MIDSOUTH BANCORP INC
Form 10-Q
November 13, 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 September 30, 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 x NO

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).
YES x 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	x Accelerated filer	Non-accelerated filer	x 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 x

As of November 9, 2018, there were 16,641,105 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 per share amounts)

	September 30, 2018 (unaudited)	December 31, 2017 (audited)
Assets		
Cash and due from banks, including required reserves of $13,843 and $6,741, respectively	$33,066	$34,775
Interest-bearing deposits in other banks	261,985	114,839
Federal funds sold	7,837	3,350
Investment securities available-for-sale, at fair value	352,606	309,191
Investment securities held-to-maturity (fair value of $63,581 and $80,920, respectively)	64,893	81,052
Other investments	16,508	12,214
Loans held for sale	—	15,737
Loans	962,743	1,183,426
Allowance for loan losses	(24,450)	(26,888)
Loans, net	938,293	1,156,538
Bank premises and equipment, net	56,006	59,057
Accrued interest receivable	6,606	8,283
Goodwill	42,171	42,171
Intangibles	2,685	3,515
Cash surrender value of life insurance	15,071	14,896
Other real estate	1,022	2,001
Assets held for sale	1,372	3,995
Other assets	26,133	19,538
Total assets	$1,826,254	$1,881,152
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Non-interest-bearing	$425,696	$416,547
Interest-bearing	1,083,433	1,063,142
Total deposits	1,509,129	1,479,689
Securities sold under agreements to repurchase	13,676	67,133
FHLB borrowings	27,506	50,021
Other borrowings	22,167	22,167
Other liabilities	12,325	8,127
Total liabilities	1,584,803	1,627,137
Shareholders' equity:		
Series B Preferred stock, no par value; 5,000,000 shares authorized, 32,000 shares issued and outstanding, respectively	32,000	32,000
Series C Preferred stock, no par value; 100,000 shares authorized, 89,725 and 89,875 shares issued and outstanding, respectively	8,972	8,987
Common stock, $0.10 par value; 30,000,000 shares authorized, 16,641,105 and 16,548,829 shares issued and outstanding, respectively	1,664	1,655

Additional paid-in capital	169,070	168,412
Unearned ESOP shares	(845)	(937)
Accumulated other comprehensive loss	(6,972)	(1,828)
Retained earnings	37,562	45,726
Total shareholders’ equity	241,451	254,015
Total liabilities and shareholders’ equity	$1,826,254	$1,881,152

See notes to unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest income:				
Loans, including fees	$14,590	$17,329	$45,948	$50,682
Securities and other investments:				
Taxable	2,156	2,276	6,296	7,019
Nontaxable	273	363	866	1,144
Interest bearing deposits in other banks	1,417	411	3,061	823
Total interest income	18,436	20,379	56,171	59,668
Interest expense:				
Deposits	1,602	1,094	4,249	3,002
Securities sold under agreements to repurchase	16	149	82	619
FHLB borrowings	81	111	330	290
Other borrowings	271	212	750	632
Total interest expense	1,970	1,566	5,411	4,543
Net interest income	16,466	18,813	50,760	55,125
Provision for loan losses	4,300	4,300	4,740	19,600
Net interest income after provision for loan losses	12,166	14,513	46,020	35,525
Non-interest income:				
Service charges on deposits	2,159	2,463	6,430	7,339
Gain on sale of securities, net	—	338	—	347
Loss on equity securities, other investments	(16)	—	(66)	—
ATM and debit card income	1,796	1,687	5,457	5,156
Other charges and fees	1,151	998	2,981	2,911
Total non-interest income	5,090	5,486	14,802	15,753
Non-interest expenses:				
Salaries and employee benefits	7,762	7,849	23,398	25,989
Occupancy expense	3,077	3,711	9,315	11,524
ATM and debit card expense	653	654	1,876	2,088
Data processing	730	640	2,061	1,928
FDIC insurance	360	448	1,296	1,275
Regulatory remediation expense	5,502	856	14,658	856
Legal and professional fees	2,543	548	5,425	2,127
Other	2,900	3,053	9,644	8,806
Total non-interest expenses	23,527	17,759	67,673	54,593
(Loss)Income before income tax benefit	(6,271)	2,240	(6,851)	(3,315)
Income tax (benefit)expense	(1,373)	574	(1,644)	(2,058)
Net (loss)income	(4,898)	1,666	(5,207)	(1,257)
Dividends on preferred stock	810	810	2,430	2,432

Net (loss)income available to common shareholders	$(5,708)	$856	$(7,637)	$(3,689)
Basic (loss)earnings per common share	$(0.34)	$0.05	$(0.46)	$(0.28)
Diluted (loss)earnings per common share	$(0.34)	$0.05	$(0.46)	$(0.28)
Weighted average number of shares outstanding:				
Basic	16,558	16,395	16,531	13,314
Diluted	16,558	16,396	16,531	13,314
Dividends declared per common share	$0.01	$0.01	$0.03	$0.19

See notes to unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net loss	$(4,898)	$1,666	$(5,207)	$(1,257)
Other comprehensive (loss) income, net of tax:				
Net change in unrealized (loss) gains on securities available-for-sale	(2,025)	(673)	(6,946)	2,877
Net change in unrealized gain on derivative instruments	35	(11)	434	(134)
Other comprehensive (loss) income, before tax	(1,990)	(684)	(6,512)	2,743
Income tax effect related to items of other comprehensive (loss) income	418	240	1,368	(960)
Total other comprehensive (loss) income, net of tax	(1,572)	(444)	(5,144)	1,783
Total comprehensive loss	$(6,470)	$1,222	$(10,351)	$526

See notes to unaudited consolidated financial statements.

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MidSouth Bancorp, Inc. and Subsidiaries
Consolidated Statement of Shareholders' Equity (unaudited)
(dollars in thousands, except per share amounts)

	Preferred Stock		Common Stock		Additional Paid-in	Unearned ESOP	Accumulated Other	Retained	
	Shares	Amount	Shares	Amount	Capital	Shares	Comprehensive Loss	Earnings	Total
Balance - December 31, 2016	123,098	$41,110	11,362,716	$1,136	$111,166	$(1,233)	$ (1,010)	$63,207	$214,376
Net earnings	—	—	—	—	—	—	—	(1,257)	(1,257)
Dividends on Series B and Series C preferred stock	—	—	—	—	—	—	—	(2,432)	(2,432)
Dividends on common stock, $0.19 per share	—	—	—	—	—	—	—	(2,645)	(2,645)
Issuance of common stock	—	—	5,100,034	510	56,641	—	—	—	57,151
Restricted stock grant	—	—	58,090	6	(6)	—	—	—	—
Conversion of Series C preferred stock to common stock	(1,223)	(123)	6,791	1	122	—	—	—	—
ESOP shares released for allocation	—	—	—	—	50	266	—	—	316
Exercise of stock options	—	—	20,498	2	264	—	—	—	266
Vested restricted stock	—	—	700	—	—	—	—	—	—
Stock option and restricted stock compensation expense	—	—	—	—	85	—	—	—	85
Change in accumulated other comprehensive income	—	—	—	—	—	—	1,783	—	1,783
Balance – September 30, 2017	121,875	$40,987	16,548,829	$1,655	$168,322	$(967)	$ 773	$56,873	$267,643

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MidSouth Bancorp, Inc. and Subsidiaries
Consolidated Statement of Shareholders' Equity (unaudited)
(dollars in thousands, except per share amounts)

	Preferred Stock		Common Stock		Additional Paid-in	Unearned ESOP	Accumulated Other Comprehensive	Retained Earnings	
	Shares	Amount	Shares	Amount	Capital	Shares	Loss		Total
Balance, December 31, 2017	121,875	$40,987	16,548,829	$1,655	$168,412	$(937)	$(1,828)	$45,726	$254,015
Adoption of ASU 2016-01	—	—	—	—	—	—	31	(31)	—
Net loss	—	—	—	—	—	—	—	(5,207)	(5,207)
Dividends on Series B and Series C preferred stock	—	—	—	—	—	—	—	(2,430)	(2,430)
Dividends on common stock, $0.03 per share	—	—	—	—	—	—	—	(496)	(496)
Restricted stock grant	—	—	80,748	8	(8)	—	—	—	—
Restricted stock forfeitures	—	—	(38,837)	(4)	4	—	—	—	—
Conversion of Series C preferred stock to common stock	(150)	(15)	833	—	15	—	—	—	—
ESOP shares released for allocation	—	—	—	—	—	92	—	—	92
ESOP compensation expense	—	—	—	—	31	—	—	—	31
Exercise of stock options	—	—	49,532	5	637	—	—	—	642
Stock option and restricted stock compensation expense	—	—	—	—	(21)	—	—	—	(21)
Change in accumulated other comprehensive loss	—	—	—	—	—	—	(5,175)	—	(5,175)
Balance, September 30, 2018	121,725	$40,972	16,641,105	$1,664	$169,070	$(845)	$(6,972)	$37,562	$241,451

See notes to unaudited consolidated financial statements.

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

	For the Nine Months Ended September 30, 2018	2017
Cash flows from operating activities:		
Net loss	$(5,207)	$(1,257)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	3,484	4,345
Accretion of purchase accounting adjustments	569	(180)
Provision for loan losses	4,740	19,600
Deferred tax expense (benefit)	(1,359)	(704)
Amortization of premiums on securities, net	2,224	2,128
Stock-based compensation expense	(21)	85
Net excess tax benefit from stock-based compensation	163	379
ESOP compensation expense	31	50
Net gain on sale of investment securities	—	(347)
Loss on mutual fund	66	—
Proceeds from sale of loans held for sale	15,623	—
Net loss on sale of other real estate owned	67	(15)
Net write down of other real estate owned	154	83
Write down of assets held for sale	—	570
Loss on transfer of loans to held for sale	879	—
Net loss on sale/disposal of premises and equipment	(183)	648
Change in accrued interest receivable	1,677	(121)
Change in accrued interest payable	(11)	(12)
Change in other assets & other liabilities, net	3,069	(3,236)
Net cash provided by operating activities	25,965	22,016
Cash flows from investing activities:		
Proceeds from maturities and calls of securities available-for-sale	38,015	42,585
Proceeds from maturities and calls of securities held-to-maturity	15,578	12,940
Proceeds from sale of securities available-for-sale	410	16,979
Proceeds from sale of security held-to-maturity	—	887
Purchases of securities available-for-sale	(92,529)	(42,172)
Proceeds from sale of other investments	—	57
Purchases of other investments	(2,300)	(902)
Net change in loans	213,002	28,649
Purchases of premises and equipment	(1,058)	(2,940)
Proceeds from sale of premises and equipment	808	249
Proceeds from sale of other real estate owned	834	1,728
Net cash provided by investing activities	172,760	58,060
Cash flows from financing activities:		
Change in deposits	29,440	(23,495)
Change in securities sold under agreements to repurchase	(53,457)	(39,586)
Borrowings from FHLB	247,500	25,000
Repayments to FHLB	(270,000)	(12,546)

Repayments of notes payable	—	—
Proceeds from exercise of stock options	642	266
Proceeds from issuance of common stock	—	57,834
Stock offering expenses	—	(683)
Payment of dividends on preferred stock	(2,430)	(2,433)
Payment of dividends on common stock	(496)	(3,538)
Net cash used by financing activities	(48,801)	819
Net increase (decrease) in cash and cash equivalents	149,924	80,895
Cash and cash equivalents, beginning of period	152,964	82,228
Cash and cash equivalents, end of period	$302,888	$163,123
Supplemental cash flow information:		
Interest paid	$5,422	$4,555
Income taxes paid	—	2,500
Noncash investing and financing activities:		
Transfer of loans to other real estate	76	1,552
Transfer of loans to held for sale	221	—
Change in accrued common stock dividends	1	(859)
Change in accrued preferred stock dividends	—	(1)
Change in unrealized gains/losses on securities available-for-sale, net of tax	(5,518)	—
Change in unrealized gains on derivative instruments, net of tax	343	—
Cumulative-effect adjustment to retained earnings due to ASU 2016-01, net of tax	31	—
Net change in loan to ESOP	92	266

See notes to unaudited consolidated financial statements.

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MidSouth Bancorp, Inc. and Subsidiaries
Notes to Interim Consolidated Financial Statements
September 30, 2018
(Unaudited)

NOTE 1: BASIS OF PRESENTATION

Midsouth Bancorp (the "Company" or "we") is a bank holding company whose business is primarily conducted through its wholly-owned banking subsidiary, Midsouth Bank (the "Bank"). We operate a full-service banking business and offer a broad range of commercial and retail banking products to our customers.

The accompanying unaudited consolidated financial statements for the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. Accordingly, the financial statements do not include all of the information and footnotes required by GAAP for complete financial statement presentation. The interim consolidated financial statements included herein are unaudited, but reflect all adjustments, consisting of normal and recurring items, which, in the opinion of management, are necessary for fair presentation of the consolidated financial position and result of operations for the interim period presented. All significant intercompany accounts and transactions have been eliminated in consolidation. The results of operation for the period ended September 30, 2018 are not necessarily indicative of the results expected for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto and the report of our independent registered public accounting firm included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

Certain amounts have been reclassified to conform with current period presentation. The reclassifications had no effect on net income or shareholders' equity as previously reported.

NOTE 2: ADOPTION OF NEW ACCOUNTING STANDARDS AND RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Standards Adopted in 2018

— In May 2018, the FASB issued ASU 2018-06, Codification Improvements to Topic 942, Financial Services - Depository and Lending. ASU 2018-06 removes outdated guidance related to Circular 202 because that guidance has been rescinded by the Office of the Comptroller of the Currency. The amendments in this update are effective upon issuance. The adoption of this ASU did not
have a material effect on the Company’s financial position, result of operations or cash flows.

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.

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Adoption of New Accounting Standards —ASU 2016-01, Financial Statements - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities was issued in January 2016 to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. This standard impacts how the Company measures certain equity investments and discloses and presents certain financial instruments through the application of the "exit price" notion. The Company adopted the amendments beginning January 1, 2018. Under the new guidance, equity investments can no longer be classified as trading or available for sale (AFS), and related unrealized holding gains and losses can no longer be recognized in OCI. Per the ASU, such equity investments should be measured at fair value, with adjustments recognized in earnings at the end of each reporting period. As such, the Company reclassified its portfolio of equity investments previously classified as AFS investment securities to "other investments." As these equity investments were previously measured at fair value, implementation of the ASU did not impact the Company's valuation method. In accordance with the ASU, the cumulative-effect adjustment from AOCI to retained earnings for previously recorded fair value adjustments related to these equity investments at adoption was immaterial. The Company elected the practical expedient measurement alternative to prospectively account for other equity investments that do not have readily determinable fair values at cost less impairment plus or minus observable price changes in orderly transactions for an identical or similar investment of the same issuer. The investments are immaterial overall and are classified within "other investments" on the Company's consolidated balance sheets rather than as available-for-sale securities.

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.
- 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.

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NOTE 3: INVESTMENT SECURITIES

The amortized cost and estimated fair value of available-for-sale investment securities are as follows (dollars in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
September 30, 2018				
Available for sale:				
State, county, and municipal securities	$ 23,775	$ 27	$ 1,043	$ 22,759
Mortgage-backed securities	313,605	468	10,028	304,045
Corporate debt securities	25,566	328	92	25,802
	$ 362,946	$ 823	$ 11,163	$ 352,606
December 31, 2017				
State, county, and municipal securities	$ 23,042	$ 209	$ 442	$ 22,809
Mortgage-backed securities	263,467	915	4,863	259,519
Mutual funds	2,100	—	39	2,061
Corporate debt securities	23,975	837	10	24,802
	$ 312,584	$ 1,961	$ 5,354	$ 309,191

The amortized cost and estimated fair value of held-to-maturity investment securities are as follows (dollars in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
September 30, 2018				
Held-to-maturity:				
State, county, and municipal securities	$ 27,148	$ 83	$ 149	$ 27,082
Mortgage-backed securities	37,745	—	1,246	36,499
	$ 64,893	$ 83	$ 1,395	$ 63,581
December 31, 2017				
State, county, and municipal securities	$ 35,908	$ 265	$ 22	$ 36,151
Mortgage-backed securities	45,144	171	546	$ 44,769
	$ 81,052	$ 436	$ 568	$ 80,920

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The amortized cost and estimated fair value of debt securities by contractual maturity are summarized in the tables below (dollars 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
September 30, 2018		
Available for sale:		
Due in one year or less	$—	$—
Due after one year through five years	8,140	8,150
Due after five years through ten years	22,640	22,805
Due after ten years	270,755	261,169
Mortgage-backed securities	61,411	60,482
	$ 362,946	$352,606
Held-to-maturity:		
Due in one year or less	$ 768	$767
Due after one year through five years	4,821	4,763
Due after five years through ten years	13,347	13,316
Due after ten years	15,963	15,563
Mortgage-backed securities	29,994	29,172
	$ 64,893	$63,581

The following tables detail the gross unrealized losses and estimated fair value of available for sale and held-to-maturity securities aggregated by category and duration of continuous unrealized loss position at September 30, 2018 and December 31, 2017 (dollars in thousands):

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
September 30, 2018						
Available for sale:						
State, county, and municipal securities	$5,948	$ 44	$12,714	$ 999	$18,662	$ 1,043
Mortgage-backed securities	96,704	1,193	179,082	8,835	275,786	10,028
Corporate debt securities	2,908	92	—	—	2,908	92
	$105,560	$ 1,329	$191,796	$ 9,834	$297,356	$ 11,163
December 31, 2017						
State, county, and municipal securities	$596	$ 5	$12,716	$ 437	$13,312	$ 442
Mortgage-backed securities	87,390	772	145,696	4,091	233,086	4,863
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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	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
September 30, 2018						
Held-to-maturity:						
State, county, and municipal securities	$12,645	$ 149	$—	$ —	$12,645	$ 149
Mortgage-backed securities	15,922	226	20,578	1,020	36,500	1,246
	$28,567	$ 375	$20,578	$ 1,020	$49,145	$ 1,395
December 31, 2017						
State, county, and municipal securities	$6,340	$ 22	$—	$ —	$6,340	$ 22
Mortgage-backed securities	13,138	95	12,090	451	25,228	546
	$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. Effective January 1, 2018, equity securities with readily determinable fair values are measured at fair value with changes in the fair value recognized through net income.

As of September 30, 2018, 124 securities had unrealized losses totaling 3.50% of the individual securities' amortized cost basis and 2.94% of the Company's total amortized cost basis. Of the 124 securities, 60 had been in an unrealized loss position for over twelve months at September 30, 2018. These 60 securities had an amortized cost basis and unrealized loss of $223.2 million and $10.9 million, respectively. The unrealized losses on debt securities at September 30, 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 September 30, 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 September 30, 2018.

During the nine months ended September 30, 2018, the Company sold 1 security classified as available-for-sale for $410,000 which resulted in neither a gain nor a loss. During the nine months ended September 30, 2017, the Company sold 16 securities classified as available-for-sale and 1 security classified as held-to-maturity. Of the available-for-sale securities, 13 securities were sold with gains totaling $449,000 and 3 securities were sold at a loss of $109,000 for a net gain of $340,000. The decision 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 a carrying value of approximately $189.4 million serve as collateral to secure public deposits, securities sold under agreements to repurchase and for other purposes required or permitted by law at September 30, 2018, compared with $189.0 million at December 31, 2017.

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NOTE 4: LOANS

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

	September 30, 2018	December 31, 2017
Commercial, financial and agricultural	$ 295,802	$ 435,207
Real estate – construction	90,444	90,287
Real estate – commercial	394,416	454,051
Real estate – residential	136,151	146,751
Consumer and other	45,338	56,398
Lease financing receivable	592	732
Total loans	962,743	1,183,426
Allowance for loan and lease losses	(24,450)	(26,888)
Total loans, net	$ 938,293	$ 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 September 30, 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 $128.1 million, or 13.3% of total loans. Additionally, the Company’s exposure to loans secured by commercial real estate is monitored. At September 30, 2018, loans secured by commercial real estate (including commercial construction, farmland and multifamily loans) totaled approximately $484.9 million, or 45.5% of total loans, of which 52% are secured by owner-occupied commercial properties. Of the $484.9 million in loans secured by commercial real estate, $24.1 million, or 5.0%, were on nonaccrual status at September 30, 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.

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 nine months ended September 30, 2018 and 2017 is as follows (in thousands):

	September 30, 2018						
		Real Estate					
	Coml, Fin, and Agric	Construction	Commercial	Residential	Consumer and other	Lease financing receivable	Total
Allowance for loan losses:							
Beginning balance	$20,577	$596	$3,893	$837	$982	$ 3	$26,888
Charge-offs	(6,782)	(6)	(1,034)	(549)	(606)	—	(8,977)
Recoveries	1,628	—	7	1	163	—	1,799
Provision	2,872	(240)	687	1,094	327	—	4,740
Ending balance	$18,295	$350	$3,553	$1,383	$866	$ 3	$24,450
Ending balance: individually evaluated for impairment	$7,373	$69	$105	$—	$—	$ —	$7,547
Ending balance: collectively evaluated for impairment	$10,922	$281	$3,448	$1,383	$866	$ 3	$16,903
Loans:							
Ending balance	$295,802	$90,444	$394,416	$136,151	$45,338	$ 592	$962,743
Ending balance: individually evaluated for impairment	$24,923	$610	$23,175	$—	$—	$ —	$48,708
Ending balance: collectively evaluated for impairment	$270,879	$89,834	$371,241	$136,151	$45,338	$ 592	$914,035

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	September 30, 2017						
		Real Estate					
	Coml, Fin, and Agric	Construction	Commercial	Residential	Consumer and other	Lease financing receivable	Total
Allowance for loan losses:							
Beginning balance	$16,057	$585	$5,384	$940	$1,401	$ 5	$24,372
Charge-offs	(15,106)	(70)	(3,618)	(293)	(860)	—	(19,947)
Recoveries	537	—	158	97	235	—	1,027
Provision	17,413	28	2,024	(40)	177	(1)	19,601
Ending balance	$18,901	$543	$3,948	$704	$953	$ 4	$25,053
Ending balance: individually evaluated for impairment	$3,254	$17	$904	$7	$69	$ 1	$4,252
Ending balance: collectively evaluated for impairment	$15,647	$526	$3,044	$697	$884	$ 3	$20,801
Loans:							
Ending balance	$447,482	$90,088	$473,046	$155,676	$68,917	$ 760	$1,235,969
Ending balance: individually evaluated for impairment	$30,892	$2,416	$18,132	$1,031	$338	$ 34	$52,843
Ending balance: collectively evaluated for impairment	$416,590	$87,672	$454,488	$154,582	$68,579	$ 726	$1,182,637
Ending balance: loans acquired with deteriorated credit quality	$—	$—	$426	$63	$—	$ —	$489

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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