LAKELAND FINANCIAL CORP
Form 10-Q
May 03, 2019
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 March 31, 2019

OR

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

For the transition period from ____________ to _____________

LAKELAND FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Indiana	0-11487	35-1559596
(State or Other Jurisdiction of Incorporation or Organization)	(Commission File Number)	(IRS Employer Identification No.)

202 East Center Street, P.O. Box 1387, Warsaw, Indiana 46581 1387
(Address of Principal Executive Offices)(Zip Code)

(574) 267 6144
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§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, smaller reporting company, or an emerging growth company. See the definitions of ''large accelerated filer,'' ''accelerated filer,'' ''smaller reporting company,'' and ''emerging growth company'' in Rule 12b–2 of the Exchange Act.

Large accelerated filer [X] 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 [X]

Number of shares of common stock outstanding at April 30, 2019: 25,614,665

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ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS (in thousands, except share data)

	March 31, 2019 (Unaudited)	December 31, 2018
ASSETS		
Cash and due from banks	$143,081	$192,290
Short-term investments	45,672	24,632
Total cash and cash equivalents	188,753	216,922
Securities available for sale (carried at fair value)	595,553	585,549
Real estate mortgage loans held for sale	3,047	2,293
Loans, net of allowance for loan losses of $49,562 and $48,453	3,889,448	3,866,292
Land, premises and equipment, net	58,760	58,097
Bank owned life insurance	82,253	77,106
Federal Reserve and Federal Home Loan Bank stock	13,772	13,772
Accrued interest receivable	17,387	15,518
Goodwill	4,970	4,970
Other assets	37,942	34,735
Total assets	$4,891,885	$4,875,254
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Noninterest bearing deposits	$931,832	$946,838
Interest bearing deposits	3,215,605	3,097,227
Total deposits	4,147,437	4,044,065
Borrowings		
Federal funds purchased	122,000	0
Securities sold under agreements to repurchase	0	75,555
Federal Home Loan Bank advances	0	170,000
Subordinated debentures	30,928	30,928
Total borrowings	152,928	276,483
Accrued interest payable	11,794	10,404
Other liabilities	36,459	22,598
Total liabilities	4,348,618	4,353,550
STOCKHOLDERS' EQUITY		
Common stock: 90,000,000 shares authorized, no par value 25,614,665 shares issued and 25,442,827 outstanding as of March 31, 2019 25,301,732 shares issued and 25,128,773 outstanding as of December 31, 2018	111,571	112,383
Retained earnings	432,953	419,179
Accumulated other comprehensive income (loss)	2,487	(6,191)
Treasury stock, at cost (2019 - 171,838 shares, 2018 - 172,959 shares)	(3,833)	(3,756)
Total stockholders' equity	543,178	521,615
Noncontrolling interest	89	89

Total equity	543,267	521,704
Total liabilities and equity	$4,891,885	$4,875,254

The accompanying notes are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME (unaudited - in thousands, except share and per share data)

	Three Months Ended March 31,	
	2019	2018
NET INTEREST INCOME		
Interest and fees on loans		
Taxable	$48,866	$41,794
Tax exempt	251	217
Interest and dividends on securities		
Taxable	2,497	2,434
Tax exempt	1,642	1,331
Other interest income	238	292
Total interest income	53,494	46,068
Interest on deposits	13,883	9,367
Interest on borrowings		
Short-term	950	111
Long-term	452	367
Total interest expense	15,285	9,845
NET INTEREST INCOME	38,209	36,223
Provision for loan losses	1,200	3,300
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	37,009	32,923
NONINTEREST INCOME		
Wealth advisory fees	1,620	1,505
Investment brokerage fees	386	290
Service charges on deposit accounts	4,287	3,628
Loan and service fees	2,404	2,177
Merchant card fee income	622	642
Bank owned life insurance income	444	363
Mortgage banking income	222	241
Net securities gains (losses)	23	(6)
Other income	1,517	1,039
Total noninterest income	11,525	9,879
NONINTEREST EXPENSE		
Salaries and employee benefits	12,559	12,019
Net occupancy expense	1,366	1,426
Equipment costs	1,349	1,274
Data processing fees and supplies	2,425	2,513
Corporate and business development	1,206	1,133
FDIC insurance and other regulatory fees	406	461
Professional fees	937	872
Other expense	2,225	1,504

Total noninterest expense	22,473	21,202
INCOME BEFORE INCOME TAX EXPENSE	26,061	21,600
Income tax expense	4,379	3,264
NET INCOME	$21,682	$18,336
BASIC WEIGHTED AVERAGE COMMON SHARES	25,491,093	25,257,414
BASIC EARNINGS PER COMMON SHARE	$0.85	$0.73
DILUTED WEIGHTED AVERAGE COMMON SHARES	25,665,287	25,696,864
DILUTED EARNINGS PER COMMON SHARE	$0.84	$0.71

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited - in thousands)

	Three months ended March 31,	
	2019	2018
Net income	$21,682	$18,336
Other comprehensive income		
Change in securities available for sale:		
Unrealized holding gain/(loss) on securities available for sale arising during the period	10,960	(9,161)
Reclassification adjustment for (gains)/losses included in net income	(23)	6
Net securities gain/(loss) activity during the period	10,937	(9,155)
Tax effect	(2,297)	2,029
Net of tax amount	8,640	(7,126)
Defined benefit pension plans:		
Amortization of net actuarial loss	50	66
Net gain activity during the period	50	66
Tax effect	(12)	(17)
Net of tax amount	38	49
Total other comprehensive income, net of tax	8,678	(7,077)
Comprehensive income	$30,360	$11,259

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (unaudited - in thousands, except share and per share data)

	Common Stock Shares	Common Stock Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
Balance at January 1, 2018	25,025,933	$108,862	$363,794	$(670)	$(3,408)	$468,578	$89	$468,667
Adoption of ASU 2018-02			173	(173)		0		0
Adoption of ASU 2014-09			24			24		24
Adoption of ASU 2016-01			68	(68)		0		0
Comprehensive income:								
Net income			18,336			18,336		18,336
Other comprehensive loss, net of tax				(7,077)		(7,077)		(7,077)
Cash dividends declared, $0.22 per share			(5,545)			(5,545)		(5,545)
Treasury shares purchased under deferred directors' plan	(3,807)	185			(185)	0		0
Treasury shares sold and distributed under deferred directors' plan	5,636	(115)			115	0		0
Stock activity under equity compensation plans	96,679	(2,483)				(2,483)		(2,483)
Stock based compensation expense		1,411				1,411		1,411
	25,124,441	$107,860	$376,850	$(7,988)	$(3,478)	$473,244	$89	$473,333

Balance at March 31, 2018								
Balance at January 1, 2019	25,128,773	$112,383	$419,179	$(6,191)	$(3,756)	$521,615	$89	$521,704
Adoption of ASU 2017-08 (See Note 1)			(1,327)			(1,327)		(1,327)
Comprehensive income:								
Net income			21,682			21,682		21,682
Other comprehensive income, net of tax				8,678		8,678		8,678
Cash dividends declared, $0.26 per share			(6,581)			(6,581)		(6,581)
Cashless exercise of warrants	224,066	0				0		0
Treasury shares purchased under deferred directors' plan	(4,578)	195			(195)	0		0
Treasury shares sold and distributed under deferred directors' plan	5,699	(118)			118	0		0
Stock activity under equity compensation plans	88,867	(2,089)				(2,089)		(2,089)
Stock based compensation expense		1,200				1,200		1,200
Balance at March 31, 2019	25,442,827	$111,571	$432,953	$2,487	$(3,833)	$543,178	$89	$543,267

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited - in thousands)

Three Months Ended March 31	2019	2018
Cash flows from operating activities:		
Net income	$21,682	$18,336
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	1,417	1,404
Provision for loan losses	1,200	3,300
Net loss on sale and write down of other real estate owned	0	16
Amortization of loan servicing rights	122	132
Loans originated for sale, including participations	(7,454)	(9,506)
Net gain on sales of loans	(258)	(350)
Proceeds from sale of loans, including participations	6,835	11,499
Net loss on sales of premises and equipment	1	2
Net loss (gain) on sales and calls of securities available for sale	(23)	6
Net securities amortization	817	749
Stock based compensation expense	1,200	1,411
Earnings on life insurance	(444)	(363)
Gain on life insurance	(841)	(201)
Tax benefit of stock award issuances	(529)	(761)
Net change:		
Interest receivable and other assets	(1,342)	(2,130)
Interest payable and other liabilities	1,276	2,395
Total adjustments	1,977	7,603
Net cash from operating activities	23,659	25,939
Cash flows from investing activities:		
Proceeds from sale of securities available for sale	13,693	12,322
Proceeds from maturities, calls and principal paydowns of securities available for sale	16,026	12,659
Purchases of securities available for sale	(22,183)	(53,841)
Purchase of life insurance	(5,362)	(258)
Net increase in total loans	(24,356)	(32,003)
Proceeds from sales of land, premises and equipment	10	1
Purchases of land, premises and equipment	(2,091)	(678)
Proceeds from sales of other real estate	0	12
Proceeds from life insurance	1,483	564
Net cash from investing activities	(22,780)	(61,222)
Cash flows from financing activities:		
Net increase in total deposits	103,372	90,833
Net increase in short-term borrowings	46,445	24,064
Payments on short-term FHLB borrowings	(170,000)	0
Payments on long-term FHLB borrowings	0	(80,030)
Common dividends paid	(6,581)	(5,545)
Payments related to equity incentive plans	(2,089)	(2,483)
Purchase of treasury stock	(195)	(185)

Net cash from financing activities	(29,048)	26,654
Net change in cash and cash equivalents	(28,169)	(8,629)
Cash and cash equivalents at beginning of the period	216,922	176,180
Cash and cash equivalents at end of the period	$188,753	$167,551
Cash paid during the period for:		
Interest	$13,896	$8,672
Supplemental non-cash disclosures:		
Securities purchases payable	8,725	3,081
Right-of-use assets obtained in exchange for lease liabilities	5,483	0

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1. BASIS OF PRESENTATION

This report is filed for Lakeland Financial Corporation (the “Company”), which has two wholly owned subsidiaries, Lake City Bank (the “Bank”) and LCB Risk Management, a captive insurance company. Also included in this report is the Bank’s wholly owned subsidiary, LCB Investments II, Inc. (“LCB Investments”), which manages the Bank’s investment portfolio. LCB Investments owns LCB Funding, Inc. (“LCB Funding”), a real estate investment trust. All significant inter-company balances and transactions have been eliminated in consolidation.

The unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions for Form 10-Q. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and are unaudited. In the opinion of management, all adjustments (all of which are normal and recurring in nature) considered necessary for a fair presentation have been included. Operating results for the three-months ended March 31, 2019 are not necessarily indicative of the results that may be expected for any subsequent reporting periods, including the year ending December 31, 2019. The Company’s 2018 Annual Report on Form 10-K should be read in conjunction with these statements.

Adoption of New Accounting Standards

The Company accounts for leases in accordance with ASU 2016-02, “Leases”, which the Company adopted on January 1, 2019. This guidance replaced existing lease guidance in GAAP and requires lessees to recognize lease assets and lease liabilities on the balance sheet for all leases and disclose key information about leasing arrangements. Lessees and lessors are required to recognize and measure leases that exist at the beginning of the earliest period presented using a modified retrospective approach. The Company recorded a right-of-use asset of $5.5 million and a lease liability of $5.5 million upon adoption, and there was no cumulative period adjustment made to retained earnings. This standard did not have a material impact on the Company’s balance sheets or cash flows from operations and had no impact on the Company’s operating results. The most significant impact was the recognition of right-of-use assets and lease obligations for operating leases. The Company elected to adopt the package of practical expedients for this standard.

In March 2017, the FASB issued ASU No. 2017-08, “Receivables—Nonrefundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities.” This update amends the amortization period for certain purchased callable debt securities held at a premium. FASB is shortening the amortization period for the premium to the earliest call date. Under current GAAP, entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument. Concerns were raised that current GAAP excludes certain callable debt securities from consideration of early repayment of principal even if the holder is certain that the call will be exercised. As a result, upon the exercise of a call on a callable debt security held at a premium, the unamortized premium is recorded as a loss in earnings. There is diversity in practice (1) in the amortization period for premiums of callable debt securities and (2) in how the potential for exercise of a call is factored into current impairment assessments. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2018. The Company adopted this new accounting standard on January 1, 2019. The effect of adoption was a reduction in retained earnings of approximately $1.3 million, net of tax, to reflect the acceleration of amortization of premiums on debt securities.

In August 2017, the FASB issued ASU 2017-12, “Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities”. The purpose of this updated guidance is to better align a company's financial reporting for hedging activities with the economic objectives of those activities. ASU 2017-12 is effective for public business entities for fiscal years beginning after December 15, 2018, with early adoption, including adoption in an interim period, permitted. The Company adopted ASU 2017-12 on January 1, 2019. ASU 2017-12 requires a modified retrospective transition method in which the Company will recognize the cumulative effect of the change on the opening balance of each affected component of equity in the statement of financial position as of the date of adoption. Adopting this standard did not have an impact on the Company's financial condition or results of operations.

Newly Issued But Not Yet Effective Accounting Standards

In June 2016, the FASB issued guidance related to credit losses on financial instruments. This update will change the accounting for credit losses on loans and debt securities. The measurement of expected credit losses is to be based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. For loans, this measurement will take place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the "incurred loss" model required under current GAAP, which delays recognition until it is probable a loss has been incurred. In addition, the guidance will modify the other-than-temporary impairment model for available-for-sale debt securities to require an allowance for credit impairment instead of a direct write-down, which will allow for reversal of credit impairments in future periods. This guidance is effective for public business entities that meet the definition of an SEC filer for fiscal years beginning after December 15, 2019, including interim periods in those fiscal years. The Company has formed a cross-functional committee that has evaluated existing technology and other solutions for calculating losses under this new standard, selected a vendor to validate data currently loaded in the technology solution selected, and reviewed the validation assessment report. The committee has selected a model and is working on initial calculations under the model. Management expects to recognize credit losses earlier upon adoption of this accounting standard and the expected credit loss model than it has historically done under the current incurred credit loss model. While the impact of implementing the CECL model cannot be quantified at this time, the Company expects to recognize a one-time cumulative-effect adjustment to the allowance upon adoption.

In January 2017, the FASB issued ASU No. 2017-04 "Intangibles - Goodwill and Other - Simplifying the Test for Goodwill Impairment." These amendments eliminate Step 2 from the goodwill impairment test. The amendments also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The guidance is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. ASU 2017-04 should be adopted on a prospective basis. Management does not expect the adoption of this new accounting standard to have a material impact on our financial statements.

Reclassifications

Certain amounts appearing in the financial statements and notes thereto for prior periods have been reclassified to conform with the current presentation. The reclassifications had no effect on net income or stockholders' equity as previously reported.

NOTE 2. SECURITIES

Information related to the fair value and amortized cost of securities available for sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income is provided in the tables below.

(dollars in thousands)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses	Fair Value
March 31, 2019				
U.S. Treasury securities	$994	$0	$0	$994
U.S. government sponsored agencies	4,066	0	(77)	3,989
Mortgage-backed securities: residential	320,460	2,378	(2,559)	320,279
Mortgage-backed securities: commercial	38,244	1	(216)	38,029
State and municipal securities	226,924	5,624	(286)	232,262
Total	$590,688	$8,003	$(3,138)	$595,553
December 31, 2018				
U.S. Treasury securities	$994	$0	$(7)	$987
U.S. government sponsored agencies	4,435	0	(85)	4,350
Mortgage-backed securities: residential	329,516	1,392	(5,496)	325,412
Mortgage-backed securities: commercial	38,712	0	(571)	38,141
State and municipal securities	217,964	1,403	(2,708)	216,659
Total	$591,621	$2,795	$(8,867)	$585,549

Information regarding the fair value and amortized cost of available for sale debt securities by maturity as of March 31, 2019 is presented below. Maturity information is based on contractual maturity for all securities other than mortgage-backed securities. Actual maturities of securities may differ from contractual maturities because borrowers may have the right to prepay the obligation without a prepayment penalty.

(dollars in thousands)	Amortized Cost	Fair Value
Due in one year or less	$1,732	$1,742
Due after one year through five years	25,086	25,342
Due after five years through ten years	25,267	25,970
Due after ten years	179,899	184,191
	231,984	237,245
Mortgage-backed securities	358,704	358,308
Total debt securities	$590,688	$595,553

Securities proceeds, gross gains and gross losses are presented below.

(dollars in thousands)	Three months ended March 31, 2019	2018
Sales of securities available for sale		
Proceeds	$13,693	$12,322
Gross gains	70	21

Gross losses	(47)	(27)
Number of securities	17	22

In accordance with ASU No. 2017-08, purchase premiums for callable securities are amortized to the earliest call date and premiums on non-callable securities as well as discounts are recognized in interest income using the interest method over the terms of the securities or over the estimated lives of mortgage-backed securities. Gains and losses on sales are based on the amortized cost of the security sold and recorded on the trade date.

Securities with carrying values of $62.0 million and $164.7 million were pledged as of March 31, 2019 and December 31, 2018, respectively, as collateral for securities sold under agreements to repurchase, borrowings from the Federal Home Loan Bank and for other purposes as permitted or required by law.

Information regarding securities with unrealized losses as of March 31, 2019 and December 31, 2018 is presented below. The tables divide the securities between those with unrealized losses for less than twelve months and those with unrealized losses for twelve months or more.

	Less than 12 months		12 months or more		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
(dollars in thousands)	Value	Losses	Value	Losses	Value	Losses
March 31, 2019						
U.S. government sponsored agencies	$1,644	$4	$2,345	$73	$3,989	$77
Mortgage-backed securities: residential	27,476	22	161,955	2,537	189,431	2,559
Mortgage-backed securities: commercial	5,096	8	28,819	208	33,915	216
State and municipal securities	7,138	51	19,685	235	26,823	286
Total temporarily impaired	$41,354	$85	$212,804	$3,053	$254,158	$3,138
December 31, 2018						
U.S. Treasury securities	$0	$0	$987	$7	$987	$7
U.S. government sponsored agencies	0	0	4,350	85	4,350	85
Mortgage-backed securities: residential	11,619	12	217,182	5,484	228,801	5,496
Mortgage-backed securities: commercial	0	0	38,141	571	38,141	571
State and municipal securities	26,229	124	85,982	2,584	112,211	2,708
Total temporarily impaired	$37,848	$136	$346,642	$8,731	$384,490	$8,867

The total number of securities with unrealized losses as of March 31, 2019 and December 31, 2018 is presented below.

	Less than 12 months	12 months or more	Total
March 31, 2019			
U.S. government sponsored agencies	1	1	2
Mortgage-backed securities: residential	12	64	76
Mortgage-backed securities: commercial	1	7	8
State and municipal securities	10	22	32
Total temporarily impaired	24	94	118
December 31, 2018			
U.S. Treasury securities	0	1	1
U.S. government sponsored agencies	0	2	2
Mortgage-backed securities: residential	5	84	89
Mortgage-backed securities: commercial	0	9	9
State and municipal securities	35	111	146

Total temporarily impaired	40	207	247

The following factors are considered in determining whether or not the impairment of these securities is other-than-temporary. In making this determination, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer, as well as the underlying fundamentals of the relevant market and the outlook for such market in the near future. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. Credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. As of March 31, 2019 and December 31, 2018, all of the securities in the Company's portfolio were backed by the U.S. government, government agencies, government sponsored entities or were A-rated or better, except for certain non-local or local municipal securities, which are not rated. For the government, government agency, government-sponsored entity and municipal securities, management did not believe that there would be credit losses or that full principal would not be received. Management considers the unrealized losses on these securities to be primarily interest rate driven and does not expect material losses given current market conditions unless the securities are sold. However, at this time management does not have the intent to sell, and it is more likely than not that the Company will not be required to sell these securities before the recovery of their amortized cost basis.

NOTE 3. LOANS

(dollars in thousands)	March 31, 2019			December 31, 2018		
Commercial and industrial loans:						
Working capital lines of credit loans	$726,895	18.4	%	$690,620	17.6	%
Non-working capital loans	700,447	17.8		714,759	18.3	
Total commercial and industrial loans	1,427,342	36.2		1,405,379	35.9	
Commercial real estate and multi-family residential loans:						
Construction and land development loans	293,818	7.5		266,805	6.8	
Owner occupied loans	557,296	14.1		586,325	15.0	
Nonowner occupied loans	537,569	13.7		520,901	13.3	
Multifamily loans	240,939	6.1		195,604	5.0	
Total commercial real estate and multi-family residential loans	1,629,622	41.4		1,569,635	40.1	
Agri-business and agricultural loans:						
Loans secured by farmland	139,645	3.6		177,503	4.6	
Loans for agricultural production	162,662	4.1		193,010	4.9	
Total agri-business and agricultural loans	302,307	7.7		370,513	9.5	
Other commercial loans	112,021	2.8		95,657	2.4	
Total commercial loans	3,471,292	88.1		3,441,184	87.9	
Consumer 1-4 family mortgage loans:						
Closed end first mortgage loans	188,777	4.8		185,822	4.7	
Open end and junior lien loans	182,791	4.7		187,030	4.8	
Residential construction and land development loans	13,142	0.3		16,226	0.4	
Total consumer 1-4 family mortgage loans	384,710	9.8		389,078	9.9	
Other consumer loans	84,650	2.1		86,064	2.2	
Total consumer loans	469,360	11.9		475,142	12.1	
Subtotal	3,940,652	100.0	%	3,916,326	100.0	%
Less: Allowance for loan losses	(49,562)			(48,453)		
Net deferred loan fees	(1,642)			(1,581)		
Loans, net	$3,889,448			$3,866,292		

The recorded investment in loans does not include accrued interest.

The Company had $533,000 in residential real estate loans in the process of foreclosure as of March 31, 2019, compared to $586,000 as of December 31, 2018.

NOTE 4. ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY

The following tables present the activity in the allowance for loan losses by portfolio segment for the three-month periods ended March 31, 2019 and 2018:

(dollars in thousands)	Commercial and Industrial	Commercial Real Estate and Multifamily Residential	Agri-business and Agricultural	Other Commercial	Consumer 1-4 Family Mortgage	Other Consumer	Unallocated	Total
Three Months Ended March 31, 2019								
Beginning balance, January 1	$22,518	$15,393	$4,305	$368	$2,292	$283	$3,294	$48,453
Provision for loan losses	1,493	18	(161)	5	45	85	(285)	1,200
Loans charged-off	(83)	0	0	0	(82)	(119)	0	(284)
Recoveries	102	36	2	0	11	42	0	193
Net loans charged-off	19	36	2	0	(71)	(77)	0	(91)
Ending balance	$24,030	$15,447	$4,146	$373	$2,266	$291	$3,009	$49,562

(dollars in thousands)	Commercial and Industrial	Commercial Real Estate and Multifamily Residential	Agri-business and Agricultural	Other Commercial	Consumer 1-4 Family Mortgage	Other Consumer	Unallocated	Total
Three Months Ended March 31, 2018								
Beginning balance, January 1	$21,097	$14,714	$4,920	$577	$2,768	$379	$2,666	$47,121
Provision for loan losses	3,902	207	(76)	(67)	(794)	(49)	177	3,300
Loans charged-off	(4,360)	(491)	0	0	(7)	(119)	0	(4,977)
Recoveries	86	8	4	0	51	34	0	183
Net loans charged-off	(4,274)	(483)	4	0	44	(85)	0	(4,794)
Ending balance	$20,725	$14,438	$4,848	$510	$2,018	$245	$2,843	$45,627

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of March 31, 2019 and December 31, 2018:

(dollars in thousands)	Commercial and Industrial	Commercial Real Estate and Multifamily Residential	Agri-business and Agricultural	Other Commercial	Consumer 1-4 Family Mortgage	Other Consumer	Unallocated	Total
March 31, 2019								
Allowance for loan losses:								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$8,860	$398	$81	$0	$467	$28	$0	$9,834
Collectively evaluated for impairment	15,170	15,049	4,065	373	1,799	263	3,009	39,728
Total ending allowance balance	$24,030	$15,447	$4,146	$373	$2,266	$291	$3,009	$49,562
Loans:								
Loans individually evaluated for impairment	$18,611	$3,441	$430	$0	$2,022	$43	$0	$24,547
Loans collectively evaluated for impairment	1,408,737	1,623,594	301,976	111,875	383,913	84,368	0	3,914,463
Total ending loans balance	$1,427,348	$1,627,035	$302,406	$111,875	$385,935	$84,411	$0	$3,939,010

(dollars in thousands)	Commercial and Industrial	Commercial Real Estate and Multifamily Residential	Agri-business and Agricultural	Other Commercial	Consumer 1-4 Family Mortgage	Other Consumer	Unallocated	Total
December 31, 2018								
Allowance for loan losses:								

Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$8,552	$921	$73	$0	$457	$26	$0	$10,029
Collectively evaluated for impairment	13,966	14,472	4,232	368	1,835	257	3,294	38,424
Total ending allowance balance	$22,518	$15,393	$4,305	$368	$2,292	$283	$3,294	$48,453
Loans:								
Loans individually evaluated for impairment	$19,734	$4,266	$433	$0	$2,240	$44	$0	$26,717
Loans collectively evaluated for impairment	1,385,604	1,562,899	370,174	95,520	388,053	85,778	0	3,888,028
Total ending loans balance	$1,405,338	$1,567,165	$370,607	$95,520	$390,293	$85,822	$0	$3,914,745

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The following table presents loans individually evaluated for impairment by class of loans as of March 31, 2019:

(dollars in thousands)	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	$2,904	$212	$0
Non-working capital loans	2,345	950	0
Commercial real estate and multi-family residential loans:			
Owner occupied loans	2,272	1,667	0
Agri-business and agricultural loans:			
Loans secured by farmland	603	283	0
Consumer 1-4 family loans:			
Closed end first mortgage loans	224	143	0
Open end and junior lien loans	98	98	0
With an allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	6,698	6,390	2,874
Non-working capital loans	11,016	11,059	5,986
Commercial real estate and multi-family residential loans:			
Owner occupied loans	1,774	1,774	398
Agri-business and agricultural loans:			
Loans secured by farmland	147	147	81
Consumer 1-4 family mortgage loans:			
Closed end first mortgage loans	1,779	1,781	467
Other consumer loans	43	43	28
Total	$29,903	$24,547	$9,834

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2018:

(dollars in thousands)	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:			
Commercial and industrial loans:			
Non-working capital loans	$3,284	$1,889	$0
Commercial real estate and multi-family residential loans:			
Owner occupied loans	1,773	1,527	0
Agri-business and agricultural loans:			
Loans secured by farmland	603	283	0
Consumer 1-4 family loans:			
Closed end first mortgage loans	583	502	0
Open end and junior lien loans	220	220	0
With an allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	9,691	6,694	2,602
Non-working capital loans	11,099	11,151	5,950
Commercial real estate and multi-family residential loans:			
Construction and land development loans	291	291	142
Owner occupied loans	2,938	2,448	779
Agri-business and agricultural loans:			
Loans secured by farmland	150	150	73
Consumer 1-4 family mortgage loans:			
Closed end first mortgage loans	1,517	1,518	457
Other consumer loans	45	44	26
Total	$32,194	$26,717	$10,029

The following table presents loans individually evaluated for impairment by class of loans as of and for the three-month period ended March 31, 2019:

(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income Recognized
With no related allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	$155	$1	$0
Non-working capital loans	1,549	29	24
Commercial real estate and multi-family residential loans:			
Owner occupied loans	1,621	11	8
Agri-business and agricultural loans:			
Loans secured by farmland	283	0	0
Consumer 1-4 family loans:			
Closed end first mortgage loans	380	1	1
Open end and junior lien loans	193	0	0
With an allowance recorded:			
Commercial and industrial loans:			
Working capital lines of credit loans	6,487	72	59
Non-working capital loans	11,416	132	128
Commercial real estate and multi-family residential loans:			
Owner occupied loans	2,080	13	12
Agri-business and agricultural loans:			
Loans secured by farmland	147	2	1
Consumer 1-4 family mortgage loans:			