ending balance: collectively evaluated for impairment	$13,097	$659	$3,631	$879	$912	$ 3	$26	$19,207
Loans:								
Ending balance	$401,048	$94,679	$438,779	$145,671	$50,888	$ 692	$5,498	$1,137,255
Ending balance: individually evaluated for impairment	$55,092	$192	$26,005	$2,088	$50	$ —	$—	$83,427
Ending balance: collectively evaluated for impairment	$345,956	$94,487	$412,774	$143,583	$50,838	$ 692	$5,498	$1,053,828

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	March 31, 2017							
		Real Estate						
	Coml, Fin, and Agric	Construction	Commercial	Residential	Installment loans to individuals	Lease financing receivable	Other	Total
Allowance for loan losses:								
Beginning balance	$16,057	$585	$5,384	$940	$1,395	$5	$6	$24,372
Charge-offs	(1,705)	—	(823)	(117)	(261)	—	—	(2,906)
Recoveries	154	—	10	90	58	—	—	312
Provision	3,832	(321)	(238)	(249)	(222)	(2)	—	2,800
Ending balance	$18,338	$264	$4,333	$664	$970	$3	$6	$24,578
Ending balance: individually evaluated for impairment	$4,173	$9	$1,656	$217	$160	$—	$—	$6,215
Ending balance: collectively evaluated for impairment	$14,165	$255	$2,677	$447	$810	$3	$6	$18,363
Loans:								
Ending balance	$469,815	$100,248	$464,859	$159,426	$75,258	$969	$1,425	$1,272,000
Ending balance: individually evaluated for impairment	$35,346	$26	$20,623	$1,956	$487	$—	$—	$58,438
Ending balance: collectively evaluated for impairment	$434,469	$100,222	$443,802	$157,401	$74,771	$969	$1,425	$1,213,059
Ending balance: loans acquired with deteriorated credit quality	$—	$—	$434	$69	$—	$—	$—	$503

Non-Accrual and Past Due Loans

Loans are considered past due if the required principal and interest payments 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, 2018						
	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	$2,235	$3,156	$12,816	$18,207	$382,841	$401,048	$ 1
Real estate - construction	927	1,179	192	2,298	92,381	94,679	—
Real estate - commercial	5,681	6,079	11,330	23,090	415,689	438,779	—
Real estate - residential	657	1,137	1,187	2,981	142,690	145,671	—
Installment loans to individuals	202	125	50	377	50,511	50,888	—
Lease financing receivable	—	—	—	—	692	692	—
Other loans	65	16	—	81	5,417	5,498	—
	$9,767	$11,692	$25,575	$47,034	$1,090,221	$1,137,255	$ 1

	December 31, 2017						
	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	$1,195	$1,893	$14,847	$17,935	$417,272	$435,207	$ 545
Real estate - construction	616	—	190	806	89,481	90,287	125
Real estate - commercial	5,889	6,402	4,163	16,454	431,952	448,406	58
Real estate - residential	1,065	235	559	1,859	144,892	146,751	—
Installment loans to individuals	276	32	34	342	56,056	56,398	—
Lease financing receivable	—	—	—	—	732	732	—
Other loans	—	—	—	—	5,645	5,645	—
	$9,041	$8,562	$19,793	$37,396	$1,146,030	$1,183,426	$ 728

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

	March 31, 2018	December 31, 2017
Commercial, financial, and agricultural	$ 53,939	$ 37,418
Real estate - construction	192	66
Real estate - commercial	26,006	11,128
Real estate - residential	2,088	618
Installment loans to individuals	50	48
Lease financing receivable	—	—
Other	—	—
	$ 82,275	$ 49,278

The amount of interest that would have been recorded on non-accrual loans, had the loans not been classified as non-accrual, totaled approximately $1.5 million and $931,000 for the three months ended March 31, 2018 and 2017, respectively. Interest actually received on non-accrual loans subsequent to their transfer to non-accrual status totaled $68,000 and $244,000 for the three months ended March 31, 2018 and 2017, 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. All loan relationships with an outstanding commitment balance above a specified threshold are evaluated for potential impairment. All loan relationships with an outstanding commitment balance below the specified threshold are assigned an allowance allocation percentage that is determined by management and adjusted periodically based on certain factors. 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.

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The following table presents loans that are individually evaluated for impairment (in thousands). Interest income recognized represents interest on accruing loans modified in a TDR.

	March 31, 2018				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial, financial, and agricultural	$44,445	$ 50,416	$ —	$ 34,552	$ 18
Real estate - construction	—	—	—	—	—
Real estate - commercial	25,250	27,514	—	17,861	—
Real estate - residential	1,400	1,400	—	851	—
Installment loans to individuals	24	24	—	12	—
Finance leases	—	—	—	—	—
Subtotal:	71,119	79,354	—	53,276	18
With an allowance recorded:					
Commercial, financial, and agricultural	10,647	10,802	5,968	12,383	—
Real estate - construction	192	192	94	129	—
Real estate - commercial	755	755	76	706	—
Real estate - residential	688	688	20	502	—
Installment loans to individuals	26	26	6	37	—
Finance leases	—	—	—	—	—
Subtotal:	12,308	12,463	6,164	13,757	—
Totals:					
Commercial	81,097	89,487	6,044	65,502	18
Construction	192	192	94	129	—
Residential	2,088	2,088	20	1,353	—
Consumer	50	50	6	49	—