MIDSOUTH BANCORP INC
Form 10-Q
August 08, 2014

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2014
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

COMMISSION FILE NUMBER 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 x 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 x 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 x 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 x

As of August 8, 2014, there were 11,334,499 shares of the registrant’s Common Stock, par value $0.10 per share, outstanding.

Table of Contents

Part I – Financial Information

Item 1. Financial Statements.

MidSouth Bancorp, Inc. and Subsidiaries

Consolidated Balance Sheets

(dollars in thousands, except share data)

| | June 30, 2014 (unaudited) | December 31, 2013* (audited) |
|---|---|---|
| Assets | | |
| Cash and due from banks, including required reserves of $9,726 and $9,542, respectively | $48,979 | $43,488 |
| Interest-bearing deposits in banks | 12,881 | 13,993 |
| Federal funds sold | 2,075 | 2,250 |
| Securities available-for-sale, at fair value (cost of $296,798 at June 30, 2014 and $341,828 at December 31, 2013) | 301,028 | 341,665 |
| Securities held-to-maturity (fair value of $148,559 at June 30, 2014 and $151,168 at December 31, 2013) | 148,927 | 155,523 |
| Other investments | 12,090 | 11,526 |
| Loans | 1,224,182 | 1,137,554 |
| Allowance for loan losses | (9,075 ) | (8,779 ) |
| Loans, net | 1,215,107 | 1,128,775 |
| Bank premises and equipment, net | 71,787 | 72,343 |
| Accrued interest receivable | 6,368 | 6,692 |
| Goodwill | 42,171 | 42,171 |
| Intangibles | 7,388 | 7,941 |
| Cash surrender value of life insurance | 13,544 | 13,450 |
| Other real estate | 6,314 | 6,687 |
| Other assets | 7,619 | 4,656 |
| Total assets | $1,896,278 | $1,851,160 |
| | | |
| Liabilities and Shareholders' Equity | | |
| Liabilities: | | |
| Deposits: | | |
| Non-interest-bearing | $389,734 | $383,257 |
| Interest-bearing | 1,135,688 | 1,135,546 |
| Total deposits | 1,525,422 | 1,518,803 |
| Securities sold under agreements to repurchase | 67,574 | 53,916 |
| Short-term Federal Home Loan Bank advances | 35,000 | 25,000 |
| Notes payable | 26,990 | 27,703 |
| Junior subordinated debentures | 29,384 | 29,384 |
| Other liabilities | 9,492 | 5,605 |
| Total liabilities | 1,693,862 | 1,660,411 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Series B Preferred stock, no par value; 5,000,000 shares authorized, 32,000 shares issued and outstanding at June 30, 2014 and December 31, 2013 | 32,000 | 32,000 |
| Series C Preferred stock, no par value; 100,000 shares authorized, 94,561 and 99,971 issued and 94,474 and 99,971 outstanding at June 30, 2014 and December 31, 2013, respectively; 87 shares in treasury at June 30, 2014 and none at December 31, 2014 | 9,456 | 9,997 |
| Common stock, $0.10 par value; 30,000,000 shares authorized, 11,446,631 and 11,407,196 issued and 11,296,147 and 11,256,712 outstanding at June 30, 2014 and December 31, | 1,145 | 1,141 |

| | | |
|---|---|---|
| 2013, respectively; 150,484 shares in treasury at June 30, 2014 and December 31, 2013 | | |
| Additional paid-in capital | 111,952 | 111,017 |
| Unearned ESOP shares | (283 ) | - |
| Accumulated other comprehensive income (loss) | 2,749 | (106 ) |
| Treasury stock, at cost | (3,295 ) | (3,286 ) |
| Retained earnings | 48,692 | 39,986 |
| Total shareholders' equity | 202,416 | 190,749 |
| Total liabilities and shareholders' equity | $1,896,278 | $1,851,160 |

See notes to unaudited consolidated financial statements.

* Derived from audited financial statements.

3

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Interest income: | | | | |
| Loans, including fees | $17,769 | $18,197 | $35,252 | $35,314 |
| Securities and other investments: | | | | |
| Taxable | 2,064 | 2,251 | 4,200 | 4,310 |
| Nontaxable | 661 | 812 | 1,354 | 1,651 |
| Federal funds sold | 1 | 1 | 2 | 5 |
| Time and interest bearing deposits in other banks | 11 | 17 | 27 | 55 |
| Other investments | 89 | 78 | 159 | 150 |
| Total interest income | 20,595 | 21,356 | 40,994 | 41,485 |
| Interest expense: | | | | |
| Deposits | 858 | 990 | 1,729 | 2,068 |
| Securities sold under agreements to repurchase | 199 | 182 | 379 | 361 |
| Other borrowings and payable | 105 | 106 | 211 | 230 |
| Junior subordinated debentures | 320 | 336 | 667 | 672 |
| Total interest expense | 1,482 | 1,614 | 2,986 | 3,331 |
| Net interest income | 19,113 | 19,742 | 38,008 | 38,154 |
| Provision for loan losses | 1,200 | 1,250 | 1,750 | 1,800 |
| Net interest income after provision for loan losses | 17,913 | 18,492 | 36,258 | 36,354 |
| Non-interest income: | | | | |
| Service charges on deposits | 2,448 | 2,271 | 4,828 | 4,442 |
| Gain on securities, net | 128 | - | 128 | 204 |
| ATM and debit card income | 1,853 | 1,638 | 3,567 | 2,994 |
| Executive officer life insurance proceeds | - | - | 3,000 | - |
| Other charges and fees | 832 | 1,095 | 1,655 | 1,795 |
| Total non-interest income | 5,261 | 5,004 | 13,178 | 9,435 |
| Non-interest expenses: | | | | |
| Salaries and employee benefits | 8,488 | 8,369 | 17,301 | 16,761 |
| Occupancy expense | 3,689 | 3,725 | 7,480 | 7,322 |
| FDIC insurance | 251 | 244 | 513 | 589 |
| Other | 4,695 | 5,929 | 9,531 | 11,026 |
| Total non-interest expenses | 17,123 | 18,267 | 34,825 | 35,698 |
| Income before income taxes | 6,051 | 5,229 | 14,611 | 10,091 |
| Income tax expense | 1,935 | 1,566 | 3,637 | 3,000 |
| Net earnings | 4,116 | 3,663 | 10,974 | 7,091 |
| Dividends on preferred stock | 170 | 392 | 350 | 684 |
| Net earnings available to common shareholders | $3,946 | $3,271 | $10,624 | $6,407 |
| Earnings per share: | | | | |

| | | | | |
|---|---|---|---|---|
| Basic | $0.35 | $0.29 | $0.94 | $0.57 |
| Diluted | $0.34 | $0.29 | $0.91 | $0.56 |
| Weighted average number of shares outstanding: | | | | |
| Basic | 11,288 | 11,239 | 11,273 | 11,238 |
| Diluted | 11,923 | 11,839 | 11,897 | 11,846 |
| Dividends declared per common share | $0.09 | $0.08 | $0.17 | $0.15 |

See notes to unaudited consolidated financial statements.

Table of Contents

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Net earnings | $4,116 | $3,663 | $10,974 | $7,091 |
| Other comprehensive income (loss), net of tax: | | | | |
| Unrealized gains (losses) on securities available-for-sale: | | | | |
| Unrealized holding gains (losses) arising during the year | 1,574 | (8,993) | 4,520 | (10,108) |
| Less: reclassification adjustment for gains on sales of securities available-for-sale | (128) | - | (128) | (204) |
| Total other comprehensive income (loss), before tax | 1,446 | (8,993) | 4,392 | (10,312) |
| Income tax effect related to items of other comprehensive income (loss) | (506) | 3,148 | (1,537) | 3,609 |
| Total other comprehensive income (loss), net of tax | 940 | (5,845) | 2,855 | (6,703) |
| Total comprehensive income (loss) | $5,056 | $(2,182) | $13,829 | $388 |

See notes to unaudited consolidated financial statements.

Table of Contents

MidSouth Bancorp, Inc. and Subsidiaries
Consolidated Statement of Shareholders' Equity (unaudited)
For the Six Months Ended June 30, 2014
(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 (Loss) | Treasury Stock | Retained Earnings | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance - December 31, 2013 | 131,971 | $41,997 | 11,407,196 | $1,141 | $111,017 | $- | $(106) | $(3,286) | $39,986 | $190,749 |
| Net earnings | - | - | - | - | - | - | - | - | 10,974 | 10,974 |
| Dividends on Series B and Series C preferred stock | - | - | - | - | - | - | - | - | (350) | (350) |
| Dividends on common stock, $0.17 per share | - | - | - | - | - | - | - | - | (1,918) | (1,918) |
| Conversion of Series C preferred stock to common stock | (5,410) | (541) | 30,057 | 3 | 538 | - | - | - | - | - |
| Repurchase of preferred stock, 87 shares | - | - | - | - | - | - | - | (9) | - | (9) |
| Increase in ESOP obligation | - | - | - | - | - | (283) | - | - | - | (283) |
| Exercise of stock options | - | - | 9,378 | 1 | 120 | - | - | - | - | 121 |
| Tax benefit resulting from issuance of stock options, net adjustment | - | - | - | - | 1 | - | - | - | - | 1 |
| Stock option expense | - | - | - | - | 276 | - | - | - | - | 276 |
| Change in accumulated other comprehensive income (loss) | - | - | - | - | - | - | 2,855 | - | - | 2,855 |
| Balance – June 30, 2014 | 126,561 | $41,456 | 11,446,631 | $1,145 | $111,952 | $(283) | $2,749 | $(3,295) | $48,692 | $202,416 |

See notes to unaudited consolidated financial statements.

Table of Contents

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

| | For the Six Months Ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Cash flows from operating activities: | | |
| Net earnings | $10,974 | $7,091 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation | 2,987 | 2,696 |
| Accretion of purchase accounting adjustments | (1,450) | (3,732) |
| Provision for loan losses | 1,750 | 1,800 |
| Provision for deferred tax expense | 1,246 | 996 |
| Amortization of premiums on securities, net | 1,763 | 2,384 |
| Amortization of other investments | 2 | 9 |
| Stock option expense | 276 | 123 |
| Restricted stock expense | - | 21 |
| Net gain on sale of investment securities | (128) | (204) |
| Net loss on sale of other real estate owned | 5 | 112 |
| Net write down of other real estate owned | 31 | 347 |
| Net (gain) loss on sale/disposal of premises and equipment | (12) | 148 |
| Change in accrued interest receivable | 324 | (73) |
| Change in accrued interest payable | (43) | (145) |
| Change in other assets & other liabilities, net | (2,023) | 537 |
| Net cash provided by operating activities | 15,702 | 12,110 |
| | | |
| Cash flows from investing activities: | | |
| Net decrease in time deposits in other banks | - | 881 |
| Proceeds from maturities and calls of securities available-for-sale | 21,634 | 44,861 |
| Proceeds from maturities and calls of securities held-to-maturity | 7,156 | 13,784 |
| Proceeds from sale of securities available-for-sale | 22,153 | 41,839 |
| Purchases of securities available-for-sale | - | (47,304) |
| Purchases of securities held-to-maturity | (1,104) | (24,700) |
| Proceeds from redemptions of other investments | 150 | 1,000 |
| Purchases of other investments | (564) | (2,651) |
| Net change in loans | (86,692) | (64,053) |
| Purchases of premises and equipment | (2,909) | (7,274) |
| Proceeds from sale of premises and equipment | 490 | 10 |
| Proceeds from sale of other real estate owned | 338 | 619 |
| Net cash used in investing activities | (39,348) | (42,988) |
| | | |
| Cash flows from financing activities: | | |
| Change in deposits | 6,765 | (15,702) |
| Change in securities sold under agreements to repurchase | 13,658 | 10,263 |
| Borrowings on Federal Home Loan Bank advances | 10,000 | 25,000 |
| Repayments of Federal Home Loan Bank advances | (30) | (28) |
| Repayments of notes payable | (500) | (500) |
| Purchase of treasury stock | (9) | - |
| Proceeds and tax benefit from exercise of stock options | 122 | 30 |
| Payment of dividends on preferred stock | (355) | (660) |

| | | |
|---|---|---|
| Payment of dividends on common stock | (1,801 ) | (1,520 ) |
| Net cash provided by financing activities | 27,850 | 16,883 |
| | | |
| Net increase (decrease) in cash and cash equivalents | 4,204 | (13,995) |
| Cash and cash equivalents, beginning of period | 59,731 | 73,573 |
| Cash and cash equivalents, end of period | $63,935 | $59,578 |
| | | |
| Supplemental cash flow information: | | |
| Interest paid | $3,030 | $3,269 |
| Income taxes paid | 3,560 | 3,050 |
| Noncash investing and financing activities: | | |
| Transfer of loans to other real estate | 77 | 482 |
| Change in accrued common stock dividends | 117 | 166 |
| Change in accrued preferred stock dividends | (5 ) | 24 |
| Financed sales of other real estate | 84 | - |
| Net change in loan to ESOP | (283 ) | - |

See notes to unaudited consolidated financial statements.

Table of Contents
MidSouth Bancorp, Inc. and Subsidiaries
Notes to Interim Consolidated Financial Statements
June 30, 2014
(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 June 30, 2014 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 2013 Annual Report on Form 10-K.

The results of operations for the six-month period ended June 30, 2014 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 2013 Annual Report on Form 10-K.

Recently Adopted Accounting Pronouncements — ASU 2014-04, Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force) provides guidance on when an in-substance repossession or foreclosure occurs, which requires the mortgage loan to be derecognized and the related real estate be recognized. Creditors must disclose the amount of foreclosed residential real estate held as well as the amount of collateralized loans for which foreclosure is in process. The effective date of this Update is for fiscal years beginning on or after December 15, 2014 and interim periods within those annual periods. Adoption of this Update is not expected to have a material effect on the Company's consolidated financial statements or the interim notes to the consolidated financial statements.

2. Investment Securities

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

| | June 30, 2014 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Available-for-sale: | | | | |
| U.S. Government sponsored enterprises | $11,201 | $ 1 | $ 111 | $11,091 |
| Obligations of state and political subdivisions | 50,581 | 2,046 | 54 | 52,573 |
| GSE mortgage-backed securities | 114,947 | 3,146 | 621 | 117,472 |

| | | | | |
|---|---|---|---|---|
| Collateralized mortgage obligations: residential | 68,193 | 354 | 2,083 | 66,464 |
| Collateralized mortgage obligations: commercial | 26,731 | 388 | 101 | 27,018 |
| Other asset-backed securities | 24,681 | 404 | - | 25,085 |
| Collateralized debt obligation | 464 | 861 | - | 1,325 |
| | $296,798 | $ 7,200 | $ 2,970 | $301,028 |

8

Table of Contents

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Available-for-sale: | | | | |
| U.S. Government sponsored enterprises | $11,455 | $ 1 | $ 191 | $11,265 |
| Obligations of state and political subdivisions | 57,925 | 2,296 | 243 | 59,978 |
| GSE mortgage-backed securities | 146,129 | 2,029 | 2,193 | 145,965 |
| Collateralized mortgage obligations: residential | 73,569 | 212 | 2,894 | 70,887 |
| Collateralized mortgage obligations: commercial | 27,082 | 416 | 152 | 27,346 |
| Other asset-backed securities | 25,204 | 351 | 66 | 25,489 |
| Collateralized debt obligation | 464 | 271 | - | 735 |
| | $341,828 | $ 5,576 | $ 5,739 | $341,665 |

| | June 30, 2014 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Held-to-maturity: | | | | |
| Obligations of state and political subdivisions | $46,804 | $ 97 | $ 679 | $46,222 |
| GSE mortgage-backed securities | 73,054 | 977 | 321 | 73,710 |
| Collateralized mortgage obligations: residential | 13,515 | - | 520 | 12,995 |
| Collateralized mortgage obligations: commercial | 15,554 | 78 | - | 15,632 |
| | $148,927 | $ 1,152 | $ 1,520 | $148,559 |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Held-to-maturity: | | | | |
| Obligations of state and political subdivisions | $47,377 | $ 38 | $ 2,586 | $44,829 |
| GSE mortgage-backed securities | 78,272 | 148 | 1,079 | 77,341 |
| Collateralized mortgage obligations: residential | 14,189 | - | 979 | 13,210 |
| Collateralized mortgage obligations: commercial | 15,685 | 103 | - | 15,788 |
| | $155,523 | $ 289 | $ 4,644 | $151,168 |

With the exception of three private-label collateralized mortgage obligations ("CMOs") with a combined balance remaining of $53,000 at June 30, 2014, all of the Company's CMOs are government-sponsored enterprise ("GSE") securities.

The amortized cost and fair value of debt securities at June 30, 2014 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.

Table of Contents

| | Amortized Cost | Fair Value |
|---|---|---|
| Available-for-sale: | | |
| Due in one year or less | $ 10,544 | $ 10,705 |
| Due after one year through five years | 33,691 | 34,681 |
| Due after five years through ten years | 12,376 | 13,116 |
| Due after ten years | 5,171 | 5,162 |
| Other asset-backed securities | 24,681 | 25,085 |
| Mortgage-backed securities and collateralized mortgage obligations: | | |
| Residential | 183,140 | 183,936 |
| Commercial | 26,731 | 27,018 |
| Collateralized debt obligation | 464 | 1,325 |
| | $ 296,798 | $ 301,028 |

| | Amortized Cost | Fair Value |
|---|---|---|
| Held-to-maturity: | | |
| Due in one year or less | $ 107 | $ 105 |
| Due after one year through five years | 2,639 | 2,659 |
| Due after five years through ten years | 6,910 | 6,831 |
| Due after ten years | 37,148 | 36,627 |
| Mortgage-backed securities and collateralized mortgage obligations: | | |
| Residential | 86,569 | 86,705 |
| Commercial | 15,554 | 15,632 |
| | $ 148,927 | $ 148,559 |

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

| | June 30, 2014 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: | | | | | | |
| U.S. Government sponsored enterprises | $- | $ - | $ 10,386 | $ 111 | $ 10,386 | $ 111 |
| Obligations of state and political subdivisions | 656 | 5 | 3,726 | 49 | 4,382 | 54 |
| GSE mortgage-backed securities | 3,662 | 13 | 40,979 | 608 | 44,641 | 621 |
| Collateralized mortgage obligations: residential | 4,730 | 17 | 45,254 | 2,066 | 49,984 | 2,083 |
| Collateralized mortgage obligations: commercial | - | - | 4,097 | 101 | 4,097 | 101 |
| | $9,048 | $ 35 | $ 104,442 | $ 2,935 | $ 113,490 | $ 2,970 |

Table of Contents

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | 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: | | | | | | |
| U.S. Government sponsored enterprises | $10,463 | $ 191 | $- | $ - | $10,463 | $ 191 |
| Obligations of state and political subdivisions | 4,256 | 243 | - | - | 4,256 | 243 |
| GSE mortgage-backed securities | 68,028 | 2,193 | - | - | 68,028 | 2,193 |
| Collateralized mortgage obligations: residential | 56,975 | 2,563 | 4,371 | 331 | 61,346 | 2,894 |
| Collateralized mortgage obligations: commercial | 4,282 | 152 | - | - | 4,282 | 152 |
| Other asset-backed securities | 13,099 | 66 | - | - | 13,099 | 66 |
| | $157,103 | $ 5,408 | $4,371 | $ 331 | $161,474 | $ 5,739 |

| | June 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $7,816 | $ 59 | $29,812 | $ 620 | $37,628 | $ 679 |
| GSE mortgage-backed securities | - | - | 29,908 | 321 | 29,908 | 321 |
| Collateralized mortgage obligations: residential | - | - | 12,995 | 520 | 12,995 | 520 |
| | $7,816 | $ 59 | $72,715 | $ 1,461 | $80,531 | $ 1,520 |

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $42,246 | $ 2,569 | $685 | $ 17 | $42,931 | $ 2,586 |
| GSE mortgage-backed securities | 31,042 | 1,079 | - | - | 31,042 | 1,079 |
| Collateralized mortgage obligations: residential | 13,210 | 979 | - | - | 13,210 | 979 |
| | $86,498 | $ 4,627 | $685 | $ 17 | $87,183 | $ 4,644 |

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.

Table of Contents

As of June 30, 2014, 90 securities had unrealized losses totaling 2.26% of the individual securities' amortized cost basis and 1.01% of the Company's total amortized cost basis. 70 of the 90 securities had been in an unrealized loss position for over twelve months at June 30, 2014. These 70 securities had an amortized cost basis and unrealized loss of $181.6 million and $4.5 million, respectively. The unrealized losses on debt securities at June 30, 2014 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 June 30, 2014, 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 six months ended June 30, 2014.

During the six months ended June 30, 2014, the Company sold four securities classified as available-for-sale at a net gain of $128,000. All of the securities were sold at a gain. During the six months ended June 30, 2013, the Company sold 21 securities classified as available-for-sale at a net gain of $204,000. Of the 21 securities sold, 18 securities were sold with gains totaling $217,000 and three securities were sold at a loss of $13,000.

Securities with an aggregate carrying value of approximately $283.3 million and $259.9 million at June 30, 2014 and December 31, 2013, 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):

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Commercial, financial and agricultural | $454,310 | $403,976 |
| Real estate - construction | 86,238 | 82,691 |
| Real estate – commercial | 413,565 | 397,135 |
| Real estate – residential | 153,082 | 146,841 |
| Installment loans to individuals | 108,581 | 97,459 |
| Lease financing receivable | 4,750 | 5,542 |
| Other | 3,656 | 3,910 |
| | 1,224,182 | 1,137,554 |
| Less allowance for loan losses | (9,075 ) | (8,779 ) |
| | $1,215,107 | $1,128,775 |

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 June 30, 2014, 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 $261.8 million, or 21.4% of total loans. Additionally, the Company's exposure to loans secured by commercial real estate is monitored. At June 30, 2014, loans secured by commercial real estate (including commercial construction, farmland and multifamily loans) totaled approximately $476.3 million. Of the $476.3 million, $379.2 million represent CRE loans, 64% of which are secured by owner-occupied commercial properties. Of the $476.3 million in loans secured by commercial real estate, $3.4 million, or 0.7%, were on nonaccrual status at June 30, 2014.

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.

Table of Contents

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

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

A rollforward of the activity within the allowance for loan losses by loan type and recorded investment in loans for the six months ended June 30, 2014 and 2013 is as follows (in thousands):

| | June 30, 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Real Estate | | | | | | |
| | Coml, Fin, and Agric | Construction | Commercial | Residential | Consumer | Finance Leases Coml | Other | Total |
| Allowance for loan losses: | | | | | | | | |
| Beginning balance | $3,906 | $1,046 | $1,389 | $1,141 | $1,273 | $21 | $3 | $8,779 |
| Charge-offs | (1,135) | - | (17) | (176) | (350) | - | - | (1,678) |
| Recoveries | 42 | - | 42 | 39 | 101 | - | - | 224 |
| Provision | 1,970 | (53) | (23) | (325) | 184 | (4) | 1 | 1,750 |
| Ending balance | $4,783 | $993 | $1,391 | $679 | $1,208 | $17 | $4 | $9,075 |
| Ending balance: individually evaluated for impairment | $208 | $3 | $55 | $152 | $145 | $- | $- | $563 |
| Ending balance: collectively evaluated for impairment | $4,575 | $990 | $1,336 | $527 | $1,063 | $17 | $4 | $8,512 |
| | | | | | | | | |
| Loans: | | | | | | | | |
| Ending balance | $454,310 | $86,238 | $413,565 | $153,082 | $108,581 | $4,750 | $3,656 | $1,224,182 |
| Ending balance: individually evaluated for impairment | $1,793 | $152 | $3,234 | $1,214 | $340 | $- | $- | $6,733 |
| Ending balance: collectively evaluated for impairment | $452,517 | $86,086 | $409,631 | $151,763 | $108,241 | $4,750 | $3,656 | $1,216,644 |
| Ending balance: loans acquired with deteriorated credit quality | $- | $- | $700 | $105 | $- | $- | $- | $805 |

Table of Contents

| | June 30, 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Real Estate | | | | | | |
| | Coml, Fin, and Agric | Construction | Commercial | Residential | Consumer | Finance Leases Coml | Other | Total |
| Allowance for loan losses: | | | | | | | | |
| Beginning balance | $1,535 | $2,147 | $2,166 | $936 | $543 | $41 | $2 | $7,370 |
| Charge-offs | (245) | - | (18) | (115) | (413) | - | - | (791) |
| Recoveries | 39 | 5 | 15 | 26 | 67 | - | - | 152 |
| Provision | 2,364 | (1,061) | 80 | (328) | 760 | (17) | 2 | 1,800 |
| Ending balance | $3,693 | $1,091 | $2,243 | $519 | $957 | $24 | $4 | $8,531 |
| Ending balance: individually evaluated for impairment | $328 | $54 | $21 | $68 | $128 | $- | $- | $599 |
| Ending balance: collectively evaluated for impairment | $3,365 | $1,037 | $2,222 | $451 | $829 | $24 | $4 | $7,932 |
| | | | | | | | | |
| Loans: | | | | | | | | |
| Ending balance | $391,241 | $82,851 | $404,543 | $141,689 | $90,571 | $5,656 | $2,021 | $1,118,572 |
| Ending balance: individually evaluated for impairment | $1,648 | $262 | $2,556 | $1,024 | $315 | $- | $- | $5,805 |
| Ending balance: collectively evaluated for impairment | $389,593 | $82,589 | $401,277 | $140,375 | $90,256 | $5,656 | $2,021 | $1,111,767 |
| Ending balance: loans acquired with deteriorated credit quality | $- | $- | $710 | $290 | $- | $- | $- | $1,000 |

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.

Table of Contents

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

| | June 30, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 | $1,846 | $790 | $1,591 | $4,227 | $450,083 | $454,310 | $ 27 |
| Commercial real estate - construction | 58 | - | 73 | 131 | 62,626 | 62,757 | - |
| Commercial real estate - other | 1,658 | 378 | 2,902 | 4,938 | 408,627 | 413,565 | 159 |
| Residential - construction | - | - | 44 | 44 | 23,437 | 23,481 | - |
| Residential - prime | 763 | 33 | 905 | 1,701 | 151,381 | 153,082 | - |
| Consumer - credit card | 22 | 8 | 17 | 47 | 5,957 | 6,004 | 17 |
| Consumer - other | 514 | 321 | 333 | 1,168 | 101,409 | 102,577 | - |
| Lease financing receivable | - | - | - | - | 4,750 | 4,750 | - |
| Other loans | 118 | 5 | - | | | | |