MIDSOUTH BANCORP INC
Form 10-K
March 15, 2016
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015
Commission File number 1-11826

MIDSOUTH BANCORP, INC.
(Exact name of registrant as specified in its charter)

Louisiana	72-1020809
(State of Incorporation)	(I.R.S. EIN Number)

102 Versailles Boulevard, Lafayette, Louisiana 70501
(Address of principal executive offices)
Registrant's telephone number, including area code: (337) 237-8343
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.10 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: none
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No þ
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
Yes No þ
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 þ 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No
Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a nonaccelerated filer, or a smaller reporting company. A large accelerated filer An accelerated filer þ A nonaccelerated filer A smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act.)
Yes No þ
The aggregate market value of the voting and nonvoting common equity held by nonaffiliates of the registrant at June 30, 2015 was approximately $112,618,052 based upon the closing market price per share of the registrant’s common stock as reported on The New York Stock Exchange, Inc. as of such date. As of March 15, 2016 there were 11,362,150 outstanding shares of MidSouth Bancorp, Inc. common stock.
DOCUMENTS INCORPORATED BY REFERENCE
Portions of the Company’s Proxy Statement for its 2016 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements included in this Report and the documents incorporated by reference herein, other than statements of historical fact, are forward-looking statements (as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and the regulations thereunder), which are intended to be covered by the safe harbors created thereby. Forward-looking statements include, but are not limited to certain statements under the captions “Business,” “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

The words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “plan,” “will,” “would,” “could,” “should,” “guidan “continue,” “project,” “forecast,” “confident,” and similar expressions are typically used to identify forward-looking statements. These statements are based on assumptions and assessments made by management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate. Any forward-looking statements are not guarantees of our future performance and are subject to risks and uncertainties and may be affected by various factors that may cause actual results, developments and business decisions to differ materially from those in the forward-looking statements. Some of the factors that may cause actual results, developments and business decisions to differ materially from those contemplated by such forward-looking statements include the factors discussed under the caption “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Report and the following:

- changes in interest rates and market prices that could affect the net interest margin, asset valuation, and expense levels;
- changes in local economic and business conditions, including, without limitation, changes related to the oil and gas industries, that could adversely affect customers and their ability to repay borrowings under agreed upon terms, adversely affect the value of the underlying collateral related to their borrowings, and reduce demand for loans;
- increased competition for deposits and loans which could affect compositions, rates and terms;
- changes in the levels of prepayments received on loans and investment securities that adversely affect the yield and value of the earning assets;
- a deviation in actual experience from the underlying assumptions used to determine and establish our allowance for loan losses (“ALLL”), which could result in greater than expected loan losses;
- changes in the availability of funds resulting from reduced liquidity or increased costs;
- the timing and impact of future acquisitions, the success or failure of integrating acquired operations, and the ability to capitalize on growth opportunities upon entering new markets;
- the ability to acquire, operate, and maintain effective and efficient operating systems;
- increased asset levels and changes in the composition of assets that would impact capital levels and regulatory capital ratios;
- loss of critical personnel and the challenge of hiring qualified personnel at reasonable compensation levels;
- legislative and regulatory changes, including the impact of regulations under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”) and other changes in banking, securities and tax laws and regulations and their application by our regulators, changes in the scope and cost of Federal Deposit Insurance Corporation (“FDIC”) insurance and other coverage;
- regulations and restrictions resulting from our participation in government sponsored programs such as the U.S. Treasury’s Small Business Lending Fund, including potential retroactive changes in such programs;
- changes in accounting principles, policies, and guidelines applicable to financial holding companies and banking;
- acts of war, terrorism, cyber intrusion, weather, or other catastrophic events beyond our control; and
- the ability to manage the risks involved in the foregoing.

We can give no assurance that any of the events anticipated by the forward-looking statements will occur or, if any of them does, what impact they will have on our results of operations and financial condition. We disclaim any intent or obligation to publicly update or revise any forward-looking statements, regardless of whether new information becomes available, future developments occur or otherwise.

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Part I

Item 1 - Business

Overview

The Company was incorporated in 1984 as a Louisiana corporation and is a registered financial holding company headquartered in Lafayette, Louisiana. Its operations have been conducted primarily through its wholly owned bank subsidiary MidSouth Bank, N.A. The Bank, a national banking association, was chartered and commenced operations in 1985. As of December 31, 2015, the Bank operated through a network of 58 offices located in Louisiana and Texas.

Unless otherwise indicated or unless the context requires otherwise, all references in this report to “the Company,” “we,” “us,” “our,” or similar references, mean MidSouth Bancorp, Inc. and our subsidiaries, including our banking subsidiary, MidSouth Bank, N.A., on a consolidated basis. References to “MidSouth Bank” or the “Bank” mean our wholly owned banking subsidiary, MidSouth Bank, N.A.

Products and Services

The Bank is community oriented and focuses primarily on offering commercial and consumer loan and deposit services to small and middle market businesses, their owners and employees, and other individuals in our markets. Our community banking philosophy emphasizes personalized service and building broad customer relationships. Deposit products and services offered by the Bank include interest-bearing and noninterest-bearing checking accounts, investment accounts, cash management services, and electronic banking services, including remote deposit capturing services, internet banking, and debit and credit cards. Most of the Bank’s deposit accounts are FDIC-insured up to the maximum allowed, and the Bank customers have access to a world-wide ATM network of more than 55,000 surcharge-free ATMs.

Loans offered by the Bank include commercial and industrial loans, commercial real estate loans (both owner-occupied and non-owner occupied), other loans secured by real estate and consumer loans. We commenced operations during a severe economic downturn in Louisiana more than 30 years ago. Our survival and growth in the ensuing years has instilled in us a conservative operating philosophy. Our conservative attitude impacts our credit and funding decisions, including underwriting loans primarily based on the cash flows of the borrower (rather than just relying on collateral valuations) and focusing lending efforts on working capital and equipment loans to small and mid-sized businesses along with owner-occupied properties.

Our conservative operating philosophy extends to managing the various risks we face. We maintain a separate risk management group to help identify and manage these various risks. This group, which reports directly to the Chairman of our Audit Committee, not to other members of the senior management team, includes our audit, compliance and loan review functions and is staffed with experienced accounting and legal professionals.

We are committed to an exceptional level of customer care. We maintain our own in-house call center so that customers enjoy live interaction with employees of the Bank rather than an automated telephone system. Additionally, we provide our employees with the training and technological tools to improve customer care. We also conduct focus groups within the communities we serve and strive to create a two-way dialog to ensure that we are offering the banking products and services that our customers and communities need.

Markets

We operate in Louisiana and central and east Texas along the Interstate 10, Interstate 49, Highway 90, Interstate 45, Interstate 20 and Interstate 35 corridors. As of December 31, 2015, our market area in Louisiana included 42 offices and is bound by Lafourche Parish to the south, East Baton Rouge Parish to the east, Caddo Parish to the north and Calcasieu Parish to the west. Our market areas in Texas include 16 offices located in the Beaumont, Houston, Conroe, Magnolia, College Station, Dallas-Fort Worth, Tyler, and Texarkana areas. For additional information regarding our properties, see Item 2 – Properties of this Report.

Oil and gas is the key industry within our markets. However, medical, technology and research companies continue to develop within these markets thereby diversifying the economy. Additionally, numerous major universities located within our market areas, including Louisiana State University, University of Houston, Rice University, Texas A&M University and University of Louisiana at Lafayette, provide a substantial number of jobs and help to contribute to the educated work force within our markets.

We believe our financial condition, coupled with our scalable operational capabilities, will facilitate future growth, both organically and through acquisition, including potential growth in new market areas.

Competition

We face strong competition in our market areas from both traditional and nontraditional financial services providers, such as commercial banks; savings banks; credit unions; finance companies; mortgage, leasing, and insurance companies; money market mutual funds; brokerage houses; and branches that provide credit facilities. Several of the financial services competitors in our market areas are substantially larger and have far greater resources; however, we have effectively competed by building long-term customer relationships. Customer loyalty has been built through our continued focus on quality customer care enhanced by technology and effective delivery systems.

Other factors, including economic, legislative, and technological changes, also impact our competitive environment. Management continually evaluates competitive challenges in the financial services industry and develops appropriate responses consistent with our overall market strategy.

Employees

As of December 31, 2015, the Bank employed approximately 536 full-time equivalent employees. The Company had no employees who are not also employees of the Bank. Through the Bank, employees receive customary employee benefits, which include an employee stock ownership plan; a 401(K) plan; and life, health and disability insurance plans. Our directors, officers, and employees are important to the success of the Company and play a key role in business development by actively participating in the communities served by the Company. The Company considers the relationship of the Bank with its employees as a whole to be good.

Additional Information

More information on the Company and the Bank is available on the Bank's website at www.midsouthbank.com. The Company is not incorporating by reference into this Report the information contained on its website; therefore, the content of the website is not a part of this Report. Copies of this Report and other reports filed or furnished by the Company pursuant to Section 13(a) or 15(d) of the Exchange Act, including exhibits, are available free of charge on the Company's website under the "Investor Relations" link as soon as reasonably practicable after they have been filed or furnished electronically to the Securities and Exchange Commission ("SEC"). Copies of these filings may also be obtained free of charge on the SEC's website at www.sec.gov.

Supervision and Regulation

Under Federal Reserve policy, we are expected to act as a source of financial strength for, and to commit resources to support, the Bank. This support may be required at times when, absent such Federal Reserve policy, we may not be inclined to provide such support. In addition, any capital loans by a financial holding company to any of its banking subsidiaries are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary banks. In the event of a financial holding company's bankruptcy, any commitment by a financial holding company to a federal bank regulatory agency to maintain the capital of a banking subsidiary will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Regulatory Reform

The financial crisis of 2008, including the downturn of global economic, financial and money markets and the threat of collapse of numerous financial institutions, and other recent events have led to the adoption of numerous new laws and regulations that apply to, and focus on, financial institutions. The most significant of these new laws is the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which was adopted on July 21, 2010 and, in part, is intended to implement significant structural reforms to the financial services industry. The Dodd-Frank Act is discussed in more detail below.

Bank Holding Companies and Financial Holding Companies

Historically, the activities of bank holding companies were limited to the business of banking and activities closely related or incidental to banking. Bank holding companies were generally prohibited from acquiring control of any company that was not a bank and from engaging in any business other than the business of banking or managing and controlling banks. The Gramm-Leach-Bliley Act, which took effect on March 12, 2000, dismantled many Depression-era restrictions against affiliation between banking, securities and insurance firms by permitting bank holding companies to engage in a broader range of financial activities, so long as certain safeguards are observed. Specifically, bank holding companies may elect to become “financial holding companies” that may affiliate with securities firms and insurance companies and engage in other activities that are financial in nature or incidental to a financial activity. Thus, with the enactment of the Gramm-Leach-Bliley Act, banks, security firms and insurance companies find it easier to acquire or affiliate with each other and cross-sell financial products. The Gramm-Leach-Bliley Act

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permits a single financial services organization to offer a more complete array of financial products and services than historically was permitted.

A financial holding company is essentially a bank holding company with significantly expanded powers. Under the Gramm-Leach-Bliley Act, in addition to traditional lending activities, the following activities are among those that are deemed “financial in nature” for financial holding companies: securities underwriting, dealing in or making a market in securities, sponsoring mutual funds and investment companies, insurance underwriting and agency activities, activities which the Federal Reserve Board determines to be closely related to banking, and certain merchant banking activities.

We elected to become a financial holding company in November 2012. As a financial holding company, we have very broad discretion to affiliate with securities firms and insurance companies, make merchant banking investments, and engage in other activities that the Federal Reserve Board has deemed financial in nature. In order to continue as a financial holding company, we must continue to be well-capitalized, well-managed and maintain compliance with the Community Reinvestment Act (the “CRA”). Depending on the types of financial activities that we may elect to engage in, under the Gramm-Leach-Bliley Act’s functional regulation principles, we may become subject to supervision by additional government agencies. The election to be treated as a financial holding company increases our ability to offer financial products and services that historically we were either unable to provide or were only able to provide on a limited basis. As a result, we will face increased competition in the markets for any new financial products and services that we may offer. Likewise, an increased amount of consolidation among banks and securities firms or banks and insurance firms could result in a growing number of large financial institutions that could compete aggressively with us.

Dodd-Frank Act

In July 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act implements far-reaching changes across the financial regulatory landscape, including changes that will affect all bank holding companies, financial holding companies and banks, including us and the Bank, including the following provisions:

- Insurance of Deposit Accounts. The Dodd-Frank Act changed the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital. The Dodd-Frank Act also made permanent the $250,000 limit for federal deposit insurance and increased the cash limit of Securities Investor Protection Corporation protection from $100,000 to $250,000.
- Payment of Interest on Demand Deposits. The Dodd-Frank Act repealed the federal prohibitions on the payment of interest and demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.
- Creation of the Consumer Financial Protection Bureau. The Dodd-Frank Act centralized significant aspects of consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau (the “CFPB”), which is discussed in more detail below.
- Debit Card Interchange Fees. The Dodd-Frank Act amended the Electronic Fund Transfer Act to, among other things, require that debit card interchange fees be reasonable and proportional to the actual cost incurred by the issuer with respect to the transaction. In June 2011, the Federal Reserve Board adopted regulations setting the maximum permissible interchange fee as the sum of 21 cents per transaction and 5 basis points multiplied by the value of the transaction, with an additional adjustment of up to one cent per transaction if the issuer implements additional fraud-prevention standards. Although issuers that have assets of less than $10 billion are exempt from the Federal Reserve Board’s regulations that set maximum interchange fees, these regulations could significantly impact the interchange fees that financial institutions with less than $10 billion in assets, such as the Bank, are able to collect.

In addition, the Dodd-Frank Act implements other far-reaching changes to the financial regulatory landscape, including provisions that:

- Restrict the preemption of state law by federal law and disallow subsidiaries and affiliates of national banks from availing themselves of such preemption.
- Impose comprehensive regulation of the over-the-counter derivatives market, subject to significant rulemaking processes, which would include certain provisions that would effectively prohibit insured depository institutions from conducting certain derivatives businesses in the institution itself.
- Require depository institutions with total consolidated assets of more than $10 billion to conduct regular stress tests and require large, publicly traded bank holding companies and financial holding companies to create a risk committee responsible for the oversight of enterprise risk management.
- Require loan originators to retain 5% of any loan sold or securitized, unless it is a “qualified residential mortgage,” subject to certain exceptions.
- Prohibit banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (the Volcker Rule).

- Implement corporate governance revisions that apply to all public companies not just financial institutions.

Capital Requirements

We are subject to various regulatory capital requirements administered by the Federal Reserve and the Office of the Comptroller of the Currency (the "OCC"). Failure to meet minimum capital requirements could result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action (described below), we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting policies. Our capital amounts and classification are also subject to judgments by the regulators regarding qualitative components, risk weightings, and other factors. For further detail on capital and capital ratios see discussion under Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Regulatory Capital Requirement in Effect through December 31, 2014

Under the risk-based capital requirements for bank holding companies and financial holding companies in effect through December 31, 2014, the minimum requirement for the ratio of total capital to risk-weighted assets (including certain off-balance sheet activities, such as standby letters of credit) was 8%. At least half of the total capital (as defined below) was to be composed of common stockholders' equity, retained earnings, qualifying perpetual preferred stock (in a limited amount in the case of cumulative preferred stock), minority interests in the equity accounts of consolidated subsidiaries, and qualifying trust preferred securities, less goodwill and certain intangibles ("Tier 1 Capital"). The remainder of total capital could consist of qualifying subordinated debt and redeemable preferred stock, qualifying cumulative perpetual preferred stock and allowance for loan losses ("Tier 2 Capital", and together with Tier 1 Capital, "Total Capital").

The Federal Reserve has established minimum leverage ratio guidelines for bank holding companies and financial holding companies. As of December 31, 2014, these requirements provided for a minimum leverage ratio of Tier 1 Capital to adjusted average quarterly assets ("Leverage Ratio") equal to 3% for bank holding companies and financial holding companies that meet specified criteria, including having the highest regulatory rating. All other bank holding companies and financial holding companies were generally required to maintain a leverage ratio of at least 4%. The capital guidelines also provided that bank holding companies and financial holding companies experiencing internal growth or making acquisitions would be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the guidelines provided that the Federal Reserve would continue to consider a "tangible tier 1 leverage ratio" (deducting all intangibles) in evaluating proposals for expansion or to engage in new activity.

The Bank is subject to similar capital requirements adopted by the OCC. The risk-based capital requirements identify concentrations of credit risk and certain risks arising from non-traditional activities, and the management of those risks, as important factors to consider in assessing an institution's overall capital adequacy. Other factors taken into consideration by federal regulators include: interest rate exposure; liquidity, funding and market risk; the quality and level of earnings; the quality of loans and investments; the effectiveness of loan and investment policies; and management's overall ability to monitor and control financial and operational risks, including the risks presented by concentrations of credit and non-traditional activities.

Basel III Capital Framework Effective January 1, 2015

In July 2013, the Federal Reserve and the OCC issued final rules establishing a new comprehensive capital framework for U.S. banking organizations that implement the Basel III capital framework and certain provisions of the Dodd-Frank Act. The final rules seek to strengthen the components of regulatory capital, increase risk-based capital requirements, and make selected changes to the calculation of risk-weighted assets. The final rules, among other things:

- revise minimum capital requirements and adjust prompt corrective action thresholds;
- revise the components of regulatory capital and create a new capital measure called “Common Equity Tier 1,” which must constitute at least 4.5% of risk-weighted assets;
- specify that Tier 1 Capital consists only of Common Equity Tier 1 and certain “Additional Tier 1 Capital” instruments meeting specified requirements;
- apply most deductions/adjustments to regulatory capital measures to Common Equity Tier 1 and not to other components of capital, potentially requiring higher levels of Common Equity Tier 1 in order to meet minimum ratio requirements;
- increase the minimum Tier 1 Capital ratio requirement from 4% to 6%;
- retain the existing risk-based capital treatment for 1-4 family residential mortgage exposures;
- permit most banking organizations, including the Company, to retain, through a one-time permanent election, the existing capital treatment for accumulated other comprehensive income;

- implement a new capital conservation buffer of Common Equity Tier 1 capital equal to 2.5% of risk-weighted assets, which will be in addition to the 4.5% Common Equity Tier 1 capital ratio and be phased in over a three year period that began on January 1, 2016 which buffer is generally required to make capital distributions and pay executive bonuses;
- increase capital requirements for past-due loans, high volatility commercial real estate exposures, and certain short-term loan commitments;
- require the deduction of mortgage servicing assets and deferred tax assets that exceed 10% of Common Equity Tier 1 capital in each category and 15% of Common Equity Tier 1 capital in the aggregate; and
- remove references to credit ratings consistent with the Dodd-Frank Act and establish due diligence requirements for securitization exposures.

The final rules became effective as of January 1, 2015, for most banking organizations including the Company and the Bank, subject to a transition period for several aspects of the final rules, including the new minimum capital ratio requirements, the capital conservation buffer, and the regulatory capital adjustments and deductions. Requirements to maintain higher levels of capital could adversely impact our return on equity. We believe we will continue to exceed all estimated well-capitalized regulatory requirements under these new rules on a fully phased-in basis.

At December 31, 2015, our Common Equity Tier 1 to risk-weighted assets ratio was 8.91%, our Tier 1 Capital to risk-weighted assets ratio was 13.25%, our Total Capital to risk-weighted assets ratio was 14.50% and our Leverage Ratio was 10.10%. Since our total consolidated assets are below $15 billion, our $21.5 million aggregate principal amount of trust preferred securities issued prior to May 19, 2011 are included in our Tier 1 and Total Capital calculations.

The Volcker Rule

The Dodd-Frank Act required the federal bank regulatory agencies to adopt rules that prohibit banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (defined as hedge funds and private equity funds). The statutory provision is commonly called the “Volcker Rule”. On December 10, 2013, the Federal Reserve and other federal agencies issued final rules to implement the Volcker Rule. In relevant part, these final rules would have prohibited banking entities from owning collateralized debt obligations (CDOs) backed by trust preferred securities (TruPS), effective July 21, 2015. However, subsequent to these final rules the U.S. financial regulatory agencies issued an interim rule to exempt CDOs backed by TruPS from the Volker Rule and the final rule, provided that (a) the CDO was established prior to May 19, 2010, (b) the banking entity reasonably believes that the CDO’s offering proceeds were used to invest primarily in TruPS issued by banks with less than $15 billion in assets, and (iii) the banking entity acquired the CDO investment on or before December 10, 2013. At December 31, 2015, we did not have any CDOs backed by TruPS.

The Durbin Amendment

The Dodd-Frank Act included provisions which restrict interchange fees to those which are “reasonable and proportionate” for certain debit card issuers and limits the ability of networks and issuers to restrict debit card transaction routing. This statutory provision is known as the “Durbin Amendment”. The Federal Reserve issued final rules implementing the Durbin Amendment on June 29, 2011. In the final rules, interchange fees for debit card transactions were capped at $0.21 plus five basis points in order to be eligible for a safe harbor such that the fee is conclusively determined to be reasonable and proportionate. Another related rule also permits an additional $0.01 per transaction “fraud prevention adjustment” to the interchange fee if certain Federal Reserve standards are implemented, including an annual review of fraud prevention policies and procedures. With respect to network exclusivity and merchant routing restrictions, it is now required that all debit cards participate in at least two unaffiliated networks so that the transactions initiated using those debit cards will have at least two independent routing channels. While the interchange fee restrictions contained in the Durbin Amendment, and the rules promulgated thereunder, only apply to debit card issuers with $10 billion or more in total consolidated assets, these regulations could significantly affect the interchange fees that financial institutions with less than $10 billion in assets, including the Bank, are able to collect.

Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”) established a system of prompt corrective action to resolve the problems of undercapitalized institutions. Under this system, the federal banking regulators have established five capital categories (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized), and are required to take certain mandatory supervisory actions, and are authorized to take other discretionary actions, with respect to institutions in the three undercapitalized categories. The severity of the action will depend upon the capital category in which the institution is placed. Generally, subject to a narrow exception, the banking regulator must appoint a receiver or conservator for an institution that is critically undercapitalized. The federal banking agencies have set the relevant capital level for each category.

An institution that is categorized as undercapitalized, significantly undercapitalized, or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal regulatory agency. A bank holding company and financial

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holding company must guarantee that a subsidiary depository institution meets its capital restoration plan, subject to certain limitations. The controlling holding company's obligation to fund a capital restoration plan is limited to the lesser of 5.0% of an undercapitalized subsidiary's assets or the amount required to meet regulatory capital requirements. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except under an accepted capital restoration plan or with FDIC approval. In addition, the appropriate federal regulatory agency may treat an undercapitalized institution in the same manner as it treats a significantly undercapitalized institution if it determines that those actions are necessary.

At December 31, 2015, the Bank had the requisite capital level to qualify as “well capitalized” under the regulatory framework for prompt corrective action.

Insurance of Accounts and FDIC Insurance Assessments
The Bank’s deposits are insured by the Deposit Insurance Fund (the “DIF”) of the FDIC up to the standard maximum insurance amount for each deposit insurance ownership category. Since January 1, 2013, the basic limit on FDIC deposit insurance coverage has been $250,000 per depositor. Under the FDIA, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC, subject to administrative and potential judicial hearing and review processes.

The DIF is funded by assessments on banks and other depository institutions. As required by the Dodd-Frank Act, in February 2011, the FDIC approved a final rule that changed the assessment base for DIF assessments from domestic deposits to average consolidated total assets minus average tangible equity (defined as Tier 1 capital). In addition, as also required by the Dodd-Frank Act, the FDIC has adopted a new large-bank pricing assessment scheme, set a current target “designated reserve ratio” (described in more detail below) of 2% for the DIF, and established a lower assessment rate schedule when the reserve ratio reaches 1.15% and, in lieu of dividends, provides for a lower assessment rate schedule when the reserve ratio reaches 2% and 2.5%.

An institution’s assessment rate depends upon the institution’s assigned risk category, which is based on supervisory evaluations, regulatory capital levels and certain other factors. Initial base assessment rates ranged from 2.5 to 45 basis points. The FDIC may make the following further adjustments to an institution’s initial base assessment rates: decreases for long-term unsecured debt, including most senior unsecured debt and subordinated debt; increases for holding long-term unsecured debt or subordinated debt issued by other insured depository institutions; and increases for broker deposits in excess of 10% of domestic deposits for insurances not well rated and well capitalized. As of December 31, 2015, our risk category required a quarterly payment of approximately 9.00 basis points per $100 of assessable deposits.

The Dodd-Frank Act transferred to the FDIC increased discretion with regard to managing the required amount of reserves for the DIF, or the “designated reserve ratio.” Among other changes, the Dodd-Frank Act (i) raised the minimum designated reserve ratio to 1.35% and removed the upper limit on the designated reserve ratio, (ii) requires that the designated reserve ratio reach 1.35% by September 2020, and (iii) requires the FDIC to offset the effect on institutions with total consolidated assets of less than $10 billion of increasing of raising the designated reserve ratio from 1.15% to 1.35%. The FDIA requires that the FDIC consider the appropriate level for the designated reserve ratio on at least an annual basis. In October 2010, the FDIC adopted a new DIF restoration plan to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act.

On June 16, 2015, the FDIC proposed changes to the deposit insurance assessments for small insured banks having total assets less than $10 billion which have been insured for at least five years, based upon experience with bank failures. The changes, among other matters, revise the financial ratios method of determining assessments to reflect a statistical model estimating the probability of failure over three years and updating the financial measures used in the financial ratios method consistent with the statistical model. The FDIC proposed additional changes on October 22, 2015 to require banks with over $10 Billion in assets to be responsible for the recapitalization of the DIF to 1.35% of insured deposits after achieving a 1.15% reserve ratio. On January 21, 2016, the FDIC proposed further revisions to the small insured bank assessments as the result of comments and recommendations received in response to its earlier proposal. The FDIC proposes that a final rule would go into effect the quarter after adoption, but the amendments would not become operative until the quarter after the DIF reserve ratio reaches 1.15%.

Allowance for Loan and Lease Losses

The Allowance for Loan and Lease Losses (the “ALLL”) represents one of the most significant estimates in the Bank’s financial statements and regulatory reports. Because of its significance, the Bank has established a system by which it develops, maintains, and documents a comprehensive, systematic, and consistently applied process for determining the amounts of the ALLL and the provision for loan and lease losses. The Interagency Policy Statement on the ALLL encourages all banks and federal savings institutions to ensure controls are in place to consistently determine the ALLL in accordance with generally accepted accounting principles in the United States, the federal savings association’s stated policies and procedures, management’s best judgment and

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relevant supervisory guidance. The Bank's estimate of credit losses reflects consideration of significant factors that affect the collectability of the portfolio as of the evaluation date.

Safety and Soundness Standards

The Federal Deposit Insurance Act, as amended by the FDICIA and the Riegle Community Development and Regulatory Improvement Act of 1994, requires the federal bank regulatory agencies to prescribe standards, by regulations or guidelines, relating to internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation and compensation, fees and benefits, and such other operational and managerial standards as the agencies deem appropriate. The federal bank regulatory agencies have adopted a set of guidelines prescribing safety and soundness standards pursuant to FDICIA, as amended. The guidelines establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation and fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director, or principal shareholder. In addition, the agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the "prompt corrective action" provisions of FDICIA. See "Prompt Corrective Action" above. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties. The federal regulatory agencies also proposed guidelines for asset quality and earnings standards.

Interagency Appraisal and Evaluation Guidelines

In December 2010, the federal banking agencies issued the Interagency Appraisal and Evaluation Guidelines. This guidance, which updated guidance originally issued in 1994, sets forth the minimum regulatory standards for appraisals. It incorporates previous regulatory issuances affecting appraisals, addresses advances in information technology used in collateral evaluation, and clarifies standards for use of analytical methods and technological tools in developing evaluations. This guidance also requires institutions to utilize strong internal controls to ensure reliable appraisals and evaluations and to monitor and periodically update valuations of collateral for existing real estate loans and transactions.

Community Reinvestment Act

Under the CRA, the Bank has an obligation to help meet the credit needs of the entire community, including low- and moderate-income neighborhoods, consistent with safe and sound banking practices. The CRA requires the appropriate federal regulator, in connection with its examination of an insured institution, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications, such as applications for a merger or the establishment of a branch. An unsatisfactory rating may be used as the basis for the denial of an application by the federal banking regulator. The Bank received a satisfactory rating in its most recent CRA examination.

Restrictions on Transactions with Affiliates

We are subject to the provisions of Section 23A of the Federal Reserve Act. Section 23A places limits on: the amount of a bank's loans or extensions of credit to affiliates; a bank's investment in affiliates; assets a bank may purchase from affiliates, except for real and personal property exempted by the Federal Reserve; the amount of loans or extensions of credit to third parties collateralized by the securities or obligations of affiliates; and a bank's guarantee, acceptance or letter of credit issued on behalf of an affiliate.

The total amount of the above transactions is limited in amount, as to any one affiliate, to 10.0% of a bank’s capital and surplus and, as to all affiliates combined, to 20.0% of a bank’s capital and surplus. In addition to the limitation on the amount of these transactions, each of the above transactions must also meet specified collateral requirements. The Bank must also comply with other provisions designed to avoid the taking of low-quality assets.

We are also subject to the provisions of Section 23B of the Federal Reserve Act which, among other things, prohibit an institution from engaging in the above transactions with affiliates unless the transactions are on terms substantially the same, or at least as favorable to the institution or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies.

The Dodd-Frank Act changed the definition of “covered transaction” in Sections 23A and 23B and limitations on asset purchases from insiders. With respect to the definition of “covered transaction,” the Dodd-Frank Act defines that term to include the acceptance of debt obligations issued by an affiliate as collateral for a bank’s loan or extension of credit to another person or company. In

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addition, a “derivative transaction” with an affiliate is now deemed to be a “covered transaction” to the extent that such a transaction causes a bank or its subsidiary to have a credit exposure to the affiliate. In addition, the Dodd-Frank Act provides that the Bank may not “purchase an asset from, or sell an asset to” a Bank insider (or their related interests) unless (1) the transaction is conducted on market terms, and (2) if the proposed transaction represents more than 10% of the capital stock and surplus of the Bank, it has been approved in advance by a majority of the Bank’s non-interested directors.

The Bank is also subject to restrictions on extensions of credit to its executive officers, directors, principal stockholders and their related interests. These extensions of credit must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties, and must not involve more than the normal risk of repayment or present other unfavorable features.

Incentive Compensation
The Federal Reserve, the OCC and the FDIC have issued regulatory guidance (the “Incentive Compensation Guidance”) intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The Federal Reserve reviews, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Company, that are not “large, complex banking organizations.” The findings are included in reports of examination, and deficiencies are incorporated into the organization’s supervisory ratings. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

The Dodd-Frank Act requires the SEC and the federal bank regulatory agencies to establish joint regulations or guidelines that require financial institutions with assets of at least $1 billion to disclose the structure of their incentive compensation practices and prohibit such institutions from maintaining compensation arrangements that encourage inappropriate risk-taking by providing excessive compensation or that could lead to material financial loss to the financial institution. The SEC and the federal bank regulatory agencies proposed such regulations and the comment period expired in May 2011 although final rules have not yet been adopted. If these or other regulations are adopted in a form similar to that initially proposed, they will impose limitations on the manner in which we may structure compensation for our executives. These proposed regulations incorporate the three principles discussed in the Incentive Compensation Guidance.

USA Patriot Act of 2001
In October 2001, the USA Patriot Act of 2001 (the “Patriot Act”) was enacted in response to the terrorist attacks in New York, Pennsylvania, and Washington, D.C. that occurred on September 11, 2001. The Patriot Act impacts financial institutions in particular through its anti-money laundering and financial transparency laws. The Patriot Act amended the Bank Secrecy Act and the rules and regulations of the Office of Foreign Assets Control to establish regulations which, among others, set standards for identifying customers who open an account and promoting cooperation with law enforcement agencies and regulators in order to effectively identify parties that may be associated with, or involved in, terrorist activities or money laundering.

Privacy
Financial institutions are required to disclose their policies for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing personal financial information with nonaffiliated third parties except for third parties that market the institutions’ own products and services.

Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing through electronic mail to consumers. The

Bank has established policies and procedures designed to safeguard its customers' personal financial information and to ensure compliance with applicable privacy laws.

Consumer Protection

The Dodd-Frank Act created the CFPB, a federal regulatory agency that is responsible for implementing, examining and enforcing compliance with federal consumer financial laws for institutions with more than $10 billion of assets and, to a lesser extent, smaller institutions. The Dodd-Frank Act gives the CFPB authority to supervise and regulate providers of consumer financial products and services, and establishes the CFPB's power to act against unfair, deceptive or abusive practices, and gives the CFPB rulemaking authority in connection with numerous federal consumer financial protection laws (for example, but not limited to, the Truth-in-Lending Act and the Real Estate Settlement Procedures Act).

As a smaller institution (i.e., with assets of $10 billion or less), most consumer protection aspects of the Dodd-Frank Act will continue to be applied to the Company by the Federal Reserve and to the Bank by the OCC. However, the CFPB may include its own examiners in regulatory examinations by a smaller institution's prudential regulators and may require smaller institutions to

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comply with certain CFPB reporting requirements. In addition, regulatory positions taken by the CFPB and administrative and legal precedents established by CFPB enforcement activities, including in connection with supervision of larger bank holding companies and financial holding companies, could influence how the Federal Reserve and OCC apply consumer protection laws and regulations to financial institutions that are not directly supervised by the CFPB. The precise impact of the CFPB's consumer protection activities cannot be forecast.

Stress Testing

As required by the Dodd-Frank Act, the federal banking agencies have implemented stress testing requirements for certain financial institutions, including bank holding companies, financial holding companies and state chartered banks, with more than $10 billion in total consolidated assets. Although these requirements do not apply to institutions with less than $10 billion in total consolidated assets, the federal banking agencies emphasize that all banking organizations, regardless of size, should have the capacity to analyze the potential impact of adverse market conditions or outcomes on the organization's financial condition. Based on existing regulatory guidance, the Company and the Bank will be expected to consider the institution's interest rate risk management, commercial real estate concentrations and other credit-related information, and funding and liquidity management during this analysis of adverse outcomes.

Other Regulations

Interest and other charges collected or contracted for by the Bank are subject to federal laws concerning interest rates. The Bank's loan operations are also subject to federal laws applicable to credit transactions, such as the:

- Federal Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed, or other prohibited factors in extending credit;
- Fair Credit Reporting Act, governing the use and provision of information to credit reporting agencies; and
- rules and regulations of the various federal agencies charged with the responsibility of implementing these federal laws.

The deposit operations of the Bank are subject to the following:

- the Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- the Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve to implement that act, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services; and
- the Truth in Savings Act, which requires disclosure of yields and costs of deposits and deposit accounts.

Effect of Governmental Monetary Policies

Our earnings are affected by the monetary and fiscal policies of the United States government and its agencies, as well as general domestic economic conditions. The Federal Reserve's power to implement national monetary policy has had, and is likely to continue to have, an important impact on the operating results of financial institutions. The Federal Reserve affects the levels of bank loans, investments, and deposits through its control over the issuance of U.S. government securities and through its regulation of the discount rate on borrowings of member banks and the reserve requirements against member bank deposits. It is difficult to predict the nature, timing or impact of future changes in monetary and fiscal policies.

Item 1A – Risk Factors

An investment in our stock involves a number of risks. Investors should carefully consider the following risks as well as the other information in this Report and the documents incorporated by reference before making an investment decision. The realization of any of the risks described below could have a material adverse effect on the Company and the price of our common stock.

Risks Relating to Our Business

Our industry and business may be adversely affected by conditions in the financial markets and economic conditions generally.
In recent years, we have faced a challenging and uncertain economic environment, including a major recession in the U.S. economy. A return of recessionary conditions and/or further deterioration of national economic conditions could adversely affect the financial condition and operating performance of financial institutions. Specifically, declines in real estate values and sales volumes and

increased unemployment levels may result in higher than expected loan delinquencies, increases in levels of non-performing and classified assets and a decline in demand for products and services offered by financial institutions. While economic conditions in the markets in which we operate, the U.S. and worldwide have improved since the recession, there can be no assurance that this improvement will continue. Uncertainty regarding continuing economic improvement may result in changes in consumer and business spending, borrowing and savings habits, which could cause us to incur losses and may adversely affect our results of operations and financial condition.

Our market areas are heavily dependent on, and we have significant credit exposure to, the oil and gas industry.
The economy in a large portion of our market areas is heavily dependent on the oil and gas industry. Many of our customers provide transportation and other services and products that support oil and gas exploration and production activities. As of December 31, 2015, we had approximately $264.7 million in loans to borrowers in the oil and gas industry, representing approximately 20.9% of our total loans outstanding as of that date. The average loan size is approximately $453,000, and the average loan size per relationship is roughly $617,000. The oil and gas industry, especially in Louisiana and Texas, has been subject to significant volatility, including the "oil bust" of the 1980s that severely impacted the economies of many of our market areas. Decisions by certain members of the Organization of Petroleum Exporting Countries to maintain higher crude oil production levels have led to increased global oil supplies, which when coupled with the continued exporting restrictions on the US oil and gas industry has resulted in significant declines in domestic market oil prices. Decreased market oil prices have compressed margins for many U.S.-based oil producers, particularly those that utilize higher-cost production technologies such as hydraulic fracking and horizontal drilling, as well as oilfield service providers, energy equipment manufacturers and transportation suppliers, among others. As of December 31, 2015, the price per barrel of crude oil was approximately $38 compared to approximately $53 and $98 as of December 31, 2014 and December 31, 2013, respectively. If oil prices remain at these low levels for an extended period, the Bank could experience weaker oil and gas related loan demand and increased losses within its oil and gas loan portfolio. Furthermore, a prolonged period of low oil prices could also have a negative impact on the U.S. economy and, in particular, the economies of energy-dominant states such as Louisiana and Texas. Accordingly, if there is a significant downturn in the oil and gas industry it could have a material adverse effect on our business, prospects, financial condition and results of operations.

We may suffer losses in our loan portfolio in excess of our allowance for loan losses.
We have experienced increases in the levels of our non-performing assets and loan charge-offs in recent periods. Our total non-performing assets amounted to $54.4 million, or 2.82% of our total assets, at December 31, 2015 and we had $6.1 million of net loan charge-offs and a $13.9 million provision for loan losses for the year ended December 31, 2015. At December 31, 2015, the ratios of our ALLL to non-performing loans and to total loans outstanding were 37.87% and 1.50%, respectively. Additional increases in our non-performing assets or loan charge-offs could have a material adverse effect on our financial condition and results of operations.

We seek to mitigate the risks inherent in our loan portfolio by adhering to specific underwriting practices. These practices include analysis of a borrower's prior credit history, financial statements, tax returns and cash flow projections, valuation of collateral based on reports of independent appraisers and verification of liquid assets. Although we believe that our underwriting criteria are appropriate for the various kinds of loans we make, we still may incur losses on loans that meet our underwriting criteria, and these losses may exceed the amounts set aside as reserves in our ALLL. We create an ALLL in our accounting records, based on, among other considerations, the following:

- industry historical losses as reported by the FDIC;
- historical experience with our loans;
- evaluation of economic conditions;
- regular reviews of the quality mix, including our distribution of loans by risk grade within our portfolio, and size of our overall loan portfolio;

- regular reviews of delinquencies; and
- the quality of the collateral underlying our loans.

Although we maintain an ALLL at a level that we believe is adequate to absorb losses inherent in our loan portfolio, changes in economic, operating and other conditions, including conditions which are beyond our control such as a sharp decline in real estate values and changes in interest rates, may cause our actual loan losses to exceed our current allowance estimates. Additions to the ALLL could result in a decrease in net earnings and capital and could hinder our ability to grow. Further, if our actual loan losses exceed the amount reserved, it could have a material adverse effect on our financial condition and results of operations.

We cannot predict the effect of recent or future legislative and regulatory initiatives.
Financial institutions have been the subject of substantial legislative and regulatory changes and may be the subject of further legislation or regulation in the future, including: (i) changes in banking, securities and tax laws and regulations and their application by our regulators, including pursuant to the Dodd-Frank Act, as discussed above in Item 1 under the heading “Business – Supervision

and Regulation"; and (ii) changes in the scope and cost of FDIC insurance and other coverage, none of which is within our control. Significant new laws or regulations or changes in, or repeals of, existing laws or regulations may cause our results of operations to differ materially from those we currently anticipate. In addition, the cost and burden of compliance with applicable laws and regulations have significantly increased and could adversely affect our ability to operate profitably. Further, federal monetary policy significantly affects credit conditions for us, as well as for our borrowers, particularly as implemented by the Federal Reserve Board, primarily through open market operations in U.S. government securities, the discount rate for bank borrowings and reserve requirements. A material change in any of these conditions could have a material impact on us or our borrowers, and therefore on our business, prospects, financial condition and results of operations.

We expect to continue to face increased regulation and supervision of our industry as a result of the continuing economic instability, and there may be additional requirements and conditions imposed on us as a result of our participation in the Small Business Lending Fund. Such additional regulation and supervision may increase our costs and limit our ability to pursue business opportunities. The effects of such recently enacted, and proposed, legislation and regulatory programs on us cannot reliably be determined at this time.

The short-term and long-term impact of the changing regulatory capital requirements is uncertain.
Effective January 1, 2015, the Basel III Capital Rules that substantially changed the regulatory risk-based capital rules applicable to the Company and the Bank began to phase in. The Basel III Capital Rules include new minimum risk-based capital and leverage ratios and modify the capital and asset definitions for purposes of calculating those ratios. Among other things, as of January 1, 2015, the Basel III Capital Rules established a new common equity Tier 1 minimum capital requirement of 4.5%, a higher minimum Tier 1capital to risk-weighted assets requirement of 6.0% and a higher total capital to risk-weighted assets of 8.0%. In addition, the Basel III Capital Rules provide, to be considered "well-capitalized", a new common equity Tier 1 capital requirement of 6.5% and a higher Tier 1 capital to risk-weighted assets requirement of 8.0% that are effective as of January 1, 2015. Moreover, the Basel III Capital Rules limit a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of an additional 2.5% of common equity Tier 1 capital in addition to the 4.5% minimum common equity Tier 1 requirement and the other amounts necessary to the minimum risk-based capital requirements that will be phased in and fully effective in 2019.

The application of the more stringent capital requirements described above could, among other things, result in lower returns on invested capital, require the raising of additional capital, and result in additional regulatory actions if we were to be unable to comply with such requirements. Furthermore, the imposition of liquidity requirements under the Basel III Capital Rules could result in our having to lengthen the term of our funding, restructure our business models, and/or increase our holdings of liquid assets. Implementation of changes to asset risk weightings for risk based capital calculations, items included or deducted in calculating regulatory capital and/or additional capital conservation buffers could result in us modifying our business strategy and could limit our ability to pay dividends.

The CFPB may reshape the consumer financial laws through rulemaking and enforcement of the prohibitions against unfair, deceptive and abusive business practices, which may directly impact the business operations of depository institutions offering consumer financial products or services, including the Bank.
The CFPB has broad rulemaking authority to administer and carry out the provisions of the Dodd-Frank Act with respect to financial institutions that offer to consumers covered financial products and services. The CFPB has also been directed to write rules identifying practices or acts that are unfair, deceptive or abusive in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service. The concept of what may be considered to be an "abusive" practice is new under the law. While the Bank will not be supervised by the CFPB, it will still be subject to the regulations and policies promulgated by the CFPB and may be examined by the OCC for compliance therewith. The costs and limitations related to complying with any new regulations established by the CFPB have yet to be fully determined and could be material. Further, the

limitations and restrictions that will be placed upon the Bank with respect to its consumer product offering and services may also produce significant, material effects on the Bank's (and our) profitability.

We have a concentration of exposure to a number of individual borrowers. Given the size of these loan relationships relative to capital levels and earnings, a significant loss on any one of these loans could materially and adversely affect us.

We have a concentration of exposure to a number of individual borrowers. Our largest exposure to one borrowing relationship as of December 31, 2015, was approximately $18.2 million, which is 8.5% of our total capital. In addition, as of December 31, 2015, the aggregate exposure to the ten largest borrowing relationships was approximately $115.4 million, which was 9.1% of loans and 54.2% of total capital. As a result of this concentration, a change in the financial condition of one or more of these borrowers could result in significant loan losses and have a material adverse effect on our financial condition and results of operations.

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A significant percentage of our deposits are attributable to a relatively small number of customers. The loss of all or some of these customers or a significant decline in their deposit balances may have a material adverse effect on our liquidity and results of operations.
As of December 31, 2015, our 20 largest depositors accounted for approximately 16.5% of total deposits, of which our top five depositors accounted for approximately 9.4% of total deposits. The ability to attract these types of deposits has a positive effect on our net interest margin as they provide a relatively low cost of funds to the Bank. While we believe we have strong, long-term relationships with each of these customers, the loss of one or more of our 20 largest deposit customers, or a significant decline in the deposit balances would adversely affect our liquidity and require us to attract new deposits, purchase federal funds or borrow funds on a short term basis to replace such deposits, possibly at interest rates higher than those currently paid on these deposits. This could increase our total cost of funds and could result in a decrease in our net interest income and net earnings. If we were unable to develop alternative funding sources, we may have difficulty funding loans or meeting other deposit withdrawal requirements.

We occasionally purchase non-recourse loan participations from other banks based in part on information provided by the selling bank.
From time to time, we purchase loan participations from other banks in the ordinary course of business, usually without recourse to the selling bank. As of December 31, 2015, we had approximately $40.7 million in purchased loan participations, or approximately 3.2% of our total loan portfolio. When we purchase loan participations, we apply the same underwriting standards as we would to loans that we directly originate and seek to purchase only loans that would satisfy these standards. However, we are not as familiar with the borrower and may rely on information provided to us by the selling bank and typically must rely on the selling bank's administration of the loan relationship. We therefore have less control over, and may incur more risk with respect to, loan participations that we purchase from selling banks as compared to loans that we originate.

Our focus on lending to small to mid-sized community-based businesses may increase our credit risk.
Most of our commercial business and commercial real estate loans are made to small business or middle market customers. These businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities and have a heightened vulnerability to economic conditions. If general economic conditions in the markets in which we operate negatively impact this important customer sector, our results of operations and financial condition and the value of our common stock may be adversely affected. Moreover, a portion of these loans have been made by us in recent years and the borrowers may not have experienced a complete business or economic cycle. Furthermore, the deterioration of our borrowers' businesses may hinder their ability to repay their loans with us, which could have a material adverse effect on our financial condition and results of operations.

Our loan portfolio includes a substantial percentage of commercial and industrial loans, which may be subject to greater risks than those related to residential loans.
Our loan portfolio includes a substantial percentage of commercial and industrial loans. Commercial and industrial loans generally carry larger loan balances and historically have involved a greater degree of financial and credit risks than residential first mortgage loans. Repayment of our commercial and industrial loans is often dependent on cash flow of the borrower, which may be unpredictable, and collateral securing these loans may fluctuate in value. Our commercial and industrial loans are primarily made based on the cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most often, this collateral is accounts receivable, inventory, equipment, or real estate. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. Other collateral securing loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. At December 31, 2015, commercial and industrial loans totaled approximately 35.9% of our total loan portfolio. Adverse changes in local economic conditions impacting our business borrowers could have a material adverse effect on our business, prospects, financial condition and results of operations.

We have a high concentration of loans secured by real estate, and an adverse change in the real estate market could have a material effect on our financial condition and results of operations.

A significant portion of our loan portfolio is dependent on real estate. At December 31, 2015, approximately 55.0% of our loans had real estate as a primary or secondary component of collateral. The collateral in each case provides an alternate source of repayment if the borrower defaults and may deteriorate in value during the time the credit is extended. An adverse change in the economy affecting values of real estate in our primary markets could significantly impair the value of real estate collateral and the ability to sell real estate collateral upon foreclosure. Furthermore, it is likely that we would be required to increase the provision for loan losses. A related risk in connection with loans secured by real estate is the effect of unknown or unexpected environmental contamination, which could make the real estate effectively unmarketable or otherwise significantly reduce its value as collateral. If we were required to liquidate real estate collateral securing a loan to satisfy the debt during a period of reduced real estate values or to increase the allowance for loan losses, it could have a material adverse effect on our financial condition and results of operations.

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We may face risks with respect to future expansion and acquisition opportunities.
We have expanded our business in part through acquisitions and will continue to look at future acquisitions as a way to further increase our growth. However, we cannot assure you that we will be successful in completing any future acquisitions. Further, failure to realize the potential expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on our business, prospects, financial condition and results of operations.

We may seek merger or acquisition partners that are culturally similar and have experienced management and possess either significant market presence or have potential for improved profitability through financial management, economies of scale or expanded services. We cannot say with any certainty that we will be able to consummate, or if consummated, successfully integrate future acquisitions or that we will not incur disruptions or unexpected expenses in integrating such acquisitions. In attempting to make such acquisitions, we anticipate competing with other financial institutions, many of which have greater financial and operational resources. Acquiring other banks, businesses, or branches involves various risks commonly associated with acquisitions, including, among other things:

- potential exposure to unknown or contingent liabilities of the target company;
- expansion into new markets that may have different characteristics than our current markets and may otherwise present management challenges;
- exposure to potential asset quality issues of the target company;
- difficulty and expense of integrating the operations and personnel of the target company;
- potential disruption to our business;
- potential diversion of management's time and attention;
- the possible loss of key employees and customers of the target institution;
- difficulty in estimating the value of the target company; and
- potential changes in banking, accounting or tax laws or regulations that may affect the target institution.

We are subject to environmental liability risk associated with our lending activities.
A significant portion of the Bank's loan portfolio is secured by real property. During the ordinary course of business, the Bank may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property's value or limit the Bank's ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our financial condition and results of operations.

Our future earnings could be adversely affected by non-cash charges for goodwill impairment, if a future test of goodwill indicates that goodwill has been impaired.
As prescribed by Accounting Standards Codification ("ASC") Topic 350, "Intangibles — Goodwill and Other," we undertake an annual review of the goodwill asset balance reflected in our financial statements. We conduct an annual review in the fourth quarter of each year, unless there has been a triggering event prescribed by applicable accounting rules that warrants an earlier interim testing for possible goodwill impairment. After our most recent annual review in the fourth quarter of 2015, we concluded there was no goodwill impairment as of such date. As of December 31, 2015, we had $42.2 million in goodwill. Future goodwill impairment tests may result in future non-cash charges, which could adversely affect our earnings for any such future period.

Changes in the fair value of our securities may reduce our stockholders' equity and net income.

At December 31, 2015, $318.2 million of our securities (at fair value) were classified as available-for-sale. At such date, the aggregate net unrealized gain on our available-for-sale securities was $784,000. We increase or decrease stockholders' equity by the amount of change from the unrealized gain or loss (the difference between the estimated fair value and the amortized cost) of our available-for-sale securities portfolio, net of the related tax, under the category of accumulated other comprehensive income/loss. Therefore, a decline in the estimated fair value of this portfolio will result in a decline in reported stockholders' equity, as well as book value per common share and tangible book value per common share. This decrease will occur even though the securities are not sold. In the case of debt securities, if these securities are never sold and there are no credit impairments, the decrease will be recovered over the life of the securities. In the case of equity securities which have no stated maturity, the declines in fair value may or may not be recovered over time.

We monitor the fair value of our entire securities portfolio as part of our ongoing other than temporary impairment ("OTTI") evaluation process. No assurance can be given that we will not need to recognize OTTI charges related to securities in the future. In addition, as a condition to membership in the Federal Home Loan Bank of Dallas ("FHLB-Dallas"), we are required to purchase

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and hold a certain amount of FHLB-Dallas stock. Our stock purchase requirement is based, in part, upon the outstanding principal balance of advances from the FHLB-Dallas. At December 31, 2015, we had stock in the FHLB-Dallas totaling approximately $3.4 million. The FHLB-Dallas stock held by us is carried at cost and is subject to recoverability testing under applicable accounting standards. For the year ended December 31, 2015, we did not recognize an impairment charge related to our FHLB-Dallas stock holdings. There can be no assurance, however, that future negative changes to the financial condition of the FHLB-Dallas may not require us to recognize an impairment charge with respect to such holdings.

Loss of key officers or employees may disrupt relationships with certain customers.
As a community bank, our business is primarily relationship-driven in that many of our key employees have extensive customer relationships. In addition, our success has been and will continue to be greatly influenced by the ability to retain existing senior management and, with expansion, to attract and retain qualified additional senior and middle management. We do not have employment agreements with any of our executive officers. Loss of a key employee with such customer relationships may lead to the loss of business if the customers were to follow that employee to a competitor. While we believe our relationship with our key personnel is good, we cannot guarantee that all of our key personnel will remain with our organization. Loss of such key personnel, should they enter into an employment relationship with one of our competitors, could result in the loss of some of our customers.

A natural disaster, especially one affecting one of our market areas, could adversely affect us.
Since most of our business is conducted in Louisiana and Texas, most of our credit exposure is in those states. Historically, Louisiana and Texas have been vulnerable to natural disasters. Therefore, we are susceptible to the risks of natural disasters, such as hurricanes, floods and tornadoes. Natural disasters could harm our operations directly through interference with communications, including the interruption or loss of our websites, which would prevent us from gathering deposits, originating loans and processing and controlling our flow of business, as well as through the destruction of facilities and our operational, financial and management information systems. A natural disaster or recurring power outages may also impair the value of our largest class of assets, our loan portfolio, as uninsured or underinsured losses, including losses from business disruption, may reduce borrowers' ability to repay their loans. Disasters may also reduce the value of the real estate securing our loans, impairing our ability to recover on defaulted loans through foreclosure and making it more likely that we would suffer losses on defaulted loans. Although we have implemented several back-up systems and protections (and maintain business interruption insurance), these measures may not protect us fully from the effects of a natural disaster. The occurrence of natural disasters in our market areas could have a material adverse effect on our business, prospects, financial condition and results of operations.

Our profitability is vulnerable to interest rate fluctuations.
Our profitability is dependent to a large extent on net interest income, which is the difference between our interest income on interest-earning assets, such as loans and investment securities, and interest expense on interest-bearing liabilities, such as deposits and borrowings. When interest-bearing liabilities mature or reprice more quickly than interest-earning assets in a given period, a significant increase in market rates of interest could adversely affect net interest income. Conversely, when interest-earning assets mature or reprice more quickly than interest-bearing liabilities, falling interest rates could result in a decrease in net interest income. For example, as loans in our portfolio have matured, they have been replaced by loans with lower yields across all loan categories versus year ago levels. We expect this trend to continue during 2016. Furthermore, some of our variable interest rate loans have minimum fixed interest rates ("floors") that are currently above the contractual variable interest rate. If interest rates rise, the interest income from our variable interest rate loans with floors may not increase as quickly as interest expense on our liabilities, which would negatively impact our net interest income.

In periods of increasing interest rates, loan originations may decline, depending on the performance of the overall economy, which may adversely affect income from lending activities. Also, increases in interest rates could adversely affect the market value of fixed income assets. In addition, an increase in the general level of interest rates may affect the ability of certain borrowers to pay the interest and principal on their obligations.

Non-performing assets take significant time to resolve and adversely affect our results of operations and financial condition.

Non-performing assets adversely affect our net earnings in various ways. Until economic and market conditions improve, we expect to incur provisions for loan losses relating to an increase in non-performing assets. We generally do not record interest income on non-performing loans or other real estate owned, thereby adversely affecting our earnings, and increasing our loan administration costs. When we take collateral in foreclosures and similar proceedings, we mark the related asset to the then fair market value of the collateral less estimated selling costs, which may result in a loss. An increase in the level of non-performing assets increases our risk profile and may impact the capital levels our regulators believe are appropriate in light of the ensuing risk profile. While we reduce problem assets through loan sales, workouts, restructurings and otherwise, decreases in the value of the underlying collateral, or in these borrowers' performance or financial condition, whether or not due to economic and market conditions beyond our control, could adversely affect our business, results of operations and financial condition. In addition, the resolution of non-performing assets requires significant commitments of time from management and our directors, which can be

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detrimental to the performance of their other responsibilities. There can be no assurance that we will not experience future increases in non-performing assets.

The soundness of other financial institutions could adversely affect us.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks and other institutional clients. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to us. Any such losses could have a material adverse effect on our business, prospects, financial condition and results of operations.

We operate within a highly regulated environment and our business and results are affected by the regulations to which we are subject.

We operate within a highly regulated environment. The regulations to which we are subject will continue to have an impact on our operations and the degree to which we can grow and be profitable. Certain regulators, to which we are subject, have significant power in reviewing our operations and approving our business practices. In recent years the Bank, as well as other financial institutions, has experienced increased regulation and regulatory scrutiny, often requiring additional resources. In addition, investigations or proceedings brought by regulatory agencies may result in judgments, settlements, fines, penalties, or other results adverse to us. There is no assurance that any change to the regulatory requirements to which we are subject, or the way in which such regulatory requirements are interpreted or enforced, will not have a negative effect on our ability to conduct our business and our results of operations.

We rely heavily on technology and computer systems. The negative effects of computer system failures and unethical individuals with the technological ability to cause disruption of service could adversely affect our reputation and our ability to generate deposits.

Our ability to compete depends on our ability to continue to adapt and deliver technology on a timely and cost-effective basis to meet customers' demands for financial services. We provide our customers the ability to bank online and many customers now remotely submit deposits to us through remote-capture systems. The secure transmission of confidential information over the Internet is a critical element of these services. Our network could be vulnerable to unauthorized access, computer viruses, phishing schemes and other security problems. We may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses, or to alleviate problems caused by security breaches or viruses. To the extent that our activities or the activities of our customers involve the storage and transmission of confidential information, security breaches and viruses could expose us to claims, litigation and other possible liabilities. Any inability to prevent security breaches or computer viruses could also cause existing customers to lose confidence in our systems and could adversely affect our reputation and our ability to generate deposits.

We rely on third parties to provide key components of our business infrastructure.

Third parties provide key components of our business operations such as data processing, recording and monitoring transactions, online banking interfaces and services, Internet connections and network access. While we have selected these third party vendors carefully, we do not control their actions. Any problems caused by these third parties, including those resulting from disruptions in communication services provided by a vendor, failure of a vendor to handle current or higher volumes, cyber-attacks and security breaches at a vendor, failure of a vendor to provide services for any reason or poor performance of services, could adversely affect our ability to deliver products and services to our customers and otherwise conduct our business. Financial or operational difficulties of a third party vendor could also hurt our operations if those difficulties interfere with the vendor's ability to serve us. Furthermore, our vendors could also be sources of operational and information security risk to us, including from breakdowns or failures of their own systems or capacity constraints. Replacing these third party vendors could also create significant delay and expense. Accordingly, use of such third parties creates an unavoidable inherent risk to our business operations.

Consumers may decide not to use banks to complete their financial transactions.
Technology and other changes are allowing parties to complete financial transactions through alternative methods that historically have involved banks. For example, consumers can now maintain funds that would have historically been held as bank deposits in brokerage accounts, mutual funds or general-purpose reloadable prepaid cards. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as “disintermediation,” could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost of deposits as a source of funds could have a material adverse effect on our financial condition and results of operations.

Risks Relating to an Investment in Our Common Stock

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Share ownership may be diluted by the issuance of additional shares of common stock in the future.
Our stock incentive plan provides for the granting of stock incentives to directors, officers, and employees. As of December 31, 2015, there were 339,376 shares issued under options and 11,250 shares in restricted stock granted under that plan. Likewise, approximately 438,602 shares, including shares issuable under currently outstanding options, may be issued in the future to directors, officers, and employees under our existing equity incentive plans. In addition, in 2009, as part of our participation in the Treasury's Capital Purchase Program ("CPP"), we also issued a stock purchase warrant that currently entitles the holder to purchase 104,384 shares of our common stock at an exercise price of $14.37 per share. It is probable that options and/or warrants will be exercised during their respective terms if the stock price exceeds the exercise price of the particular option or warrant. The incentive plan also provides that all issued options automatically and fully vest upon a change in control. If the options are exercised, share ownership will be diluted.

Additionally, share ownership of our common stock will be diluted from shares issued upon conversion of the Series C Preferred Stock issued in the PSB acquisition. As of December 31, 2015, there were 91,200 shares of Series C Preferred Stock issued and outstanding. Holders may convert the Series C Preferred Stock at any time into shares of the Company's common stock at a conversion price of $18.00 per share, subject to customary antidilution adjustments. In addition, on or after the fifth anniversary of the closing date, the Company will have the option to require conversion of the Series C Preferred Stock if the closing price of the Company's common stock for 20 trading days within any period of 30 consecutive trading days, exceeds 130% of the conversion price.

In addition, our articles of incorporation authorize the issuance of up to 30,000,000 shares of common stock and 5,000,000 shares of preferred stock, but do not provide for preemptive rights to the stockholders; therefore, stockholders will not automatically have the right to subscribe for additional shares. As a result, if we issue additional shares to raise additional capital or for other corporate purposes, you may be unable to maintain your pro rata ownership in the Company.

The holders of our preferred stock and trust preferred securities have rights that are senior to those of stockholders and that may impact our ability to pay dividends on our common stock and net income available to our common stockholders.
At December 31, 2015, we had outstanding $22.2 million of trust preferred securities. These securities are senior to shares of common stock. As a result, we must make payments on our trust preferred securities before any dividends can be paid on our common stock; moreover, in the event of our bankruptcy, dissolution, or liquidation, the obligations outstanding with respect to our trust preferred securities must be satisfied before any distributions can be made to our stockholders. While we have the right to defer dividends on the trust preferred securities for a period of up to five years, if any such election is made, no dividends may be paid to our common or preferred stockholders during that time.

In addition, with respect to the $32.0 million in Series B Preferred Stock outstanding that was issued to the Treasury in the SBLF Transaction, we are required to pay cumulative dividends on the Series B Preferred Stock at an annual rate. The dividend rate was set at 1.00% beginning in the fourth quarter of 2013 due to attaining the target 10% growth rate in qualified small business loans during the second quarter of 2013. Beginning February 25, 2016, the dividend rate increased to 9% per annum. The $10.0 million in Series C Preferred Stock that was issued in connection with the PSB acquisition, calls for the non-cumulative payment of dividends at an annual rate of 4.0%. Dividends paid on our Series B Preferred Stock or Series C Preferred Stock will also reduce the net income available to our common stockholders and our earnings per common share. We may not declare or pay dividends on our common stock or repurchase shares of our common stock without first having paid all accrued preferred dividends that are due.

Only a limited trading market exists for our common stock, which could lead to price volatility.

Our common stock is listed for trading on the NYSE under the trading symbol “MSL,” but there is low trading volume in our common stock. The limited trading market for our common stock may cause fluctuations in the market value of our common stock to be exaggerated, leading to price volatility in excess of that which might occur in a more active trading market of our common stock. Future sales of substantial amounts of common stock in the public market, or the perception that such sales may occur, could adversely affect the prevailing market price of our common stock. In addition, even if a more active market in our common stock develops, we cannot assure you that such a market will continue.

Our directors and executive management own a significant number of shares of stock, allowing further control over business and corporate affairs.

Our directors and executive officers beneficially own approximately 2.3 million shares, or 20.5%, of our outstanding common stock as of December 31, 2015. As a result, in addition to their day-to-day management roles, they will be able to exercise significant influence on our business as stockholders, including influence over election of the Board and the authorization of other corporate actions requiring shareholder approval. In deciding on how to vote on certain proposals, our stockholders should be aware that our directors and executive officers may have interests that are different from, or in addition to, the interests of our stockholders generally.

Provisions of our articles of incorporation and by-laws, Louisiana law, and state and federal banking regulations, could delay or prevent a takeover by a third party.
Our articles of incorporation and by-laws could delay, defer, or prevent a third party takeover, despite possible benefit to the stockholders, or otherwise adversely affect the price of our common stock. Our governing documents:

- permit directors to be removed by stockholders only for cause and only upon an 80% vote;
- require 80% of the voting power for stockholders to amend the by-laws, call a special meeting, or amend the articles of incorporation, in each case if the proposed action was not approved by the Board;
- authorize a class of preferred stock that may be issued in series with terms, including voting rights, established by the Board without stockholder approval;
- authorize approximately 30 million shares of common stock and 5 million shares of preferred stock that may be issued by the Board without shareholder approval;
- classify our Board with staggered three year terms, preventing a change in a majority of the Board at any annual meeting;
- require advance notice of proposed nominations for election to the Board and business to be conducted at a shareholder meeting; and
- require 80% of the voting power for stockholders to approve business combinations not approved by the Board.

These provisions would likely preclude a third party from removing incumbent directors and simultaneously gaining control of the Board by filling the vacancies thus created with its own nominees. Under the classified Board provisions, it would take at least two elections of directors for any individual or group to gain control of the Board. Accordingly, these provisions could discourage a third party from initiating a proxy contest, making a tender offer or otherwise attempting to gain control. These provisions may have the effect of delaying consideration of a shareholder proposal until the next annual meeting unless a special meeting is called by the Board or the chairman of the Board. Moreover, even in the absence of an attempted takeover, the provisions make it difficult for stockholders dissatisfied with the Board to effect a change in the Board’s composition, even at annual meetings.

Also, we are subject to the provisions of the Louisiana Business Corporation Law (“LBCL”), which provides that we may not engage in certain business combinations with an “interested shareholder” (generally defined as the holder of 10.0% or more of the voting shares) unless (1) the transaction was approved by the Board before the interested shareholder became an interested shareholder or (2) the transaction was approved by at least two-thirds of the outstanding voting shares not beneficially owned by the interested shareholder and 80% of the total voting power or (3) certain conditions relating to the price to be paid to the stockholders are met.

The LBCL also addresses certain transactions involving “control shares,” which are shares that would have voting power with respect to the Company within certain ranges of voting power. Control shares acquired in a control share acquisition have voting rights only to the extent granted by a resolution approved by our stockholders. If control shares are accorded full voting rights and the acquiring person has acquired control shares with a majority or more of all voting power, stockholders of the issuing public corporation have dissenters’ rights as provided by the LBCL.

Our future ability to pay dividends and repurchase stock is subject to restrictions.
Since we are a holding company with no significant assets other than the Bank, we have no material source of income other than dividends received from the Bank. Therefore, our ability to pay dividends to our stockholders will depend on the Bank’s ability to pay dividends to us. Moreover, banks and financial holding companies are both subject to certain federal and state regulatory restrictions on cash dividends. We are also restricted from paying dividends if we have deferred payments of the interest on, or an event of default has occurred with respect to, our trust preferred

securities, Series B Preferred Stock or Series C Preferred Stock. Additionally, terms and conditions of our outstanding shares of preferred stock place certain restrictions and limitations on our common stock dividends and repurchases of our common stock.

A shareholder's investment is not an insured deposit.

An investment in our common stock is not a bank deposit and is not insured or guaranteed by the FDIC or any other government agency. Your investment in our common stock will be subject to investment risk and you may lose all or part of your investment.

Item 1B – Unresolved Staff Comments

None.

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Item 2 - Properties

We lease our principal executive and administrative offices and principal facility in Lafayette, Louisiana under a lease expiring July 31, 2021. In addition to our principal facility, we also have eight other branches located in Lafayette, Louisiana, three in New Iberia, Louisiana, four in Baton Rouge, Louisiana, three in Natchitoches, Louisiana, two in Many, Louisiana, two in Alexandria, Louisiana, two in Lake Charles, Louisiana, two in Houma, Louisiana, and one branch in each of the following Louisiana cities: Breaux Bridge, Cecilia, St. Martinville, Larose, Jeanerette, Opelousas, Morgan City, Jennings, Sulphur, Thibodaux, Robeline, Greenwood, Zwolle and Mansfield. We also have an operations office in Breaux Bridge, Louisiana. Thirty-one of these offices are owned and eleven are leased.

Additionally, in our Texas market area we have two full service branches located in each of the following Texas cities: Beaumont and Houston. Our additional full service branches in the Texas market area are located in Vidor, Conroe, Magnolia, College Station, Dallas, Fort Worth, Mesquite, Rockwall, Greenville, White Rock, Tyler and Texarkana. Of these offices, eleven are owned and five are leased.

Item 3 - Legal Proceedings

The Bank has been named as a defendant in various other legal actions arising from normal business activities in which damages of various amounts are claimed. While the amount, if any, of ultimate liability with respect to such matters cannot be currently determined, management believes, after consulting with legal counsel, that any such liability will not have a material adverse effect on the Company’s consolidated financial position, results of operations, or cash flows. However, in the event of unexpected future developments in these matters, if the ultimate resolution of any such matter is unfavorable, the result may be material to the Company’s consolidated financial position, consolidated results of operations or consolidated cash flows.

Item 4 – Mine Safety Disclosures

Not applicable.

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Executive Officers of the Registrant

The names, ages as of December 31, 2015, and positions of our current executive officers are listed below along with their business experience during the past five years.

C. R. Cloutier, 68 – President, Chief Executive Officer and Director of the Company and Chief Executive Officer and Director of the Bank since 1984.

Troy Cloutier, 42 – Senior Executive Vice President and Chief Banking Officer of the Company since February 2011. In June 2015, Mr. Cloutier was promoted to President of the Bank. He is also serving as Chief Banking Officer of the Bank, a title he has held since February 2011. Prior to his appointment as Chief Banking Officer, Mr. Cloutier had been with MidSouth Bank for 18 years and previously served as Senior Vice President and Regional President for the South and East Louisiana Regions in addition to managing due diligence for the Bank’s mergers and acquisitions team. Troy Cloutier is the son of C. R. Cloutier.

James R. McLemore, 56 – Senior Executive Vice President and Chief Financial Officer of the Company and the Bank since July 2009.

Jeffery L. Blum, 47 – Senior Executive Vice President and Chief Credit Officer of the Company and the Bank since August 2014. Prior to joining the Company and the Bank, Mr. Blum worked for Whitney Bank since 1993, having most recently served as Morgan City area president.

All executive officers are appointed for one year terms expiring at the first meeting of the Board of Directors after the annual stockholders meeting next succeeding his or her election and until his or her successor is elected and qualified.

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PART II

Item 5 - Market for Registrant's Common Equity, Related Shareholder Matters, and Issuer Purchases of Equity Securities

As of February 29, 2016, there were 917 common stockholders of record. The Company’s common stock trades on the NYSE under the symbol “MSL.” Prior to September 23, 2013, our common stock traded on the NYSE MKT under the symbol “MSL.” The high and low sales price for the past eight quarters has been provided in the Selected Quarterly Financial Data tables that are included with this filing under Item 8 and is incorporated herein by reference.

Cash dividends totaling $4.1 million were declared to common stockholders during 2015. The regular quarterly dividend of $0.09 per share was paid for all four quarters of 2015, for a total of $0.36 per share for the year. Cash dividends totaling $4.0 million were declared to common stockholders during 2014. A quarterly dividend of $0.08 per share was paid for the first quarter of 2014 and was increased to $0.09 per share for the second, third and fourth quarters for a total of $0.35 per share for 2014.

Under the Louisiana law, we may not pay a dividend if (i) we are insolvent or would thereby be made insolvent, or (ii) the declaration or payment thereof would be contrary to any restrictions contained in our articles of incorporation. Our primary source of funds for dividends is the dividends we receive from the Bank; therefore, our ability to declare dividends is highly dependent upon future earnings, financial condition, and results of operation of the Bank as well as applicable legal restrictions on the Bank’s ability to pay dividends and other relevant factors. The Bank currently has the ability to declare dividends to us without prior approval of our primary regulators. However, the Bank’s ability to pay dividends to us will be prohibited if the result would cause the Bank’s regulatory capital to fall below minimum requirements. Additionally, dividends to us cannot exceed a total of the Bank’s current year and prior two years’ earnings, net of dividends paid to us in those years.

Pursuant to the terms of our Series B Preferred Stock, Series C Preferred Stock, and the terms of our trust preferred securities, we are prohibited from paying dividends on our common stock during any period in which we have deferred interest payments on either the Series B Preferred Stock, Series C Preferred Stock or the trust preferred securities.

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The following graph compares the cumulative total return on our common stock over a period beginning December 31, 2010 with (1) the cumulative total return on the stocks included in the Russell 3000 and (2) the cumulative total return on the stocks included in the SNL Securities, LC (“SNL”) $1B - $5B Bank Index. The comparison assumes an investment in our common stock on the indices of $100 at December 31, 2010 and assumes that all dividends were reinvested during the applicable period.

MidSouth Bancorp, Inc.

	Period Ending					
Index	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015
MidSouth Bancorp, Inc.	100.00	86.50	110.88	123.52	122.24	65.86
Russell 3000	100.00	101.03	117.61	157.07	176.79	177.64
SNL Bank $1B-$5B	100.00	91.20	112.45	163.52	170.98	191.39

The stock price information shown above is based on historical data and should not be considered indicative of future price performance.

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Item 6 – Five Year Summary of Selected Financial Data

	At and For the Year Ended December 31,				
	2015	2014	2013	2012	2011
	(dollars in thousands, except per share data)				
Interest income	$81,897	$83,487	$83,203	$61,022	$51,007
Interest expense	(5,581)	(5,807)	(6,539)	(5,840)	(5,802)
Net interest income	76,316	77,680	76,664	55,182	45,205
Provision for loan losses	(13,900)	(5,625)	(3,050)	(2,050)	(3,925)
Noninterest income	20,321	24,422	19,319	14,944	13,061
Noninterest expenses	(67,137)	(70,009)	(72,606)	(54,655)	(49,304)
Earnings before income taxes	15,600	26,468	20,327	13,421	5,037
Income tax expense	(4,583)	(7,358)	(6,151)	(3,779)	(564)
Net earnings	$11,017	$19,110	$14,176	$9,642	$4,473
Preferred dividend requirement	(687)	(698)	(1,332)	(1,547)	(1,802)
Net earnings available to common stockholders	$10,330	$18,412	$12,844	$8,095	$2,671
Basic earnings per common share	$0.91	$1.63	$1.14	$0.77	$0.27
Diluted earnings per common share	$0.90	$1.58	$1.12	$0.77	$0.27
Dividends per common share	$0.36	$0.35	$0.31	$0.28	$0.28
Total loans	$1,263,645	$1,284,431	$1,137,554	$1,046,940	$746,305
Total assets	1,927,733	1,936,740	1,851,160	1,851,728	1,396,756
Total deposits	1,550,850	1,585,234	1,518,803	1,551,904	1,164,806
Long-term obligations	48,018	48,444	57,087	58,512	15,465
Selected ratios:					
Loans to assets	65.55%	66.32%	61.45%	56.54%	53.43%
Loans to deposits	81.48%	81.02%	74.90%	67.46%	64.07%
Deposits to assets	80.45%	81.85%	82.05%	83.81%	83.39%
Return on average assets	0.53%	0.97%	0.69%	0.58%	0.24%
Return on average common equity	6.00%	11.43%	8.64%	6.05%	2.22%

Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations

The purpose of this discussion and analysis is to highlight changes in the financial condition of the Company and on its results of operations during 2015, 2014 and 2013. This discussion and analysis is intended to highlight and supplement information presented elsewhere in this annual report on Form 10-K, particularly the consolidated financial statements and related notes appearing in Item 8.

Overview

We are a financial holding company, headquartered in Lafayette, Louisiana, that through our community banking subsidiary, MidSouth Bank, N.A., operates 58 offices in Louisiana and Texas. We had approximately $1.9 billion in consolidated assets as of December 31, 2015. We derive the majority of our income from interest received on our loans and investments. Our primary source of funds for making these loans and investments is our deposits, on which we pay interest. Approximately 75.9% of our total deposits are interest-bearing. Consequently, one of the key measures of our success is our amount of net interest income, or the difference between the income on our interest-earning assets, such as loans and investments, and the expense on our interest-bearing liabilities, such as deposits and borrowings. The resulting ratio of that difference as a percentage of our average earning assets represents our net interest margin. Another key measure is the spread between the yield we earn on these interest-earning assets and the rate we pay on our interest-bearing liabilities, which is called our net interest spread. In addition to earning interest on our loans and investments, we earn income through fees and other charges to our customers. We have also included a discussion of the various components of this noninterest income, as well as of our noninterest expense.

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There are risks inherent in all loans, so we maintain an allowance for loan losses to absorb probable losses on existing loans that may become uncollectible. We maintain this allowance by charging a provision for loan losses against our operating earnings for each period. We have included a detailed discussion of this process, as well as several tables describing our allowance for loan losses.

Our financial results over the past several years have been impacted by disruptions in the national economy and the resulting financial uncertainty that affected the banking industry. The recent sharp decline in oil prices added additional pressure on the financial performance of the Company during 2015. We are closely monitoring our oil and gas loan portfolio, and we will also continue to apply conservative underwriting practices that have served us well over our thirty year history. We began as an energy leader during the oil downturn of the 80's, and we have a strong thirty year track record of lending to this industry. We have seen many ups and downs in the oil and gas industry over the years and continue to communicate with our customers who provide valuable insight on the present energy cycle. If oil prices remain at these low levels for an extended period, we could experience weaker oil and gas related loan demand and increased losses within the oil and gas loan portfolio.

The following discussion and analysis also identifies significant factors that have affected our financial position and operating results during the periods included in the financial statements accompanying or incorporated by reference in this report. We encourage you to read this discussion and analysis in conjunction with our consolidated financial statements and the notes thereto and other statistical information included and incorporated by reference in this annual report on Form 10-K.

Critical Accounting Policies

Certain critical accounting policies affect the more significant judgments and estimates used in the preparation of the consolidated financial statements. Our significant accounting policies are described in the notes to the consolidated financial statements included in this report. The accounting principles we follow and the methods of applying these principles conform to accounting principles generally accepted in the United States of America ("GAAP") and general banking practices. Our most critical accounting policy relates to the determination of the allowance for loan losses, which reflects the estimated losses resulting from the inability of its borrowers to make loan payments. The determination of the adequacy of the allowance involves significant judgment and complexity and is based on many factors. If the financial condition of our borrowers were to deteriorate, resulting in an impairment of their ability to make payments, the estimates would be updated and additional provisions for loan losses may be required. See Asset Quality – Allowance for Loan Losses and Note 1 and Note 3 of the notes to the consolidated financial statements.

Another of our critical accounting policies relates to the valuation of goodwill, intangible assets and other purchase accounting adjustments. We account for acquisitions in accordance with ASC Topic No. 805, which requires the use of the purchase method of accounting. Under this method, we are required to record assets acquired and liabilities assumed at their fair value, including intangible assets. Determination of fair value involves estimates based on internal valuations of discounted cash flow analyses performed, third party valuations, or other valuation techniques that involve subjective assumptions. Additionally, the term of the useful lives and appropriate amortization periods of intangible assets is subjective. Resulting goodwill from an acquisition under the purchase method of accounting represents the excess of the purchase price over the fair value of net assets acquired. Goodwill is not amortized, but is evaluated for impairment annually or more frequently if deemed necessary. If the fair value of an asset exceeds the carrying amount of the asset, no charge to goodwill is made. If the carrying amount exceeds the fair value of the asset, goodwill will be adjusted through a charge to earnings. In evaluating the goodwill on our consolidated balance sheet for impairment at December 31, 2015, we first assessed qualitative factors to determine whether it is more likely than not that the fair value of our acquired assets is less than the carrying amount of the acquired assets, as allowed under ASU 2011-08, Intangibles- Goodwill and Other (Topic 350): Testing Goodwill for Impairment. After making the assessment based on several factors, which included but was not limited to the current economic environment, the economic outlook in our markets, our financial performance and common stock value as compared to our peers, we determined it is more likely than not that the fair value of our acquired assets is greater than the carrying amount and, accordingly, no impairment of goodwill was recorded for the year ended December 31, 2015.

Given the instability of the economic environment, it is reasonably possible that the methodology of the assessment of potential loan losses and goodwill impairment could change in the near-term or could result in impairment going forward.

Another of our critical accounting policies relates to deferred tax assets and liabilities. We record deferred tax assets and deferred tax liabilities for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax benefits, such as net operating loss carry forwards, are recognized to the extent that realization of such benefits is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the assets and liabilities are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period that includes the enactment date. In the event the future tax consequences of differences between the financial reporting bases and the

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tax bases of our assets and liabilities results in deferred tax assets, an evaluation of the probability of being able to realize the future benefits indicated by such assets is required. A valuation allowance is provided when it is more likely than not that a portion or the full amount of the deferred tax asset will not be realized. In assessing the ability to realize the deferred tax assets, management considers the scheduled reversals of deferred tax liabilities, projected future taxable income, and tax planning strategies. A deferred tax liability is not recognized for portions of the allowance for loan losses for income tax purposes in excess of the financial statement balance. Such a deferred tax liability will only be recognized when it becomes apparent that those temporary differences will reverse in the foreseeable future. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50 percent more likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

Results of Operations

Net income available to common stockholders for the year ended December 31, 2015 totaled $10.3 million compared to $18.4 million for the year ended December 31, 2014, or a decrease of $8.1 million. Diluted earnings per share were $0.90 for the year ended December 31, 2015, compared to $1.58 for 2014. The decrease resulted primarily from an $8.3 million increase in the provision for loan losses. 2014 net earnings included $3.0 million of executive officer life insurance proceeds, $1.1 million in gain on sale of ORE (included in noninterest expenses), $128,000 in gain on sales of securities, $516,000 of efficiency consultant expenses, $189,000 of expenses related to the death of an executive officer, $394,000 in losses on disposal of fixed assets and a $258,000 loss on redemption of Trust Preferred Securities. 2015 net earnings included $1.2 million in gain on sales of securities and $160,000 of income from a death benefit on bank owned life insurance. Excluding these non-operating revenues and expenses, net earnings available to common shareholders decreased $6.3 million in year-over-year comparison. The $8.3 million increase in loan loss provision and a $2.5 million decrease in revenues were partially offset by a $1.4 million decrease in operating noninterest expenses and a $3.3 million decrease in income tax expense.

Total consolidated assets remained constant at $1.9 billion for the years ended December 31, 2015 and December 31, 2014. Deposits totaled $1.6 billion at December 31, 2015 and December 31, 2014. Our stable core deposit base, which excludes time deposits, grew $47.3 million and accounted for 89.1% of deposits at December 31, 2015 compared to 84.1% of deposits at year end 2014. Time deposits decreased $81.7 million for the year ended December 31, 2015. Net loans totaled $1.2 billion at December 31, 2015, compared to $1.3 billion at December 31, 2014. Net loans declined $28.6 million, or 2.2%, for the year ended December 31, 2015.

Our Tier 1 leverage capital ratio increased to 10.10% at December 31, 2015 compared to 9.52% at December 31, 2014. Tier 1 risk-weighted capital and total risk-weighted capital ratios were 13.25% and 14.50% at December 31, 2015, compared to 12.90% and 13.73% at December 31, 2014, respectively. The Tier 1 common equity ratio at December 31, 2015 was 8.91%, compared to 8.36% at December 31, 2014. Return on average common equity was 6.00% for 2015 compared to 11.43% for 2014. Return on average assets was 0.53% compared to 0.97% for the same periods, respectively.

Nonperforming assets totaled $54.4 million at December 31, 2015, an increase of $39.3 million over the $15.1 million reported for year-end 2014. The increase resulted from a $39.3 million increase in nonperforming loans. Nonaccrual loans totaled $50.1 million at December 31, 2015, compared to $10.7 million at December 31, 2014. Loans past due 90 days or more and still accruing interest totaled $147,000 at December 31, 2015, compared to $187,000 at December 31, 2014. Total nonperforming assets to total assets were 2.82% at December 31, 2015, compared to 0.78% at December 31, 2014. Loans classified as troubled debt restructurings ("TDRs") totaled $21.0 million at December 31, 2015, compared to $410,000 at December 31, 2014. These totals included $20.9 million and $234,000, respectively, of loans reported in nonaccrual loans.

Allowance coverage for nonperforming loans was 37.87% at December 31, 2015, compared to 103.10% at December 31, 2014. Year-to-date net charge-offs were 0.47% of average total loans as of December 31, 2015 compared to 0.26% as of December 31, 2014. The ALL/total loans ratio increased to 1.50% for the year ended December 31, 2015, compared to 0.87% at December 31, 2014.

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Table 1
Summary of Return on Equity and Assets

	2015		2014		2013	
Return on average assets	0.53	%	0.97	%	0.69	%
Return on average common equity	6.00	%	11.43	%	8.64	%
Dividend payout ratio on common stock	40.00	%	22.15	%	27.68	%
Average equity to average assets	10.91	%	10.71	%	10.27	%

NOTE: 2015 return on average assets and return on average common equity were impacted by a $1.2 million net gain on sale of securities and $160,000 in income from a death benefit on bank owned life insurance. Excluding these non-operating items, return on average assets for the year ended December 31, 2015 was 0.48% and return on average common equity for the year ended December 31, 2015 was 5.44%. 2014 return on average assets and return on average common equity were impacted by $3.0 million of executive life insurance proceeds, a $1.1 million gain on sale of ORE, a $394,000 in losses on disposal of fixed assets, a $258,000 loss on redemption of Trust Preferred Securities, $516,000 in efficiency consultant expenses, and $189,000 of expenses related to the loss of an executive officer. Excluding these non-operating items, return on average assets for the year ended December 31, 2014 was 0.83% and return on average common equity for the year ended December 31, 2014 was 9.70%.

Earnings Analysis

Net Interest Income
Our primary source of earnings is net interest income, which is the difference between interest earned on loans and investments and interest paid on deposits and other interest-bearing liabilities. Changes in the volume and mix of earning assets and interest-bearing liabilities combined with changes in market rates of interest greatly affect net interest income. Our net interest margin on a taxable equivalent basis, which is net interest income as a percentage of average earning assets, was 4.34%, 4.63%, and 4.71% for the years ended December 31, 2015, 2014, and 2013, respectively. Tables 2 and 3 analyze the changes in net interest income for the years ended December 31, 2015, 2014, and 2013.

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Table 2
Consolidated Average Balances, Interest, and Rates
(in thousands)

	Year Ended December 31,								
	2015			2014			2013		
	Average Volume	Interest	Average Yield/ Rate	Average Volume	Interest	Average Yield/ Rate	Average Volume	Interest	Average Yield/ Rate
Assets									
Investment securities[1]									
Taxable	$340,428	$7,559	2.22 %	$366,786	$8,100	2.21 %	$422,264	$8,609	2.04 %
Tax exempt[2]	74,836	3,342	4.47 %	87,449	4,028	4.61 %	102,873	4,932	4.79 %
Total investment securities	415,264	10,901	2.63 %	454,235	12,128	2.67 %	525,137	13,541	2.58 %
Federal funds sold	3,578	8	0.22 %	3,032	6	0.20 %	3,563	7	0.19 %
Time and interest bearing deposits in other banks	62,659	164	0.26 %	27,649	70	0.25 %	29,422	79	0.26 %
Other investments	10,471	345	3.29 %	11,590	347	2.99 %	10,403	308	2.96 %
Loans									
Commercial and real estate	1,185,788	64,470	5.44 %	1,111,702	65,498	5.89 %	1,008,940	64,748	6.42 %
Installment	106,064	7,163	6.75 %	100,960	6,829	6.76 %	88,648	6,268	7.07 %
Total loans[3]	1,291,852	71,633	5.54 %	1,212,662	72,327	5.96 %	1,097,588	71,016	6.47 %
Total earning assets	1,783,824	83,051	4.66 %	1,709,168	84,878	4.97 %	1,666,113	84,951	5.10 %
Allowance for loan losses	(15,127)			(8,850)			(7,928)		
Nonearning assets	188,520			191,761			197,980		
Total assets	$1,957,217			$1,892,079			$1,856,165		
Liabilities and stockholders' equity									
NOW, money market, and savings	$943,615	$2,214	0.23 %	$921,631	$2,147	0.23 %	$874,890	$2,362	0.27 %
Time deposits	226,188	1,373	0.61 %	228,856	1,368	0.60 %	260,650	1,599	0.61 %
Total interest-bearing deposits	1,169,803	3,587	0.31 %	1,150,487	3,515	0.31 %	1,135,540	3,961	0.35 %
Securities sold under agreements to repurchase	84,622	961	1.14 %	62,844	795	1.27 %	56,233	772	1.37 %
Federal funds purchased	1	—	— %	228	2	0.87 %	643	4	0.61 %
Short-term FHLB advances	27,959	56	0.20 %	26,946	43	0.16 %	12,608	20	0.16 %
Other borrowings	—	—	—	—	—	— %	616	18	3.05 %
Notes payable	26,059	364	1.38 %	26,936	378	1.38 %	28,448	418	1.46 %
	22,167	613	2.73 %	26,774	1,074	3.96 %	29,384	1,346	4.52 %

Junior subordinated debentures									
Total interest-bearing liabilities	1,330,611	5,581	0.42 %	1,294,215	5,807	0.45 %	1,263,472	6,539	0.52 %
Demand deposits	405,571			386,664			393,831		
Other liabilities	7,576			8,569			8,238		
Stockholders' equity	213,459			202,631			190,624		
Total liabilities and stockholders' equity	$1,957,217			$1,892,079			$1,856,165		
Net interest income and net interest spread		$77,470	4.24 %		$79,071	4.52 %		$78,412	4.58 %
Net yield on interest-earning assets			4.34 %			4.63 %			4.71 %

[1] Securities classified as available-for-sale are included in average balances and interest income figures and reflect interest earned on such securities.
[2] Interest income of $1,154,000 for 2015, $1,391,000 for 2014, and $1,748,000 for 2013 is added to interest earned on tax-exempt obligations to reflect tax-equivalent yields using a tax rate of 35%.
[3] Interest income includes loan fees of $5,170,000 for 2015, $5,888,000 for 2014, and $5,508,000 for 2013. Nonaccrual loans are included in average balances and income on such loans is recognized on a cash basis.
[4] Net interest income includes accretion income of $2,342,000 for 2015, $3,647,000 for 2014, and $6,975,000 for 2013.

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Table 3
Changes in Taxable-Equivalent Net Interest Income
(in thousands)

	2015 Compared to 2014			2014 Compared to 2013		
	Total Increase (Decrease)	Change Attributable to Volume	Rates	Total Increase (Decrease)	Change Attributable to Volume	Rates
Taxable-equivalent interest earned on:						
Investment securities						
Taxable	$(541)	$(585)	$44	$(509)	$(1,188)	$679
Tax-exempt	(686)	(566)	(120)	(904)	(716)	(188)
Federal funds sold	2	2	—	(1)	(1)	—
Time and interest-bearing deposits in other banks	94	93	1	(9)	(4)	(5)
Other investments	(2)	(35)	33	39	36	3
Loans, including fees	(694)	4,564	(5,258)	1,311	7,114	(5,803)
Total	(1,827)	3,473	(5,300)	(73)	5,241	(5,314)
Interest paid on:						
Interest-bearing deposits	72	59	13	(446)	51	(497)
Securities sold under agreements to repurchase	166	253	(87)	23	87	(64)
Federal funds purchased	(2)	(2)	—	(2)	(4)	2
Short-term FHLB advances	13	2	11	23	23	—
Other borrowings	—	—	—	(18)	(18)	—
Notes payable	(14)	(9)	(5)	(40)	(20)	(20)
Junior subordinated debentures	(461)	(159)	(302)	(272)	(107)	(165)
Total	(226)	144	(370)	(732)	12	(744)
Taxable-equivalent net interest income	$(1,601)	$3,329	$(4,930)	$659	$5,229	$(4,570)

NOTE: Changes due to both volume and rate have generally been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts to the changes in each.

In year-to-date comparison, FTE net interest income decreased $1.6 million primarily due to a $1.2 million decrease in interest earned on investment securities. The average volume of investment securities decreased $39.0 million in year-over-year comparison. Interest income on loans decreased $694,000 in year-to-date comparison primarily due to a $1.2 million reduction in purchase accounting adjustments on acquired loans. The average volume of loans increased $79.2 million in year-over-year comparison, and the average yield on loans decreased 42 basis points, from 5.96% to 5.54%. The average yield on total earning assets decreased in year-over-year comparison, from 4.97% at December 31, 2014 to 4.66% at December 31, 2015. The purchase accounting adjustments added 28 basis points to the average yield on loans for the year ended December 31, 2014 and 16 basis points for the year ended December 31, 2015. Excluding purchase accounting adjustments, the average yield on earning assets decreased 23 basis points, from 4.77% at December 31, 2014 to 4.54% at December 31, 2015. Interest expense decreased $226,000 in year-over-year comparison primarily due to the redemption of trust preferred securities in the third quarter of 2014. The average rate paid on interest-bearing liabilities decreased 3 basis points in year-over-year comparison, from 0.45% at December 31, 2014 to 0.42% at December 31, 2015. Excluding purchase accounting adjustments, the average rate paid on interest-bearing liabilities decreased 5 basis points, from 0.50% at December 31, 2014 to 0.45% at December 31, 2015. The FTE net interest margin decreased 29 basis points, from 4.63% for the year ended December 31, 2014 to

4.34% for the year ended December 31, 2015. Excluding purchase accounting adjustments, the FTE net interest margin decreased 19 basis points, from 4.39% to 4.20% for the years ended December 31, 2014 and 2015, respectively, primarily due to a decline in the average rate earned on loans.

Net interest income on a fully taxable-equivalent ("FTE") basis increased $659,000 for 2014 over 2013, primarily due to a $732,000 decrease in interest expense. Interest income remained relatively flat in year-over-year comparison, as a $1.4 million decrease in FTE interest income on investments was offset by a $1.3 million increase in interest income on loans. Interest income on loans increased $1.3 million despite a $2.9 million reduction in purchase accounting adjustments on acquired loans. The average volume of loans increased $115.1 million in year-over-year comparison, and the average yield on loans decreased 51 basis points, from 6.47% to 5.96%. The average yield on earning assets decreased in year-over-year comparison, from 5.10% at December 31, 2013 to 4.97% at December 31, 2014. The purchase accounting adjustments added 60 basis points to the average yield on loans for the year ended December 31, 2013 and 28 basis points for the year ended December 31, 2014. Net of purchase accounting adjustments, the average yield on earning assets increased 6 basis points, from 4.71% at December 31, 2013 to 4.77% at December 31, 2014. Interest expense decreased $732,000 in year-over-year comparison primarily due to a 7 basis point decrease in the average rate paid on interest-bearing liabilities, from 0.52% at December 31, 2013 to 0.45% at December 31, 2014. Net of purchase accounting adjustments, the average rate paid on interest-bearing liabilities decreased 10 basis points, from 0.60% at December 31, 2013 to 0.50% at December 31, 2014. The FTE net interest margin decreased 8 basis points, from 4.71% for the year ended December 31, 2013 to 4.63% for the year ended December 31, 2014. Net of purchase accounting adjustments, the FTE net interest margin increased 13 basis points, from 4.26% to 4.39% for the years ended December 31, 2013 and 2014, respectively, due to a favorable shift in earning assets from investment securities to loans.

Noninterest Income

Noninterest income totaled $20.3 million at December 31, 2015, compared to $23.0 million at December 31, 2014 and $18.8 million at December 31, 2013. Service charges and fees on deposit accounts represent the primary source of noninterest income for us. Income from service charges and fees on deposit accounts, including insufficient funds fees (“NSF” fees), decreased $1.1 million in 2015 compared to a $555,000 increase in 2014. The decrease in 2015 was primarily due to a lower volume of NSF items processed. Income on ATM and debit card transactions increased $141,000 in 2015 and $809,000 in 2014 as the result of an increase in electronic transactions processed. Noninterest income for the year ended December 31, 2015 included $1.2 million in gain on sales of securities and $160,000 of income from a death benefit on bank owned life insurance. Noninterest income for the year ended December 31, 2014 included executive officer life insurance proceeds of $3.0 million and $128,000 in gain on sales of securities. Noninterest income for the year ended December 31, 2013 included $234,000 in gain on sales of securities. Excluding these non-operating income items, other noninterest income increased $89,000 in 2015 and decreased $120,000 in 2014. The $89,000 increase in 2015 primarily consisted of a $208,000 increase in mortgage program fee income, which was partially offset by a $121,000 decrease in third party investment advisory income. The $120,000 decrease in 2014 primarily consisted of a decrease of $162,000 in third party investment advisory income.

Noninterest Expense

Total noninterest expense decreased 2.1%, or $1.4 million, from 2014 to 2015 and decreased 4.9%, or $3.6 million, from 2013 to 2014. Non-operating expenses in 2014 consisted of $394,000 in losses on disposal of fixed assets, a $258,000 loss on redemption of Trust Preferred Securities, $516,000 in efficiency consultant expenses, $189,000 of expenses related to the death of an executive officer and a $1.1 million gain on sale of ORE. Non-operating expenses in 2013 consisted of $214,000 of net merger and conversion related expenses associated with the PSB acquisition. Excluding these non-operating expenses, total noninterest expense decreased $1.1 million from 2014 to 2015 and decreased $3.6 million from 2013 to 2014. The decrease in 2015 and 2014 resulted from efficiency efforts begun in the fourth quarter of 2013.

Excluding non-operating expenses, salaries and employee benefits decreased $1.7 million, or 5.0%, in 2015 and decreased $474,000, or 1.4%, in 2014. Through attrition and efficiency efforts, we reduced the number of employees on a full-time equivalent basis by 55 during 2014, from 604 at year end 2013 to 549 at year end 2014, and by 13 during 2015, to 536 at year end 2015. The reduction in workforce contributed to a $636,000 decrease in group health costs in 2015. Also contributing to the decrease in salaries and employee benefits costs during 2015 was a $553,000 reduction in incentives related to the Annual Incentive Compensation Plan ("AICP"). Since the Company did not achieve its 2015 goals as set forth in the AICP, no benefits were paid out under the plan for 2015. In 2014, an $882,000 decrease in salaries costs was partially offset by a $598,000 increase in group health costs.

Excluding non-operating expenses, occupancy expenses decreased $12,000 in 2015 and decreased $38,000 in 2014. Premises and equipment additions and leasehold improvements totaled approximately $5.4 million, $5.6 million and

$14.3 million for the years 2015, 2014, and 2013, respectively.

ATM and debit card processing fees increased $62,000 in 2015 and increased $510,000 in 2014 primarily due to an increased volume of electronic transactions processed. Additionally, losses on electronic transactions decreased $23,000 in 2015 and increased $102,000 in 2014.

Excluding non-operating expenses and the fluctuations discussed above, other noninterest expense increased $492,000 in 2015 and included increases of $463,000 in FDIC premiums and $274,000 in legal and professional fees. The increased expenses were partially offset by a $236,000 decrease in credit reporting expense and a $191,000 decrease in the cost of printing and supplies.

Excluding non-operating expenses and the fluctuations discussed above, other noninterest expense decreased $3.6 million in 2014 and included decreases of $666,000 in marketing costs, $440,000 in legal and professional fees, $316,000 in printing and supplies,

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$388,000 in expenses on ORE and $397,000 in courier expense. Several other noninterest expense categories decreased as a result of efficiency efforts.

Income Taxes

Income tax expense decreased $2.8 million in 2015 and increased $1.2 million in 2014 and approximated 29%, 28%, and 30% of income before taxes in 2015, 2014 and 2013, respectively. The impact of nontaxable municipal interest income and other tax considerations resulted in lower effective tax rates for each of the three years presented in the Consolidated Statement of Earnings included in Item 8 of this filing. For the year ended December 31, 2014, executive officer life insurance proceeds of $3.0 million further lowered the effective tax rate. The notes to the consolidated financial statements provide additional information regarding income tax considerations.

Balance Sheet Analysis

Investment Securities

Total investment securities increased $16.8 million in 2015, from $418.2 million in 2014 to $435.0 million at December 31, 2015. The increase resulted primarily from $156.4 million in purchases, which were offset by $94.2 million in maturities and calls of securities and $40.3 million in sales of securities. Average duration of the portfolio was approximately 3.8 years as of December 31, 2015 and the average taxable-equivalent yield was 2.63%. For the year ended December 31, 2014, average duration of the portfolio was 3.2 years and the average taxable-equivalent yield was 2.67%. Unrealized net gains before tax effect in the securities available-for-sale portfolio were $784,000 at December 31, 2015, compared to unrealized net losses before tax effect of $4.4 million at December 31, 2014. These amounts resulted from interest rate fluctuations.

At December 31, 2015, approximately $284.6 million, or 89.4%, of the securities available-for-sale portfolio represented mortgage-backed securities and CMOs. All of the mortgage-backed securities and CMOs are government agency sponsored with the exception of two privately issued CMOs with a current market value of $27,000. Risk due to changes in interest rates on mortgage-backed pools is monitored by monthly reviews of prepayment speeds, duration, and purchase yields as compared to current market yields on each security. CMOs totaled $197.5 million and represented pools that each had a book value of less than 10% of stockholders' equity at December 31, 2015. The mutual fund in the securities available-for-sale portfolio is a CRA Qualified Investment Fund. The CRA Fund is a market-rate bond fund that invests in high credit quality fixed income securities whose proceeds are designed to positively impact communities throughout the United States. The fair value of the security at December 31, 2015 totaled $2.1 million. An additional 9.9% of the available-for-sale portfolio consisted of municipal securities. At December 31, 2015, approximately $73.1 million, or 62.6%, of the held-to-maturity portfolio represented mortgage-backed securities and CMOs. The remainder of the held-to-maturity portfolio, approximately $43.7 million, consisted of municipal securities.

Additional information on our investment securities portfolio is provided in Note 3 of the notes to consolidated financial statements.

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Table 4
Carrying Value of Investment Securities
December 31,
(in thousands)

	2015	2014	2013	2012	2011
Available-for-sale securities					
U. S. Government sponsored enterprises	$—	$10,227	$11,265	$13,424	$94,999
Obligations of state and political subdivisions	31,493	44,605	59,978	87,421	96,149
GSE mortgage-backed securities	87,038	109,103	145,965	178,819	109,487
Collateralized mortgage obligations: residential	192,088	60,839	70,887	101,986	41,468
Collateralized mortgage obligations: commercial	5,448	24,545	27,346	29,761	25,138
Other asset-backed securities	—	24,343	25,489	12,742	—
Collateralized debt obligation	—	1,218	735	464	—
Mutual funds	2,092	2,104	—	—	—
Total available-for-sale securities	$318,159	$276,984	$341,665	$424,617	$367,241
Held-to-maturity securities					
Obligations of state and political subdivisions	$43,737	$45,914	$47,377	$42,900	$340
GSE mortgage-backed securities	55,696	67,268	78,272	89,383	82,497
Collateralized mortgage obligations: residential	10,803	12,709	14,189	5,009	—
Collateralized mortgage obligations: commercial	6,556	15,310	15,685	16,232	17,635
Total held-to-maturity securities	$116,792	$141,201	$155,523	$153,524	$100,472
Total investment securities	$434,951	$418,185	$497,188	$578,141	$467,713

Table 5
Investment Securities Portfolio
Maturities and Average Taxable-Equivalent Yields
For the Year Ended December 31, 2015
(dollars in thousands)

	Within 1 Year		After 1 but Within 5 Years		After 5 but Within 10 Years		After 10 Years		
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total
Securities available-for-sale:									
Obligations of state and political subdivisions[1]	$5,702	5.57 %	$20,002	5.85 %	$4,118	5.18 %	$1,671	3.64 %	$31,493
GSE mortgage-backs and CMOs: residential	468	3.75 %	226,551	2.72 %	52,107	2.55 %	—	— %	279,126
GSE mortgage-backs and CMOs: commercial	—	—	5,448	2.04 %	—	—	—	—	5,448
Mutual funds	2,092	1.10 %	—	—	—		—	—	2,092
Total fair value	$8,262		$252,001		$56,225		$1,671		$318,159

	Within 1 Year		After 1 but Within 5 Years		After 5 but Within 10 Years		After 10 Years		
Held-to-Maturity:	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total
	$472	2.49 %	$3,406	2.95 %	$10,575	3.01 %	$29,284	3.36 %	$43,737

Obligations of state and political subdivisions[1]									
GSE mortgage-backs and CMOs: residential	—	—	66,499	2.43 %	—	—	—	—	66,499
GSE mortgage-backs and CMOs: commercial	—	—	6,556	2.22 %	—	—	—	—	6,556
Total cost	$472		$76,461		$10,575		$29,284		$116,792

[1] Tax exempt yields are expressed on a fully taxable equivalent basis.

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Loan Portfolio

The loan portfolio decreased $20.8 million, or 1.6%, during 2015 primarily as a result of decreased demand for new loans from energy borrowers. Of the $20.8 million, $13.1 million and $8.3 million were in the commercial, financial, and agricultural ("C&I") and consumer portfolios, respectively.

Our loan portfolio is diversified throughout our Louisiana and Texas markets, with a focus on C&I and CRE loans. Our C&I and CRE loans are primarily underwritten on cash flow analyses versus collateral valuations. The C&I portfolio consists primarily of term loans or revolving lines of credit which are generally structured with annual maturity. The term loans are generally structured with fixed rates and three to five year maturities. The CRE portfolio consists primarily of credits that have fifteen to twenty year amortization terms with rates fixed primarily for three years, but up to five years. We believe the shorter term structure of our C&I and CRE credits allows greater flexibility in controlling interest rate risk.

The loan portfolio at December 31, 2015 consisted of approximately 40.0% in fixed rate loans, with the majority maturing within five years. Approximately 60.0% of the portfolio earns a variable rate of interest, the greater majority of which adjusts simultaneous with changes in the Prime rate and a smaller portion that adjusts on a scheduled repricing date. The mix of variable and fixed rate loans provides some protection from changes in market rates of interest. Additionally, we have established rate floors, primarily for our commercial loans, that provided some protection to our net interest margin during the current sustained low interest rate environment.

Table 6
Composition of Loans
December 31,
(in thousands)

	2015	2014	2013	2012	2011
Commercial, financial, and agricultural	$454,028	$467,147	$403,976	$315,655	$223,283
Real estate – construction	74,952	68,577	82,691	75,334	52,712
Real estate – commercial	471,141	467,172	397,135	414,384	280,798
Real estate – residential	149,064	154,602	146,841	142,858	113,582
Installment loans to individuals	111,009	119,328	97,459	90,561	69,980
Lease financing receivable	1,968	4,857	5,542	5,769	4,276
Other	1,483	2,748	3,910	2,379	1,674
Total loans	$1,263,645	$1,284,431	$1,137,554	$1,046,940	$746,305

Table 7
Loan Maturities and Sensitivity to Interest Rates
For the Year Ended December 31, 2015
(in thousands)

	Fixed and Variable Rate Loans at Stated Maturities				Amounts Over One Year With		
	1 Year or Less	1 Year – 5 Years	Over 5 years	Total	Predetermined Rates	Floating Rates	Total
Commercial, financial, and agricultural	$176,812	$170,774	$106,442	$454,028	$145,989	$131,227	$277,216
Real estate – construction	35,574	18,542	20,836	74,952	16,755	22,623	39,378
Real estate – commercial	66,581	93,256	311,304	471,141	77,987	326,573	404,560
Real estate – residential	10,984	31,876	106,204	149,064	76,202	61,878	138,080
	28,603	72,621	9,785	111,009	69,594	12,812	82,406

Installment loans to individuals							
Lease financing receivable	49	1,919	—	1,968	1,919	—	1,919
Other	1,385	2	96	1,483	—	98	98
Total	$319,988	$388,990	$554,667	$1,263,645	$388,446	$555,211	$943,657

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Asset Quality

Credit Risk Management

We manage credit risk by observing written, board approved policies that govern all underwriting activities. Our Chief Credit Officer ("CCO") is responsible for credit underwriting and loan operations for the Bank. The role of CCO includes on-going review and development of lending policies, commercial credit analysis, centralized consumer underwriting, loan operations documentation and funding, and overall credit risk management procedures. The current risk management process requires that each individual loan officer review his or her portfolio on a quarterly basis and assign recommended credit ratings on each loan. These efforts are supplemented by independent reviews performed by the loan review officer and other validations performed by the internal audit department. The results of the reviews are reported directly to the Audit Committee of the Board of Directors. We believe the conservative nature of our underwriting practices has resulted in strong credit quality in our loan portfolio. Completed loan applications, credit bureau reports, financial statements, and a committee approval process remain a part of credit decisions. Documentation of the loan decision process is required on each credit application, whether approved or denied, to ensure thorough and consistent procedures. Additionally, we have historically recognized and disclosed significant problem loans quickly and taken prompt action to address material weaknesses in those credits.

Our loan review process also includes monitoring and reporting of loan concentrations whereby individual customer and aggregate industry leverage, profitability, risk rating distributions, and liquidity are evaluated for each major standard industry classification segment. At December 31, 2015, one industry segment concentration, the oil and gas industry, aggregated more than 10% of our loan portfolio. Our exposure in the oil and gas industry, including related service and manufacturing industries, totaled approximately $264.7 million, or 20.9% of total loans in the energy loan portfolio. The average loan size is approximately $453,000 and the average loan size per relationship is roughly $617,000. Of the $264.7 million to borrowers in the oil and gas industry, $27.4 million or 10.4% were on nonaccrual status at December 31, 2015. We are closely monitoring the effects of the sharp decline in oil prices on our energy related loan portfolio. MidSouth Bank began as an energy lender during the oil downturn of the 80's and we have a strong thirty year track record of lending to this industry. We continue to communicate with our customers who provide valuable insight on the present energy cycle. In light of the downturn in oil prices, we expensed provisions in the fourth quarter of 2014 and first quarter of 2015 to establish a special reserve for potential future energy loan losses that have not yet been identified. We felt it was a prudent risk management strategy to establish a reserve of $1.2 million, or approximately 45 basis points of energy-related loans. Energy-related charge-offs during 2015 totaled $1.6 million and primarily consisted of one charge-off totaling $1.0 million. The $1.6 million of energy-related loans were charged off against specific reserves and did not reduce the special reserve of $1.2 million for potential future energy loan losses.

We also monitor our exposure to loans secured by commercial real estate. At December 31, 2015, loans secured by commercial real estate (including commercial construction and multifamily loans) totaled approximately $528.0 million. Of the $528.0 million, $471.1 million represent CRE loans, 54% of which are secured by owner-occupied commercial properties. A total of $19.9 million, or 3.8%, in loans secured by commercial real estate was on nonaccrual status at December 31, 2015.

Nonperforming Assets

Table 8 contains information about nonperforming assets, including loans past due 90 days or greater ("90 days or >") and still accruing.

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Table 8
Asset Quality Information
December 31,
(dollars in thousands)

	2015	2014	2013	2012	2011
Loans on nonaccrual	$50,051	$10,701	$5,099	$8,276	$6,229
Loans past due 90 days or > and still accruing	147	187	178	1,986	231
Total nonperforming loans	50,198	10,888	5,277	10,262	6,460
Other real estate owned	4,187	4,234	6,687	7,496	7,369
Other assets repossessed	38	—	20	151	326
Total nonperforming assets	$54,423	$15,122	$11,984	$17,909	$14,155
Troubled debt restructurings, accruing [(1)]	$164	$176	$179	$3,905	$456
Nonperforming loans to total loans + ORE + other foreclosed assets	4.29 %	1.17 %	1.05 %	1.70 %	1.88 %
Nonperforming assets to total assets	2.82 %	0.78 %	0.65 %	0.97 %	1.01 %
ALLL to nonperforming loans	37.87 %	103.10 %	166.36 %	71.82 %	112.63 %
ALLL to total loans	1.50 %	0.87 %	0.77 %	0.70 %	0.97 %

[(1)]Does not include $20.9 million, $234,000, $233,000 and $232,000 of TDRs reported in nonaccrual loans at December 31, 2015, 2014, 2013 and 2012, respectively.

Nonperforming assets totaled $54.4 million at December 31, 2015, an increase of $39.3 million over the $15.1 million reported for year-end 2014. The increase resulted from a $39.4 million increase in nonaccrual loans, which included the addition of a $10.1 million CRE loan unrelated to energy that was placed on nonaccrual status during the second quarter and five energy related credit relationships totaling $28.4 million that were placed on nonaccrual status during the third quarter. The higher volume of nonperforming loans resulted in a decrease in the allowance coverage for nonperforming loans, from 103.10% at December 31, 2014 to 37.87% at December 31, 2015. Classified assets, including ORE, increased $43.0 million or 128.0%, from $33.6 million at December 31, 2014 to $76.6 million at December 31, 2015. The increase in classified assets was primarily due to the downgrades of several energy-related credits during 2015. Year-to-date net charge-offs were 0.47% of average total loans as of December 31, 2015 compared to 0.26% as of December 31, 2014. The ALL/total loans ratio improved by 63 basis points to 1.50% at December 31, 2015 compared to 0.87% at December 31, 2014 as a result of a $13.9 million provision for loan losses recorded during the year ended December 31, 2015.

Loans classified as TDRs totaled $21.0 million at December 31, 2015, compared to $410,000 at December 31, 2014. These totals included $20.9 million and $234,000, respectively, of loans reported in nonaccrual loans. Additional information regarding impaired loans and TDRs is included in the notes to the consolidated financial statements.

Consumer and commercial loans are placed on nonaccrual status when principal or interest is 90 days past due, or sooner if the full collectability of principal or interest is doubtful, except if the underlying collateral fully supports both the principal and accrued interest and the loan is in the process of collection. Our policy provides that retail (consumer) loans that become 120 days delinquent be routinely charged off. Loans classified for regulatory purposes but not included in Table 8 do not represent material amounts that we have serious doubts as to the ability of the borrower to comply with loan repayment terms. Further information regarding loan policy is provided in the notes to the consolidated financial statements.

Allowance for Loan Losses
Provisions totaling $13.9 million, $5.6 million, and $3.1 million, for the years 2015, 2014, and 2013, respectively, were considered necessary to bring the allowance for loan losses to a level we believe sufficient to cover probable

losses in the loan portfolio. In light of the downturn in oil prices, we established a special reserve during fourth quarter of 2014 as well as the first quarter of 2015 for potential future energy loan losses that have not yet been identified. We established a reserve of $1.2 million, or approximately 45 basis points of energy related loans. Table 9 analyzes activity in the allowance for 2015, 2014, 2013, 2012, and 2011.

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Table 9
Summary of Loan Loss Experience
For the Year Ended December 31,
(dollars in thousands)

	2015	2014	2013	2012	2011
Balance at beginning of year	$11,226	$8,779	$7,370	$7,276	$8,813
Charge-offs:					
Commercial, financial, and agricultural	4,936	2,843	935	1,054	1,109
Real estate – construction	105	1	—	—	2,444
Real estate – commercial	183	93	18	550	1,246
Real estate – residential	87	273	129	126	283
Installment loans to individuals	1,263	706	824	526	671
Lease financing receivable	—	—	—	—	19
Other	—	—	—	—	—
Total charge-offs	6,574	3,916	1,906	2,256	5,772
Recoveries:					
Commercial, financial, and agricultural	235	164	80	181	152
Real estate – construction	3	—	8	18	14
Real estate – commercial	26	407	29	1	1
Real estate – residential	12	47	39	2	4
Installment loans to individuals	183	120	109	98	138
Lease financing receivable	—	—	—	—	1
Other	—	—	—	—	—
Total recoveries	459	738	265	300	310
Net charge-offs	6,115	3,178	1,641	1,956	5,462
Additions to allowance charged to operating expenses	13,900	5,625	3,050	2,050	3,925
Balance at end of year	$19,011	$11,226	$8,779	$7,370	$7,276
Net charge-offs to average loans	0.47 %	0.26 %	0.15 %	0.26 %	0.87 %
Year-end allowance to year-end loans	1.50 %	0.87 %	0.77 %	0.70 %	0.97 %

Table 10
Allocation of Loan Loss by Category
December 31,
(dollars in thousands)

	2015		2014		2013		2012		2011	
	Amount	% of loans to total loans	Amount	% of loans to total loans	Amount	% of loans to total loans	Amount	% of loans to total loans	Amount	% of loans to total loans
Commercial, financial, and agricultural	$11,268	35.9	$5,729	36.4	$3,906	35.5	$1,535	30.1	$1,734	29.9
Real estate - construction	819	5.9	954	5.3	1,046	7.3	2,147	7.2	1,661	7.1
Real estate - commercial	4,614	37.3	2,402	36.4	1,389	34.9	2,166	39.6	2,215	37.6
Real estate - residential	816	11.8	810	12.0	1,141	12.9	936	13.6	936	15.2
	1,468	8.8	1,311	9.3	1,273	8.6	543	8.7	710	9.4

Installment loans to individuals										
Lease financing receivable	14	0.2	16	0.4	21	0.5	41	0.6	19	0.6
Other	12	0.1	4	0.2	3	0.3	2	0.2	1	0.2
	$19,011	100.0	$11,226	100.0	$8,779	100.0	$7,370	100.0	$7,276	100.0

Quarterly evaluations of the allowance for loan losses are performed in accordance with GAAP and regulatory guidelines. The allowance is comprised of specific reserves assigned to each impaired loan for which probable loss has been identified as well as general reserves to maintain the allowance at an acceptable level for other loans in the portfolio where historical loss experience

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is available that indicates certain probable losses may exist. Factors considered in determining provisions include estimated losses in significant credits; known deterioration in concentrations of credit; historical loss experience; trends in nonperforming assets; volume, maturity and composition of the loan portfolio; off-balance sheet credit risk; lending policies and control systems; national and local economic conditions; the experience, ability and depth of lending management; and the results of examinations of the loan portfolio by regulatory agencies and others. The processes by which we determine the appropriate level of the allowance, and the corresponding provision for probable credit losses, involves considerable judgment; therefore, no assurance can be given that future losses will not vary from current estimates. Additional information regarding the allowance for loan losses is included in the notes to the consolidated financial statements.

Funding Sources

Deposits

As of December 31, 2015, total deposits decreased $34.4 million, or 2.2%, to $1.6 billion following an increase of $66.4 million in 2014. Noninterest-bearing deposits decreased $16.6 million to $374.3 million and represented 24.1% of total deposits at December 31, 2015, compared to 24.7% at December 31, 2014 and 25.2% at December 31, 2013. Interest-bearing deposits in money market and savings accounts increased $58.2 million and NOW account deposits increased $5.7 million. Time deposits, which are comprised mostly of certificates of deposits (“CDs”), decreased $81.7 million in 2015. The increase in total deposits during 2014 resulted primarily from a $40.3 million increase in NOW accounts. Core deposits, defined as all deposits other than time deposits, remained strong at 89.1% of total deposits in 2015 compared to 84.1% of total deposits at year-end 2014. Core deposits totaled 84.2% of total deposits at year-end 2013. To manage the net interest margin and core deposit balances, we typically offer low- to mid-market rates on CDs. Additional information on deposits appears in the tables below and in the notes to the consolidated financial statements.

Table 11
Summary of Average Deposits
(in thousands)

	2015 Average Amount	Average Yield		2014 Average Amount	Average Yield		2013 Average Amount	Average Yield	
Noninterest-bearing demand deposits	$405,571	—		$386,664	—		$393,831	—	
Interest-bearing deposits:									
Savings, NOW, and money market	943,615	0.23	%	921,631	0.23	%	874,890	0.27	%
Time deposits	226,188	0.61	%	228,856	0.60	%	260,650	0.61	%
Total	$1,575,374	0.23	%	$1,537,151	0.23	%	$1,529,371	0.26	%

Table 12
Maturity Schedule Time Deposits of $250,000 or More
December 31,
(in thousands)

	2015	2014	2013
3 months or less	$10,765	$11,795	$14,088
Over 3 months through 6 months	8,689	9,098	7,112
Over 6 months through 12 months	10,932	59,642	16,935
Over 12 months	7,059	4,534	9,551
Total	$37,445	$85,069	$47,686

Borrowed Funds

As of December 31, 2015, we had securities sold under repurchase agreements totaling $86.0 million and no federal funds purchased. At December 31, 2014, we had $62.1 million in securities sold under repurchase agreements and no federal funds purchased. Retail repurchase agreements, included in securities sold under agreements to repurchase, increased $23.9 million, from $49.6 million at December 31, 2014 to $73.5 million at December 31, 2015. Also included in securities sold under agreements to repurchase is a $12.5 million reverse repurchase agreement we entered into with Citigroup Markets, Inc. ("CGMI") in July of 2007 to meet liquidity demands. Under the terms of the agreement, interest is payable at a fixed rate of 4.57% for the remainder of the term. The repurchase date is scheduled for August 9, 2017; however, the agreement is subject to call by CGMI quarterly.

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Long-term FHLB-Dallas advances totaled $25.9 million at December 31, 2015, a decrease of $426,000 from $26.3 million at December 31, 2014. The long-term advances are fixed rate advances with rates ranging from 1.99% to 5.06% and have a range of maturities from January 2016 to January 2019. The short-term FHLB-Dallas advance totaled $25.0 million at December 31, 2015 and December 31, 2014. The rate on the advance at December 31, 2015 was 0.30%, and it matures in January 2016. The FHLB advances are collateralized by a blanket lien on first mortgages and other qualifying loans.

A description of the junior subordinated debentures outstanding as of December 31, 2015 is as follows:
Table 13
Junior Subordinated Debentures
(dollars in thousands)

Date Issued	Maturity Date	Interest Rate	Callable After	Amount
July 31, 2001	July 9, 2031	3 month LIBOR plus 3.30%	July 31, 2006	$5,671
September 20, 2004	September 20, 2034	3 month LIBOR plus 2.50%	September 20, 2009	8,248
October 12, 2006	October 12, 2036	3 month LIBOR plus 1.85%	June 26, 2011	5,155
June 21, 2007	June 21, 2037	3 month LIBOR plus 1.70%	June 15, 2012	3,093
				$22,167

During 2014, we paid off the $7.2 million junior subordinated debenture that was issued in February 2001. The early redemption of the 10.20% fixed rate junior subordinated debentures resulted in an after-tax charge of $168,000 in the third quarter of 2014.

Our outstanding debentures currently qualify as Tier 1 capital and are presented in the Consolidated Balance Sheets as junior subordinated debentures. Additional information regarding long-term debt is provided in the notes to the consolidated financial statements.

Regulations adopted as a result of the Dodd-Frank Act have resulted in changes to the regulatory capital treatment of securities similar to our debentures. However, because of the issue date of our debentures and our asset size, we are allowed to continue to include the debentures in our Tier 1 capital.

In 2015, 2014, and 2013, we did not have an average balance in any category of short-term borrowings including retail repurchase agreements, reverse repurchase agreements, federal funds purchased, or FRB discount window that exceeded 30% of our stockholders' equity for such year.

Capital

As described under "Business - Supervision and Regulation," we are required to maintain certain minimum capital levels for the Company and the Bank. Risk-based capital requirements are intended to make regulatory capital more sensitive to the risk profile of an institution's assets. In July 2013, the Federal Reserve and the OCC issued final rules establishing a new comprehensive capital framework for U.S. banking organizations that implement the Basel III capital framework and certain provisions of the Dodd-Frank Act. The final rules seek to strengthen the components of regulatory capital, increase risk-based capital requirements, and make selected changes to the calculation of risk-weighted assets. Details regarding the final rule and changes to capital requirements and prompt corrective action thresholds are included under Part I, Item 1 – Business, Supervision and Regulation. The final rules became effective as of January 1, 2015, for most banking organizations including the Company and the Bank, subject to a transition period for several aspects of the final rules, including the new minimum capital ratio requirements, the capital conservation buffer, and the regulatory capital adjustments and deductions. Requirements to maintain higher levels of capital could adversely impact our return on equity. We believe we will continue to exceed all estimated well-capitalized regulatory requirements under these new rules on a fully phased-in basis.

At December 31, 2015, the Company and the Bank were in compliance with statutory minimum capital requirements. Minimum capital requirements include a total risk-based capital ratio of 8.0%, with Tier 1 capital not less than 6.0%, common equity Tier 1 capital not less than 4.5% and a leverage ratio (Tier 1 capital to total average adjusted assets) of 4.0% based upon the regulators latest composite rating of the institution. As of December 31, 2015, the Company's leverage ratio was 10.10% as compared to 9.52%% at December 31, 2014. Tier 1 capital to risk weighted assets was 13.25% and 12.90% for 2015 and 2014, respectively. Total capital to risk weighted assets was 14.50% and 13.73%, respectively, for the same periods. Common equity Tier 1 capital to risk weighted assets was 8.91% at December 31, 2015. For regulatory purposes, Tier 1 Capital includes $21.5 million of the junior subordinated debentures issued by the Company. For financial reporting purposes, these funds are included as a liability under GAAP. The Bank's leverage ratio was 9.36% and 8.95% at December 31, 2015 and 2014, respectively.

The FDIC Improvement Act of 1991 established a capital-based supervisory system for all insured depository institutions that imposes increasing restrictions on the institution as its capital deteriorates. The Bank was classified as “well capitalized” as of December 31, 2015. No significant restrictions are placed on the Bank as a result of this classification.

As discussed under the heading Balance Sheet Analysis - Securities, $784,000 in unrealized gains on securities available-for-sale, less a deferred tax liability of $274,000, was recorded as a reduction to stockholders’ equity as of December 31, 2015. As of December 31, 2014, $4.4 million in unrealized losses on securities available-for-sale, less a deferred tax asset of $1.5 million, was recorded as a reduction to stockholders’ equity. While the net unrealized gain or loss on securities available-for-sale is required to be reported as a separate component of stockholders' equity, it does not affect operating results or regulatory capital ratios. The net unrealized gains and losses reported for December 31, 2015 and 2014, however, did affect the equity-to-assets ratio for financial reporting purposes. The ratio of equity-to-assets was 11.06% at December 31, 2015 and 10.79% at December 31, 2014.

Asset/Liability Management and Interest Rate Sensitivity

Interest rate sensitivity is the sensitivity of net interest income and economic value of equity to changes in market rates of interest. The primary objective of our asset and liability management process is to evaluate interest rate sensitivity inherent in our balance sheet components and establish guidelines to manage that risk within acceptable performance levels. Management and our Board of Directors are responsible for determining the appropriate level of acceptable risk based on our strategic focus, regulatory requirements for capital and liquidity, and the market environment. Our Board of Directors established an Asset/Liability management committee (“ALCO”), comprised of certain executive and senior officers of the Bank, to measure and monitor interest rate risk within defined parameters. During 2014, ALCO transitioned to an external model for asset and liability management from our core processor. The model captures data directly from our operating system along with additional information regarding rates and prepayment characteristics to construct an analysis that presents differences in repricing, cash flows and the maturity characteristics of earning assets and interest-bearing liabilities for selected time periods.

This data, combined with additional assumptions including repricing rates and payment characteristics, were used to perform instantaneous parallel rate shift, gradual parallel rate shift, and alternate rate shift simulations. Instantaneous parallel rate shifts are known as “rate shocks” because all rates are modeled to change instantaneously by the indicated shock amount. Gradual parallel rate shifts are called "Ramps" and reflect incremental rate increases over a 12 month period. Alternate rate shifts include floor rates that generally provide more realistic projections of changes in net interest income and market risk, although given the current low rate environment deposits costs are overstated in a down 100 basis point scenario as the model does not currently allow for negative interest rates. Results of the simulations were compared to a base case scenario that provided projected net interest income over the next 12 months with no change in the balance sheet. The estimated percentage changes in projected net interest income due to changes in interest rates of alternate down 100 basis points, ramp up 100, parallel up 200, and up 300 basis points as determined through the simulations are detailed below. At December 31, 2015, the interest rate risk model results were within policy guidelines and indicated that our balance sheet is slightly liability sensitive. The results of the interest rate risk modeling are reviewed by ALCO and discussed quarterly at Funds Management committee meetings of our Board of Directors.

Net Interest Income at Risk in Year 1

Changes in Interest Rates	Estimated Increase / Decrease in NII at December 31, 2015
Shock Up 300 basis points	(2.27)%
Shock Up 200 basis points	(1.96)%
Ramp Up 100 basis points	(0.63)%
Alternate Down 100 basis points	(3.70)%

Liquidity

Bank Liquidity

Liquidity is the availability of funds to meet maturing contractual obligations and to fund operations. The Bank's primary liquidity needs involve its ability to accommodate customers' demands for deposit withdrawals as well as customers' requests for credit. Liquidity is deemed adequate when sufficient cash to meet these needs can be promptly raised at a reasonable cost to the Bank.

Liquidity is provided primarily by three sources: a stable base of funding sources, an adequate level of assets that can be readily converted into cash, and borrowing lines with correspondent banks. Our core deposits are our most stable and important source of funding. Cash deposits at other banks, federal funds sold, and principal payments received on loans and mortgage-backed securities provide additional primary sources of liquidity. Approximately $75.9 million in projected cash flows from securities repayments during 2016 provides an additional source of liquidity.

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The Bank also has significant borrowing capacity with the FRB-Atlanta and with the FHLB–Dallas. As of December 31, 2015, we had no borrowings with the FRB-Atlanta. Long-term FHLB-Dallas advances totaled $25.9 million at December 31, 2015 and are fixed rate advances with rates ranging from 1.99% to 5.06% and have a range of maturities from January 2016 to January 2019. A short-term FHLB-Dallas advance totaled $25.0 million at December 31, 2015. The rate on the advance at December 31, 2015 was 0.30%, and it matures in January 2016. At maturity, this advance was replaced with another $25.0 million advance that matures in March 2016. The Bank has the ability to post additional collateral of approximately $147.5 million if necessary to meet liquidity needs. Additionally, $221.6 million in loan collateral is pledged under a Borrower-in-Custody line with the FRB-Atlanta. Under existing agreements with the FHLB-Dallas, our borrowing capacity totaled $218.5 million at December 31, 2015. Additional unsecured borrowing lines totaling $53.5 million are available through correspondent banks. We utilize these contingency funding alternatives to meet deposit volatility, which is more likely in the current environment, given unusual competitive offerings within our markets.

Company Liquidity

In August 2011, the Company repaid $20.0 million in Series A Preferred Stock issued in 2009 to the Treasury under the CPP with funds from the Treasury's SBLF program authorized by Congress under the Small Business Jobs Act of 2010. As a result of the repurchase of the Series A Preferred Stock, all of the TARP limitations affecting the Company were removed. In connection with the SBLF transaction, the Company issued $32.0 million in Series B Preferred Stock to the Treasury. Net of $20.0 million used to repay the Series A Preferred Stock, the remaining $12.0 million was injected into the Bank as additional common equity capital. The dividend rate was set at 1.00% for the fourth quarter of 2013 due to attaining the target 10% growth rate in qualified small business loans during the second quarter of 2013. As a result of qualified small business loan growth as of September 30, 2013, the dividend rate was set at 1.00% for the period from January 1, 2014 through February 25, 2016. On February 25, 2016, the dividend rate increased to 9% per annum.

At the Company level, cash is needed primarily to meet interest payments on the junior subordinated debentures, dividend payments on the Series B and Series C Preferred Stock and dividends on the common stock. We issued $8,248,000 in unsecured junior subordinated debentures in September 2004 and $7,217,000 in February 2001. In August 2014, we paid off the $7.2 million junior subordinated debenture. In December 2012, we acquired $13.9 million in unsecured junior subordinated debentures from PSB Financial Corporation. The terms of the junior subordinated debentures are described in the notes to the consolidated financial statements. Dividends from the Bank totaling $9,000,000 provided additional liquidity for the Company to meet interest and dividend payments in 2015 and continued to build cash reserves for repayment of the Series B Preferred Stock in the future. The Series B Preferred Stock can be paid off in full or in $8 million increments with 30 days' notice to the Treasury. Dividends totaling $15,500,000 were paid by the Bank to the Company in 2014. As of January 1, 2016, the Bank had the ability to pay dividends to the Company of approximately $11.9 million without prior approval from the OCC. At December 31, 2015, the parent company had approximately $14.8 million cash available for general corporate purposes, including injecting capital into the Bank. As a publicly traded company, the Company also has the ability, subject to market conditions, to issue additional shares of common stock, preferred stock and other securities to provide funds as needed for operations and future growth of the Company and the Bank.

Dividends

The primary source of cash dividends on the Company's common stock is dividends from the Bank. The Bank has the ability to declare dividends to the Company of up to $11.9 million as of December 31, 2015 without prior approval of the OCC. However, the Bank's ability to pay dividends would be prohibited if the result would cause the Bank's regulatory capital to fall below minimum requirements.

Cash dividends totaling $4.1 million and $4.0 million were declared to common stockholders during 2015 and 2014, respectively.

Off Balance Sheet Arrangements and Other Contractual Obligations

In the normal course of business we use various financial instruments with off-balance sheet risk to meet the financing needs of customers and to reduce exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the financial statements. We did not have an average balance in any category of short-term borrowings detailed below in 2015, 2014, or 2013 that exceeded 30% of our stockholders' equity for such year. Additional information regarding contractual obligations appears in the notes to the consolidated financial statements. The following table presents significant contractual obligations as of December 31, 2015.

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Table 14
Contractual Obligations
December 31, 2015
(in thousands)

	Payment due by period				
	Total	1 year or less	> 1-3 years	> 3-5 years	More than 5 years
Time deposits	$169,794	$127,255	$31,724	$10,813	$2
Short-term FHLB advances	25,000	25,000	—	—	—
Long-term debt obligations	48,018	427	15,403	10,021	22,167
Retail Repurchase Agreements	73,457	73,457	—	—	—
Reverse Repurchase Agreements	12,500	—	12,500	—	—
Operating lease obligations	15,627	1,910	3,278	3,248	7,191
Total	$344,396	$228,049	$62,905	$24,082	$29,360

Impact of Inflation and Changing Prices

The consolidated financial statements and notes thereto, presented herein, have been prepared in accordance with GAAP, which generally require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time and due to inflation. The impact of inflation is reflected in the increased cost of operations. Unlike most industrial companies, nearly all of our assets and liabilities are financial in nature. As a result, interest rates generally have a greater impact on our performance than do the effects of general levels of inflation. For additional information, see "Funding Sources – Asset Liability Management and Interest Rate Sensitivity."

Item 7A – Quantitative and Qualitative Disclosures about Market Risk

Information regarding market risk appears under the heading "Funding Sources – Asset Liability Management and Interest Rate Sensitivity" under Item 7 – Management's Discussion and Analysis of Financial Position and Results of Operations included in this filing.

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Item 8 – Financial Statements and Supplementary Data

Consolidated Balance Sheets
December 31, 2015 and 2014
(dollars in thousands, except share data)

	2015	2014
Assets		
Cash and due from banks, including required reserves of $8,522 and $10,019, respectively	$37,170	$45,142
Interest-bearing deposits in banks	48,331	39,031
Federal funds sold	3,700	2,699
Securities available-for-sale, at fair value (cost of $317,375 and $272,588 at December 31, 2015 and 2014, respectively)	318,159	276,984
Securities held-to-maturity (estimated fair value of $117,698 and $141,593 at December 31, 2015 and 2014, respectively)	116,792	141,201
Other investments	11,188	9,990
Loans	1,263,645	1,284,431
Allowance for loan losses	(19,011)	(11,226)
Loans, net	1,244,634	1,273,205
Bank premises and equipment, net	69,105	69,958
Accrued interest receivable	6,594	6,635
Goodwill	42,171	42,171
Intangibles	5,728	6,834
Cash surrender value of life insurance	13,622	13,659
Other real estate	4,187	4,234
Other assets	6,352	4,997
Total assets	$1,927,733	$1,936,740
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$374,261	$390,863
Interest-bearing	1,176,589	1,194,371
Total deposits	1,550,850	1,585,234
Securities sold under agreements to repurchase	85,957	62,098
Short-term Federal Home Loan Bank advances	25,000	25,000
Long-term Federal Home Loan Bank advances	25,851	26,277
Junior subordinated debentures	22,167	22,167
Other liabilities	4,771	6,952
Total liabilities	1,714,596	1,727,728
Commitments and contingencies		
Stockholders' equity:		
Series B Preferred stock, no par value; 5,000,000 shares authorized, 32,000 shares issued and outstanding at December 31, 2015 and 2014	32,000	32,000
Series C Preferred stock, no par value; 100,000 shares authorized, 91,200 and 93,680 shares issued and outstanding at December 31, 2015 and 2014, respectively	9,120	9,368
Common stock, $0.10 par value; 30,000,000 shares authorized, 11,362,150 shares issued and outstanding at December 31, 2015 and 11,491,703 and 11,340,736 shares issued and	1,136	1,149

outstanding at December 31, 2014, respectively		
Additional paid-in capital	110,771	112,744
Unearned ESOP shares	(1,093)	(250)
Accumulated other comprehensive income	509	2,857
Treasury stock- 150,967 shares at December 31, 2014	—	(3,295)
Retained earnings	60,694	54,439
Total stockholders' equity	213,137	209,012
Total liabilities and stockholders' equity	$1,927,733	$1,936,740

See notes to consolidated financial statements.

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Consolidated Statements of Earnings
Years Ended December 31, 2015, 2014 and 2013
(in thousands, except per share data)

	2015	2014	2013
Interest income:			
Loans, including fees	$71,633	$72,327	$71,016
Investment securities:			
Taxable	7,559	8,100	8,609
Nontaxable	2,188	2,637	3,184
Other interest income	517	423	394
Total interest income	81,897	83,487	83,203
Interest expense:			
Deposits	3,587	3,515	3,961
Short-term borrowings	1,017	840	816
Long-term borrowings	364	378	416
Junior subordinated debentures	613	1,074	1,346
Total interest expense	5,581	5,807	6,539
Net interest income	76,316	77,680	76,664
Provision for loan losses	13,900	5,625	3,050
Net interest income after provision for loan losses	62,416	72,055	73,614
Noninterest income:			
Service charges on deposit accounts	8,636	9,780	9,225
ATM and debit card income	7,350	7,209	6,400
Gain on securities, net	1,243	128	234
Executive officer life insurance proceeds	—	3,000	—
Other charges and fees	3,092	2,843	2,963
Total noninterest income	20,321	22,960	18,822
Noninterest expenses:			
Salaries and employee benefits	32,036	33,847	34,182
Occupancy expense	15,052	15,064	15,112
ATM and debit card expense	2,951	2,889	2,399
Other	17,098	16,747	20,416
Total noninterest expense	67,137	68,547	72,109
Income before income taxes	15,600	26,468	20,327
Income tax expense	4,583	7,358	6,151
Net earnings	11,017	19,110	14,176
Dividends on preferred stock	687	698	1,332
Net earnings available to common stockholders	$10,330	$18,412	$12,844
Earnings per common share:			
Basic	$0.91	$1.63	$1.14
Diluted	$0.90	$1.58	$1.12

See notes to consolidated financial statements.

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Consolidated Statements of Comprehensive Income
Years Ended December 31, 2015, 2014 and 2013
(in thousands)

	2015	2014	2013
Net earnings	$11,017	$19,110	$14,176
Other comprehensive (loss) income, net of tax:			
Unrealized (losses) gains on securities available-for-sale:			
Unrealized holding (losses) gains arising during the year	(2,369)	4,687	(12,481)
Less: reclassification adjustment for net gains on sales of securities available-for-sale	(1,243)	(128)	(234)
Total other comprehensive (loss) income, before tax	(3,612)	4,559	(12,715)
Income tax effect related to items of other comprehensive income	1,264	(1,596)	4,450
Total other comprehensive (loss) income, net of tax	(2,348)	2,963	(8,265)
Total comprehensive income	$8,669	$22,073	$5,911

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2015, 2014 and 2013
(in thousands, except share and per share data)

	Preferred Stock		Common Stock							
	Shares	Amount	Shares	Amount	Surplus	Unearned ESOP Shares	Accumulated Other Comprehensive Income	Treasury Stock	Retained Earnings	Total
Balance December 31, 2012	131,971	$41,997	11,386,611	$1,139	$110,603	$—	$8,159	$(3,286)	$30,629	$189,241
Net earnings	—	—	—	—	—	—	—	—	14,176	14,176
Dividends on Series B preferred stock	—	—	—	—	—	—	—	—	(931)	(931)
Dividends on Series C preferred stock	—	—	—	—	—	—	—	—	(400)	(400)
Dividends on common stock - $0.31 per share	—	—	—	—	—	—	—	—	(3,488)	(3,488)
Exercise of stock options	—	—	6,155	1	68	—	—	—	—	69
Tax benefit resulting from exercise of stock options, net adjustment	—	—	—	—	4	—	—	—	—	4
Vested restricted stock	—	—	14,430	1	(1)	—	—	—	—	—
	—	—	—	—	14	—	—	—	—	14

Tax benefit resulting from issuance of restricted stock										
Stock option and restricted stock compensation expense	—	—	—	—	329	—	—	—	—	329
Change in accumulated other comprehensive income	—	—	—	—	—	—	(8,265)	—	—	(8,265)
Balance December 31, 2013	131,971	41,997	11,407,196	1,141	111,017	—	(106)	(3,286)	39,986	190,749
Net earnings	—	—	—	—	—	—	—	—	19,110	19,110
Dividends on Series B preferred stock	—	—	—	—	—	—	—	—	(320)	(320)
Dividends on Series C preferred stock	—	—	—	—	—	—	—	—	(378)	(378)
Dividends on common stock - $0.35 per share	—	—	—	—	—	—	—	—	(3,959)	(3,959)
Conversion of Series C preferred stock to common stock	(6,291)	(629)	34,947	3	626					—
Treasury stock acquired at cost	—	—	—	—	—	—	—	(9)	—	(9)
Exercise of stock options	—	—	49,560	5	638	—	—	—	—	643
Tax benefit resulting from exercise of stock options, net adjustment	—	—	—	—	21	—	—	—	—	21
Increase in ESOP obligation, net of repayments	—	—	—	—	—	(250)	—	—	—	(250)
Stock option expense	—	—	—	—	442	—	—	—	—	442
Change in accumulated other	—	—	—	—	—	—	2,963	—	—	2,963

comprehensive income										
Balance December 31, 2014	125,680	41,368	11,491,703	1,149	112,744	(250)	2,857	(3,295)	54,439	209,012
Net earnings	—	—	—	—	—	—	—	—	11,017	11,017
Dividends on Series B preferred stock	—	—	—	—	—	—	—	—	(320)	(320)
Dividends on Series C preferred stock	—	—	—	—	—	—	—	—	(367)	(367)
Dividends on common stock - $0.36 per share	—	—	—	—	—	—	—	—	(4,075)	(4,075)
Conversion of Series C preferred stock to common stock	(2,480)	(248)	13,759	1	247	—	—	—	—	—
Reclassification of treasury stock per the LCBA	—	—	(150,967)	(15)	(3,280)	—	—	3,295	—	—
Exercise of stock options	—	—	7,655	1	98	—	—	—	—	99
Tax benefit resulting from distribution from Directors Deferred Compensation Plan	—	—	—	—	420	—	—	—	—	420
Tax benefit for dividends paid to the ESOP	—	—	—	—	187	—	—	—	—	187
Increase in ESOP obligation, net of repayments	—	—	—	—	—	(843)	—	—	—	(843)
Stock option and restricted stock compensation expense	—	—	—	—	355	—	—	—	—	355
Change in accumulated other comprehensive income	—	—	—	—	—	—	(2,348)	—	—	(2,348)

Balance December 31, 2015	123,200	$41,120	11,362,150	$1,136	$110,771	$(1,093)	$509	$—	$60,694	$213,137

See notes to consolidated financial statements.

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Consolidated Statements of Cash Flows
Years Ended December 31, 2015, 2014 and 2013
(in thousands)

	2015	2014	2013
Cash flows from operating activities:			
Net earnings	$11,017	$19,110	$14,176
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	6,168	6,062	5,568
Accretion of purchase accounting adjustments	(1,235)	(2,540)	(5,869)
Provision for loan losses	13,900	5,625	3,050
Deferred tax (benefit) expense	(1,785)	(1,489)	2,828
Amortization of premiums on securities, net	2,815	3,047	4,473
(Accretion) amortization of other investments	(1)	3	13
Net loss (gain) on sale of other real estate	1	(1,061)	190
Net write down of other real estate owned	111	91	457
Net (gain) loss on sale/disposal of premises and equipment	(24)	182	96
Income recognized from death benefit on bank owned life insurance	(160)	—	—
Stock compensation expense	336	442	308
Restricted stock expense	19	—	21
Gain on sale and liquidation of securities available-for-sale	(1,243)	(128)	(234)
Change in accrued interest receivable	41	57	(1)
Change in accrued interest payable	(114)	(234)	(201)
Change in other assets and liabilities, net	(661)	591	1,009
Net cash provided by operating activities	29,185	29,758	25,884
Cash flows from investing activities:			
Net change in time deposits in other banks	—	—	881
Proceeds from maturities and calls of securities available-for-sale	70,934	48,464	72,728
Proceeds from maturities and calls of securities held-to-maturity	23,288	14,344	22,946
Proceeds from sale of securities available-for-sale	40,277	22,153	55,879
Purchases of securities available-for-sale	(156,449)	(1,250)	(68,043)
Purchases of securities held-to-maturity	—	(1,104)	(26,382)
Proceeds from redemption of other investments	2,180	150	1,600
Purchases of other investments	(3,377)	(580)	(3,220)
Redemption of Capital Securities related to MidSouth Statutory Trust I	—	217	—
Proceeds from bank owned life insurance death benefit	498	—	—
Net change in loans	14,480	(147,642)	(82,340)
Purchases of premises and equipment	(5,374)	(5,588)	(14,264)
Proceeds from sale of premises and equipment	83	1,729	69
Proceeds from sale of other real estate owned	1,514	3,794	1,215
Purchase of other real estate owned	(351)	—	—
Net cash used in investing activities	(12,297)	(65,313)	(38,931)
Cash flows from financing activities:			
Change in deposits	(34,285)	66,679	(32,455)
Change in securities sold under agreements to repurchase	23,859	8,182	12,469
Borrowings on Federal Home Loan Bank advances	150,000	120,000	25,000
Repayments of Federal Home Loan Bank advances	(150,064)	(120,061)	(57)
Repayments of notes payable	—	(1,000)	(1,000)
Redemption of MidSouth Statutory Trust I	—	(7,217)	—

Proceeds from exercise of stock options	99	643	69
Tax benefit from exercise of stock options	—	21	4
Tax benefit from vested restricted stock	—	—	14
Tax benefit resulting from distribution from Directors Deferred Compensation Plan	420	—	—
Tax benefit for dividends paid to ESOP	187	—	—
Purchase of treasury stock	—	(9)	—
Payment of dividends on preferred stock	(689)	(704)	(1,519)
Payment of dividends on common stock	(4,086)	(3,838)	(3,320)
Net cash (used in) provided by financing activities	(14,559)	62,696	(795)
Net increase (decrease) in cash and cash equivalents	2,329	27,141	(13,842)
Cash and cash equivalents, beginning of year	86,872	59,731	73,573
Cash and cash equivalents, end of year	$89,201	$86,872	$59,731

See notes to consolidated financial statements.

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Consolidated Statements of Cash Flows (continued)
Years Ended December 31, 2015, 2014 and 2013
(in thousands)

	2015	2014	2013
Supplemental cash flow information:			
Interest paid	$5,695	$6,041	$6,534
Income taxes paid	6,641	8,065	3,500
Noncash investing and financing activities:			
Change in accrued common stock dividends	(10)	121	167
Change in accrued preferred stock dividends	(3)	(6)	(188)
Net change in loan to ESOP	(843)	(250)	—
Change in unrealized gains/losses on securities available-for-sale, net of tax	(2,348)	2,963	(8,265)
Transfer of loans to other real estate	1,228	447	1,053
Financed portion of sales of other real estate	—	84	—

See notes to consolidated financial statements

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Notes to Consolidated Financial Statements

December 31, 2015, 2014 and 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The consolidated financial statements include the accounts of MidSouth Bancorp, Inc. (the “Company”) and its wholly owned subsidiaries MidSouth Bank, N.A. (the “Bank”), Financial Services of the South, Inc. (the “Finance Company”), which has liquidated its loan portfolio, and Peoples General Agency (“PGA”). All significant intercompany accounts and transactions have been eliminated in consolidation. We are subject to regulation under the Bank Holding Company Act of 1956. The Bank is primarily regulated by the Office of the Comptroller of the Currency (“OCC”) and the Federal Deposit Insurance Corporation (“FDIC”).

We are a financial holding company headquartered in Lafayette, Louisiana operating principally in the community banking business by providing banking services to commercial and retail customers through the Bank. The Bank is community oriented and focuses primarily on offering competitive commercial and consumer loan and deposit services to individuals and small to middle market businesses in Louisiana and central and east Texas.

The accounting principles we follow and the methods of applying these principles conform with accounting principles generally accepted in the United States of America (“GAAP”) and with general practices within the banking industry. In preparing the financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts in the financial statements. Actual results could differ significantly from those estimates. Material estimates common to the banking industry that are particularly susceptible to significant change in the near term include, but are not limited to, the determination of the allowance for loan losses, the valuation of real estate acquired in connection with or in lieu of foreclosure on loans, the assessment of goodwill for impairment, and valuation allowances associated with the realization of deferred tax assets which are based on future taxable income. Given the current instability of the economic environment, it is reasonably possible that the methodology of the assessment of potential loan losses, losses on other real estate owned, goodwill impairment, and other fair value measurements could change in the near term or could result in impairment going forward.

A summary of significant accounting policies follows:

Cash and cash equivalents—Cash and cash equivalents include cash on hand, amounts due from banks, interest-bearing deposits in other banks with original maturities of less than 90 days, and federal funds sold.

Investment Securities—We determine the appropriate classification of debt securities at the time of purchase and reassesses this classification periodically. Trading account securities are held for resale in anticipation of short-term market movements. Debt securities are classified as held-to-maturity when we have the positive intent and ability to hold the securities to maturity. Securities not classified as held-to-maturity or trading are classified as available-for-sale. We had no trading account securities during the three years ended December 31, 2015. Held-to-maturity securities are stated at amortized cost. Available-for-sale securities are stated at fair value, with unrealized gains and losses, net of deferred taxes, reported as a separate component of stockholders’ equity.

The amortized cost of debt securities classified as held-to-maturity or available-for-sale is adjusted for amortization of premiums and accretion of discounts to maturity or, in the case of mortgage-backed securities, over the estimated life of the security. Amortization, accretion, and accrued interest are included in interest income on securities. Realized gains and losses on the sale of securities available-for-sale are included in earnings and are determined using the specific-identification method.

Management evaluates investment securities for other than temporary impairment on a quarterly basis. A decline in the fair value of available-for-sale and held-to-maturity securities below cost that is deemed other than temporary is charged to earnings for a decline in value deemed to be credit related and a new cost basis for the security is established. The decline in value attributed to non-credit related factors is recognized in other comprehensive income.

Other Investments—Other investments include Federal Reserve Bank and Federal Home Loan Bank stock, as well as other correspondent bank stocks and our CRA investment, which have no readily determined market value and are carried at cost. Due to the redemption provisions of the investments, the fair value equals cost and no impairment exists.

Loans—Loans that we have the intent and ability to hold for the foreseeable future or until maturity are reported at the principal amount outstanding, net of the allowance for loan losses and any deferred fees or costs on originated loans. Interest income on commercial and real estate mortgage loans is calculated by using the simple interest method on the daily balance of the principal

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amount outstanding. Unearned income on installment loans is credited to operations based on a method which approximates the interest method. In-house legal counsel and the collections department are responsible for validating loans past due for reporting purposes. Once loans are determined to be past due, the collections department actively works with customers to bring loans back to current status.

We consider a loan to be impaired when, based upon current information and events, we believe it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. All loans classified as special mention, substandard, or doubtful, based on credit risk rating factors, are reviewed for impairment. Our impaired loans include troubled debt restructurings and performing and nonperforming major loans in which full payment of principal or interest is not expected. Although our policy requires that non-major homogenous loans, which include all loans under $250,000, be evaluated on an overall basis, our current volume of impaired loans allows us to evaluate each impaired loan individually. We calculate the allowance required for impaired loans based on the present value of expected future cash flows discounted at the loan's effective interest rate, or at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. A loan may be impaired but not on nonaccrual status when available information suggests that it is probable the Bank may not receive all contractual principal and interest, however, the loan is still current and payments are received in accordance with the terms of the loan. Payments received for impaired loans not on nonaccrual status are applied to principal and interest.

All impaired loans are reviewed, at minimum, on a quarterly basis. Reviews may be performed more frequently if material information is available before the next scheduled quarterly review. Existing valuations are reviewed to determine if additional discounts or new appraisals are required. After this review, when comparing the resulting collateral valuation to the outstanding loan balance, if the discounted collateral value exceeds the loan balance no specific allocation is reserved. All loans included in our impairment analysis are subject to the same procedure and review, with no distinction given to the dollar amount of the loan.

Our Special Assets Committee meets monthly on troubled credits to review loans with adverse classifications. Loan officers, loan review officers, and in-house legal counsel contribute updated information on each credit, reviewing potential declines or improvements in the borrower's repayment ability and our collateral position. If deterioration in our collateral position is determined, additional discounts may be applied to the impairment analysis before the new appraisal is received. The committee makes a determination of whether the loans reviewed have reached a point of collateral dependency and sufficient doubt exists as to collectability. As a matter of policy, loans are placed on nonaccrual status when, in the judgment of committee members, the probability of collection of interest is deemed insufficient to warrant further accrual. For loans placed on nonaccrual 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. Additionally, loans may be placed on nonaccrual status when the loan becomes 90 days past due and any of the following conditions exist: it becomes evident that the borrower will not make payments or will not or cannot meet the Bank's terms for the renewal of a matured loan, full repayment of principal and interest is not expected, the loan has a credit quality of substandard, the borrower files bankruptcy and an approved plan of reorganization or liquidation is not anticipated in the near future, or foreclosure action is initiated. When a loan is placed on nonaccrual status, previously accrued but unpaid interest for the current year is deducted from interest income. Prior year unpaid interest is charged to the allowance for loan losses. Some loans may continue accruing after 90 days if the loan is in the process of renewing, being paid off, or the underlying collateral fully supports both the principal and accrued interest and the loan is in the process of collection.

Nonaccrual 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. Our Special Assets Committee must approve the return of loans to accrual status as well as exceptions to any requirements of the non-accrual policy.

Generally, commercial, financial, and agricultural loans; construction loans; commercial real estate loans; consumer loans; and finance leases which become 90 days delinquent are either in the process of collection through repossession or foreclosure or are deemed currently uncollectible. The portion of loans deemed currently uncollectible, due to insufficient collateral, are charged-off against the allowance for loan losses. All loans requested to be charged-off must be specifically authorized by in-house legal counsel and the CEO. Requests may be initiated by collection personnel, bank counsel, loan review, and lending personnel. Charge-offs will be reviewed by in-house legal counsel and the CEO to ensure the propriety and accuracy of charge-off recommendations. Factors considered when determining loan collectability and amount to be charged off for all segments in our loan portfolio include delinquent principal or interest repayment, the ability of borrower to make future payments, collateral value of outstanding debt, and the adequacy of guarantors support. It is the responsibility of in-house legal counsel to report all charge-offs to the Board of Directors or its designated Committee for ratification.

Credit Risk Rating—We manage credit risk by observing written underwriting standards and lending policy established by the Board of Directors and management to govern all lending activities. The risk management program requires that each individual loan officer review his or her portfolio on a quarterly basis and assign recommended credit ratings on each loan. These efforts are supplemented by independent reviews performed by a loan review officer and other validations performed by the internal audit department. The results of the reviews are reported directly to the Audit Committee of the Board of Directors. Additionally, Bank concentrations are monitored and reported quarterly for risk rating distributions, major standard industry classification segments, real estate concentrations, and collateral distributions.

Consumer and residential real estate loans are normally graded at inception, and the grade generally remains the same throughout the life of the loan. Loan grades on commercial, financial, and agricultural; construction; commercial real estate; and finance leases may be changed at any time when circumstances warrant, and are at a minimum reviewed quarterly.

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

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, we estimate the probable level of losses in the existing portfolio through consideration of such factors including, but not limited to, past loan loss experience; estimated losses in significant credits; known deterioration in concentrations of credit; trends in nonperforming assets; volume and composition of the loan portfolio, including percentages of special mention, substandard and past due loans; lending policies and control systems; known inherent risks in the portfolio; adverse situations that may affect the borrower's ability to repay; the estimated value of any underlying collateral; current national and local economic conditions, including the unemployment rate, the price of oil, and real estate absorption time; the experience, ability and depth of lending management; collections personnel experience; and the results of examinations of the loan portfolio by regulatory agencies and others. 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 Bank'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.

We have 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.

Management and the Board of Directors believe the allowance for loan losses is appropriate at December 31, 2015. While determination of the allowance for loan losses is based on available information at a given point in time, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require us to recognize additions or deductions to the allowance based on their judgment and information available to them at the time of their examination.

Interest Rate Swap Agreements—Derivative financial instruments are recognized as assets and liabilities on the consolidated balance sheets and, as required by ASC 815, the Company records all derivatives at fair value. Interest rate swaps are contracts in which a series of interest rate cash flows are exchanged over a prescribed period. The notional balance of interest rate swap agreements held by the Company at December 31, 2015 and 2014 was minimal and not material to the consolidated balance sheets.

Premises and Equipment—Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives used to compute depreciation are:

Buildings and improvements	10 - 40 years
Furniture, fixtures, and equipment	3 - 10 years
Automobiles	3 - 5 years

Leasehold improvements are amortized over the estimated useful lives of the improvements or the term of the lease, whichever is shorter.

Other Real Estate Owned—Real estate properties acquired through, or in lieu of, loan foreclosures are initially recorded at fair value less estimated costs to sell based on a current valuation at the time of foreclosure. After foreclosure, valuations are periodically performed by management and a charge to earnings is recorded if the carrying value of a property exceeds its fair value less estimated costs to sell. Revenues and expenses from operations and changes in the valuation allowance are charged to earnings.

Goodwill and Other Intangible Assets—Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired in a business combination. Goodwill and other intangible assets deemed to have an indefinite useful life are not amortized but instead are subject to review for impairment annually, or more frequently if deemed necessary. Also, in connection with business combinations involving banks and branch locations, we generally record core deposit intangibles representing the value of the acquired core deposit base. Core deposit intangibles are amortized over the estimated useful life of the deposit base, generally on either a straight-line basis not exceeding 15 years or an accelerated basis over 10 years. The remaining useful lives of core deposit intangibles are evaluated periodically to determine whether events and circumstances warrant revision of the remaining period of amortization.

Cash Surrender Value of Life Insurance—Life insurance contracts represent single premium life insurance contracts on the lives of certain officers of the Company. The Company is the beneficiary of these policies. These contracts are reported at their cash surrender value and changes in the cash surrender value are included in other noninterest income.

Repurchase Agreements—Securities sold under agreements to repurchase are secured borrowings treated as financing activities and are carried at the amounts at which the securities will be subsequently reacquired as specified in the respective agreements.

Deferred Compensation—We record the expense of deferred compensation agreements over the service periods of the persons covered under these agreements.

Income Taxes—Deferred tax assets and liabilities are recorded for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Future tax benefits, such as net operating loss carry forwards, are recognized to the extent that realization of such benefits is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the assets and liabilities are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period that includes the enactment date.

In the event the future tax consequences of differences between the financial reporting bases and the tax bases of our assets and liabilities results in deferred tax assets, an evaluation of the probability of being able to realize the future benefits indicated by such assets is required. A valuation allowance is provided when it is more likely than not that a portion or the full amount of the deferred tax asset will not be realized. In assessing the ability to realize the deferred tax assets, management considers the scheduled reversals of deferred tax liabilities, projected future taxable income, and tax planning strategies. A deferred tax liability is not recognized for portions of the allowance for loan losses for income tax purposes in excess of the financial statement balance. Such a deferred tax liability will only be recognized when it becomes apparent that those temporary differences will reverse in the foreseeable future.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50 percent more likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

Stock-Based Compensation—We expense stock-based compensation based upon the grant date fair value of the related equity award over the requisite service period of the employee.

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Basic and Diluted Earnings Per Common Share—Basic earnings per common share ("EPS") excludes dilution and is computed by dividing net earnings by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. Diluted EPS is computed by dividing net earnings by the total of the weighted-average number of shares outstanding plus the dilutive effect of outstanding options. The amounts of common stock and additional paid-in capital are adjusted to give retroactive effect to large stock dividends. Small stock dividends, or dividends less than 25% of issued shares at the declaration date, are reflected as an increase in common stock and additional paid-in capital and a decrease in retained earnings for the market value of the shares on the date the dividend is declared.

Comprehensive Income—Generally all recognized revenues, expenses, gains and losses are included in net earnings. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the consolidated balance sheets, such items, along with net earnings, are components of comprehensive income. We present comprehensive income in a separate consolidated statement of comprehensive income.

Statements of Cash Flows—For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold, and interest-bearing deposits in other banks with original maturities of less than 90 days. Generally, federal funds are sold for one-day periods.

Recent Accounting Pronouncements — ASU 2015-01, Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items was issued as part of the FASB's simplification initiative. ASU 2015-01 eliminates the concept of extraordinary items. The effective date of this Update is for fiscal years beginning on or after December 15, 2015 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.

ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs was also issued as part of the FASB's simplification initiative. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Currently, debt issuance costs are presented as an asset on the balance sheet. The FASB notes within the ASU, capitalized debt issuance costs do not meet the definition of an asset and are more akin to a debt discount, thereby reducing the carrying amount of the proceeds received. The effective date of this Update is for fiscal years beginning on or after December 15, 2015 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.

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

ASU 2016-02, Leases (Topic 842) was issued with the intention of improving financial reporting about leasing transactions. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP - which requires only capital leases to be recognized on the balance sheet - the guidance in the ASU will require both types of leases to be recognized on the balance sheet. The ASU also will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The effective date of this Update is for fiscal years beginning on or after December 15, 2018. The Company is evaluating the impact that ASU 2016-02 will have on its financial position, results of operations, and its financial statement disclosures.

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Louisiana Business Corporation Act — Effective January 1, 2015, companies incorporated under Louisiana law became subject to the Louisiana Business Corporation Act. Provisions of the Louisiana Business Corporation Act eliminate the concept of treasury stock. Rather, shares purchased by the Company constitute authorized but unissued shares. Accounting principles generally accepted in the United States of America state that accounting for treasury stock shall conform to state law. The Company's consolidated financial statements as of December 31, 2015 reflect this change. The cost of shares purchased by the Company has been allocated to common stock and additional paid-in capital balances.

Reclassifications—Certain reclassifications have been made to the prior years' financial statements in order to conform to the classifications adopted for reporting in 2015. The reclassifications had no impact on net income or stockholders' equity.

2. INVESTMENT SECURITIES

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

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

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Government sponsored enterprises	$10,339	$—	$112	$10,227
Obligations of state and political subdivisions	43,079	1,555	29	44,605
GSE mortgage-backed securities	106,208	3,183	288	109,103
Collateralized mortgage obligations: residential	62,093	266	1,520	60,839
Collateralized mortgage obligations: commercial	24,462	190	107	24,545
Other asset-backed securities	24,041	321	19	24,343
Collateralized debt obligation	266	952	—	1,218
Mutual funds	2,100	4	—	2,104
	$272,588	$6,471	$2,075	$276,984

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
Obligations of state and political subdivisions	$43,737	$697	$6	$44,428

GSE mortgage-backed securities	55,696	705	131	56,270
Collateralized mortgage obligations: residential	10,803	—	361	10,442
Collateralized mortgage obligations: commercial	6,556	2	—	6,558
	$116,792	$1,404	$498	$117,698

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	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
Obligations of state and political subdivisions	$45,914	$267	$192	$45,989
GSE mortgage-backed securities	67,268	1,080	164	68,184
Collateralized mortgage obligations: residential	12,709	—	479	12,230
Collateralized mortgage obligations: commercial	15,310	53	173	15,190
	$141,201	$1,400	$1,008	$141,593

With the exception of two private-label collateralized mortgage obligations ("CMOs") with a combined balance remaining of $27,000 at December 31, 2015 and three private-label CMOs with a combined balance remaining of $44,000 at December 31, 2014, respectively, all of the Company’s CMOs are government-sponsored enterprise securities.

The amortized cost and fair value of debt securities at December 31, 2015 by contractual maturity are shown below (in thousands). Except for mortgage backed securities, collateralized mortgage obligations, other asset backed securities, and collateralized debt obligations, expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Available-for-sale:		
Due in one year or less	$5,670	$5,702
Due after one year through five years	19,456	20,002
Due after five years through ten years	3,929	4,118
Due after ten years	1,695	1,671
Mortgage-backed securities and collateralized mortgage obligations:		
Residential	279,013	279,126
Commercial	5,512	5,448
Mutual funds	2,100	2,092
	$317,375	$318,159

	Amortized Cost	Fair Value
Held-to-maturity:		
Due in one year or less	$472	$473
Due after one year through five years	3,406	3,431
Due after five years through ten years	10,575	10,756
Due after ten years	29,284	29,768
Mortgage-backed securities and collateralized mortgage obligations:		
Residential	66,499	66,712
Commercial	6,556	6,558
	$116,792	$117,698

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

	December 31, 2015					
	Securities with losses under 12 months		Securities with losses over 12 months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Available-for-sale:						
Obligations of state and political subdivisions	$1,192	$27	$—	$—	$1,192	$27
GSE mortgage-backed securities	21,607	229	—	—	21,607	229
Collateralized mortgage obligations: residential	140,999	1,207	30,029	1,069	171,028	2,276
Collateralized mortgage obligations: commercial	—	—	2,946	65	2,946	65
Mutual funds	2,092	8	—	—	2,092	8
	$165,890	$1,471	$32,975	$1,134	$198,865	$2,605

	December 31, 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	$4,973	$32	$5,254	$80	$10,227	$112
Obligations of state and political subdivisions	2,029	29	—	—	2,029	29
GSE mortgage-backed securities	6,668	25	21,538	263	28,206	288
Collateralized mortgage obligations: residential	9,366	53	37,997	1,467	47,363	1,520
Collateralized mortgage obligations: commercial	—	—	3,747	107	3,747	107
Other asset-backed securities	6,401	19	—	—	6,401	19
	$29,437	$158	$68,536	$1,917	$97,973	$2,075

	December 31, 2015					
	Securities with losses under 12 months		Securities with losses over 12 months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Held-to-maturity:						
Obligations of state and political subdivisions	$541	$1	$505	$5	$1,046	$6
GSE mortgage-backed securities	—	—	7,021	131	7,021	131
Collateralized mortgage obligations: residential	—	—	10,442	361	10,442	361
	$541	$1	$17,968	$497	$18,509	$498

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	December 31, 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	$11,761	$35	$13,263	$157	$25,024	$192
GSE mortgage-backed securities	—	—	8,142	164	8,142	164
Collateralized mortgage obligations: residential	—	—	12,230	479	12,230	479
Collateralized mortgage obligations: commercial	7,599	173	—	—	7,599	173
	$19,360	$208	$33,635	$800	$52,995	$1,008

Management evaluates whether unrealized losses on securities represent impairment that is other than temporary on a quarterly basis. 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.

As of December 31, 2015, 48 securities had unrealized losses totaling 1.41% of the individual securities' amortized cost basis and 0.71% of the Company's total amortized cost basis. 16 of the 48 securities had been in an unrealized loss position for over twelve months at December 31, 2015. These 16 securities had an amortized cost basis and unrealized loss of $52.6 million and $1.6 million, respectively. The unrealized losses on debt securities at December 31, 2015 and 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 December 31, 2015 and 2014, management had both the intent and ability to hold impaired securities, and no impairment was evaluated as other than temporary. As a result, no impairment losses were recognized on debt securities during the years ended December 31, 2015, 2014, or 2013.

During the year ended December 31, 2015, the Company sold 22 securities classified as available-for-sale at a net gain of $1.2 million. Of the 22 securities sold, 12 were sold with gains totaling $1.4 million and 10 securities were sold at a loss of $135,000. During the year ended December 31, 2014, the Company sold four securities classified as available-for-sale at a gross gain of $128,000.

Securities with an aggregate carrying value of approximately $285.4 million and $279.8 million at December 31, 2015 and 2014, respectively, were pledged to secure public funds on deposit and for other purposes required or permitted by law.

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3. LOANS

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

	December 31, 2015	2014
Commercial, financial and agricultural	$454,028	$467,147
Real estate – construction	74,952	68,577
Real estate – commercial	471,141	467,172
Real estate – residential	149,064	154,602
Installment loans to individuals	111,009	119,328
Lease financing receivable	1,968	4,857
Other	1,483	2,748
	1,263,645	1,284,431
Less allowance for loan losses	(19,011)	(11,226)
	$1,244,634	$1,273,205

The amounts reported in other loans at December 31, 2015 and 2014 includes the overdrawn demand deposit accounts and loans primarily made to non-profit entities reported for each period.

An analysis of the activity in the allowance for loan losses is as follows (in thousands):

	December 31, 2015	2014	2013
Balance, beginning of year	$11,226	$8,779	$7,370
Provision for loan losses	13,900	5,625	3,050
Recoveries	459	738	265
Loans charged-off	(6,574)	(3,916)	(1,906)
Balance, end of year	$19,011	$11,226	$8,779

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 December 31, 2015, one industry segment concentration, the oil and gas industry, aggregates 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 $264.7 million, or 20.9% of total loans. Of the $264.7 million loans to borrowers in the oil and gas industry, $27.4 million or 10.4% were on nonaccrual status at December 31, 2015. Additionally, the Company's exposure to loans secured by commercial real estate is monitored. At December 31, 2015, loans secured by commercial real estate (including commercial construction and multifamily loans) totaled approximately $528.0 million. Of the $528.0 million, $471.1 million represent CRE loans, 54% of which are secured by owner-occupied commercial properties. Of the $528.0 million in loans secured by commercial real estate, $19.9 million or 3.8% were on nonaccrual status at December 31, 2015.

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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 years ended December 31, 2015 and 2014 is as follows (in thousands):

	December 31, 2015							
		Real Estate						
	Coml, fin, and agric	Construction	Commercial	Residential	Installment loans to individuals	Lease financing receivable	Other	Total
Allowance for loan losses:								
Beginning balance	$5,729	$954	$2,402	$810	$1,311	$16	$4	$11,226
Charge-offs	(4,936)	(105)	(183)	(87)	(1,263)	—	—	(6,574)
Recoveries	235	3	26	12	183	—	—	459
Provision	10,240	(33)	2,369	81	1,237	(2)	8	13,900
Ending balance	$11,268	$819	$4,614	$816	$1,468	$14	$12	$19,011
Ending balance: individually evaluated for impairment	$961	$—	$1,585	$160	$221	$—	$—	$2,927
Ending balance: collectively evaluated for impairment	$10,307	$819	$3,029	$656	$1,247	$14	$12	$16,084
Loans:								
Ending balance	$454,028	$74,952	$471,141	$149,064	$111,009	$1,968	$1,483	$1,263,645
Ending balance: individually evaluated for impairment	$27,718	$37	$19,890	$1,903	$404	$—	$—	$49,952
Ending balance: collectively evaluated for impairment	$426,310	$74,915	$450,631	$147,080	$110,605	$1,968	$1,483	$1,212,992
Ending balance: loans acquired with deteriorated credit quality	$—	$—	$620	$81	$—	$—	$—	$701

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	December 31, 2014							
		Real Estate						
	Coml, fin, and agric	Construction	Commercial	Residential	Installment loans to individuals	Lease financing receivable	Other	Total
Allowance for loan losses:								
Beginning balance	$3,906	$1,046	$1,389	$1,141	$1,273	$21	$3	$8,779
Charge-offs	(2,843)	(1)	(93)	(273)	(706)	—	—	(3,916)
Recoveries	164	—	407	47	120	—	—	738
Provision	4,502	(91)	699	(105)	624	(5)	1	5,625
Ending balance	$5,729	$954	$2,402	$810	$1,311	$16	$4	$11,226
Ending balance: individually evaluated for impairment	$1,010	$—	$907	$68	$179	$—	$—	$2,164
Ending balance: collectively evaluated for impairment	$4,719	$954	$1,495	$742	$1,132	$16	$4	$9,062
Loans:								
Ending balance	$467,147	$68,577	$467,172	$154,602	$119,328	$4,857	$2,748	$1,284,431
Ending balance: individually evaluated for impairment	$2,656	$54	$6,388	$1,072	$377	$—	$—	$10,547
Ending balance: collectively evaluated for impairment	$464,491	$68,523	$460,118	$153,436	$118,951	$4,857	$2,748	$1,273,124
Ending balance: loans acquired with deteriorated credit quality	$—	$—	$666	$94	$—	$—	$—	$760

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

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

	December 31, 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	$2,179	$654	$2,556	$5,389	$461,758	$467,147	$26
Commercial real estate - construction	15	—	105	120	43,390	43,510	97
Commercial real estate - other	4,989	270	2,464	7,723	459,449	467,172	—
Residential - construction	431	—	—	431	24,636	25,067	—
Residential - prime	1,843	523	704	3,070	151,532	154,602	—
Consumer - credit card	5	19	18	42	5,970	6,012	18
Consumer - other	671	392	107	1,170	112,146	113,316	46
	—	—	—	—	4,857	4,857	—

Lease financing receivable							
Other loans	134	—	—	134	2,614	2,748	—
	$10,267	$1,858	$5,954	$18,079	$1,266,352	$1,284,431	$187

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

	December 31, 2015	2014
Commercial, financial and agricultural	$27,705	$2,642
Commercial real estate – construction	37	54
Commercial real estate – other	19,907	6,429
Residential - construction	—	—
Residential - prime	1,998	1,194
Consumer – credit card	—	—
Consumer - other	404	382
Lease financing receivable	—	—
Other	—	—
	$50,051	$10,701

The amount of interest that would have been recorded on nonaccrual loans, had the loans not been classified as nonaccrual, totaled approximately $2.0 million, $594,000, and $518,000 for the years ended December 31, 2015, 2014, and 2013. Interest actually received on nonaccrual loans at December 31, 2015, 2014, and 2013 was $47,000, $105,000, and $312,000, respectively.

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

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

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	December 31, 2014				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial, financial, and agricultural	$438	$521	$—	$554	$—
Commercial real estate – construction	54	54	—	58	—
Commercial real estate – other	1,921	1,921	—	1,885	17
Residential – prime	543	543	—	534	15
Consumer – other	78	78	—	72	—
Subtotal:	3,034	3,117	—	3,103	32
With an allowance recorded:					
Commercial, financial, and agricultural	2,218	2,333	1,010	1,394	35
Commercial real estate – construction	—	—	—	19	—
Commercial real estate – other	4,467	4,467	907	2,416	220
Residential – prime	529	548	68	452	3
Consumer – other	299	313	179	252	4
Subtotal:	7,513	7,661	2,164	4,533	262
Totals:					
Commercial	9,098	9,296	1,917	6,326	272
Residential	1,072	1,091	68	986	18
Consumer	377	391	179	324	4
Grand total:	$10,547	$10,778	$2,164	$7,636	$294

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

December 31, 2015

Commercial Credit Exposure
Credit Risk Profile by Creditworthiness Category

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

Consumer Credit Exposure
Credit Risk Profile by Creditworthiness Category

	Residential – construction	Residential – prime	Residential – subprime	Percentage of Total	
Pass	$18,054	$144,704	$—	97.39	%
Special mention	—	1,225	—	0.73	%
Substandard	—	3,135	—	1.88	%
	$18,054	$149,064	$—	100.00	%

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

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

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December 31, 2014

Commercial Credit Exposure
Credit Risk Profile by Creditworthiness Category

	Commercial, financial, and agricultural	Commercial real estate –construction	Commercial real estate – other	Percentage of Total	
Pass	$456,221	$43,320	$440,281	96.11	%
Special mention	4,861	132	7,120	1.24	%
Substandard	5,541	58	19,771	2.60	%
Doubtful	524	—	—	0.05	%
	$467,147	$43,510	$467,172	100.00	%

Consumer Credit Exposure
Credit Risk Profile by Creditworthiness Category

	Residential – construction	Residential – prime	Residential – subprime	Percentage of Total	
Pass	$25,067	$150,664	$—	97.81	%
Special mention	—	1,184	—	0.66	%
Substandard	—	2,754	—	1.53	%
	$25,067	$154,602	$—	100.00	%

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

	Consumer - credit card	Consumer –other	Lease financing receivable	Other	Percentage of Total	
Performing	$5,995	$112,893	$4,857	$2,748	99.65	%
Nonperforming	17	423	—	—	0.35	%
	$6,012	$113,316	$4,857	$2,748	100.00	%

Troubled Debt Restructurings

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

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

	December 31, 2015			
	Current	Past Due Greater Than 30 Days	Nonaccrual TDRs	Total TDRs
Commercial, financial and agricultural	$16	$—	$20,865	$20,881
Real estate - commercial	—	148	—	148
	$16	$148	$20,865	$21,029
	December 31, 2014			
	Current	Past Due Greater Than 30 Days	Nonaccrual TDRs	Total TDRs
Commercial, financial and agricultural	$21	$—	$234	$255
Real estate - commercial	155	—	—	155
	$176	$—	$234	$410

During the year ended December 31, 2015, one loan relationship with a pre-modification balance of $21.4 million was identified as a TDR after conversion of the loans to interest only for a limited amount of time. This one TDR subsequently defaulted on the modified terms and totaled $20.6 million at December 31, 2015. During the year ended December 31, 2014, there was one loan relationship with a pre-modification balance of $1.2 million identified as a TDR through a modification of the original loan terms. The loan was paid off during the second quarter of 2014 and, therefore, was not reflected in the balance of TDRs at December 31, 2014. During the year ended December 31, 2014, there were no defaults on any loans that were modified as TDRs during the preceding twelve months. For purposes of the determination of an allowance for loan losses on these TDRs, as an identified TDR, the Company considers a loss probable on the loan and, as a result, the loan is reviewed for specific impairment in accordance with the Company's allowance for loan loss methodology. If it is determined losses are probable on such TDRs, either because of delinquency or other credit quality indicator, the Company establishes specific reserves for these loans. As of December 31, 2015, there were no commitments to lend additional funds to debtors owing sums to the Company whose terms have been modified in TDRs.

In the opinion of management, all transactions entered into between the Company and such related parties have been and are made in the ordinary course of business, on substantially the same terms and conditions, including interest rates and collateral, as similar transactions with unaffiliated persons and do not involve more than the normal risk of collection.

An analysis of the 2015 activity with respect to these related party loans and commitments to extend credit is as follows (in thousands):

Balance, beginning of year	$2,977	
New loans	—	
Repayments and adjustments	(1,137	)
Balance, end of year	$1,840	

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4. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following (in thousands):

	December 31,	
	2015	2014
Land	$16,253	$16,078
Buildings and improvements	54,126	50,731
Furniture, fixtures, and equipment	28,165	27,121
Automobiles	1,787	1,512
Leasehold improvements	10,725	10,178
Construction-in-process	1,418	2,088
	112,474	107,708
Less accumulated depreciation and amortization	(43,369)	(37,750)
	$69,105	$69,958

Depreciation expense totaled approximately $6.2 million, $6.1 million, and $5.6 million for the years ended December 31, 2015, 2014, and 2013, respectively.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amount of goodwill for each of the years ended December 31, 2015 and 2014 was approximately $42.2 million. Goodwill is recorded on the acquisition date of each entity.

A summary of core deposit intangible assets as of December 31, 2015 and 2014 is as follows (in thousands):

	2015	2014
Gross carrying amount	$11,674	$11,674
Less accumulated amortization	(5,946)	(4,840)
Net carrying amount	$5,728	$6,834

Amortization expense on the core deposit intangible assets totaled approximately $1.1 million in 2015, 2014 and 2013.

The estimated amortization expense on the core deposit intangible assets for the five succeeding years and thereafter is as follows (in thousands):

2016	$1,106
2017	1,106
2018	1,106
2019	1,107
2020	726
Thereafter	577
	$5,728

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6. DEPOSITS

Deposits consisted of the following (in thousands):

	December 31,	
	2015	2014
Noninterest-bearing	$374,261	$390,863
Savings and money market	531,449	473,290
NOW accounts	475,346	469,627
Time deposits less than $250	132,349	166,385
Time deposits $250 or more	37,445	85,069
	$1,550,850	$1,585,234

Time deposits held consist primarily of certificates of deposits. The maturities for these deposits at December 31, 2015 are as follows (in thousands):

2016	$127,255
2017	24,363
2018	7,361
2019	3,129
2020	7,684
Thereafter	2
	$169,794

Deposits from related parties totaled approximately $9.1 million and $9.6 million at December 31, 2015 and 2014, respectively.

7. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase totaled $86.0 million and $62.1 million at December 31, 2015 and 2014, respectively.

At December 31, 2015 and 2014, retail repurchase agreements, defined as securities sold under agreements to repurchase from our customers, totaled $73.5 million and $49.6 million, respectively. These retail repurchase agreements are secured overnight borrowings from customers, which may be drawn on demand. The agreements bear interest at a rate determined by us. The average rate of the outstanding agreements was 0.48% and 0.43% at December 31, 2015 and 2014, respectively. The Company had pledged securities with an approximate market value of $75.1 million and $60.9 million as collateral at December 31, 2015 and 2014, respectively.

Also included in securities sold under agreements to repurchase is a $12.5 million repurchase agreement the Company entered into with CitiGroup Global Markets, Inc. ("CGMI") effective August 9, 2007. Under the terms of the repurchase agreement, interest is payable quarterly based on a floating rate equal to the 3-month LIBOR for the first 12 months of the agreement and a fixed rate of 4.57% for the remainder of the term. The rate at December 31, 2015 and 2014 was 4.57%. The repurchase date is scheduled for August 9, 2017; however, the agreement may be called by CGMI quarterly. The Company had pledged securities with a market value of $17.6 million and $15.7 million as collateral at December 31, 2015 and 2014, respectively.

In 2015, 2014, and 2013, the Company did not have an average balance in any category of short-term borrowings including retail repurchase agreements, reverse repurchase agreements, federal funds purchased, or short-term FHLB advances that exceeded 30% of our stockholders' equity for such year.

8. SHORT-TERM FEDERAL HOME LOAN BANK ADVANCES

Short-term FHLB advances totaled $25.0 million at December 31, 2015 and 2014. The short-term FHLB advances at December 31, 2015 consisted of one FHLB advance with a maturity of 4 months at a fixed interest rate of 0.30%. The short-term FHLB advances at December 31, 2014 consisted of one FHLB advance with a maturity of 87 days at a fixed interest rate of 0.13%.

The short-term and long-term FHLB advances at December 31, 2015 and 2014 are collateralized by a blanket lien on first mortgages and other qualifying loans totaling $268.6 million and $364.4 million, respectively.

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As of December 31, 2015 and 2014, the Company had $218.5 million and $314.2 million, respectively, of additional FHLB advances available.

9. LONG-TERM FEDERAL HOME LOAN BANK ADVANCES

Long-term FHLB advances totaled $25.9 million and $26.3 million at December 31, 2015 and 2014, respectively.

The scheduled maturities of long-term FHLB advances at December 31, 2015 are summarized as follows (in thousands):

	Amount	Weighted Average Rate	
2016	$427	5.057	%
2017	15,403	3.412	%
2019	10,021	1.985	%
Total FHLB advances	$25,851		

10. JUNIOR SUBORDINATED DEBENTURES

A description of the junior subordinated debentures outstanding is as follows (in thousands):

				December 31,	
Date Issued	Maturity Date	Interest Rate	Callable After	2015	2014
July 31, 2001	July 9, 2031	3 month LIBOR plus 3.30%	July 31, 2006	$5,671	$5,671
September 20, 2004	September 20, 2034	3 month LIBOR plus 2.50%	September 20, 2009	8,248	8,248
October 12, 2006	October 12, 2036	3 month LIBOR plus 1.85%	June 26, 2011	5,155	5,155
June 21, 2007	June 21, 2037	3 month LIBOR plus 1.70%	June 15, 2012	3,093	3,093
				$22,167	$22,167

The trusts are considered variable-interest entities (“VIE”). The Trusts are not consolidated with the Company since the Company is not the primary beneficiary of the VIE. Accordingly, the Company does not report the securities issued by the Trusts as liabilities, and instead reports as liabilities the junior subordinated debentures issued by the Company and held by the Trusts, as these are not eliminated in the consolidation. The Trust Preferred Securities are recorded as junior subordinated debentures on the balance sheets, but subject to certain limitations qualify for Tier 1 capital for regulatory capital purposes.

During 2014, the Company redeemed $7.2 million of its Statutory Trust 1 and Capital Securities. The early redemption of the 10.20% fixed rate junior subordinated debentures resulted in an after-tax charge of $168,000 in the third quarter of 2014.

11. COMMITMENTS AND CONTINGENCIES

At December 31, 2015, future annual minimum rental payments due under non-cancellable operating leases are as follows (in thousands):

2016	$1,910
2017	1,660

2018	1,618
2019	1,624
2020	1,624
Thereafter	7,191
	$15,627

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Rental expense under operating leases for 2015, 2014, and 2013 was approximately $2.5 million, $2.5 million, and $2.6 million, respectively.

The Company is party to various legal proceedings arising in the ordinary course of business. In management's opinion, the ultimate resolution of these legal proceedings will not have a material adverse effect on the Company's financial position, results of operations, or cash flows.

At December 31, 2015, the Company had borrowing lines available through the Bank with the FHLB of Dallas and other correspondent banks. The Bank had approximately $218.5 million available, subject to available collateral, under a secured line of credit with the FHLB of Dallas. Federal funds lines of credit were available through correspondent banks with approximately $53.5 million available for overnight borrowing at December 31, 2015. Additionally, $221.6 million in loan collateral is pledged under a Borrower-in-Custody line with the FRB-Atlanta.

12. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets and liabilities as of December 31, 2015 and 2014 are as follows (in thousands):

	2015	2014
Deferred tax assets:		
Allowance for loan losses	$7,750	$5,593
Alternative minimum tax credit	—	388
Other	1,118	1,914
Total deferred tax assets	8,868	7,895
Deferred tax liabilities:		
Premises and equipment	3,634	4,336
Goodwill	1,446	1,035
FHLB stock dividends	70	65
Unrealized gains on securities	274	1,538
Other	1,272	1,798
Total deferred tax liabilities	6,696	8,772
Net deferred tax asset (liability)	$2,172	$(877)

Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, the Company believes that it is more likely than not that it will realize the benefits of these deductible differences existing at December 31, 2015. Therefore, no valuation allowance is necessary at this time. The net deferred tax asset for 2015 is included in other assets on the consolidated balance sheet. The net deferred tax liability for 2014 is included in other liabilities on the consolidated balance sheet.

Components of income tax expense are as follows (in thousands):

	2015	2014	2013
Current	$6,368	$8,847	$3,323
Deferred (benefit) expense	(1,785)	(1,489)	2,828
Total income tax expense	$4,583	$7,358	$6,151

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The provision for federal income taxes differs from the amount computed by applying the U.S. Federal income tax statutory rate of 35% on pre-tax income as follows (in thousands):

	December 31,		
	2015	2014	2013
Taxes calculated at statutory rate	$5,460	$9,264	$7,114
Increase (decrease) resulting from:			
Tax-exempt interest, net	(766)	(923)	(1,095)
Executive officer life insurance proceeds	—	(1,050)	—
Other	(111)	67	132
	$4,583	$7,358	$6,151

The Company's federal income tax returns are open and subject to examination from the 2012 tax return year and forward. The various state income and franchise tax returns are generally open from the 2012 and later tax return years based on individual state statutes of limitation. We are not currently under examination by federal or state tax authorities for the 2012, 2013, or 2014 tax years.

13. EMPLOYEE BENEFITS

The Company sponsors a leveraged employee stock ownership plan ("ESOP") that covers all employees who meet minimum age and service requirements. The Company makes annual contributions to the ESOP in amounts as determined by the Board of Directors. These contributions are used to pay debt service and purchase additional shares. Certain ESOP shares are pledged as collateral for this debt. As the debt is repaid, shares are released from collateral and allocated to active employees, based on the proportion of debt service paid in the year. During 2014, the ESOP borrowed $283,000 payable to MidSouth Bank, N.A for the purpose of purchasing additional shares of MidSouth Bancorp, Inc.'s common stock. The note payable matures on June 25, 2018. The loan proceeds were used to purchase a total of 16,000 shares at an average price of $17.71 per share. During 2015, the ESOP borrowed an additional $997,000 payable to MidSouth Bank, N.A. The notes payable mature on February 20, 2019 and October 5, 2019. A total of 76,526 shares at an average price of $13.02 per share were purchased with the loan proceeds. The balances of the notes payable of the ESOP were $1.1 million and $250,000 at December 31, 2015 and December 31, 2014, respectively.

Because the source of the loan payments are contributions received by the ESOP from the Company, the related notes receivable is shown as a reduction of stockholders' equity. In accordance with GAAP, compensation costs relating to shares purchased are based on the fair value of shares committed to be released. The unreleased shares are not considered outstanding in the computation of earnings per common share. Dividends received on ESOP shares are allocated based on shares held for the benefit of each participant and used to purchase additional shares of stock for each participant. ESOP compensation expense consisting of both cash contributions and shares committed to be released for 2015 and 2014 was approximately $720,000. ESOP compensation expense consisting of cash contributions for 2013 was approximately $720,000. ESOP shares as of December 31, 2015 and 2014 were as follows:

	2015	2014
Allocated shares	570,905	554,741
Shares released for allocation	10,130	1,892
Unreleased shares	80,504	14,108
Total ESOP shares	661,539	570,741
Fair value of unreleased shares at December 31	$731,000	$245,000

The Company has deferred compensation arrangements with certain officers, which will provide them with a fixed benefit after retirement. The Company recorded a liability of approximately $1.4 million at December 31, 2015 and $1.3 million at December 31, 2014 in connection with these agreements. Deferred compensation expense recognized in 2015, 2014, and 2013 was approximately $82,000, $80,000, and $74,000, respectively.

The Company sponsors defined contribution post-retirement benefit agreements to provide death benefits for the designated beneficiaries of certain of the Company's executive officers. Under the agreements, split-dollar whole life insurance contracts were purchased on certain executive officers. The increase in the cash surrender value of the contracts, less the Bank's cost of funds, constitutes the Company's contribution to the agreements each year. In the event the insurance contracts fail to produce

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positive returns, the Company has no obligation to contribute to the agreements. During 2015, 2014, and 2013, the Company incurred expenses of $14,000, $7,000 and $12,000, respectively, related to the agreements.

The Company has a 401(k) retirement plan covering substantially all employees who have been employed for 90 days and meet certain other requirements. Under this plan, employees can contribute a portion of their salary within the limits provided by the Internal Revenue Code into the plan. The Company made contributions to the plan totaling $60,000 in 2015, 2014 and 2013, respectively.

14. EMPLOYEE STOCK PLANS

In May of 2007, our stockholders approved the 2007 Omnibus Incentive Compensation Plan to provide incentives and awards for directors, officers, and employees. “Awards” as defined in the Plan includes, with limitations, stock options (including restricted stock options), restricted stock awards, stock appreciation rights, performance shares, stock awards and cash awards, all on a stand-alone, combination, or tandem basis. The 2007 Omnibus Incentive Compensation Plan replaces the 1997 Stock Incentive Plan, which expired February of 2007. A total of 525,000 of our common shares authorized were reserved for issuance under the Plan, of which 99,226 were available to be granted as of December 31, 2015.

Stock Options – The 339,376 options outstanding at December 31, 2015 were all issued under the 2007 Omnibus Incentive Compensation Plan. All options outstanding at December 31, 2015 are incentive stock options with a term of ten years, 296,874 of which vest 20% each year on the anniversary date of the grant and 42,502 of which vest 16.67% each year. The following table summarizes activity relating to stock options:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2012	307,845	$13.36		
Granted	131,280	15.82		
Exercised	(6,155)	11.10		
Forfeited or expired	(328)	20.88		
Outstanding at December 31, 2013	432,642	$14.13		
Granted	17,500	18.99		
Exercised	(49,560)	12.97		
Forfeited or expired	(42,509)	16.24		
Outstanding at December 31, 2014	358,073	$14.28		
Granted	5,000	13.17		
Exercised	(7,655)	12.97		
Forfeited or expired	(16,042)	17.73		
Outstanding at December 31, 2015	339,376	$14.13	6.98	$—
Exercisable at December 31, 2013	70,457	$14.81		
Exercisable at December 31, 2014	109,691	13.98		
Exercisable at December 31, 2015	162,679	13.81	6.79	$—

A summary of changes in unvested options for the period ended December 31, 2015 is as follows:

	Number of Options	Weighted Average Grant Date Fair Value

Unvested options outstanding, beginning of year	248,382	$4.93
Granted	5,000	3.17
Vested	(72,685)	4.87
Forfeited	(4,000)	5.59
Unvested options outstanding, end of year	176,697	$4.89

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As of December 31, 2015 there was a total of $682,000 in unrecognized compensation cost related to nonvested share-based compensation arrangements. The total amount of options expensed during the years ended December 31, 2015, 2014 and 2013 was $336,000, $442,000 and $308,000, respectively.

The fair value of each option granted is estimated on the grant date using the Black-Scholes Option Pricing Model. This model requires management to make certain assumptions, including the expected life of the option, the risk free rate of interest, the expected volatility, and the expected dividend yield. The risk free rate of interest is based on the yield of a U.S. Treasury security with a similar term. The expected volatility is based on historic volatility over a term similar to the expected life of the options. The dividend yield is based on the current yield at the date of grant. The following assumptions were made in estimating the fair value of the options granted in 2015 and 2014:

	2015		2014	
Risk free rate of interest	1.5	%	1.7	%
Expected volatility	37.4	%	39.2	%
Dividend yield	2.8	%	1.9	%
Average expected life (in years)	5		5	
Weighted-average grant-date fair value	$3.17		$5.77	

The total intrinsic value of the options exercised was $10,000, $217,000, and $41,000 for the years ended December 31, 2015, 2014, and 2013, respectively.

Restricted Stock Awards – On August 17, 2015, the Compensation Committee of the Board of Directors of the Company made grants of 11,250 shares of restricted stock under the Company's 2007 Omnibus Incentive Compensation Plan to certain executives of the Company. The restricted shares of stock, which are subject to the terms of a Restricted Stock Grant Agreement between the Company and each recipient, will fully vest on the third anniversary of the grant date. Prior to vesting, the recipient will be entitled to vote the shares and receive dividends, if any, declared by the Company with respect to its common stock. Compensation expense for restricted stock is based on the fair value of the restricted stock awards at the time of the grant, which is equal to the market value of the Company's common stock on the date of grant. The value of the restricted stock grants that are expected to vest is amortized monthly into compensation expense over the three year vesting period.

The restricted shares had a fair value of $13.92 per share on the date of issuance. For the year ended December 31, 2015 and 2013, compensation expense of $19,000 and $21,000, respectively, was recognized related to non-vested restricted stock awards. There was no compensation expenses related to these awards in 2014. As of December 31, 2015, there was $137,000 of unrecognized compensation cost related to non-vested restricted stock awards granted under the plan.

The following table summarizes activity relating to non-vested restricted stock awards:

	2015
Balance at beginning of year	—
Granted	11,250
Forfeited	—
Vested	—
Balance at end of year	11,250

15. STOCKHOLDERS' EQUITY

The payment of dividends by the Bank to the Company is restricted by various regulatory and statutory limitations. At December 31, 2015, the Bank had approximately $11.9 million available to pay dividends to the parent company without regulatory approval.

On January 9, 2009 the Company issued 20,000 shares of Series A Preferred Stock associated with its participation in the Treasury's Capital Purchase Plan ("CPP") under the Troubled Asset Relief Program. The proceeds from this sale of $20,000,000 less direct costs to issue were allocated to preferred stock. The Series A preferred stock qualified as Tier 1 capital and paid cumulative dividends at a rate of 5% per annum. As part of the CPP transaction, the Company issued the Treasury a warrant to purchase 208,768 shares of our common stock at an exercise price of $14.37 per share. However, as a result of the completion of our public offering in December 2009, the number of shares subject to the warrants held by the Treasury was reduced to 104,384 shares. In late 2011, the Treasury sold this warrant to an unrelated third party. The Company did not receive any proceeds from such sale.

In August 2011, the Company redeemed all 20,000 outstanding shares of Series A preferred stock at its stated value of $1,000 per share with funds from our issuance of 32,000 shares of Series B preferred stock in connection with the Company's participation under the U.S. Treasury's Small Business Lending Fund ("SBLF"). The additional $12.0 million of net proceeds from the issuance was provided to the Bank as additional capital. The dividend rate on the Series B preferred stock was set at 1.00% for the fourth quarter of 2013 due to attaining the target 10% growth rate in qualified small business loans during the second quarter of 2013. On February 25, 2016, the dividend rate increased to 9% per annum, consistent with the Securities Purchase Agreement which states that the rate would increase if the funding was not repaid within 4.5 years after issuance. The Series B preferred stock is nonvoting except for class voting rights on matters that would adversely affect the rights of the holders of the Series B preferred stock.

On December 28, 2012, the Company issued 756,511 shares of common stock and 99,971 shares of Series C Preferred Stock in connection with the PSB acquisition. The Series C Preferred Stock is entitled to the payment of noncumulative dividends, if and when declared by the Company's Board of Directors, at the rate of 4.00% per annum, payable quarterly in arrears on January 15, April 15, July 15 and October 15 of each year, beginning on April 15, 2013. The Series C Preferred Stock ranks pari passu with the existing Senior Non-Cumulative Perpetual Preferred Stock, Series B, issued in connection with the Company's participation under the Treasury's SBLF and senior to the Company's common stock. The Company may redeem the Series C Preferred Stock, subject to regulatory approval, beginning on or after the fifth anniversary of the closing date of the Merger, at a redemption price equal to the liquidation value of the Series C Preferred Stock, plus declared but unpaid dividends, if any. The Company may also redeem the Series C Preferred Stock, subject to regulatory approval, at the same redemption price prior to the fifth anniversary of the closing date in the event the Series C Preferred Stock no longer qualifies for "Tier 1 Capital" treatment by the applicable federal banking regulators. Holders may convert the Series C Preferred Stock at any time into shares of the Company's common stock at a conversion price of $18.00 per share, subject to customary anti-dilution adjustments. In addition, on or after the fifth anniversary of the closing date, the Company will have the option to require conversion of the Series C Preferred Stock if the closing price of the Company's common stock for 20 trading days within any period of 30 consecutive trading days, exceeds 130% of the conversion price.

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16. OTHER COMPREHENSIVE (LOSS) INCOME

The following is a summary of the tax effects allocated to each component of other comprehensive (loss) income (in thousands):

	December 31, 2015 Before Tax Amount	Tax Effect	Net of Tax Amount	2014 Before Tax Amount	Tax Effect	Net of Tax Amount	2013 Before Tax Amount	Tax Effect	Net of Tax Amount
Other comprehensive (loss) income:									
Securities available-for-sale:									
Change in unrealized gain/loss during period	$(2,369)	$829	$(1,540)	$4,687	$(1,641)	$3,046	$(12,481)	$4,368	$(8,113)
Reclassification adjustment for net gains included in net income	(1,243)	435	(808)	(128)	45	(83)	(234)	82	(152)
Total other comprehensive (loss) income	$(3,612)	$1,264	$(2,348)	$4,559	$(1,596)	$2,963	$(12,715)	$4,450	$(8,265)

The reclassifications out of accumulated other comprehensive income into net earnings are presented below (in thousands):

Details about Accumulated Other Comprehensive Income Components	December 31, 2015 Reclassifications Out of Accumulated Other Comprehensive Income	Statement of Earnings Line Item	2014 Reclassifications Out of Accumulated Other Comprehensive Income	Statement of Earnings Line Item	2013 Reclassifications Out of Accumulated Other Comprehensive Income	Statement of Earnings Line Item
Unrealized gains and losses on securities available-for-sale:						
	$(1,243)	Gain on securities, net	$(128)	Gain on securities, net	$(234)	Gain on securities, net
	435	Income tax expense	45	Income tax expense	82	Income tax expense
	$(808)	Net of tax	$(83)	Net of tax	$(152)	Net of tax

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17. NET EARNINGS PER COMMON SHARE

Following is a summary of the information used in the computation of earnings per common share (in thousands):

	December 31,		
	2015	2014	2013
Net earnings available to common stockholders	$10,330	$18,412	$12,844
Dividends on Series C preferred stock	367	378	400
Adjusted net earnings available to common stockholders	$10,697	$18,790	$13,244
Weighted average number of common shares outstanding used in computation of basic earnings per common share	11,309	11,282	11,247
Effect of dilutive securities:			
Stock options	5	77	50
Preferred stock	507	542	564
Weighted average number of common shares outstanding plus effect of dilutive securities used in computation of diluted earnings per common share	11,821	11,901	11,861

Options to acquire 220,596, 24,855 and 134,611 shares of common stock were not included in computing diluted earnings per share for the years ended December 31, 2015, 2014 and 2013, respectively, because the effect of these shares was anti-dilutive. 11,250 shares of restricted stock were anti-dilutive and not included in the computation of diluted earnings per share for the year ended December 31, 2015. The remaining 104,384 shares subject to the outstanding warrant issued in connection with the CPP transaction were anti-dilutive and not included in the computation of diluted earnings per share for the year ended December 31, 2015.

18. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank is party to various financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the statements of financial condition. The contract or notional amounts of those instruments reflect the extent of the Bank’s involvement in particular classes of financial instruments.

The Bank’s exposure to loan loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, standby letters of credit, and financial guarantees is represented by the contractual amount of those instruments. The Bank uses the same credit policies, including considerations of collateral requirements, in making these commitments and conditional obligations as it does for on-balance sheet instruments.

	Contract or Notional Amount	
	2015	2014
Financial instruments whose contract amounts represent credit risk:		
(in thousands)		
Commitments to extend credit	$306,587	$269,672
Letters of credit	10,084	6,524

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being fully drawn upon, the total commitment amounts disclosed above do not necessarily represent future cash requirements. Substantially all of these commitments are at variable rates.

Commercial letters of credit and financial guarantees are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to its customers. Approximately 91% and 83% of these letters of credit were secured by marketable securities, cash on deposit, or other assets at December 31, 2015 and 2014, respectively.

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19. REGULATORY MATTERS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of common equity Tier 1 capital, Tier 1 and total capital (as defined in the regulations) to risk-weighted assets (as defined) and to average assets (as defined).

As of December 31, 2015, the most recent notifications from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum common equity Tier I, total risk-based, Tier I risk-based, and Tier I leverage capital ratios as set forth in the table (in thousands). There are no conditions or events since those notifications that management believes has changed the Bank's category.

The Company's and the Bank's actual capital amounts and ratios are presented in the table below (in thousands):

	Actual			Required for Minimum Capital Adequacy Purposes			To be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
As of December 31, 2015:									
Common equity Tier I capital to risk-weighted assets:									
Company	$128,470	8.91	%	$64,907	4.50	%	N/A	N/A	
Bank	$177,057	12.27	%	$64,947	4.50	%	$93,812	6.50	%
Total capital to risk-weighted assets:									
Company	$209,132	14.50	%	$115,390	8.00	%	N/A	N/A	
Bank	$195,111	13.52	%	$115,461	8.00	%	$144,326	10.00	%
Tier I capital to risk-weighted assets:									
Company	$191,089	13.25	%	$86,543	6.00	%	N/A	N/A	
Bank	$177,057	12.27	%	$86,595	6.00	%	$115,461	8.00	%
Tier I capital to average assets:									
Company	$191,089	10.10	%	$75,689	4.00	%	N/A	N/A	
Bank	$177,057	9.36	%	$75,683	4.00	%	$94,603	5.00	%

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	Actual			Required for Minimum Capital Adequacy Purposes			To be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
As of December 31, 2014:									
Total capital to risk-weighted assets:									
Company	$190,060	13.73	%	$110,758	8.00	%	N/A	N/A	
Bank	$179,225	12.94	%	$110,842	8.00	%	$138,552	10.00	%
Tier I capital to risk-weighted assets:									
Company	$178,649	12.90	%	$55,379	4.00	%	N/A	N/A	
Bank	$167,814	12.11	%	$55,421	4.00	%	$83,131	6.00	%
Tier I capital to average assets:									
Company	$178,649	9.52	%	$75,029	4.00	%	N/A	N/A	
Bank	$167,814	8.95	%	$74,994	4.00	%	$112,492	5.00	%

In July 2013, the Federal bank regulatory agencies issued a final rule that will revise their risk-based capital requirements and the method for calculating components of capital and of computing risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. The Basel III rules became effective for the Company and the Bank on January 1, 2015 (subject to a phase-in period for certain provisions). The final rule applied to all depository institutions, top-tier bank holding companies with total consolidated assets of $500 million or more and top-tier savings and loan holding companies. The rule established a new common equity Tier 1 minimum capital requirement, increased the minimum capital ratios and assigned a higher risk weight to certain assets based on the risk associated with these assets. Certain provisions of the new rules will be phased in through January 1, 2019.

20. FAIR VALUE MEASUREMENTS AND DISCLOSURES

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as impaired loans and other real estate. These nonrecurring fair value adjustments typically involve the application of the lower of cost or market accounting or write-downs of individual assets. Additionally, the Company is required to disclose, but not record, the fair value of other financial instruments.

Fair Value Hierarchy

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 – Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Following is a description of valuation methodologies used for assets and liabilities which are either recorded or disclosed at fair value.

Cash and cash equivalents—The carrying value of cash and cash equivalents is a reasonable estimate of fair value.

Time Deposits in Other Banks—Fair values for fixed-rate time deposits are estimated using a discounted cash flow analysis that applies interest rates currently being offered on time deposits of similar terms of maturity.

Securities Available-for-Sale—Securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange and U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter market funds. Securities are classified as Level 2 within the valuation hierarchy when the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the bond's terms and conditions, among other things. Level 2 inputs are used to value U.S. Agency securities, mortgage-backed securities, municipal securities, single issue trust preferred securities, certain pooled trust preferred securities, and certain equity securities that are not actively traded.

Securities Held-to-Maturity—The fair value of securities held-to-maturity is estimated using the same measurement techniques as securities available-for-sale.

Other investments—The carrying value of other investments is a reasonable estimate of fair value.

Loans—For disclosure purposes, the fair value of fixed rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings. For variable rate loans, the carrying amount is a reasonable estimate of fair value. The Company does not record loans at fair value on a recurring basis. No adjustment to fair value is taken related to illiquidity discounts. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management uses one of three methods to measure impairment, which, include collateral value, market value of similar debt, and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Impaired loans where an allowance is established based on the fair value of collateral or where the loan balance has been charged down to fair value require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and adjusts the appraisal value by taking an additional discount for market conditions and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3.

For non-performing loans, collateral valuations currently in file are reviewed for acceptability in terms of timeliness and applicability. Although each determination is made based on the facts and circumstances of each credit, generally valuations are no longer considered acceptable when there has been physical deterioration of the property from when it was last appraised, or there has been a significant change in the underlying assumptions of the appraisal. If the valuation is deemed to be unacceptable, a new appraisal is ordered. New appraisals are typically received within 4-6 weeks. While awaiting new appraisals, the valuation in file is utilized, net of discounts. Discounts are derived from available relevant market data, selling costs, taxes, and insurance. Any perceived collateral deficiency utilizing the discounted value is specifically reserved (as required by ASC Topic 310) until the new appraisal is received or charged off. Thus, provisions or charge-offs are recognized in the period the credit is identified as non-performing.

The following sources are utilized to set appropriate discounts: market real estate agents, current local sales data, bank history for devaluation of similar property, Sheriff's valuations and buy/sell contracts. If a real estate agent is used to market and sell the property, values are discounted 6% for selling costs and an additional 4% for taxes, insurance and maintenance costs. Additional discounts may be applied if research from the above sources indicates a discount is appropriate given devaluation of similar property from the time of the initial valuation.

Other Real Estate—Other real estate properties are adjusted to fair value upon transfer of the loans to other real estate, and annually thereafter to insure other real estate assets are carried at the lower of carrying value or fair value. Exceptions to obtaining initial appraisals are properties where a buy/sell agreement exists for the loan value or greater, or where we have received a Sheriff's valuation for properties liquidated through a Sheriff sale. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the other real estate as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and adjusts the appraisal value by taking an additional discount for market conditions and there is no observable market prices, the Company records the other real estate asset as nonrecurring Level 3.

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Cash Surrender Value of Life Insurance Policies—Fair value for life insurance cash surrender value is based on cash surrender values indicated by the insurance companies.

Deposits—The fair value of demand deposits, savings accounts, NOW accounts, and money market deposits is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities. The estimated fair value does not include customer related intangibles.

Securities Sold Under Agreements to Repurchase—The fair value approximates the carrying value of repurchase agreements due to their short-term nature.

Short-term Federal Home Loan Bank advances—The fair value approximates the carrying value of short-term FHLB advances due to their short-term nature.

Long-term Federal Home Loan Bank advances—The fair value of of long-term FHLB advances is estimated using a discounted cash flow analysis that applies interest rates currently being offered on similar types of borrowings with similar terms.

Junior Subordinated Debentures—For junior subordinated debentures that bear interest on a floating basis, the carrying amount approximates fair value. For junior subordinated debentures that bear interest on a fixed rate basis, the fair value is estimated using a discounted cash flow analysis that applies interest rates currently being offered on similar types of borrowings.

Commitments to Extend Credit, Standby Letters of Credit and Credit Card Guarantees—Because commitments to extend credit and standby letters of credit are generally short-term and made using variable rates, the carrying value and estimated fair value associated with these instruments are immaterial.

Assets Recorded at Fair Value
Below is a table that presents information about certain assets and liabilities measured at fair value on a recurring basis (in thousands):

Description	Assets / Liabilities Measured at Fair Value at December 31, 2015	Fair Value Measurements at December 31, 2015 Level 1	Level 2	Level 3
Available-for-sale securities:				
Obligations of state and political subdivisions	$31,493	$—	$31,493	$—
GSE mortgage-backed securities	87,038	—	87,038	—
Collateralized mortgage obligations: residential	192,088	—	192,088	—
Collateralized mortgage obligations: commercial	5,448	—	5,448	—
Mutual funds	2,092	2,092	—	—

Description	Assets / Liabilities Measured at Fair Value at December 31, 2014	Fair Value Measurements at December 31, 2014 Level 1	Level 2	Level 3
Available-for-sale securities:				
U.S. Government sponsored enterprises	$10,227	$—	$10,227	$—
Obligations of state and political subdivisions	44,605	—	44,605	—
GSE mortgage-backed securities	109,103	—	109,103	—
Collateralized mortgage obligations: residential	60,839	—	60,839	—
Collateralized mortgage obligations: commercial	24,545	—	24,545	—

Other asset-backed securities	24,343	—	24,343	—
Collateralized debt obligation	1,218	—	1,218	—
Mutual funds	2,104	2,104		

Certain assets and liabilities are measured at fair value on a nonrecurring basis and therefore are not included in the table above. Impaired loans are level 2 assets measured using appraisals from external parties of the collateral less any prior liens. Other real estate owned are also level 2 assets measured using appraisals from external parties.

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Assets measured at fair value on a nonrecurring basis are as follows (in thousands):

Description	Assets / Liabilities Measured at Fair Value at December 31, 2015	Fair Value Measurements at December 31, 2015 Level 1	Level 2	Level 3
Impaired loans	$17,487	$—	$17,487	$—
Other real estate	4,187	—	4,187	—

Description	Assets / Liabilities Measured at Fair Value at December 31, 2014	Fair Value Measurements at December 31, 2014 Level 1	Level 2	Level 3
Impaired loans	$5,051	$—	$5,051	$—
Other real estate	4,234	—	4,234	—

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on many judgments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include deferred income taxes and premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

The estimated fair values of our financial instruments are as follows at December 31, 2015 and 2014 (in thousands):

	Carrying Value	Fair Value Measurements at December 31, 2015 Using: Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	$89,201	$89,201	$—	$—
Securities available-for-sale	318,159	2,092	316,067	—
Securities held-to-maturity	116,792	—	117,698	—
Other investments	11,188	11,188	—	—
Loans, net	1,244,634	—	17,487	1,232,497
Cash surrender value of life insurance policies	13,622	—	13,622	—
Financial liabilities:				
Non-interest-bearing deposits	374,261	—	374,261	—
Interest-bearing deposits	1,176,589	—	1,007,137	168,633
Securities sold under agreements to repurchase	85,957	85,957	—	—
Short-term Federal Home Loan Bank advances	25,000	—	25,000	—
Long-term Federal Home Loan Bank advances	25,851	—	—	26,508
Junior subordinated debentures	22,167	—	22,167	—

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	Carrying Value	Fair Value Measurements at December 31, 2014 Using:		
		Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	$86,872	$86,872	$—	$—
Securities available-for-sale	276,984	2,104	274,880	—
Securities held-to-maturity	141,201	—	141,593	—
Other investments	9,990	9,990	—	—
Loans, net	1,273,205	—	5,051	1,277,882
Cash surrender value of life insurance policies	13,659	—	13,659	—
Financial liabilities:				
Non-interest-bearing deposits	390,863	—	390,863	—
Interest-bearing deposits	1,194,371	—	943,255	251,291
Securities sold under agreements to repurchase	62,098	62,098	—	—
Short-term Federal Home Loan Bank advances	25,000	—	25,000	—
Long-term Federal Home Loan Bank advances	26,277	—	—	27,193
Junior subordinated debentures	22,167	—	22,167	—

21. OTHER NON-INTEREST INCOME AND EXPENSE

For the years ended December 31, 2015, 2014, and 2013, none of the components of other noninterest income were greater than 1% of interest income and noninterest income.

Components of other noninterest expense greater than 1% of interest income and noninterest income consisted of the following for the years ended December 31, 2015, 2014, and 2013 (in thousands):

	2015	2014	2013
Professional fees	$1,560	$1,802	$1,709
FDIC fees	1,513	1,050	1,136
Marketing expenses	1,564	1,658	2,340
Corporate development expense	1,531	1,420	1,507
Data processing	1,888	1,940	1,955
Printing and supplies	923	1,114	1,494
Amortization of intangibles	1,106	1,106	1,106

22. SUBSEQUENT EVENTS

The Company has evaluated all subsequent events and transactions that occurred after December 31, 2015 up through the date of filing this Annual Report on Form 10-K. No events or changes in circumstances were identified that would have an adverse impact on the financial statements.

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23. CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY

Summarized financial information for MidSouth Bancorp, Inc. (parent company only) follows:
Balance Sheets
December 31, 2015 and 2014
(in thousands)

	2015	2014
Assets		
Cash and interest-bearing deposits in banks	$14,795	$9,452
Securities available-for-sale	—	1,218
Other assets	2,117	4,486
Investment in and advances to subsidiaries	220,753	219,216
Total assets	$237,665	$234,372
Liabilities and Stockholders' Equity		
Liabilities:		
Dividends payable	$1,195	$1,208
Junior subordinated debentures	22,167	22,167
ESOP obligation	1,093	250
Other	73	1,735
Total liabilities	24,528	25,360
Stockholders' equity	213,137	209,012
Total liabilities and stockholders' equity	$237,665	$234,372

Statements of Earnings
For the Years Ended December 31, 2015, 2014, and 2013
(in thousands)

	2015	2014	2013
Revenue:			
Dividends from Bank and nonbank subsidiaries	$9,000	$15,500	$11,000
Gain on sale of securities	1,125	—	—
Rental and other income	57	87	125