MIDSOUTH BANCORP INC
Form 10-Q
August 07, 2015

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

COMMISSION FILE NUMBER 1-11826
MIDSOUTH BANCORP, INC.
(Exact name of registrant as specified in its charter)

Louisiana	72 –1020809
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

102 Versailles Boulevard, Lafayette, Louisiana 70501
(Address of principal executive offices, including zip code)
(337) 237-8343
(Registrant's telephone number, including area code)

Indicate by checkmark whether the registrant: (1) has filed all reports required to be filed by Section 13 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 NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company.
Large accelerated filer Accelerated filer Non-accelerated filer Small reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)
YES NO

As of August 7, 2015, there were 11,359,501 shares of the registrant's Common Stock, par value $0.10 per share, outstanding.

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Part I – Financial Information

Item 1. Financial Statements.
MidSouth Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets
(dollars in thousands, except share data)

	June 30, 2015 (unaudited)	December 31, 2014 (audited)
Assets		
Cash and due from banks, including required reserves of $9,159 and $10,019, respectively	$38,909	$45,142
Interest-bearing deposits in banks	41,902	39,031
Federal funds sold	1,825	2,699
Securities available-for-sale, at fair value (cost of $298,453 at June 30, 2015 and $272,588 at December 31, 2014)	300,335	276,984
Securities held-to-maturity (fair value of $126,849 at June 30, 2015 and $141,593 at December 31, 2014)	126,529	141,201
Other investments	10,598	9,990
Loans	1,294,392	1,284,431
Allowance for loan losses	(16,048)	(11,226)
Loans, net	1,278,344	1,273,205
Bank premises and equipment, net	69,263	69,958
Accrued interest receivable	6,791	6,635
Goodwill	42,171	42,171
Intangibles	6,281	6,834
Cash surrender value of life insurance	13,473	13,659
Other real estate	4,542	4,234
Other assets	7,821	4,997
Total assets	$1,948,784	$1,936,740
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Non-interest-bearing	$408,742	$390,863
Interest-bearing	1,149,508	1,194,371
Total deposits	1,558,250	1,585,234
Securities sold under agreements to repurchase	84,547	62,098
Short-term Federal Home Loan Bank advances	40,000	25,000
Long-term Federal Home Loan Bank advances	26,064	26,277
Junior subordinated debentures	22,167	22,167
Other liabilities	5,720	6,952
Total liabilities	1,736,748	1,727,728
Commitments and contingencies		
Shareholders' equity:		
Series B Preferred stock, no par value; 5,000,000 shares authorized, 32,000 shares issued and outstanding at June 30, 2015 and December 31, 2014	32,000	32,000
Series C Preferred stock, no par value; 100,000 shares authorized, 91,696 shares issued and outstanding at June 30, 2015 and 93,680 shares issued and outstanding at	9,170	9,368

December 31, 2014		
Common stock, $0.10 par value; 30,000,000 shares authorized, 11,510,363 and 11,491,703 issued and 11,359,396 and 11,340,736 outstanding at June 30, 2015 and December 31, 2014, respectively	1,151	1,149
Additional paid-in capital	113,629	112,744
Unearned ESOP shares	(484)	(250)
Accumulated other comprehensive income	1,224	2,857
Treasury stock – 150,967 shares at June 30, 2015 and December 31, 2014, at cost	(3,295)	(3,295)
Retained earnings	58,641	54,439
Total shareholders' equity	212,036	209,012
Total liabilities and shareholders' equity	$1,948,784	$1,936,740

See notes to unaudited consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Interest income:				
Loans, including fees	$18,268	$17,769	$36,322	$35,252
Securities and other investments:				
Taxable	1,853	2,064	3,778	4,200
Nontaxable	559	661	1,143	1,354
Federal funds sold	2	1	4	2
Time and interest bearing deposits in other banks	35	11	72	27
Other investments	81	89	160	159
Total interest income	20,798	20,595	41,479	40,994
Interest expense:				
Deposits	921	858	1,868	1,729
Securities sold under agreements to repurchase	242	199	472	379
Other borrowings and payables	103	105	200	211
Junior subordinated debentures	151	320	301	667
Total interest expense	1,417	1,482	2,841	2,986
Net interest income	19,381	19,113	38,638	38,008
Provision for loan losses	1,100	1,200	7,100	1,750
Net interest income after provision for loan losses	18,281	17,913	31,538	36,258
Non-interest income:				
Service charges on deposits	2,137	2,448	4,257	4,828
Gain on sale of securities, net	1,128	128	1,243	128
ATM and debit card income	1,865	1,853	3,706	3,567
Income from death benefit on BOLI/executive officer life insurance	160	—	160	3,000
Other charges and fees	876	832	1,767	1,655
Total non-interest income	6,166	5,261	11,133	13,178
Non-interest expenses:				
Salaries and employee benefits	8,197	8,488	16,139	17,301
Occupancy expense	3,865	3,689	7,550	7,480
FDIC insurance	331	251	612	513
Other	4,612	4,695	8,991	9,531
Total non-interest expenses	17,005	17,123	33,292	34,825
Income before income taxes	7,442	6,051	9,379	14,611
Income tax expense	2,343	1,935	2,789	3,637
Net earnings	5,099	4,116	6,590	10,974
Dividends on preferred stock	172	170	345	350
Net earnings available to common shareholders	$4,927	$3,946	$6,245	$10,624
Earnings per share:				

Basic	$0.43	$0.35	$0.55	$0.94
Diluted	$0.42	$0.34	$0.54	$0.91
Weighted average number of shares outstanding:				
Basic	11,324	11,277	11,321	11,268
Diluted	11,850	11,912	11,854	11,892
Dividends declared per common share	$0.09	$0.09	$0.18	$0.18

See notes to unaudited consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net earnings	$5,099	$4,116	$6,590	$10,974
Other comprehensive (loss) income, net of tax:				
Unrealized (losses) gains on securities available-for-sale:				
Unrealized holding (losses) gains arising during the year	(2,971)	1,574	(1,270)	4,520
Less: reclassification adjustment for gains on sales of securities available-for-sale	(1,128)	(128)	(1,243)	(128)
Total other comprehensive (loss) income, before tax	(4,099)	1,446	(2,513)	4,392
Income tax effect related to items of other comprehensive income (loss)	1,435	(506)	880	(1,537)
Total other comprehensive (loss) income, net of tax	(2,664)	940	(1,633)	2,855
Total comprehensive income	$2,435	$5,056	$4,957	$13,829

See notes to unaudited consolidated financial statements.

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MidSouth Bancorp, Inc. and Subsidiaries
Consolidated Statement of Shareholders' Equity (unaudited)
For the Six Months Ended June 30, 2015
(in thousands, except share and per share data)

	Preferred Stock Shares	Amount	Common Stock Shares	Amount	Additional Paid-in Capital	Unearned ESOP Shares	Accumulated Other Comprehensive Income	Treasury Stock	Retained Earnings	Total
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	—	—	—	—	—	—	—	—	6,590	6,590
Dividends on Series B and Series C preferred stock	—	—	—	—	—	—	—	—	(345)	(345)
Dividends on common stock, $0.18 per share	—	—	—	—	—	—	—	—	(2,043)	(2,043)
Conversion of Series C preferred stock to common stock	(1,984)	(198)	11,005	1	197	—	—	—	—	—
Increase in ESOP obligation, net of repayments	—	—	—	—	—	(234)	—	—	—	(234)
Exercise of stock options	—	—	7,655	1	98	—	—	—	—	99
Tax benefit resulting from distribution from Directors Deferred Compensation Plan	—	—	—	—	420	—	—	—	—	420
Stock option expense	—	—	—	—	170	—	—	—	—	170
Change in accumulated other comprehensive income	—	—	—	—	—	—	(1,633)	—	—	(1,633)
Balance – June 30, 2015	123,696	$41,170	11,510,363	$1,151	$113,629	$(484)	$1,224	$(3,295)	$58,641	$212,036

See notes to unaudited consolidated financial statements.

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

	For the Six Months Ended June 30, 2015	2014
Cash flows from operating activities:		
Net earnings	$6,590	$10,974
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	3,107	2,987
Accretion of purchase accounting adjustments	(589)	(1,450)
Provision for loan losses	7,100	1,750
Deferred tax (benefit) expense	(683)	1,246
Amortization of premiums on securities, net	1,396	1,763
Amortization of other investments	—	2
Stock option expense	170	276
Net gain on sale of investment securities	(1,243)	(128)
Net (gain) loss on sale of other real estate owned	(10)	5
Net write down of other real estate owned	29	31
Net gain on sale/disposal of premises and equipment	(2)	(12)
Income recognized from death benefit on bank owned life insurance	(160)	—
Change in accrued interest receivable	(156)	324
Change in accrued interest payable	(23)	(43)
Change in other assets & other liabilities, net	(2,621)	(2,023)
Net cash provided by operating activities	12,905	15,702
Cash flows from investing activities:		
Proceeds from maturities and calls of securities available-for-sale	39,780	21,634
Proceeds from maturities and calls of securities held-to-maturity	14,083	7,156
Proceeds from sale of securities available-for-sale	40,277	22,153
Purchases of securities available-for-sale	(105,486)	—
Purchases of securities held-to-maturity	—	(1,104)
Proceeds from redemptions of other investments	—	150
Proceeds from sale of other investments	349	—
Purchases of other investments	(957)	(564)
Net change in loans	(12,486)	(86,692)
Proceeds from bank owned life insurance death benefit	498	—
Purchases of premises and equipment	(2,438)	(2,909)
Proceeds from sale of premises and equipment	28	490
Proceeds from sale of other real estate owned	582	338
Net cash used in investing activities	(25,770)	(39,348)
Cash flows from financing activities:		
Change in deposits	(26,919)	6,765
Change in securities sold under agreements to repurchase	22,449	13,658
Borrowings on Federal Home Loan Bank advances	80,000	10,000
Repayments of Federal Home Loan Bank advances	(65,032)	(30)
Repayments of notes payable	—	(500)
Purchase of treasury stock	—	(9)

Proceeds and tax benefit from exercise of stock options	99	122
Tax benefit resulting from distribution from Directors Deferred Compensation Plan	420	—
Payment of dividends on preferred stock	(347)	(355)
Payment of dividends on common stock	(2,041)	(1,801)
Net cash provided by financing activities	8,629	27,850
Net (decrease) increase in cash and cash equivalents	(4,236)	4,204
Cash and cash equivalents, beginning of period	86,872	59,731
Cash and cash equivalents, end of period	$82,636	$63,935
Supplemental cash flow information:		
Interest paid	$2,864	$3,030
Income taxes paid	5,180	3,560
Noncash investing and financing activities:		
Transfer of loans to other real estate	909	77
Change in accrued common stock dividends	2	117
Change in accrued preferred stock dividends	(2)	(5)
Financed sales of other real estate	—	84
Net change in loan to ESOP	(234)	(283)

See notes to unaudited consolidated financial statements.

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MidSouth Bancorp, Inc. and Subsidiaries
Notes to Interim Consolidated Financial Statements
June 30, 2015
(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements and notes thereto contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly, in accordance with accounting principles generally accepted in the United States of America ("GAAP"), the financial position of MidSouth Bancorp, Inc. (the "Company") and its subsidiaries as of June 30, 2015 and the results of their operations and their cash flows for the periods presented. The interim financial information should be read in conjunction with the annual consolidated financial statements and the notes thereto included in the Company's 2014 Annual Report on Form 10-K.

The results of operations for the six-month period ended June 30, 2015 are not necessarily indicative of the results to be expected for the entire year.

Use of Estimates — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Summary of Significant Accounting Policies — The accounting and reporting policies of the Company conform with GAAP and general practices within the banking industry. There have been no material changes or developments in the application of accounting principles or in our evaluation of the accounting estimates and the underlying assumptions or methodologies that we believe to be Critical Accounting Policies and Estimates as disclosed in our 2014 Annual Report on Form 10-K.

2. Investment Securities

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

	June 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Obligations of state and political subdivisions	$38,192	$1,148	$95	$39,245
GSE mortgage-backed securities	93,368	2,783	407	95,744
Collateralized mortgage obligations: residential	155,241	392	1,892	153,741
Collateralized mortgage obligations: commercial	9,552	22	65	9,509
Mutual funds	2,100	—	4	2,096
	$298,453	$4,345	$2,463	$300,335

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	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

	June 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
Obligations of state and political subdivisions	$44,128	$260	$247	$44,141
GSE mortgage-backed securities	61,609	868	214	62,263
Collateralized mortgage obligations: residential	11,778	—	370	11,408
Collateralized mortgage obligations: commercial	9,014	24	1	9,037
	$126,529	$1,152	$832	$126,849

	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 three private-label collateralized mortgage obligations ("CMOs") with a combined balance remaining of $41,000 at June 30, 2015, all of the Company's CMOs are government-sponsored enterprise ("GSE") securities.

The amortized cost and fair value of debt securities at June 30, 2015 by contractual maturity are shown in the following table (in thousands) with the exception of other asset-backed securities, mortgage-backed securities, CMOs, and the collateralized debt obligation. Expected maturities may differ from contractual maturities for mortgage-backed securities and CMOs because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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	Amortized Cost	Fair Value
Available-for-sale:		
Due in one year or less	$5,108	$5,174
Due after one year through five years	19,960	20,666
Due after five years through ten years	10,733	11,062
Due after ten years	2,391	2,343
Mortgage-backed securities and collateralized mortgage obligations:		
Residential	248,609	249,485
Commercial	9,552	9,509
Mutual funds	2,100	2,096
	$298,453	$300,335

	Amortized Cost	Fair Value
Held-to-maturity:		
Due in one year or less	$111	$111
Due after one year through five years	3,294	3,322
Due after five years through ten years	11,145	11,158
Due after ten years	29,578	29,550
Mortgage-backed securities and collateralized mortgage obligations:		
Residential	73,387	73,671
Commercial	9,014	9,037
	$126,529	$126,849

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

	June 30, 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	$4,365	$95	$—	$—	$4,365	$95
GSE mortgage-backed securities	32,229	344	3,877	63	36,106	407
Collateralized mortgage obligations: residential	96,995	663	33,105	1,229	130,100	1,892
Collateralized mortgage obligations: commercial	1,141	1	3,158	64	4,299	65
Mututal funds	2,100	4	—	—	2,100	4
	$136,830	$1,107	$40,140	$1,356	$176,970	$2,463

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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
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

	June 30, 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	$18,319	$220	$1,295	$27	$19,614	$247
GSE mortgage-backed securities	12,552	13	7,553	201	20,105	214
Collateralized mortgage obligations: residential	—	—	11,408	370	11,408	370
Collateralized mortgage obligations: commercial	1,402	1	—	—	1,402	1
	$32,273	$234	$20,256	$598	$52,529	$832

	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
	7,599	173	—	—	7,599	173

Collateralized mortgage obligations: commercial	$19,360	$208	$33,635	$800	$52,995	$1,008

Management evaluates each quarter whether unrealized losses on securities represent impairment that is other than temporary. For debt securities, the Company considers its intent to sell the securities or if it is more likely than not the Company will be required

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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 June 30, 2015, 77 securities had unrealized losses totaling 1.42% of the individual securities' amortized cost basis and 0.78% of the Company's total amortized cost basis. Of the 77 securities, 20 had been in an unrealized loss position for over twelve months at June 30, 2015. These 20 securities had an amortized cost basis and unrealized loss of $62.3 million and $2.0 million, respectively. The unrealized losses on debt securities at June 30, 2015 resulted from changing market interest rates over the yields available at the time the underlying securities were purchased. Management identified no impairment related to credit quality. At June 30, 2015, management had the intent and ability to hold impaired securities and no impairment was evaluated as other than temporary. As a result, no other than temporary impairment losses were recognized during the three months ended June 30, 2015.

During the six months ended June 30, 2015, the Company sold 21 securities classified as available-for-sale at a net gain of $1.2 million. Of the 21 securities sold, 11 were sold with gains totaling $1.4 million and 10 securities were sold at a loss of $135,000. During the six months ended June 30, 2014, the Company sold 4 securities classified as available-for-sale at a net gain of $128,000. All of the securities were sold at a gain.

Securities with an aggregate carrying value of approximately $276.4 million and $279.8 million at June 30, 2015 and December 31, 2014, respectively, were pledged to secure public funds on deposit and for other purposes required or permitted by law.

3. Credit Quality of Loans and Allowance for Loan Losses

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

	June 30, 2015	December 31, 2014
Commercial, financial and agricultural	$471,397	$467,147
Real estate - construction	79,176	68,577
Real estate – commercial	469,022	467,172
Real estate – residential	153,820	154,602
Installment loans to individuals	113,626	119,328
Lease financing receivable	5,561	4,857
Other	1,790	2,748
	1,294,392	1,284,431
Less allowance for loan losses	(16,048)	(11,226)
	$1,278,344	$1,273,205

The Company monitors loan concentrations and evaluates individual customer and aggregate industry leverage, profitability, risk rating distributions, and liquidity for each major standard industry classification segment. At June 30, 2015, one industry segment concentration, the oil and gas industry, constituted more than 10% of the loan portfolio. The Company's exposure in the oil and gas industry, including related service and manufacturing industries, totaled approximately $266.4 million, or 20.6% of total loans. Additionally, the Company's exposure to loans secured by commercial real estate is monitored. At June 30, 2015, loans secured by commercial real estate (including commercial construction, farmland and multifamily loans) totaled approximately $526.6 million. Of the $526.6 million, $469.0 million represent CRE loans, 53% of which are secured by owner-occupied commercial properties. Of the $526.6 million in loans secured by commercial real estate, $18.5 million, or 3.5%, were on nonaccrual status at June 30, 2015.

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

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are credited to the allowance for loan losses at the time of recovery. Quarterly, the probable level of losses in the existing portfolio is estimated through consideration of various factors. Based on these estimates, the allowance for loan losses is increased by charges to earnings and decreased by charge offs (net of recoveries).

The allowance is composed of general reserves and specific reserves. General reserves are determined by applying loss percentages to segments of the portfolio. The loss percentages are based on each segment’s historical loss experience, generally over the past twelve to eighteen months, and adjustment factors derived from conditions in the Company’s internal and external environment. All loans considered to be impaired are evaluated on an individual basis to determine specific reserve allocations in accordance with GAAP. Loans for which specific reserves are provided are excluded from the calculation of general reserves.

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

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

A rollforward of the activity within the allowance for loan losses by loan type and recorded investment in loans for the six months ended June 30, 2015 and 2014 is as follows (in thousands):

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	June 30, 2015							
		Real Estate						
	Coml, Fin, and Agric	Constru-ction	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	(1,855)	(6)	(48)	(37)	(537)	—	—	(2,483)
Recoveries	144	—	14	5	42	—	—	205
Provision	5,074	20	1,560	608	(173)	9	2	7,100
Ending balance	$9,092	$968	$3,928	$1,386	$643	$25	$6	$16,048
Ending balance: individually evaluated for impairment	$889	$—	$1,123	$107	$156	$—	$—	$2,275
Ending balance: collectively evaluated for impairment	$8,203	$968	$2,805	$1,279	$487	$25	$6	$13,773
Loans:								
Ending balance	$471,397	$79,176	$469,022	$153,820	$113,626	$5,561	$1,790	$1,294,392
Ending balance: individually evaluated for impairment	$23,750	$531	$18,423	$1,823	$324	$—	$—	$44,851
Ending balance: collectively evaluated for impairment	$447,647	$78,645	$449,957	$151,912	$113,302	$5,561	$1,790	$1,248,814
Ending balance: loans acquired with deteriorated credit quality	$—	$—	$642	$85	$—	$—	$—	$727

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	June 30, 2014							
		Real Estate						
	Coml, Fin, and Agric	Constr-uction	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	(1,135)	—	(17)	(176)	(350)	—	—	(1,678)
Recoveries	42	—	42	39	101	—	—	224
Provision	1,970	(53)	(23)	(325)	184	(4)	1	1,750
Ending balance	$4,783	$993	$1,391	$679	$1,208	$17	$4	$9,075
Ending balance: individually evaluated for impairment	$208	$3	$55	$152	$145	$—	$—	$563
Ending balance: collectively evaluated for impairment	$4,575	$990	$1,336	$527	$1,063	$17	$4	$8,512
Loans:								
Ending balance	$454,310	$86,238	$413,565	$153,082	$108,581	$4,750	$3,656	$1,224,182
Ending balance: individually evaluated for impairment	$1,793	$152	$3,234	$1,214	$340	$—	$—	$6,733
Ending balance: collectively evaluated for impairment	$452,517	$86,086	$409,631	$151,763	$108,241	$4,750	$3,656	$1,216,644
Ending balance: loans acquired with deteriorated credit quality	$—	$—	$700	$105	$—	$—	$—	$805

Non-Accrual and Past Due Loans

Loans are considered past due if the required principal and interest payment have not been received as of the date such payments were due. Loans are placed on non-accrual status when, in management's opinion, the probability of collection of interest is deemed insufficient to warrant further accrual. For loans placed on non-accrual status, the accrual of interest is discontinued and subsequent payments received are applied to the principal balance. Interest income is recorded after principal has been satisfied and as payments are received. Non-accrual loans may be returned to accrual status if all principal and interest amounts contractually owed are reasonably assured of repayment within a reasonable period and there is a period of at least six months to one year of repayment performance by the borrower depending on the contractual payment terms.

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

June 30, 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	$1,710	$592	$2,999	$5,301	$466,096	$471,397	$501
Commercial real estate - construction	364	—	13	377	57,151	57,528	—
Commercial real estate - other	13,681	361	4,994	19,036	449,986	469,022	—
Residential - construction	—	—	490	490	21,158	21,648	—
Residential - prime	523	449	1,378	2,350	151,470	153,820	—
Consumer - credit card	29	29	13	71	5,749	5,820	13
Consumer - other	1,065	264	324	1,653	106,153	107,806	95
Lease financing receivable	—	—	—	—	5,561	5,561	—
Other loans	100	—	—	100	1,690	1,790	—
	$17,472	$1,695	$10,211	$29,378	$1,265,014	$1,294,392	$609

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
Lease financing receivable	—	—	—	—	4,857	4,857	—
Other loans	134	—	—	134	2,614	2,748	—
	$10,267	$1,858	$5,954	$18,079	$1,266,352	$1,284,431	$187

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

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	June 30, 2015	December 31, 2014
Commercial, financial, and agricultural	$2,636	$2,642
Commercial real estate – construction	41	54
Commercial real estate - other	18,452	6,429
Residential - construction	490	—
Residential - prime	1,930	1,194
Consumer - credit card	—	—
Consumer - other	324	382
Lease financing receivable	—	—
Other	—	—
	$23,873	$10,701

The amount of interest that would have been recorded on non-accrual loans, had the loans not been classified as non-accrual, totaled approximately $851,000 and $275,000 for the six months ended June 30, 2015 and 2014, respectively. Interest actually received on non-accrual loans at June 30, 2015 and 2014 was $13,000 and $91,000, respectively.

Impaired Loans

Loans are considered impaired when, based upon current information, it is probable the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. All loans classified as special mention, substandard, or doubtful, based on credit risk rating factors, are reviewed to determine whether impairment testing is appropriate. An allowance for each impaired loan is calculated based on the present value of expected future cash flows discounted at the loan's effective interest rate or at the loan's observable market price or the fair value of the collateral if the loan is collaterally dependent. All impaired loans are reviewed, at a minimum, on a quarterly basis. Existing valuations are reviewed to determine if additional discounts or new appraisals are required. After this review, when comparing the resulting collateral valuation to the outstanding loan balance, if the discounted collateral value exceeds the loan balance no specific allocation is reserved. Acquired impaired loans are generally not subject to individual evaluation for impairment and are not reported with impaired loans or troubled debt restructurings, even if they would otherwise qualify for such treatment.

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

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	June 30, 2015				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial, financial, and agricultural	$21,578	$21,842	$—	$10,993	$507
Commercial real estate – construction	41	41	—	42	—
Commercial real estate – other	7,048	7,048	—	5,450	33
Residential – prime	1,278	1,298	—	1,167	9
Residential – construction	490	490	—	462	1
Consumer – other	36	36	—	46	—
Subtotal:	30,471	30,755	—	18,160	550
With an allowance recorded:					
Commercial, financial, and agricultural	2,172	2,172	889	2,096	18
Commercial real estate – other	11,375	11,375	1,123	7,750	—
Residential – prime	545	545	107	480	6
Consumer – other	288	302	156	318	1
Subtotal:	14,380	14,394	2,275	10,644	25
Totals:					
Commercial	42,214	42,478	2,012	26,331	558
Residential	2,313	2,333	107	2,109	16
Consumer	324	338	156	364	1
Grand total:	$44,851	$45,149	$2,275	$28,804	$575

	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	1,484	2,416	220
Residential – prime	529	548	68	452	3
Consumer – other	299	313	179	252	4
Subtotal:	7,513	7,661	2,741	4,533	262
Totals:					
Commercial	9,098	9,296	2,494	6,326	272
Residential	1,072	1,091	68	986	18
Consumer	377	391	179	324	4
Grand total:	$10,547	$10,778	$2,741	$7,636	$294

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Credit Quality

The Company manages 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.

Loans can be classified into the following three risk rating grades: 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.

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

	June 30, 2015					
Commercial Credit Exposure Credit Risk Profile by Creditworthiness Category						
	Commercial, financial, and agricultural	Commercial real estate - construction	Commercial real estate - other	Total	% of Total	
Pass	$418,761	$57,361	$421,359	$897,481	89.93	%
Special mention	19,477	126	14,039	33,642	3.37	%
Substandard	32,812	41	33,624	66,477	6.66	%
Doubtful	347	—	—	347	0.04	%
	$471,397	$57,528	$469,022	$997,947	100.00	%

Residential Credit Exposure Credit Risk Profile by Creditworthiness Category					
	Residential - construction	Residential - prime	Total	% of Total	
Pass	$20,666	$149,209	$169,875	96.81	%
Special mention	492	1,320	1,812	1.03	%
Substandard	490	3,291	3,781	2.16	%
	$21,648	$153,820	$175,468	100.00	%

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

	Consumer - credit card	Consumer - other	Lease financing receivable	Other	Total	% of Total
Performing	$5,817	$107,809	$5,561	$1,790	$120,977	100.00 %
Nonperforming	—	—	—	—	—	— %
	$5,817	$107,809	$5,561	$1,790	$120,977	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	Total	% of Total
Pass	$456,221	$43,320	$440,281	$939,822	96.11 %
Special mention	4,861	132	7,120	12,113	1.24 %
Substandard	5,541	58	19,771	25,370	2.60 %
Doubtful	524	—	—	524	0.05 %
	$467,147	$43,510	$467,172	$977,829	100.00 %

Residential Credit Exposure
Credit Risk Profile by
Creditworthiness Category

	Residential - construction	Residential - prime	Total	% of Total
Pass	$25,067	$150,664	$175,731	97.81 %
Special mention	—	1,184	1,184	0.66 %
Substandard	—	2,754	2,754	1.53 %
	$25,067	$154,602	$179,669	100.00 %

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

	Consumer - credit card	Consumer - other	Lease financing receivable	Other	Total	% of Total
Performing	$5,995	$112,893	$4,857	$2,748	$126,493	99.65 %
Nonperforming	17	423	—	—	440	0.35 %
	$6,012	$113,316	$4,857	$2,748	$126,933	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.

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

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	June 30, 2015			
	Current	Past Due Greater Than 30 Days	Nonaccrual TDRs	Total TDRs
Commercial, financial and agricultural	$21,377	$—	$234	$21,611
Real estate - commercial	152	—	—	152
	$21,529	$—	$234	$21,763

	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 three months ended June 30, 2015, there was one loan relationship with a pre-modification balance of $21.4 million identified as a TDR after conversion of the loans to interest only for a limited amount of time, and there were no defaults on any loans that were modified as TDRs during the preceding twelve months. During the three months ended June 30, 2014, there were no loans identified as a TDR, and there were no defaults on any loans that were modified as TDRs during the preceding twelve months. During the six months ended June 30, 2015, there was one loan relationship with a pre-modification balance of $21.4 million identified as a TDR after conversion of the loans to interest only for a limited amount of time, and there were no defaults on any loans that were modified as TDRs during the preceding twelve months. During the six months ended June 30, 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, and 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 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 June 30, 2015, there were no commitments to lend additional funds to debtors owing sums to the Company whose terms have been modified in TDRs.

4. Intangibles

A summary of core deposit intangible assets as of June 30, 2015 and December 31, 2014 is as follows (in thousands):

	June 30, 2015	December 31, 2014
Gross carrying amount	$11,674	$11,674
Less accumulated amortization	(5,393)	(4,840)
Net carrying amount	$6,281	$6,834

5. Other Comprehensive Income

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

	Three Months Ended June 30, 2015			2014		
	Before Tax Amount	Tax Effect	Net of Tax Amount	Before Tax Amount	Tax Effect	Net of Tax Amount
Other comprehensive (loss) income:						
Securities available-for-sale:						
Change in unrealized (losses) gains during period	$(2,971)	$1,040	$(1,931)	$1,574	$(551)	$1,023
Reclassification adjustment for gains included in net income	(1,128)	395	(733)	(128)	45	(83)
Total other comprehensive (loss) income	$(4,099)	$1,435	$(2,664)	$1,446	$(506)	$940

	Six Months Ended June 30, 2015			2014		
	Before Tax Amount	Tax Effect	Net of Tax Amount	Before Tax Amount	Tax Effect	Net of Tax Amount
Other comprehensive (loss) income:						
Securities available-for-sale:						
Change in unrealized (losses) gains during period	$(1,270)	$445	$(825)	$4,520	$(1,582)	$2,938
Reclassification adjustment for gains included in net income	(1,243)	435	(808)	(128)	45	(83)
Total other comprehensive (loss) income	$(2,513)	$880	$(1,633)	$4,392	$(1,537)	$2,855

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

	Three Months Ended June 30, 2015		2014	
Details about Accumulated Other Comprehensive Income Components	Reclassifications Out of Accumulated Other Comprehensive Income	Income Statement Line Item	Reclassifications Out of Accumulated Other Comprehensive Income	Income Statement Line Item
Unrealized gains and losses on securities available-for-sale:				
	$(1,128)	Gain on sale of securities, net	$(128)	Gain on sale of securities, net
	395	Tax expense	45	Tax expense
	$(733)	Net of tax	$(83)	Net of tax

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Details about Accumulated Other Comprehensive Income Components	Six Months Ended June 30, 2015 Reclassifications Out of Accumulated Other Comprehensive Income	Income Statement Line Item	2014 Reclassifications Out of Accumulated Other Comprehensive Income	Income Statement Line Item
Unrealized gains and losses on securities available-for-sale:				
	$(1,243)	Gain on sale of securities, net	$(128)	Gain on sale of securities, net
	435	Tax expense	45	Tax expense
	$(808)	Net of tax	$(83)	Net of tax

6. Declaration of Dividends

A first quarter dividend of $0.09 per share for holders of common stock of record on March 13, 2015 was declared on January 21, 2015, and was paid on April 1, 2015. On January 21, 2015, the Company also declared a 1.00% dividend for holders of its Series C preferred stock of record on April 1, 2015, which was paid on April 15, 2015. On April 15, 2015, the Company declared a second quarter dividend of $0.09 per share for holders of common stock of record on June 15, 2015, and was paid on July 1, 2015. On April 15, 2015, the Company also declared a 1.00% dividend for holders of its Series C preferred stock of record on July 1, 2015, which was paid on July 15, 2015. On July 15, 2015, the Company declared a third quarter dividend of $0.09 per share for holders of common stock of record on September 15, 2015 to be paid on October 1, 2015. On July 15, 2015, the Company also declared a 1.00% dividend for holders of its Series C preferred stock of record on October 1, 2015 to be paid on October 15, 2015.

7. Earnings Per Common Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net earnings available to common shareholders	$4,927	$3,946	$6,245	$10,624
Dividends on Series C preferred stock	92	90	185	190
Adjusted net earnings available to common shareholders	$5,019	$4,036	$6,430	$10,814
Weighted average number of common shares outstanding used in computation of basic earnings per common share	11,324	11,277	11,321	11,268
Effect of dilutive securities:				
Stock options	17	89	23	81
Convertible preferred stock and warrants	509	546	510	543
Weighted average number of common shares outstanding plus effect of dilutive securities – used in computation of diluted earnings per share	11,850	11,912	11,854	11,892

Options to acquire 129,822 and 7,355 shares of common stock were not included in computing diluted earnings per share for the quarters and six months ended June 30, 2015 and 2014, respectively, because the effects of these shares were anti-dilutive as a result of the exercise price of such options.

8. Fair Value Measurement

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 Due From Banks, Interest-Bearing Deposits in Banks and Federal Funds Sold—The carrying value of these short-term instruments is a reasonable estimate of fair value.

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, asset-backed securities, municipal securities, single issue trust preferred securities, certain pooled trust preferred securities, collateralized debt obligations 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 the 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.

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The following sources are utilized to set appropriate discounts: in-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 10% for selling 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 ("ORE") 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 a Sheriff's valuation has been received 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 ORE 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 ORE asset as nonrecurring Level 3.

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 securities sold under agreements to repurchase 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 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

The table below 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 June 30, 2015	Fair Value Measurements at June 30, 2015 Level 1	Level 2	Level 3
Available-for-sale securities:				
Obligations of state and political subdivisions	$39,245	$—	$39,245	$—
GSE mortgage-backed securities	95,744	—	95,744	—
Collateralized mortgage obligations: residential	153,741	—	153,741	—
Collateralized mortgage obligations: commercial	9,509	—	9,509	—
Mutual funds	2,096	2,096	—	—

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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 are included in the table below (in thousands). Impaired loans are Level 2 assets measured using appraisals from external parties of the collateral less any prior liens. Other real estate properties are also Level 2 assets measured using appraisals from external parties.

Description	Assets / Liabilities Measured at Fair Value at June 30, 2015	Fair Value Measurements at June 30, 2015 Level 1	Level 2	Level 3
Impaired loans	$12,177	$—	$12,177	$—
Other real estate	4,542	—	4,542	—

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 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 carrying amounts and estimated fair values of the Company's financial instruments are as follows at June 30, 2015 and December 31, 2014 (in thousands):

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	Carrying Value	Fair Value Measurements at June 30, 2015 Using: Level 1	Level 2	Level 3
Financial assets:				
Cash and due from banks, interest-bearing deposits in banks and federal funds sold	$82,636	$82,636	$—	$—
Securities available-for-sale	300,335	2,096	298,239	—
Securities held-to-maturity	126,529	—	126,849	—
Other investments	10,598	10,598	—	—
Loans, net	1,278,344	—	12,177	1,274,834
Cash surrender value of life insurance policies	13,473	—	13,473	—
Financial liabilities:				
Non-interest-bearing deposits	408,742	—	408,742	—
Interest-bearing deposits	1,149,508	—	913,432	235,945
Securities sold under agreements to repurchase	84,547	84,547	—	—
Short-term Federal Home Loan Bank advances	40,000	—	40,000	—
Long-term Federal Home Loan Bank advances	26,064	—	—	27,019
Junior subordinated debentures	22,167	—	22,167	—

	Carrying Value	Fair Value Measurements at December 31, 2014 Using: Level 1	Level 2	Level 3
Financial assets:				
Cash and due from banks, interest-bearing deposits in banks and federal funds sold	$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	—

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation.

MidSouth Bancorp, Inc. (the "Company") is a financial holding company headquartered in Lafayette, Louisiana that conducts substantially all of its business through its wholly owned subsidiary bank, MidSouth Bank, N.A. (the "Bank"). We offer complete banking services to commercial and retail customers in Louisiana and south and central Texas with 58 locations and are connected to a worldwide ATM network that provides customers with access to more than 55,000 surcharge-free ATMs. We are community oriented and focus primarily on offering commercial and consumer loan and deposit services to individuals, small businesses, and middle market businesses.

The following discussion and analysis identifies significant factors that have affected our financial position and operating results during the periods included in the financial statements accompanying this report. We encourage you to read this discussion in conjunction with our consolidated financial statements and the notes thereto presented herein and with the financial statements, the notes thereto, and related Management's Discussion and Analysis of Financial Condition and Results of Operation in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

Forward-Looking Statements

Certain statements included in this Report, 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," "guidanc "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" in our 2014 Annual Report on form 10-K and under the caption "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 ("ALL"), which could result in greater than expected loan losses;
- changes in the availability of funds resulting from reduced liquidity or increased costs;
-

- the timing, ability to complete and the impact of proposed and/or future acquisitions, the success or failure of integrating acquired operations, and the ability to capitalize on growth opportunities upon entering new markets;
- the timing, ability to complete and the impact of proposed and/or future efficiency initiatives;
- 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 changes in the regulatory capital framework under the Federal Reserve Board's Basel III regulatory capital reforms, the impact of regulations under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), including the implementation of the Consumer Financial Protection Bureau, 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;

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- 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.

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 – Nonperforming Assets and Allowance for Loan Losses and Note 1 and Note 3 of the footnotes 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. 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.

A third critical accounting policy 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 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% 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

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Earnings Analysis

We reported net earnings available to common shareholders of $4.9 million for the second quarter of 2015, compared to net earnings available to common shareholders of $3.9 million reported for the second quarter of 2014. Diluted earnings for the second quarter of 2015 were $0.42 per common share, compared to $0.34 per common share reported for the second quarter of 2014. The second quarter of 2015 included a gain on sale of securities of $1.1 million and $160,000 of income recognized from a death benefit on bank owned life insurance. The second quarter of 2014 included net gains on sales of securities of $128,000 and efficiency consultant expenses of $107,000. Excluding these non-operating income and expenses, operating earnings per share for the second quarter of 2015 and the second quarter of 2014 was $0.35 and $0.34, respectively.

Operating revenues from consolidated operations totaled $24.3 million for the second quarter of 2015, unchanged from the $24.2 million reported for the second quarter of 2014. Net interest income increased $268,000 in quarterly comparison primarily due to a $499,000 increase in interest income earned on a higher volume of loans which was partially offset by a $313,000 decrease in interest income on investment securities which declined in volume. Additionally, a $169,000 decrease in interest expense on junior subordinated debentures was partially offset by a $106,000 increase in interest expense on deposits and repurchase agreements. Excluding non-operating income of $1.3 million and $128,000 for the second quarters of 2015 and 2014, respectively, noninterest income decreased $255,000 in quarterly comparison, from $5.1 million for the three months ended June 30, 2014 to $4.9 million for the three months ended June 30, 2015. The decrease in noninterest income resulted primarily from a $311,000 reduction in service charges on deposit accounts, including NSF fees.

Excluding the $107,000 of efficiency consultant expenses in the second quarter of 2014, noninterest expenses totaled $17.0 million for both three month periods ending June 30, 2015 and 2014. A decrease of $291,000 in salaries and benefits costs was offset by an increase of $176,000 in occupancy expenses as well as smaller increases in several other noninterest expense categories. The provision for loan losses decreased $100,000 in quarterly comparison. Income tax expense increased $408,000 in quarterly comparison.

Dividends paid on the Series B Preferred Stock issued to the Treasury resulting from our participation in the Small Business Lending Fund (“SBLF”) totaled $80,000 for the second quarter of 2015 based on a dividend rate of 1.00%. The dividend rate is set at 1.00% through February 25, 2016. The Series C Preferred Stock issued with the December 28, 2012 acquisition of PSB Financial Corporation (“PSB”) paid dividends totaling $92,000 for the three months ended June 30, 2015.

In year-over-year comparison, net earnings available to common shareholders decreased $4.4 million, from $10.6 million at June 30, 2014 to $6.2 million at June 30, 2015. The decrease resulted primarily from the $3.0 million of life insurance proceeds recorded as noninterest income in the first quarter of 2014. The first six months of 2014 also included $128,000 in gain on sales of securities, $160,000 of efficiency consultant expenses and $189,000 of expenses related to the loss of an executive officer. The first six months of 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. Excluding these non-operating revenues and expenses, net earnings available to common shareholders decreased $2.5 million in year-over-year comparison. The $2.5 million decrease in operating earnings in year-over-year comparison resulted primarily from a $5.4 million increase in the provision for loan losses due to a $6.0 million provision recorded in the first quarter of 2015 primarily to establish reserves for five energy related credit relationships that were downgraded. The increase in the provision for loan losses was partially offset by a $630,000 increase in net interest income, a $1.2 million decrease in noninterest expenses and a $1.3 million decrease in income tax expense.

Excluding non-operating income, noninterest income decreased $320,000, which consisted primarily of $571,000 in service charges on deposit accounts (primarily NSF fees) and $72,000 in income on ORE. These decreases were partially offset by a $139,000 increase in ATM and debit card income and a $200,000 increase in mortgage banking fees. Excluding the non-operating expenses in 2015 and 2014, decreases in noninterest expense primarily included $1.0 million in salaries and benefits costs, $115,000 in expenses on ORE and other repossessed assets and $120,000 in postage and freight. The decreased expenses were partially offset by a $114,000 increase in legal and professional fees.

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 4.38% and 4.58% for the three months ended June 30, 2015 and 2014, respectively. Tables 1 and 3 and tables 2 and 4 below analyze the changes in net interest income in the three months ended June 30, 2015 and 2014 and the six months ended June 30, 2015 and 2014, respectively.

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Fully taxable-equivalent ("FTE") net interest income totaled $19.7 million and $19.5 million for the quarters ended June 30, 2015 and 2014, respectively. The FTE net interest income increased $217,000 in prior year quarterly comparison primarily due to a $499,000 increase in interest income on loans. The increased interest income on loans resulted from a $106.4 million increase in the average volume of loans in quarterly comparison. The average yield on loans decreased 33 basis points, from 5.91% to 5.58%. The purchase accounting adjustments added 19 basis points to the average yield on loans for the second quarter of 2015 and 23 basis points to the average yield on loans for the second quarter of 2014. Net of the impact of the purchase accounting adjustments, average loan yields declined 29 basis points in prior year quarterly comparison, from 5.68% to 5.39%. Loan yields have declined primarily as the result of a sustained low interest rate environment.

Investment securities totaled $426.9 million, or 21.9% of total assets at June 30, 2015, versus $450.0 million, or 23.7% of total assets at June 30, 2014. The investment portfolio had an effective duration of 3.9 years and a net unrealized gain of $1.9 million at June 30, 2015. The average volume of investment securities decreased $45.5 million in prior year quarterly comparison. The average tax equivalent yield on investment securities decreased 6 basis points, from 2.63% to 2.57%. The $45.5 million decrease in the average volume of investment securities was used to fund loan growth during the same period.

The average yield on all earning assets decreased 24 basis points in prior year quarterly comparison, from 4.93% for the second quarter of 2014 to 4.69% for the second quarter of 2015. Net of the impact of purchase accounting adjustments, the average yield on total earning assets decreased 22 basis points, from 4.77% to 4.55% for the three month periods ended June 30, 2014 and 2015, respectively, due to a decline in the average rate earned on loans.

The impact to interest expense of a $43.5 million increase in the average volume of interest- bearing liabilities was offset by a 4 basis point decrease in the average rate paid on interest- bearing liabilities, from 0.46% at June 30, 2014 to 0.42% at June 30, 2015. Net of purchase accounting adjustments on acquired certificates of deposit and FHLB borrowings, the average rate paid on interest-bearing liabilities was 0.51% for the second quarter of 2014 and declined to 0.46% for the second quarter of 2015.

The average volume of notes payable for the three months ended June 30, 2015 of $26.1 million consisted of long-term FHLB advances. The average volume of notes payable of $27.2 million for the three months ended June 30, 2014 consisted of long-term FHLB advances and a note payable with First National Bankers Bank. The FHLB advances are fixed rate advances with rates ranging from 1.99% to 5.06% and have a range of maturities from July 2015 to January 2019. The FHLB advances are collateralized by a blanket lien on first mortgages and other qualifying loans. The remaining balance on the note payable with First National Bankers Bank in the amount of $500,000 was paid off in the third quarter of 2014. The interest rate on the note was equal to New York Prime. Short-term FHLB advances totaled $40.0 million at June 30, 2015. The advances mature in August 2015 and September 2015 and bear interest rates ranging from 0.15% to 0.21%.

As a result of these changes in volume and yield on earning assets and interest-bearing liabilities, the FTE net interest margin decreased 20 basis points, from 4.58% for the second quarter of 2014 to 4.38% for the second quarter of 2015. Net of purchase accounting adjustments on loans, deposits and FHLB borrowings, the FTE margin decreased 18 basis points, from 4.39% for the second quarter of 2014 to 4.21% for the second quarter of 2015.

In year-to-date comparison, FTE net interest income increased $521,000 primarily due to a $376,000 increase in interest income. Interest income on loans increased $1.1 million despite a $778,000 reduction in purchase accounting adjustments on acquired loans. The average volume of loans increased $128.7 million in year-over-year comparison, and the average yield on loans decreased 43 basis points, from 6.04% to 5.61%. The increase in interest income on loans was offset by a $742,000 reduction in interest income on investment securities. The average volume of investment securities decreased $60.0 million in year-over-year comparison, as cashflow from the portfolio was used to fund loan growth. The average yield on earning assets decreased in year-over-year comparison, from 4.98% at June 30, 2014 to 4.73% at June 30, 2015. The purchase accounting adjustments added 32 basis points to the average yield on loans for the six months ended June 30, 2014 and 16 basis points for the six months ended June 30, 2015. Net of purchase accounting adjustments, the average yield on earning assets decreased 14 basis points, from 4.75% at June 30, 2014 to 4.61% at June 30, 2015.

Interest expense decreased $145,000 in year-over-year comparison primarily due to a 4 basis point decrease in the average rate paid on interest-bearing liabilities, from 0.47% at June 30, 2014 to 0.43% at June 30, 2015. Net of purchase accounting adjustments, the average rate paid on interest-bearing liabilities decreased 6 basis points, from 0.52% at June 30, 2014 to 0.46% at June 30, 2015. The FTE net interest margin decreased 21 basis points, from 4.62% for the six months ended June 30, 2014 to 4.41% for the six months ended June 30, 2015. Net of purchase accounting adjustments, the FTE net interest margin decreased 9 basis points, from 4.36% to 4.27% for the six months ended June 30, 2014 and 2015, respectively, primarily due to a decline in the average rate earned on loans.

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Table 1
Consolidated Average Balances, Interest and Rates
(in thousands)

	Three Months Ended June 30,					
	2015			2014		
	Average Volume	Interest	Average Yield/Rate	Average Volume	Interest	Average Yield/Rate
Assets						
Investment securities[1]						
Taxable	$345,108	$1,853	2.15 %	$379,124	$2,064	2.18 %
Tax exempt[2]	76,433	854	4.47 %	87,964	1,007	4.58 %
Total investment securities	421,541	2,707	2.57 %	467,088	3,071	2.63 %
Federal funds sold	3,228	2	0.25 %	2,260	1	0.18 %
Time and interest bearing deposits in other banks	56,110	35	0.25 %	16,789	11	0.26 %
Other investments	10,057	81	3.22 %	11,679	89	3.05 %
Total loans[3]	1,312,359	18,268	5.58 %	1,205,930	17,769	5.91 %
Total earning assets	1,803,295	21,093	4.69 %	1,703,746	20,941	4.93 %
Allowance for loan losses	(15,681)			(8,533)		
Nonearning assets	188,960			192,513		
Total assets	$1,976,574			$1,887,726		
Liabilities and shareholders' equity						
Total interest bearing deposits	$1,181,381	$921	0.31 %	$1,156,638	$858	0.30 %
Securities sold under repurchase agreements	84,545	242	1.15 %	62,322	199	1.28 %
Federal funds purchased	—	—	—	679	1	0.58 %
Short-term FHLB advances	30,604	13	0.17 %	25,110	9	0.14 %
Notes payable	26,114	90	1.36 %	27,218	95	1.38 %
Junior subordinated debentures	22,167	151	2.69 %	29,384	320	4.31 %
Total interest bearing liabilities	1,344,811	1,417	0.42 %	1,301,351	1,482	0.46 %
Demand deposits	411,937			376,272		
Other liabilities	7,714			8,846		
Shareholders' equity	212,112			201,257		
Total liabilities and shareholders' equity	$1,976,574			$1,887,726		
Net interest income and net interest spread		$19,676	4.27 %		$19,459	4.47 %
Net interest margin			4.38 %			4.58 %

1. Securities classified as available-for-sale are included in average balances. Interest income figures reflect interest earned on such securities.
2. Interest income of $295,000 for 2015 and $346,000 for 2014 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 $1,189,000 for 2015 and $1,397,000 for 2014. Nonaccrual loans are included in average balances and income on such loans is recognized on a cash basis.

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

	Six Months Ended June 30,					
	2015			2014		
	Average Volume	Interest	Average Yield/Rate	Average Volume	Interest	Average Yield/Rate
Assets						
Investment securities[1]						
Taxable	$340,749	$3,778	2.22 %	$388,332	$4,200	2.16 %
Tax exempt[2]	77,683	1,746	4.50 %	89,867	2,066	4.60 %
Total investment securities	418,432	5,524	2.64 %	478,199	6,266	2.62 %
Federal funds sold	3,521	4	0.23 %	2,589	2	0.15 %
Time and interest bearing deposits in other banks	57,659	72	0.25 %	21,315	27	0.25 %
Other investments	9,906	160	3.23 %	11,604	159	2.74 %
Total loans[3]	1,305,377	36,322	5.61 %	1,176,632	35,252	6.04 %
Total earning assets	1,794,895	42,082	4.73 %	1,690,339	41,706	4.98 %
Allowance for loan losses	(13,325)			(8,610)		
Nonearning assets	189,990			191,820		
Total assets	$1,971,560			$1,873,549		
Liabilities and shareholders' equity						
Total interest bearing deposits	$1,186,704	$1,868	0.32 %	$1,155,829	$1,729	0.30 %
Securities sold under repurchase agreements	82,101	472	1.16 %	55,406	379	1.38 %
Federal funds purchased	—	—	—	425	1	0.47 %
Short-term FHLB advances	27,818	21	0.15 %	25,055	18	0.14 %
Notes payable	26,166	179	1.36 %	27,396	192	1.39 %
Junior subordinated debentures	22,167	301	2.70 %	29,384	667	4.51 %
Total interest bearing liabilities	1,344,956	2,841	0.43 %	1,293,495	2,986	0.47 %
Demand deposits	406,035			374,319		
Other liabilities	8,520			7,599		
Shareholders' equity	212,049			198,136		
Total liabilities and shareholders' equity	$1,971,560			$1,873,549		
Net interest income and net interest spread		$39,241	4.30 %		$38,720	4.51 %
Net interest margin			4.41 %			4.62 %

1. Securities classified as available-for-sale are included in average balances. Interest income figures reflect interest earned on such securities.

2.

Interest income of $603,000 for 2015 and $712,000 for 2014 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 $2,551,000 for 2015 and $2,742,000 for 2014. Nonaccrual loans are included in average balances and income on such loans is recognized on a cash basis.

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

	Three Months Ended June 30, 2015 compared to June 30, 2014		
	Total Increase (Decrease)	Change Attributable To Volume	Rates
Taxable-equivalent earned on:			
Investment securities			
Taxable	$(211)	$(183)	$(28)
Tax exempt	(153)	(129)	(24)
Federal funds sold	1	1	—
Time and interest bearing deposits in other banks	24	25	(1)
Other investments	(8)	(13)	5
Loans, including fees	499	1,515	(1,016)
Total	152	1,216	(1,064)
Interest paid on:			
Interest bearing deposits	63	18	45
Securities sold under repurchase agreements	43	66	(23)
Federal funds purchased	(1)	(1)	—
Short-term FHLB advances	4	2	2
Notes payable	(5)	(4)	(1)
Junior subordinated debentures	(169)	(67)	(102)
Total	(65)	14	(79)
Taxable-equivalent net interest income	$217	$1,202	$(985)

Note: In Table 3, changes due to 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.

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Table 4
Changes in Taxable-Equivalent Net Interest Income
(in thousands)

	Six Months Ended June 30, 2015 compared to June 30, 2014		
	Total Increase (Decrease)	Change Attributable To	
		Volume	Rates
Taxable-equivalent earned on:			
Investment securities			
Taxable	$(422)	$(526)	$104
Tax exempt	(320)	(275)	(45)
Federal funds sold	2	1	1
Time and interest bearing deposits in other banks	45	46	(1)
Other investments	1	(25)	26
Loans, including fees	1,070	3,689	(2,619)
Total	376	2,910	(2,534)
Interest paid on:			
Interest bearing deposits	139	47	92
Securities sold under repurchase agreements	93	160	(67)
Federal funds purchased	(1)	(1)	—
Short-term FHLB advances	3	2	1
Notes payable	(13)	(7)	(6)
Junior subordinated debentures	(366)	(138)	(228)
Total	(145)	63	(208)
Taxable-equivalent net interest income	$521	$2,847	$(2,326)

Note: In Table 4, changes due to 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.

Non-interest Income

Non-interest income increased $905,000 in quarterly comparison, from $5.3 million for the three months ended June 30, 2014 to $6.2 million for the three months ended June 30, 2015. The second quarter of 2015 included $1.1 million of gain on sales of securities and $160,000 of income recognized from a death benefit on bank owned life insurance, and the second quarter of 2014 included $128,000 of gain on sales of securities. Excluding these non-operating items, noninterest income decreased $255,000 in quarterly comparison. The decrease in noninterest income resulted primarily from a $311,000 reduction in service charges on deposit accounts, including NSF fees. For the six-month period ended June 30, 2015, non-interest income totaled $11.1 million compared to $13.2 million, a net decrease of $2.1 million year-over-year. The first six months of 2015 included $1.2 million of gain on sales of securities and $160,000 of income recognized from a death benefit on bank owned life insurance recorded in non-interest income. The first six months of 2014 included $3.0 million of executive officer life insurance proceeds. Excluding non-operating income, decreases in noninterest income consisted primarily of $571,000 in service charges on deposit accounts (primarily NSF fees) and $72,000 in income on ORE, which was partially offset by a $139,000 increase in ATM and debit card income and a $200,000 increase in mortgage banking fees.

Service charges on deposit accounts decreased $311,000 in quarterly comparison and $571,000 in year-over-year comparison due primarily to a decrease in NSF charges. The decrease in NSF income resulted primarily from a declining trend in the volume of NSF transactions.

The $139,000 increase in ATM and debit card income in year-over-year comparison is primarily due to an increase in interchange fee income as a result of higher transaction volume.

Mortgage banking fees increased $200,000 for the first six months of 2015 compared to the first six months of 2014. In January 2014, we restructured our mortgage lending department and as a result were able to offer more competitive mortgage loan products to our customers and generate more volume in correspondent and brokered mortgage loans.

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Non-interest Expense

Second quarter 2015 noninterest expenses decreased $118,000 compared to second quarter 2014. Excluding the $107,000 of efficiency consultant expenses in the second quarter of 2014, noninterest expenses totaled $17.0 million for both three month periods ending June 30, 2015 and 2014. A decrease of $291,000 in salaries and benefits costs was offset by an increase of $176,000 in occupancy expenses as well as smaller increases in several other noninterest expense categories.

The first six months of 2014 included approximately $189,000 in non-operating expenses related the the death of an executive officer and $160,000 of non-operating efficiency consultant expenses. Excluding the non-operating expenses in 2014, decreases in noninterest expense primarily included $1.0 million in salaries and benefits costs, $115,000 in expenses on ORE and other repossessed assets and $120,000 in postage and freight. The decreased expenses were partially offset by a $114,000 increase in legal and professional fees.

A reduction in the number of full-time equivalent (“FTE”) employees from 581 FTE employees at June 30, 2014 to 541 FTE employees at June 30, 2015 reduced salaries expense by $644,000 year-over-year. The 40 FTE employee decrease was achieved primarily through attrition and process improvement initiatives over the twelve month period. The $1.0 million decrease in salaries and benefits costs also included a $150,000 decrease in annual incentive accruals and a $402,000 decrease in group health costs.

Analysis of Balance Sheet

Total consolidated assets at June 30, 2015 and December 31, 2014 were $1.9 billion. Deposits totaled $1.6 billion at June 30, 2015 and December 31, 2014. Our stable core deposit base, which excludes time deposits, decreased $12.8 million and accounted for 84.8% of deposits at June 30, 2015 compared to 84.1% of deposits at year end 2014.

Securities available-for-sale totaled $300.3 million at June 30, 2015, an increase of $23.4 million from $277.0 million at December 31, 2014. The securities available-for-sale portfolio increased primarily due to $105.5 million in purchases of securities, which were offset by $39.8 million in calls, maturities and pay-downs and $39.0 million in sales of securities. During the six months ended June 30, 2015, we sold lower yielding asset backed securities and US Government sponsored enterprises securities and reinvested those funds primarily in higher yielding CMOs. Securities held-to-maturity decreased $14.7 million, from $141.2 million at December 31, 2014 to $126.5 million at June 30, 2015. The investment securities portfolio had an effective duration of 3.9 years and a net unrealized gain of $1.9 million at June 30, 2015.

Total loans grew $10.0 million, or 0.8% for the six months ended June 30, 2015. The first six months of 2015 included $7.6 million of paydowns on the indirect auto loan program, which the Bank exited at the end of 2014. Net of the decrease in the indirect auto loan program and excluding a CD secured loan of $20.0 million, loans decreased $2.4 million, or 0.2% for the six months ended June 30, 2015.

Table 5
Composition of Loans
(in thousands)

	June 30, 2015	December 31, 2014
Commercial, financial, and agricultural (C&I)	$471,397	$467,147

Real estate – construction	79,176	68,577
Real estate – commercial (CRE)	469,022	467,172
Real estate – residential	153,820	154,602
Installment loans to individuals	113,626	119,328
Lease financing receivable	5,561	4,857
Other	1,790	2,748
	$1,294,392	$1,284,431
Less allowance for loan losses	(16,048)	(11,226)
Net loans	$1,278,344	$1,273,205

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Our energy related loan portfolio at June 30, 2015 totaled $266.4 million, or 20.6% of total loans, including a $20.0 million CD secured loan, down from $287.6 million at March 31, 2015. The majority of MidSouth's energy lending is focused on oil field service companies. Of the 441 total relationships in our energy related loan portfolio, 14 relationships totaling $30.5 million were classified, with $0.7 million on nonaccrual status at June 30, 2015.

During the first quarter of 2015, approximately $4.0 million of the $6.0 million provision for loan losses was reserved for energy related credit relationships that were downgraded in that quarter. Additionally, a total of $1.15 million is reserved for potential yet unidentified losses in the energy related portfolio. During the second quarter of 2015, one energy related credit relationship totaling $21.4 million was classified as a troubled debt restructuring ("TDR") by conversion of the loans to interest only for a limited amount of time.

Within the $469.0 million commercial real estate portfolio, $434.3 million is secured by commercial property, $16.7 million is secured by multi-family property, and $18.1 million is secured by farmland. Of the $434.3 million secured by commercial property, $250.1 million, or 57.6%, is owner-occupied. Of the $153.8 million residential real estate portfolio, 87.9% represented loans secured by first liens.

Off-Balance Sheet Arrangements

In the normal course of operations, the Company engages in a variety of financial transactions that, in accordance with GAAP, are not recorded in the financial statements. These transactions involve, to varying degrees, elements of credit, interest rate, and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments, letters of credit and lines of credit. For the period ended June 30, 2015, we did not engage in any off-balance sheet transactions reasonably likely to have a material impact on our financial condition, results of operations, or cash flows.

Liquidity and Capital

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. Although the Bank historically has not utilized brokered deposits, this is a fourth potential source of liquidity, albeit one that is more costly and volatile. 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 $33.8 million in projected cash flows from securities repayments for the remainder of 2015 provides an additional source of liquidity.

The Bank also has significant borrowing capacity with the FRB-Atlanta and with the FHLB–Dallas. As of June 30, 2015, we had no borrowings with the FRB-Atlanta. Long-term FHLB-Dallas advances totaled $26.1 million at June 30, 2015 and are fixed rate advances with rates ranging from 1.99% to 5.06% and have a range of maturities from July 2015 to January 2019. Two short-term FHLB-Dallas advances totaled $40.0 million at June 30, 2015. The advances mature in August 2015 and September 2015 and bear interest rates ranging from 0.15% to 0.21%. Under existing agreements with the FHLB-Dallas, our borrowing capacity totaled $319.0 million at June 30, 2015. The

Bank has the ability to post additional collateral of approximately $148.4 million if necessary to meet liquidity needs. Additionally, $254.0 million in loan collateral is pledged under a Borrower-in-Custody line with the FRB-Atlanta. Unsecured borrowing lines totaling $33.5 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

At the Company level, cash is needed primarily to meet interest payments on the junior subordinated debentures, dividends on our common stock and dividend payments on the Series B and Series C Preferred Stocks. The dividend rate on the $32. 0 million of Series B Preferred Stock issued to the U.S. Treasury for participation in the Small Business Lending Fund (“SBLF”) was 1.00% for the three month periods ended March 31, 2015 and December 31, 2014. 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.

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Beginning February 2016, the dividend rate will increase to 9% per annum. Management is reviewing options to repay all or a portion on the $32.0 million prior to the rate reset.

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. During the first six months of 2015, 1,984 shares of Series C Preferred Stock were converted into 11,005 shares of the Company’s common stock. As of June 30, 2015, there were 91,696 shares of Series C Preferred Stock issued and outstanding. 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. The Series C Preferred Stock paid dividends totaling $92,000 for the three months ended June 30, 2015.

Dividends from the Bank totaling $4.0 million provided additional liquidity for the Company during the six months ended June 30, 2015. As of June 30, 2015, the Bank had the ability to pay dividends to the Company of approximately $11.9 million without prior approval from its primary regulator. As a publicly traded company, the Company also has the ability, subject to market conditions, to issue additional shares of common stock and other securities to provide funds as needed for operations and future growth of the Company. The Company plans to renew a $75.0 million Universal Shelf Registration set to expire in August 2015.

Capital

The Company and the Bank are required to maintain certain minimum capital levels. Risk-based capital requirements are intended to make regulatory capital more sensitive to the risk profile of an institution's assets. Effective January 1, 2015, The Company and the Bank adopted the Basel III rules which included new minimum risk-based and leverage ratios, and modified capital and asset definitions for purposes of calculating these ratios. These rules also created a new regulatory capital standard based on Tier 1 common equity and increased the minimum leverage and risk-based capital ratios applicable to all banking organizations.

In addition, the Basel III rules subject banking organizations to certain limitations on capital distributions and discretionary bonus payments to executive officers if the organization does not maintain a capital conservation buffer of 2.5% above the new regulatory minimum capital ratios. The effect of the capital conservation buffer will be to increase the minimum common equity Tier 1 capital ratio to 7.0%, the minimum Tier 1 risk-based capital ratio to 8.5% and the minimum total risk-based capital ratio to 10.5%, for banking organizations seeking to avoid the limitations on capital distributions and discretionary bonus payments to executive officers. The new minimum capital requirements were effective on January 1, 2015 for community banking organizations, such as MidSouth, whereas other requirements of the Basel III rules phase in over time.

At June 30, 2015, the Company and the Bank were in compliance with statutory minimum capital requirements and were classified as “well capitalized.” Minimum capital requirements include a total risk-based capital ratio of 8.0%, with Tier 1 capital not less than 6.0%, a Tier 1 leverage ratio (Tier 1 to total average adjusted assets) of 4.0% based upon the regulators latest composite rating of the institution, and a common equity Tier 1 capital to total risk-weighted assets of 4.5%. As of June 30, 2015, the Company’s Tier 1 leverage ratio was 9.79%, Tier 1 capital to risk-weighted assets was 12.68%, total capital to risk-weighted assets was 13.77% and common equity Tier 1 capital to risk-weighted assets was 8.47%. The Bank had a Tier 1 leverage capital ratio of 9.15% at June 30, 2015.

Asset Quality

Credit Risk Management

We manage credit risk primarily by observing written, board approved policies that govern all credit underwriting and approval activities. Our Chief Credit Officer ("CCO") is responsible for credit underwriting and loan operations for the Bank. The role of the 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.

Credit concentrations are monitored and reported quarterly whereby individual customer and aggregate industry leverage, profitability, risk rating distributions, and liquidity are evaluated for each major standard industry classification segment. At June 30, 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 (energy related) industry, including related service and manufacturing industries, totaled approximately $266.4 million, or 20.6% of total loans. Of the 441 credit relationships in the energy related loan portfolio, 14 relationships totaling $30.5 million were classified with $0.7 million on nonaccrual status at June 30, 2015.

Additionally, we monitor our exposure to loans secured by commercial real estate. At June 30, 2015, loans secured by commercial real estate (including commercial construction, farmland and multifamily loans) totaled approximately $526.6 million. Of the $526.6 million, $469.0 million represent CRE loans, 53% of which are secured by owner-occupied commercial properties. Of the

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$526.6 million in loans secured by commercial real estate, $18.5 million, or 3.5%, were on nonaccrual status at June 30, 2015. Additional information regarding credit quality by loan classification is provided in Note 3 – Credit Quality of Loans and Allowance for Loan Losses and Note 8 – Fair Value Measurement in the notes to the interim consolidated financial statements.

Nonperforming Assets and Allowance for Loan Loss

Table 6 summarizes the Company's nonperforming assets for the quarters ending June 30, 2015 and 2014, and December 31, 2014.

Table 6
Nonperforming Assets and Loans Past Due 90 Days or More and Still Accruing
(in thousands)

	June 30, 2015		December 31, 2014		June 30, 2014	
Nonaccrual loans	$23,873		$10,701		$6,913	
Loans past due 90 days and over and still accruing	609		187		203	
Total nonperforming loans	24,482		10,888		7,116	
Other real estate	4,542		4,234		6,314	
Other foreclosed assets	38		—		81	
Total nonperforming assets	$29,062		$15,122		$13,511	
Troubled debt restructurings	$21,763		$410		$417	
Nonperforming assets to total assets	1.49	%	0.78	%	0.71	%
Nonperforming assets to total loans + ORE + other assets repossessed	2.24	%	1.17	%	1.10	%
ALL to nonperforming loans	65.55	%	103.10	%	127.53	%
ALL to total loans	1.24	%	0.87	%	0.74	%
QTD charge-offs	$1,151		$985		$990	
QTD recoveries	39		86		100	
QTD net charge-offs	$1,112		$899		$890	
Annualized net charge-offs to total loans	0.34	%	0.28	%	0.29	%

Nonperforming assets totaled $29.1 million at June 30, 2015, an increase of $13.9 million from the $15.1 million reported at year-end 2014 and an increase of $15.6 million from the $13.5 million reported at June 30, 2014. The increase in the first six months of 2015 resulted primarily from the addition of a $10.1 million commercial real estate (CRE) relationship unrelated to energy that was placed on nonaccrual status during the second quarter.

Allowance coverage for nonperforming loans was 65.55% at June 30, 2015 compared to 103.10% at December 31, 2014 and 127.53% at June 30, 2014. The ALL/total loans ratio increased to 1.24% at June 30, 2015, compared to 0.87% at year-end 2014 and 0.74% at June 30, 2014. The increase in the ALL/total loans ratio resulted from a $6.0 million loan loss provision recorded during the first quarter of 2015, the majority of which resulted from downgrades of energy related credits in the oil and gas portfolio. Including valuation accounting adjustments on acquired loans, the total adjustments and ALL was 1.59% of loans at June 30, 2015. The ratio of annualized net charge-offs to total loans was 0.34% for the three months ended June 30, 2015, compared to 0.28% for the three months ended December 31, 2014, and 0.29% for the three months ended June 30, 2014.

Total nonperforming assets to total loans plus ORE and other assets repossessed increased to 2.24% at June 30, 2015 from 1.17% at December 31, 2014 and 1.10% at June 30, 2014. Loans classified as troubled debt restructurings ("TDRs") totaled $21.8 million at June 30, 2015 compared to $410,000 at December 31, 2014 and $417,000 at June 30, 2014. The $21.4 million of loans restructured during the second quarter of 2015 represented a single, energy related credit relationship. The credit relationship was identified as a TDR by conversion of the loans to interest only for a limited amount of time, Classified assets, including ORE, increased $0.9 million, or 1.2%, to $75.6 million at June 30, 2015 compared to $74.7 million at March 31, 2015. Additional information regarding impaired loans is included in Note 3 – Credit Quality of Loans and Allowance for Loan Losses and Note 8 – Fair Value Measurement in the notes to the interim consolidated financial statements.

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Quarterly evaluations of the allowance for loan losses are performed in accordance with GAAP and regulatory guidelines. The ALL is comprised of specific reserves assigned to each impaired loan for which a 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 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 ALL, 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. We believe the $16.0 million in the ALL as of June 30, 2015 is sufficient to cover probable losses in the loan portfolio.

Impact of Inflation and Changing Prices

The consolidated financial statements and notes thereto, presented herein, have been prepared in accordance with GAAP, which 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 due to inflation. The impact of inflation is reflected in the increased cost of the Company’s operations. Unlike most industrial companies, nearly all the assets and liabilities of the Company are financial. As a result, interest rates have a greater impact on the Company’s performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no significant changes from the information regarding market risk disclosed under the heading “Funding Sources - Interest Rate Sensitivity” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

Item 4. Controls and Procedures.

The Company’s Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). As of the end of the period covered by this Quarterly Report on Form 10-Q, the Chief Executive Officer and Chief Financial Officer have concluded that such disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

During the second quarter of 2015, there was no change in the Company’s internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

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Part II – Other Information

Item 1. Legal Proceedings.

The Bank has been named as a defendant in various 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 1A. Risk Factors.

There have been no material changes from the risk factors previously disclosed in our Form 10-K for the year ended December 31, 2014.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The Company did not sell any unregistered equity securities or repurchase any equity securities during the quarter ended June 30, 2015.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Document Description
3.1	Amended and Restated Articles of Incorporation of MidSouth Bancorp, Inc. (restated solely for purposes of Item 601(b)(3) of Regulation S-K) (filed as Exhibit 3.1 to MidSouth's Annual Report on Form 10-K filed on March 18, 2013 and incorporated herein by reference).
3.2	Amended and Restated By-laws of MidSouth Bancorp, Inc. effective as of September 26, 2012 (restated solely for purposes of Item 601(b)(3) of Regulation S-K (filed as Exhibit 3.3 to MidSouth's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 and incorporated herein by reference).
31.1	Certification pursuant to Exchange Act Rules 13(a) – 14(a)

31.2	Certification pursuant to Exchange Act Rules 13(a) – 14(a)
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following financial information from the Registrant’s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015, formatted in Extensible Business Reporting Language (“XBRL”): (i) Consolidated Statements of Operations, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Cash Flows and (iv) Notes to Consolidated Financial Statements.*

* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not to be “filed” or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Act of 1934, as amended, and otherwise are not subject to liability under these sections.

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Signatures

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MidSouth Bancorp, Inc.
(Registrant)

Date: August 7, 2015

/s/ C. R. Cloutier
C. R. Cloutier, President and CEO
(Principal Executive Officer)

/s/ James R. McLemore
James R. McLemore, CFO
(Principal Financial Officer)

/s/ Teri S. Stelly
Teri S. Stelly, Controller
(Principal Accounting Officer)